

Archdiocese of Indianapolis Recommended Policy on Scrip Programs

The Office of Accounting Services has received several inquiries as to the appropriate way to administer scrip and other fundraising programs typically offered through our Archdiocesan schools. We have researched and consulted with our attorneys on the ramifications of conducting the programs as many schools currently do. Our research has led us to support two ways to conduct the program. A parish can choose to run either program or may operate under a combination of both scenarios. Each process though has significant rules to follow in order to not jeopardize our not-for-profit exempt status recognized by the Internal Revenue Service (IRS).

Scrip programs raise money through rebates from the retailer, represented as discounts from the face value of the gift card. Most of our schools conduct these programs with the assistance of a third party. The most popular programs share these earned rebates with school families.

Option 1: Program Rebates Retained at the Organization

One way to administer the scrip program would be to retain all the rebates for use at the organization; i.e. amounts are not credited to individual families tuition accounts for rebates earned. This could be administered simply because it would not be necessary to track individual purchases.

These rebates would not be considered a charitable contribution unless there is a signed agreement with the participant (see example agreement attached).

The school or parish is not required to offer the charitable contribution opportunity to participants in the scrip program. Further the scrip program must be handled substantially by volunteers to avoid tax, see the section below on “Unrelated Business Income Tax Concerns”.

Option 2: Program Rebates Shared

The more popular way to run the program is to share the rebates with the participants. For example, the school would retain a percentage of the rebate, including an administration fee, and the other portion of the rebate would be credited to the participant’s tuition account (or other designated expense).

Administrative fees charged or held back from the rebate, should be reasonable and not excessive. We recommend the parish or school analyze the administrative time and cost spent to run the program. That said we would recommend the administrative fee be 1%-2% and not exceeds 5% of program proceeds.

The organization must have a signed agreement with the participant in the scrip program that allows the participant to choose how the rebates will be allocated. The options to allocate the rebate need to include a cash back option. We have included a sample agreement for reference.

Not just parents of students are eligible to participate in purchasing scrip. Grandparents, relatives, friends etc. can participate in a program and designate rebates earned via a signed agreement to a particular students tuition account. Any rebates directed towards expenses such as participant tuition

accounts, sports expenses or cash rebated back do not qualify for a charitable contribution deduction for the participant. Further, the IRS has concluded in a Private Letter Ruling** that the rebate returned to the purchaser, credited to a tuition account or gifted to the charity does not constitute income to the purchaser (scrip purchaser).

If the participant elects to direct some or the entire rebate to the school or parish then this does qualify as a charitable contribution eligible for deduction. These contributions need to be tracked and a written acknowledgement letter should be provided for receipt of the gift. Please visit the IRS website at <http://www.irs.gov/> publication 526 see the publication no. 526 "*Charitable Contributions*" for additional guidance.

Should your parish choose to run the scrip program as a shared benefit with the participants, please note there are some issues to consider when opting for this method:

1. Increased administration for tracking the scrip rebates to the participant
2. Distribute tax acknowledgement letters by January 31st the year following contribution
3. If a significant number of participants choose to receive back 100% (less administrative fee) through tuition credits or via cash back, the income from the program may become unrelated business income (see section Unrelated Business Income Tax Concerns below)
4. Limit the number of options a participant can designate for the rebate, however, cash rebate back to the participant needs to be an option

Unrelated Business Income Tax Concerns

Scrip is deemed taxable to the parish or school as unrelated business income tax or UBIT unless it meets the volunteer exception. Scrip Sales must be transacted through volunteers, and NOT held for sale by paid individuals. A trade or business that does not substantially relate to the exempt purpose of the organization and is regularly carried on is subject to UBIT. Scrip programs meet these criteria, to avoid this taxation; the scrip program must be administered substantially all by volunteers. Scrip programs should only be handled by compensated individuals (i.e. parish/school secretary) a de minimus amount of time, 10% or less. We understand the need for paid employees to perform certain administrative functions, however, the majority of time spent on the program needs to be conducted by non-compensated volunteers. That means to be considered a volunteer, the person cannot be compensated for their time spent selling scrip by any means such as cash, gift cards, tuition credits, etc.

In order to not be subject to UBIT, we recommend that parishes and schools do not require via the signed agreement a specific percentage of the rebate be retained by the parish or school, except for administration fees to cover the cost of running the program. A "required" rebate amount will not be considered a charitable contribution and will be considered by the IRS as gross income and is subject to UBIT.

However, our attorney has expressed concern that if a majority of the rebates are returned either to tuition accounts or as cash to the scrip purchaser, then the exempt purpose of the program is not being met and therefore we could jeopardize our tax exempt status and the program could be subject to UBIT.

“Majority” is defined as more than half. Therefore, in the scrip agreement we suggest including wording that recommends (not requires) that purchasers donate a minimum of 50% of the rebates back to the parish or school program.

Our main focus is ensuring that the scrip program does not affect our exempt status. Therefore, if the scrip program at the school or parish has any one of the following happening:

1. Administered substantially (more than 10%) by paid staff or
2. Scrip is sold by paid staff or
3. A majority (over 51%) of the total rebates are returned to the purchaser via tuition credit or cash

Then the parish will need to complete the necessary annual tax returns, the form 990, to account for taxes that should be remitted for unrelated business income. This return will be all encompassing, meaning it is not strictly a tax return only documenting income and expenses for the scrip program. The return shall report all income and expenses for the parish for the year. For additional guidance on how to complete the form 990, please visit the IRS website at <http://www.irs.gov/>.

**Private Letter Rulings in general are “private” or pertain only to the identified tax payer and a specific fact pattern presented by the party requesting the ruling. Such rulings are usually very fact specific and are not very instructive or authoritative for dissimilar fact patterns.