

Crowdfunding: Is Your Campaign Charitable?

Host: Ted Hart

Guest: Jessie Krafft – CAF America

Announcer: Welcome to the *CAF America Radio Network*, a production of the Charities Aid Foundation of America. As the leader in global giving CAF America offers more than 20 years of experience and expertise to corporations, foundations and individuals who wish to give internationally and with enhanced due diligence in the United States. Through its industry leading grants management programs and philanthropic advisory services, CAF America helps donors amplify their impact.

This show is dedicated to these donors and the charities they support. CAF America is uniquely positioned to serve as the bridge between these important partners and transforms vision into meaningful action. Guests on a *CAF America Radio Network* are leaders in their field who share tips for success and stories that inspire. Our host is Ted Hart, the CEO of the Charities Aid Foundation of America. This is a live call in show, add your voice by calling 914-338-0855, after the show you can find all of our podcasts at cafamerica.org.

Don't forget to dial 914-338-0855. Now, welcome the host of the *CAF America Radio Network*, Ted Hart.

Ted: Welcome to this latest edition of the *CAF America Radio Network*. Our topic today is crowdfunding, which is a very important topic that has been growing and is recently a very important phenomenon of online fundraising. It's a rapid evolution of technology and the Internet, however, not all crowdfunding is created equal, especially when considering tax deductible charitable contributions using crowdfunding. Donors and organizers of such campaigns may wrongly assumed that donations made through such crowdfunding platforms are always tax deductible.

Going back with a little bit of history here, the earliest examples of crowdfunding online date back to 1997. As crowdfunding passes its 20th anniversary, we here at CAF America want to give guidance on how to successfully use crowdfunding platforms for charitable giving. As international giving is the expertise of CAF America, we want to make sure that our listeners understand how they can ensure tax receding, regulatory compliant international fundraising via crowdfunding sites is possible.

It's estimated that there are over 2,000 crowdfunding sites online and that by 2025 it's predicted that more than 1 trillion US dollars will be raised online using crowdfunding techniques. While such campaigns often use the word "contribution" or "donation" or "gift" in its pitch to the public, the question is, what makes a campaign truly charitable? How does it qualify for tax receding and if funds are being moved outside the United States, how do you meet regulatory compliance requirements both in the United States and in the country to which the funds are being sent?

My guest today to help us sort through all of the topics and questions is Jessie Krafft, vice president of Donor Advised and Grant Services at CAF America. Welcome back here on the show, Jessie, here on the *CAF America Radio Network*.

Jessie: Thanks so much, happy to be here.

Ted: Big topic, Jessie. One that has certainly come up many times here at CAF America as we interact with charities around the world who wish to raise money from the United States, but also donors here in the United States who wish to be able to raise money from their family, friends and colleagues to support charities both in the US and outside of the US. That being the case, let's start off with-- First of all, what is crowdfunding and how does it intersect with philanthropic giving? Is there a distinction between these two things? Is crowdfunding always philanthropic giving?

Jessie: Yes, that's a great question, there's typically a distinction, but not always. There can be certainly a merge between the two as well. There has been a recent surge in fundraising from the public for a variety of different causes through sites such as GoFundMe and a variety of other platforms that are popping up out there. Some of these sites aim and the fundraisers aim to raise funds for a person, potentially an individual that has an illness, or that needs some sort of support because of potentially funeral costs, or other variety of things that we've seen out there.

Or there are other ways that these crowdfunding sites can actually be used to support things like kick starting campaigns for profit activities, or even charitable activities. So, actually supporting charitable projects at a charitable organization. There's a variety of different buckets that this type of funding could go into for different causes and there's certainly a distinction there between what is actually charitable or an exempt purpose as defined by the IRS, and then what would be considered more of an investment.

In the case of like those kick starter campaigns, or just a gift to an individual, which would not-- Which may feel charitable and you could consider it as a piece of your philanthropy, but it wouldn't be tax deductible necessarily, in most cases, it wouldn't be. You could consider it in your philanthropy bucket, but you couldn't consider it that way on your tax deductions when you're filing with the IRS.

It's really important, and we'll go through some of this. But it's important to understand when you're giving to these various crowdfunding campaigns, what you're actually giving to and to do your due diligence to make sure it is tax deductible if that is your intent.

Ted: One of the reasons for that is that there were, as we said at the top of the show, more than 2,000 crowdfunding sites online, and not every site necessarily provides advice or counsel or assistance in establishing the campaign as a charitable organization. Because in many instances, that crowdfunding site itself is a for profit operation, and therefore, is not by itself able to issue a tax receipt or by itself to be able to make the campaign charitable.

