

Individual Fundraising Accounts Parent Booster USA Policy

The Internal Revenue Service (IRS) has found that the use of IFAs (individual fundraising accounts) frequently results in illegal private benefit. However, the IRS has stopped short of strictly prohibiting IFAs. Based on the available IRS guidance, PBUSA adopts the following policy regarding its members use of IFA's:

- A. PBUSA strongly encourages its members not to use IFAs;
- B. If PBUSA members use IFAs, the IFA activity must make up an insubstantial portion of the overall activities of the organization; and participation in fundraising and/or IFA activity must be voluntary;
- C. PBUSA members who engage in IFA activity do so at their own risk understanding that IFAs may result in:
 - a. fines and penalties from the IRS; and/or
 - b. loss of tax-exempt status.

Background and definitions

PBUSA is aware of only one article published by the IRS directly relating to the use of IFAs, a 1993 article, [Athletic Booster Clubs: Are They Exempt](#). This article suggests that the use of IFAs frequently results in illegal financial benefit to the individual members. However, the article stops short of strictly prohibiting IFAs and does not provide any specific rules or "tests" to determine when IFAs are or are not legal. Instead, the article suggests the determination is a matter of reviewing the full facts of each case.

In 2007 and 2008, at least three booster clubs in Kentucky were assessed fines and penalties by the IRS for engaging in fundraising activities in which parents and students were given credit for volunteering and fundraising. In a letter to one of the booster clubs, Lois Lerner, Director of Exempt Organizations for the IRS, reportedly stated that any booster club that raises money to benefit an individual rather than the group is in violation of federal law and stands to lose its tax-exempt status.

Individual fundraising account

An individual fundraising account is any method by which a booster club credits an individual or family for all, or a portion, of the funds raised by the individual, family or organization. Credit may be given for sales of products (i.e., gift wrap, candy bars, etc.) and service at organization fundraising events (i.e., car wash, concession stands, etc.).

Private benefit doctrine

Nonprofit, tax-exempt, 501(c)(3) organizations are required to be organized and operated exclusively for tax-exempt purposes. "Exclusively" has been found by courts to really mean "primarily". Organizations do not meet this requirement if more than an insubstantial amount of their activities benefit individual or private interests rather than benefiting the organization as a whole. To PBUSA's knowledge, insubstantial in terms of IFA activity has not been defined in terms of a percentage of overall activities or gross receipts.

See also [Cooperative Fundraising Activities White Page](#), on this website.

