



# delaware banker

Spring 2025  
Vol. 21 No. 2

**Delaware  
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Tribute Section  
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## Understanding Charitable Gaming: What Bankers Should Know Before Their Clients Get in the Game



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*"Understanding charitable gaming is important when working with nonprofit clients who either participate in or inquire about this fundraising avenue."*

Charitable gaming represents a unique fundraising mechanism used by tax-exempt organizations — essentially, incentivized giving through games of chance. Participants engage in gaming activities such as raffles, bingo, or casino nights, knowing that proceeds support a charitable cause.

As a banker, understanding charitable gaming is important when working with nonprofit clients who either participate in or inquire about this fundraising avenue. Charitable gaming touches multiple areas relevant to financial reporting and compliance. Missteps in compliance can jeopardize a nonprofit's tax-exempt status or result in exposure to federal tax liabilities—risks your institution should be aware of when servicing such clients.

### Compliance Considerations

Charitable gaming is highly regulated at the state level and, in some cases, the federal level. Many states require nonprofits to register their gaming activity and obtain special permits. This means due diligence on your part should include confirming whether your client has appropriate licensing and documentation in place. These activities are legal in 47 states and D.C., with the exceptions being Tennessee, Hawaii, and Utah.

Failure to comply could result in the IRS classifying the proceeds as income from **illegal gaming**, subjecting the nonprofit to taxation and regulatory scrutiny. Noncompliance may also

impact reputational risk, which could affect your institution if the organization is a current or prospective borrower.

### Tax Implications for Organizations

From a federal tax perspective, income from charitable gaming could be classified as unrelated business income (UBI) if the activity is regularly conducted and does not align with the nonprofit's exempt purpose. Tax-exempt organizations with \$1,000 or more in UBI must file IRS Form 990-T, which can have implications for how their financials are interpreted by underwriters or compliance teams.

However, not all gaming income is automatically considered UBI. The IRS provides several exceptions, including:

- **Bingo:** Qualifying bingo games, conducted in-person and under specific conditions, may be excluded from UBI.
- **Volunteer Labor:** If "substantially all" the work for the event is performed by volunteers, the income is not considered a trade or business.
- **Public Entertainment Exception:** Gaming conducted at public fairs or expositions by a qualifying organization may also be exempt.

When advising clients or reviewing tax filings, look closely at whether the gaming activity falls into one of these categories. Schedule G of IRS Form 990 is used to report gaming income of \$15,000 or more — reviewing this form can offer insight into the scale and frequency of a nonprofit's gaming operations.

## Tax Implications for Individuals

It's also critical to note that individuals who participate in charitable gaming cannot deduct the cost of participation as a charitable donation. Additionally, nonprofits may be required to issue IRS Form W-2G for winnings above certain thresholds, and in some cases, may need to withhold taxes.

From a banker's standpoint, helping clients understand their reporting obligations can prevent downstream compliance issues, especially if you're managing accounts connected to event proceeds or payouts.

## Bottom Line for Bankers

Charitable gaming can be a win-win for communities and nonprofits alike—but only if executed within the bounds of tax and regulatory compliance. When working with tax-exempt clients engaged in these activities, be proactive in your due diligence:

- Confirm appropriate registration and licensing
- Review IRS filings for UBI exposure

- Assess whether the organization is meeting state-level gaming requirements
- Understand the scale and frequency of gaming activity for risk profiling

By understanding the regulatory framework surrounding charitable gaming, you can better guide nonprofit clients while safeguarding your institution from potential legal and reputational risks.



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