As you just mentioned, crowdfunding, it's often informal, it's often family and friends and colleagues coming together, which is the very essence of what crowdfunding is. It's not necessarily charitable in the eyes of the law or the IRS but sometimes people want this to be charitable. Why does this not satisfy the IRS definition of charitable giving if people are coming together and the intent is that it go to charitable works?

Jessie: Yes, that's a great question. The IRS has set forth a very specific process for determining whether an activity or an organization is charitable and is tax exempt. Of course, an organization that hopes to receive tax deductible gifts from their donors would have to apply to the IRS to become 501c3 public charity. In the eyes of the IRS, any gifts that are given to individuals or entities or organizations that do not have this tax exempt status that has been granted by the IRS would not be considered tax deductible for their purposes.

It's really a black and white in that sense of whether the organization that you're giving to has that tax exempt status and has approved this fundraiser, I think that's an important point we should talk about as well, because there are certainly crowdfunding sites out there that potentially are fundraising for an organization unbeknownst to them. That actually might not be tax deductible, you have to even kind of understand a little bit more deeply how the money is getting to the organization.

Really it is a black and white between are they a tax exempt entity that is recognized by the IRS or not? And that's really the way to determine the first piece of it.

Ted: If someone is interested in supporting a charitable cause, I think what you're saying is they need to be certain that it is the charity that is establishing the relationship with the crowdfunding site because it matters where the money goes. Because if, for instance, I'm an individual, and I go to my favorite crowdfunding site and I set up the campaign that I am the owner of that campaign, and therefore, the recipient of that money.

Even if I intend to then take that money and send it to a charity, I'm not able to issue a tax receipt, even though I might use the phrase make a donation, make a charitable gift, make a donation to that charity, I'm actually receiving that money which may or may not be taxable to me. Even if I then turn around and write a check to that charity. I'm being very honest about it, the issue is that each and every donor to that campaign would not in that instance qualify for tax receipt, but the person who collected the money and then wrote the check to the charity, they could then be received.

Jessie: Yes, that's exactly right. Unfortunately, we do run into this-- as CAF America as a charity, we have this happen every once in a while, where a donor comes to us and, of course, has the best intentions and says, "We ran this great GoFundMe campaign, we raised all this money and now I need you to provide tax receipts to all of these individuals and I'm sending you this one check from my personal account that aggregates everything that I collected." Unfortunately, in that case, because all of these situations we're not aware of it in the beginning so we can't make sure that the money's coming directly to us, that it is tax deductible, and everything like that.

In those cases, we're not actually able to provide tax receipts, even though we are a 501c3 and this money is coming to us, we can't provide tax receipts to all of those individual donors that might have given to that campaign. Because in actuality, what's happening is that whatever crowd fundraising site they use, is sending a check to that individual, and then that individual is sending the money to us. For our legal purposes, that individual is the only donor on that campaign. As you mentioned, then there are, of course, things like income tax considerations that that individual might even need to consider on their own.

Ted: That's right. Again, just to summarize for our listeners, you got 100 donors who gave and now you've received that money from the crowdfunding site. It's not possible to receive each and every one of those donors because, in fact, legally, they made the contribution to you personally and then you, hopefully being an honest person, then wrote the check to the charity. Therefore you are in fact the only donor of those funds.

Jessie: That's right. Like I said, it's barely ever the case that we've run into at least where this individual has bad intentions or knows this going into it, it's really just the lack of education which is why we're talking about this today. [laughs]

Ted: Filing this information, and I did fail to mention, I'm sorry, at the top of the show, that we are also live casting over at Facebook at facebook.com/CAFAmerica and, of course, a video will be posted on that same site after this show. Jessie, we're going to take a very quick break. When we come back, I want to break this down and make sure that we give our listeners today a step by step way that they could use their favorite crowdfunding site and receipt each one of their donors and move the ultimate contribution to their favorite domestic or international charity and we'll be right back after this break.

Announcer: Remember, our podcast and archives are always available 24 hours a day at cafamerica.org. If you're listening today, our phone lines are open, call in and ask a question by dialing 914-338-0855. Now, back to the *CAF America Radio Network*, and our host, Ted Hart.

Ted: We're back here live on the CAF America Radio Network and our guest today is Jessie krafft, vice president of Donor-Advised and Grant Services at CAF America. Our topic today is crowdfunding. Very popular way to bring small donors, many donors together to fund a particular project. We're focused today on charitable giving. Jessie, before the break, we wanted to make sure that we share a step by step process for our listeners today, whether they be a charity looking to fundraise or an individual who's looking to fundraise. How can they utilize the services of their favorite crowdfunding site and be able to tax receipt each donor and be able to make that donation to their favorite charity? How does that work?

