

## TRADITIONAL GIVING TO BENEFIT DISASTER VICTIMS IS CHANGING

### And CROWD FUNDING IS TAKING OVER

The main source of funds raised to benefit recent disaster victims has been from Crowd Funding, outpacing The Red Cross and other traditional relief organizations.<sup>1</sup> So what is Crowd Funding? It is defined as funding a project or venture by raising small amounts of money from a large number. At its inception, it was commonly used for individual needs, like medical bills or business startup costs. Today, Crowd Funding is transforming the way we look at charitable giving and fundraising in the United States and worldwide. It has been estimated that over \$34 billion dollars were raised this way in 2015.<sup>2</sup> New Crowd Funding sites emerge every day. Common ones include GoFundMe, YouCare, Fundly, Booster and a host of others. Despite the proliferation of these sites, there is little guidance and even less law available for both the donors and the recipients when using Crowd Funding. All Crowd Funding websites state unequivocally that they are providing an administrative platform only, used to facilitate transactions between donors and recipients, and they disclaim all liability for anything on the site and all conduct associated with it.

This means that donors are largely on their own regarding any tax liabilities or deductions, for determining how donated funds will be used, and for ascertaining the legal implications. The tax issues alone are daunting. Are the donations being made to a particular campaign deductible? They may not be, not because the cause is unworthy, but because of the campaign structure or the stated purpose. It has been estimated that hundreds of millions of donated dollars have missed out on the benefit of charitable deductions, because of the way the campaign was established.<sup>3</sup> What happens if a donor improperly takes an income tax deduction for a donation that does not qualify? That well-meaning donor may be subject to audit, penalties and interest. If the donation does not qualify as a charitable contribution, could it be classified as a gift and possibly subject to gift tax which must be paid by the donor? Another unanswered question is whether the donations are, in fact, taxable income to the recipient. Moreover, if the donor receives a token in return for the donation, for example, a pin or a wrist band, does this have sales tax implications? As of today, we just do not have answers to these questions.

Most of the Crowd Funding campaigns are established by legitimate people for legitimate purposes. There are, however, criminals who view tragedies as opportunities to take donors' money and the identities of those soliciting donations are very hard to verify when using Crowd Funding, making prosecution all but impossible. Recently, we have suffered mass shootings, hurricanes, fires and earthquakes. Not long ago, we learned hard lessons after 9/11 from the fraud committed upon many donors. When we see the suffering of those around us, it is hard to step back, and do our homework before giving, but with Crowd Funding, it is imperative.

FOR MORE ON CROWD FUNDING, PLEASE CLICK ON THE LINK BELOW:

[http://leimbergservices.com/all/LIShenkmanKrooksBlattmachrPDF10\\_13\\_2017.pdf](http://leimbergservices.com/all/LIShenkmanKrooksBlattmachrPDF10_13_2017.pdf)

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<sup>1</sup> Statement made by Maggi Alexander, who leads The Philanthropic Initiative's Center for Global Philanthropy.

<sup>2</sup> Martin Shenkman, Bernard Krooks, and Jonathan Blattmachr, *Crowdsourcing Funding to Help Victims of the Las Vegas massacre*, LINK provided herein.

<sup>3</sup> *Crowdsourcing Funding to Help Victims of the Las Vegas massacre*, LINK provided herein.

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