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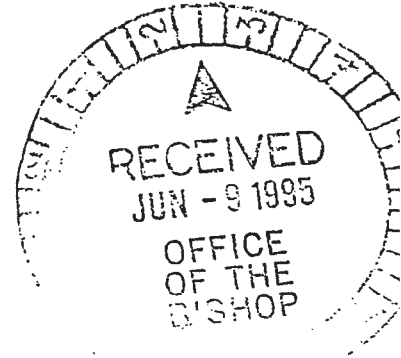
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June 7, 1995

Most Reverend Daniel M. Buechlein  
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Most Reverend Gerald A. Gettelfinger  
Most Reverend William Higi  
Most Reverend Daniel J. Melczek



RE: Charity Gaming Withholding and Reporting Requirements


Gentlemen:

It has been over two and a half years since I issued my revised handbook on Indiana Charity Gaming Law for Catholic parishes and schools. Since the first flurry of anguished phone calls from pastors around the state concerning the license law, the number of inquiries has dropped off considerably. I believe that the concerned persons (pastors, administrators, bingo chairpersons, festival chairpersons, etc.) have learned how to comply with the law and have accepted the harsh realities of it.

However, revisions need to be made to update the rules on reporting and withholding gaming winnings. Attached is a memorandum with current information on reporting prizes to tax authorities. You may want to duplicate this memo and distribute it to your parishes and schools.

I wish to express my appreciation to Michael Volk and Jeff Stumpf of the Archdiocesan Auditing Office for their assistance in the preparation of this material.

Very truly yours,

  
William J. Wood

WJW/akr  
Enclosure  
cc: Dr. M. Desmond Ryan

INDIANA CHARITY GAMING LAW

SUMMARY OF RULES ON REPORTING  
AND WITHHOLDING OF WINNINGS

June 1995

Here is a summary of the general rules governing the reporting and the withholding of prizes on charity gaming in Indiana. You must make certain reports to Internal Revenue Service (IRS) and Indiana Department of Revenue (IDR). Keep in mind the differences in the rules governing reporting requirements and the rules governing withholding requirements.

1. Reporting of Prizes.

A. Bingo and Keno. You must report to IRS and IDR all winnings of at least the following amounts:

Bingo	\$1,200.00
Keno	\$1,500.00

In those cases be sure to obtain the winner's name, address and social security number, because you must issue a Form W-2G to the winner by January 31 of the following year.

B. Lotteries and Raffles. You must report to IRS and IDR all winnings in lotteries and raffles of at least \$600.00, if the winnings are at least 300 times the amount of the wager. In other words, a \$600.00 prize from a wager of \$5.00 would not require reporting, since the prize is not at least 300 times the amount of

the wager. However, if the prize less the amount of the wager exceeds \$5,000.00, then you must report the prize in all cases.

2. Regular Withholding Rules.

A. Bingo and Keno. You need not withhold any amount of bingo or keno winnings unless the winner refuses to give a social security number.

B. Lotteries and Raffles Over Five Thousand Dollars. You must withhold certain percentages of lottery and raffle prizes for federal and state income taxes if the prize less the amount wagered exceeds \$5,000.00. The amounts to be withheld on the prizes are as follows:

Federal (IRS)	28%
State (IDR)	3.4%

For installment payments over a period of time that will exceed \$5,000.00, state and federal withholdings are still required even if the individual installments do not exceed \$5,000.00. In these cases, since taxes are withheld on the installments themselves, installment payments of less than \$600.00 would still need to be reported.

3. Reporting Forms to Use.

A. You must report the amount of winnings and the amounts withheld on Form W-2G to IRS, IDR and to the winner. (Form W-2G

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may be prepared in multiple copies to facilitate this process.)  
You should retain copies of all W-2Gs for at least three years.

B. When you submit all Forms W-2G to IRS, accompany them with a Form 1096, Annual Summary and Transmittal of U.S. Information Returns. This form simply summarizes all of the W-2Gs submitted.

C. Your parish may use a Form 1096 to report other information returns to IRS (such as Forms W-2, 1099, etc.), but you should use a separate Form 1096 to report your W-2Gs.

D. When you send your W-2Gs to IDR, summarize them on Form WH-3 (the Indiana counterpart to the IRS Form 1096). In the case of IDR, however, you can include the listings of your W-2Gs on the parish's WH-3 along with parish's regular payroll W-2s. Thus, only one WH-3 needs to be filed by any parish.

E. You may order blank Forms W-2G and 1096 by phoning the IRS at 1-800-TAX-FORM (1-800-829-3676). Instructions and publications regarding the filing of W-2Gs can also be obtained by calling this number. Any other questions about reporting W-2Gs can be made to the IRS centralized call site for information returns at 304/263-8700 (Monday through Friday, 8:30-4:30 Eastern Time, not Toll-Free).