Jessie: That's a really important question. There are a couple things here. If you're an individual and let's say there are a lot of cases where an individual is fundraising for a run or a bike ride or things like that, that they're participating in and they're trying to fundraise from all of their friends. It's really important if you're doing something like that, that you coordinate with the people that are actually running that event, or even if you're just fundraising for a particular project at an organization. You need to coordinate with the charity themselves that you're

hoping to receive the funds to make sure that whatever site you use, perhaps they already have a site set up for you that you should be using.

Or that if they're allowing you, and they might not, but if they're allowing you to find your own fundraising site, that they can coordinate directly with those that manage that crowdfunding site. To make sure that, one, the money is coming directly to the charity, because as we discussed before the break that money can't go to that individual to be sent to the charity. The money has to be sent directly to that charity for it to be considered tax deductible. That the language that you're using on the page is consistent with what the charity would accept on their own fundraising pages, and perhaps including things like their EIN and items like that to ensure that there's transparency and that the donors understand where their money is going.

Additionally, a lot of times the charity will work with that crowdfunding site to provide a way for an automated tax receipt to go through so that the donor is receiving that acknowledgement, and you just have to make sure that all of those, and those are just few of the steps, but that those pieces are followed in order for it to be considered tax deductible. Really, the most important point is don't do this on your own, you have to collaborate with that charitable entity themselves in order to make sure this is done correctly.

Ted: Once again, you are intending yourself to be the recipient of those funds in which case we believe that you should be upfront with those who are contributing, to let them know that they are contributing to funds that you will be donating to the charity. What if you're a donor who's invited to participate in the crowdfunding campaign of which millions of people participate and they come to the campaign site and target the heartstrings, or certainly a compelling mission that they wanted to support. How would I know as a donor that this has been set up appropriately? What should I look for if in fact I'm making a donation contribution or gift and I'm expecting that because it's going to charity, I'm also going to receive or be eligible for a tax receipt? How do I know that I'm participating in a campaign that has been appropriately set up?

Jessie: That's a good question, and it depends on the site. There are some crowdfunding sites that have now caught on to the fact that donors are having trouble making this distinction. There are some crowdfunding sites that have certified charitable pages where there's some sort of badge or checkmark or a different URL that is separating those into a different category. If they can guarantee that a tax receipt will come from it and that it is a tax deductible donation.

In some sites, it's quite obvious, I would say. It should be obvious to the donors of whether that's the case, but in others they might not have that type of functionality and you really need to read the fine print, see if there is an EIN present. It's very easy to go search that EIN on the charity-- I'm sorry, on the-[crosstalk]

Ted: Just for our listeners to make sure, what is an EIN?

Jessie: Yes, it's an employer identification number. This is a number that's used by the IRS, it's essentially your tax registration ID as an organization. The EIN that's given to 501c3, which are charitable organizations that would be tax deductible, can be verified on the IRS website. I, as a

donor, I know that if I'm giving to a 501c3, I always pull that EIN and make sure I'm doing my due diligence to make sure that it's actually a tax exempt entity before I give to them.

That would be a piece of it but, of course, anyone could put an EIN anywhere. I think you need to go a bit further than that. If it's not clear in the language on the page, you might want to talk to the organizer of the campaign to see who the funds are actually going to and just making some inquiries based on that if you're not seeing the information that clearly distinguishes it as a tax exempt organization and as a tax deductible gift on the site.

Ted: Then asking that question, you may actually be prompting the person who has goodwill and good intentions to think through some things that maybe they were unaware of. That may not have been set up for you to get a tax receipt and that may not have been intentional on the part of the person that you're asking the question. Being an informed donor, oftentimes can be helpful to you but also to the solicitor or the person who is trying to do a good thing and support charitable activities.

Jessie: Right. That might help them realize that they need to go a bit further to make sure that their donors are receiving their proper tax benefit from their generous gifts.

Ted: All of this advice that we've given so far is apropos to every single crowdfunding site, every single donor who may want to make sure that-- first of all, the money is going directly to a charity. That it is potentially tax receiptable but specifically to the expertise of CAF America being the premier international intermediary in the United States. What if now what I want to do is-- the charity that I want to support is outside of the United States? Where I'm a charity outside of the United States trying to crowdfund in the United States.

What are the steps that need to be taken into account if, for instance, I want to have CAF America be the intermediary that is going to help me do that? What does that look like and how do I make that happen?

Jessie: Yes, good question. If you were an individual that wants to give to a foreign charity through one of these sites. You're of course not going to be looking to see if they're registered on the IRS database because, of course, in most cases they will not be there. It's a small subset of actual foreign based organizations. We're not talking about friends of organizations or things like that but foreign based organizations that have 501c3 status but it's a very small subset.

In this case, you should really assume, make that assumption that if it is based in a foreign country that it is not automatically tax-deductible. That you're not looking to the IRS site to verify that. But instead there are, of course, like CAF America, intermediary organizations that can act as the 501c3 that is working in cooperation with that foreign organization to send them tax-deductible gifts. In that case, essentially, the donors are still giving if the foreign charity has developed a relationship with the 501c3 organization or intermediary that is assisting them in the US.

