



### **GIFT CARDS, GIFT CERTIFICATES AND PRE-PAID CARDS**

The use of gift cards, gift certificates, and pre-paid cards for any purposes is strongly discouraged due to IRS regulations and accounting control issues. The custom of giving purchased gift cards to members, volunteers, teachers, and students should be discontinued. The IRS issued an opinion that gift cards, prepaid cards, gift certificates, and gift coupons which have a face value on them, are considered cash equivalents.

Florida PTA's financial procedures state that checks are never to be made payable to cash. Procedures also require when writing a check to an individual, receipts must be provided for reimbursement of items purchased or an invoice for services rendered. Therefore, a gift certificate/gift card, as a cash equivalent, would be prohibited by Florida PTA policies on disbursement of funds.

In addition, distributing gift cards and certificates to individuals violates PTA bylaws with regard to individual member benefit. This bylaws wording is mandatory, as it is an IRS requirement for nonprofit classification as a 501(c)(3). Using gift cards as incentives (this applies to door prizes, thank you gifts, etc.) could be considered as compensation by the IRS. Once you have given compensation to a volunteer, you have made them a compensated employee. It doesn't matter what you call them it comes down to the substance of the transaction. As a volunteer, they would most likely fall into the category of "employee" rather than "independent contractor," so, if they receive a gift card, the PTA would be required to issue a W2 and take out appropriate withholding. The amount of the gift card is not a factor when required to issue a W2.

**The bottom line is that gift cards are the same as cash. All PTA rules and requirements dealing with the receipt and disbursement of cash apply.**

The IRS also has extensive guidelines for 501(c)(3) tax-exempt charities with regard to paying **excess benefits** to volunteers in IRC Sec. 4958. The IRS will impose excise tax on the nonprofit for excess benefit transactions between the tax exempt organization and a "*disqualified person*".

According to the IRS, a *disqualified person* is any person who is in a position to exercise substantial influence over the affairs of the applicable tax-exempt organization. It is not necessary that the person actually exercise substantial influence only that the person be in a position to do so.

Here is the link to Section 4958 of the Internal Revenue Code which details excise tax and defines "disqualified person".

<https://www.irs.gov/charities-non-profits/charitable-organizations/intermediate-sanctions>

### **DONATED GIFT CARDS:**

The IRS does not distinguish whether an organization purchases gift cards/certificates or if they were donated by a company; to the IRS, it is the same.

The only times that a donated gift card can be used is

- (a) in a silent auction or raffle (See *Raffles and Games of Chance* – Page 34)
- (b) if the organization uses the donated gift card to purchase items that benefit the organization; not individuals.



One example would be to use a donated gift card from Office Depot to purchase supplies to be consumed by the PTA officers or committee chairs. Another example would be to use a donated gift card from a supermarket or restaurant to purchase refreshments for a membership meeting or a PTA program for the students.

When gift cards are donated to the PTA, extensive, appropriate, accounting controls must be in place for distribution. Since having gifts cards on hand is the equivalent of having cash on hand. Following are recommended controls and procedures for the distribution and use of gift cards, gift certificates, and pre-paid cards:

- Keep a log of all donated gift cards, gift certificates and prepaid cards, including the donor name, the date of receipt, and the value.
- When gift cards are used, a disbursement voucher should be completed with receipt(s) attached for the for the audit committee to verify that funds were spent appropriately..
- The log and receipts should be filed in the Treasurer's books and provided for the audit.

As a 501(c)(3) non-profit organization, we are required to follow IRS guidelines or risk jeopardizing our Federal income tax-exempt status