F. IRS will not accept any photocopies of Forms W-2G or 1096.

G. IDR can be contacted at 317/232-2240 for forms.

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4. Forms for Remitting Amounts Withheld.

A. At the end of each quarter you must transmit the amounts withheld (as reported on Forms W-2G) with the following remittance forms:

To IRS	Form 8109
To IDR	Form WH-1

B. Federal Taxes. You may fill out a federal tax coupon and take it to the bank for deposit (as is done with other payroll tax deposits). For W-2G taxes, it is important to fill in the circle for "Form 945" taxes on the coupon. (Call 1-800-TAX-FORM to get the Instructions for Form 945. It explains the deposit requirements.) Generally, it is wise to deposit the taxes soon after the prize is awarded and the taxes are withheld.

C. State Taxes. These are forwarded to the state with Form WH-1. If your parish is already sending regular payroll withholdings to the state on Form WH-1, the state tax withheld from gaming winnings can be simply included with the next regularly scheduled withholding payment. Phone IDR at 317/232-2240 with any questions. State Publication WH-13 and Income Tax Information Bulletin #32A will provide helpful information and can be obtained by phoning the above number.

5. Annual Reports to Tax Authorities.

A. You must file annual report forms with IRS and IDR, attaching to the forms copies of the Forms W-2G setting forth the gaming prizes for the prior year. Remember, these forms are not remitting forms; they are reporting forms. (Remittances should be made on the regular remittance forms described in paragraph 4 above.)

B. Federal. By January 31 of the following year, you must file Form 945, Annual Return of Withheld Federal Income Tax. Note that the W-2Gs and Form 1096 must be filed with IRS by February 28 of the following year, while the applicable Form 945 must be filed by January 31 of the following year.

For parishes with regular payroll, it is important to remember NOT to include W-2G prizes on the quarterly Forms 941; rather, all W-2G amounts are to be reported on the annual Form 945. (Also, as noted above, it is important to identify the W-2G tax deposits on the deposit coupons as being for "Form 945" taxes.)

C. State. State Form WH-3 must be filed by February 28 of the following year. If your parish is already handling regular payroll, you should include all W-2G data into the one Form WH-3 with payroll.

6. Where to File Reports.

A. Federal. File your Form 1096 along with copies of the Forms W-2G by February 28 of the following year, at the following address:

Internal Revenue Service  
Kansas City, MO 64999

NOTE: The mailing address may change from time to time. Always refer to the IRS Instructions for Filing Forms W-2G to ascertain the correct mailing address.

B. State. File your Form WH-3 with copies of the W-2Gs by February 28 of the following year at this address:

Indiana Department of Revenue  
Compliance Division  
100 North Senate Avenue  
Indianapolis, IN 46204-2253

Call IDR at 317/232-2240 to open an account if you do not already have one, in order to commence withholding on prizes. Obtain and file a Form BT-1, Indiana Business Tax Application.

7. Refusal to Comply.

A. You should make every effort to obtain the social security numbers of winners of reportable prizes. If a winner refuses to give name, address and correct social security number, you are required to withhold 31% of the proceeds and report that amount (plus 3.4% for IDR). This is called "back-up withholding".



B. If a bingo or keno winner refuses to give name and social security number you must withhold 31% for IRS and 3.4% for IDR.

8. Non-Cash Prizes.

A. Non-cash prizes, such as automobiles, must be reported at their fair market value. However, withholding is not required unless the fair market value of the prize exceeds \$5,000.00, after deducting the amount of the wager.

B. If the fair market value of the prize less the amount of the wager exceeds \$5,000.00, then either one of the following two methods must be used:

1. If the payment of the tax is made by the winner of the prize then you must obtain the payment of 28% of the fair market value of the prize less the amount wagered [ $28\% \times (\text{FMV} - \text{Wager})$ ] from the winner and remit it to the IRS as described above. The 28% received is considered to be the "withholding" from the winner that will be reported on Form W-2G.

2. If you also agree to pay the withholding tax on behalf of the winner, then you must remit 38.88% of the fair market value of the prize less the amount wagered to the IRS as described above [ $38.88\% \times (\text{FMV} - \text{Wager})$ ]. If this method is done, then the fair market value of the prize plus the amount of tax paid by you becomes the total value of the prize that is reported as income on the Form W-2G, and the amount paid by you is reported as federal withholding on the Form W-2G.

In both scenarios above, you must also report and remit state tax of 3.4% as state withholding on Form W-2G. Under method 2 above, as with the federal tax, the state tax would also be added to the fair market value

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of the prize in order to arrive at the total of "Gross Winnings" to be reported on Form W-2G.

Vehicles are common non-cash raffle items. In these cases the purchase price of the vehicle generally represents the fair market value. In cases where the vehicle (or any other non-cash prize) may be donated to you, you must obtain a statement disclosing the fair market value of the prize from the donor.

-- William J. Wood, General Counsel  
Indiana Catholic Conference  
June 1995