Essentially, that the donors to that organization would be actually legally giving to the US 501c3. Then that 501c3, such as CAF America, would undertake all of the proper IRS regulatory

compliance checks to ensure that we can give those funds to that organization in a tax-exempt way. There's, of course, a whole process around that but for the donors that want to give to foreign organizations, you should make sure that they have-- if you want it to be tax-deductible, make sure that there is a 501c3 partnership in place otherwise it will not be tax-deductible to you.

Then, on the other side, if you were a foreign charity that wishes to -- that does not have 501c3 status and you wish to fundraise in the United States. You will need to seek out a partnership with a 501c3 or some opt to actually register as a 501c3 themselves. That requires a lot more effort and financial input. What you would be doing in that case is very similar to an individual donor who wants to do a crowdfunding project on one of these sites.

You would need to work directly with that 501c3 partner. The foreign charity needs to work closely with the 501c3 to make sure that, again, all of that language on the site is clear. That the money is going directly to the 501c3 and not to the foreign charity and that the tax receipts were able to tax receipt through the site and other factors like that before you start that funding campaign. Like I said, we've had individuals come to us that have done these campaigns without our knowledge.

We've also had charities that come to us after the fact and say, "Oh, well, we raised all this money and we have it, can you send the tax receipts?" But of course the money never came to us and we weren't aware of this fundraiser going on. We're not able then to tax receipt and so they're in a position where they're having to tell their donors that it actually wasn't tax-deductible which is not a good position to be in. On both sides, it definitely requires close coordination with the charity that you're hoping will tax receipt for that donation.

Ted: There's a very specific process that has to be followed. The bottom line is, crowdfunding is possible. It's possible to give directly to charities to be tax receipted for charities. It's also possible to support domestic charities or international charities. But there's a step-by-step process that needs to be followed and so buyer beware. Don't assume that every time you see the word donation, charitable, gift, that you actually are making a contribution to a charity or that you will be eligible for a tax receipt.

Jessie: That's right. I don't want us to come off as advocating not to give to projects and campaigns that are going to individuals with illnesses or things like that. Of course there are certainly philanthropic values in giving to those types of causes so long as you're sure that it's actually a legitimate cause. There's certainly a lot of fraud that happens there too.

Ted: So that need for vetting there as well.

Jessie: There's a need for vetting too. I don't want to say that no one should be giving to those individuals, of course. It's just vetting is necessary and just you go into it knowing that it is not tax deductible if that money is going directly to an individual or a family in need.

Ted: That's right. There's lots of different ways to be charitable but there really is only one path through which that is going to be considered a tax receded regulatory compliant contribution to

a charitable entity. As opposed to supporting somebody in need directly. In both instances, you want to make sure that you're vetting that there is actually a charity or that there is actually a person in need. Then you have the regulatory compliance issue that comes into play if you're moving the money internationally.

Jessie: That's right.

Ted: It need not be more complex than any of that and maybe that sounds somewhat complex. But the reality is, is that as you said, we want all of our listeners to understand that crowdfunding sites are very helpful, can be very helpful and can be used. Here at CAF America we encourage those who want to utilize our expertise to choose the site that they prefer to have a relationship with that site. But before they launch the campaign, if they wish their donors to receive a tax receipt. If they want to have regulatory compliance in moving the money to an international charity to do all the planning before you launch the campaign.

Therefore, our expertise can help you meet all that criteria.

Jessie: Yes, that's right. We certainly have many successful crowdfunding campaigns going on at any given time with a variety of different sites as Ted mentioned. We don't discriminate against any of them. We're very open to working with any of the crowdfunding sites that will work with us. We really like to leave that preference up to the donor or the charity that's running that fundraiser. Because there are certainly a lot of great options out there for different services and different functionalities on these sites.

We leave it open to choice but you have to coordinate with us to make sure that we can manage it in a tax efficient way.

Ted: Exactly. They come in all shapes and sizes and fee levels or price points and none of those fees have anything to do with CAF America. We encourage people to make the decision that fits their campaigns, fits their desires with the functionality that they're looking for. Ultimately, CAF America is here to make sure that the risk is managed, the regulations are followed and the reputations are protected. That is our pledge here at CAF America. Jessie, thank you so much for being my guest here on the show.

I think a very important topic and certainly as we started the show today a timely topic because there are so many crowdfunding sites. In fact, it is expected to continue to grow and raise a great deal of money. Our hope is that some of that money will go to charities and charitable causes in a tax receded regulatory compliant way. Thank you again for being my guest here on the CAF America Radio Network.

Jessie: Thanks, Ted.

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