

Frequently Asked Questions – Other Income

1. What is Other Income?

Other Income is income received for which the payer does not receive a charitable tax deduction. In general, Other Income results from a payment for a product or service received – in other words, the payer receives something of value in exchange for the payment. It is the fact that the payer is unable to receive a tax deduction that distinguishes Other Income from a gift.

2. What are some examples of Other Income?

Examples of Other Income include payments received for the following:

1. Sales of merchandise such as cookbooks, t-shirts, etc. (*Note: in accordance with G.S. 105-164.13(34) sales of items by a nonprofit civic, charitable, educational, scientific or literary organization are exempt from tax when the net proceeds of the sales will be given or contributed to the State of North Carolina, or to one or more nonprofit charitable organizations, one of whose purpose is to serve as a conduit through which such net proceeds will flow to the State or to one or more of its agencies. We have determined that this statute exempts the University-related foundations, but does not exempt the Alumni Association.*)
2. Ticket sales for events such as alumni picnics, galas, tailgating events prior to a football game, etc. for which the payer receives some benefit such as a meal or football ticket
3. Payments received for the purchase of raffle tickets (See special tax rules for raffles <https://foundationsaccounting.ofa.ncsu.edu/services/raffles/>)

3. Are proceeds generated from fundraising events considered Other Income?

Proceeds generated from fundraising events such as the Arboretum Gala or the Design Guild are allowable in a Foundation. For these type events, there is typically both a gift component, as well as an Other Income component. For example, if tickets are sold to an Arboretum Gala event for \$100, and a \$20 meal is provided, there would be both a gift, and Other Income component. In this example, the donor would be entitled to a taxable deduction of \$80 (the cost of the ticket less the value of the service/product/item received). In this example, \$80 should be processed as a gift, using the normal gift processing protocol, and the remaining \$20 would be treated as Other Income.

4. What conditions must be met before Other Income can be deposited into a Foundation project?

Once it has been determined that the payment received is considered Other Income, rather than a gift, you must determine where it should appropriately be deposited. In order to deposit other income into a Foundation project, the Foundation must have provided the

service, and paid the expenses related to the service. FAI must receive and review Foundation Other Income event marketing materials (at least one week) prior to distribution.

Fundraising events such as the Arboretum Gala would be considered allowable in a Foundation, provided they are prominently held out on the front page of related communications (brochures, web pages, registration forms, etc.) as sponsored by the Foundation, and the check is made payable to the Foundation. There should be a statement on all pages of marketing materials that all funds raised by the (*event name*) are collected and managed by the (*foundation name*).

In these situations, the primary purpose of the event is to raise funds (i.e. gifts). It is important, however, that the tax-deductible portion of the proceeds be treated and processed as gifts. The non-tax deductible portion would then be treated as Other Income. When fundraising events are run through a Foundation, the associated expenses must also be paid from the Foundation. For example, if tickets are sold to a Design Guild Gala for \$200, and a \$30 meal is provided, the donor would be entitled to a taxable deduction of \$170. In this example, \$170 should be processed as a gift and the remaining \$30 would be treated as Other Income, and the meal expenses and all other related expenses must also be paid from the same Foundation fund

5. What about the event insurance?

The University's insurance would not cover any Foundation events. The Foundation must obtain insurance coverage prior to holding an event.

6. What if all of the conditions necessary to deposit to a Foundation project are not met?

It is important to understand that the rules that determine whether the monies can be deposited into a Foundation project are not intended to discourage the generation of Other Income. The Foundations exist to support the University, however, they are separate legal entities from the University, and it is very important that the funds be accounted for in the correct entity. If all of the criteria listed in #4 above are not met, then the funds need to be deposited into an appropriate University project. Contact the University Office of Cost Analysis for proper University treatment.

7. What about proceeds from the sale of raffle tickets?

Proceeds from the sale of raffle tickets would be considered Other Income, and should be deposited as such. It is important to note that the raffle must be conducted in the name of the Foundation. There are a number of other considerations regarding raffles that are important as well. The NC General Statutes consider raffles as a form of gambling and they are generally unlawful in the state of North Carolina. However, there is an exception that allows only two raffles per year for each tax-exempt non-profit organization (i.e. each foundation). So any raffles must be coordinate through the specific Foundation's Business Office. Additional information about raffles, including taxability issues, and limitations on the number, and prize limitations, can be found at the following web address: <https://foundationsaccounting.ofa.ncsu.edu/services/raffles/>

8. How should income received for courses or seminars be treated?

In order to comply with the terms of the Operating Agreements between the Foundations and the University, pursuant to UNC-GA Regulation 600.2.5.2[R], an Associated Entity cannot offer courses or seminars in which the University's name is used. Additional information can be found at:

<https://foundationsaccounting.ofa.ncsu.edu/services/workshop-fees/>

9. Are sponsorships considered Other Income, and can they be deposited into Foundation project?

Sponsorships are generally not considered as Other Income unless the sponsor receives something of value as part of the sponsorship – for example, meals, tickets, etc. In these cases the value of the items received must be subtracted from the sponsorship amount. For example, if a company sponsors an event and pays \$1,000, and in exchange receives four free meals, valued at \$25 each, then \$900 would be treated as a gift, and \$100 would be treated as Other Income. The gift portion should be processed the same as any other gift. Sponsorships can be deposited as a gift into a Foundation project if the check is made payable to the Foundation. This is true even if all other activity relating to the event runs through a University project. However, corresponding expenses covered by the sponsorship must also be paid by the same Foundation fund.

10. Are refunds of expenditures considered Other Income?

No. Refunds of expenditures are receipts that are reimbursements of incurred costs from the vendor and can be matched against an original expense charge from that vendor. An example of a refund of expenditure would be office supplies returned to a vendor in exchange for a refund. Checks should be forwarded to FAI with adequate documentation supporting the original expense payment by the foundation and should include a Financials system screen print with copies of invoices and small purchases or purchase orders supporting that payment was made by the fund being reimbursed.

11. How should royalty income be treated?

Royalty income earned on patents or copyrights held by University faculty or staff may be designated to a University-associated foundation only after proper review has taken place. In order for a royalty payment to be deposited into a foundation, documentation must be provided indicating that the appropriate committee (Intellectual Property Committee or Copyright Committee) has reviewed the circumstances and verified that no University resources have been utilized in generating the patent or copyright. In general, royalty income would not be treated as Other Income, but would instead be treated as a gift from either the entity paying the royalty, or from the person who receives a royalty payment and subsequently “gifts” the payment to the Foundation. This is due to the fact that the person with the copyright or patent is the one that performed the work that generated the royalty

income, not the Foundation. Additional information and helpful links can be located at the following address: <https://foundationsaccounting.ofa.ncsu.edu/services/royalty-income/>

12. How should other non-fund raising events be handle?

It is very important that University departmental events whose primary purpose is to cover costs (such as career fairs, educational forums, Founder's Day, etc.) be run through the University. Contact the University's Office of Cost Analysis for proper University treatment.

13. I don't see an example of my situation listed here – what resources exist to help me determine how Other Income receipts should be deposited?

The examples that are included in these FAQ's are the examples most commonly seen by our office. Written guidance that would cover every situation would be difficult to provide, especially since each particular situation usually has some unique aspect to it. So, if you have questions about how to treat Other Income receipts, please feel to contact FAI (Accounting Tech 513-1014 or Assistant Controller 513-1009) for assistance.

Additionally, FAI will need to review promotional materials, brochures, websites or other marketing materials prior to the event in order for the Other Income to be allowed for deposit into one of the foundations.