

House Raffle Question: How Much Money Does the Homeowner Get to Keep?

With the successful Edgewater house raffle hitting the network news, I've received lots of emails from homeowners interested in holding a house raffle as a way to sell a house in a difficult housing market. Some homeowners see it as an antidote to foreclosure, others see it as a solution for an upside down mortgage. I'll feature a selection as posts for the next couple of weeks because I suspect that many of you have the same questions.

Many questions involve how and where the ticket proceeds are distributed. I've read recent news and I can see why this has come up so often in the past week or two. Some articles have said that the homeowner held or managed the house raffle, which is completely incorrect. Gambling laws in every state (except maybe DC) forbid individuals from holding these kinds of events for their personal benefit. With that in mind, here's today's question?

House Raffle Question:

When a person raffles their house this way, does the homeowner end up with any money for themselves when all is said and done? (After mortgage is paid, percentage to charity, CPA, and fundraising organization are all paid)

I also would like to know if the money deposited from the tickets are gaining interest while waiting for the close of the raffle? If so, then does the interest earned have to be claimed on taxes by the homeowner?

Thanks, D.

House Raffle Secrets' Answer:

Hi D.,

Thanks for your email and great questions! I'm not a lawyer, so I can't offer legal advice, but I'm happy to point out some things based on my observations.

From what I've read so far in house raffle rules, state laws, and in the media, the homeowner doesn't receive any of the proceeds...neither as the ticket fees are collected nor when the home is purchased. The only way the raffle can be and stay legal is if the charitable organization is the only entity that benefits financially.

For example, in Maryland (my state), the law says this?

"a charitable organization may conduct a raffle of real property **if it is for the exclusive benefit of the organization** and the prize awarded is real property to which the charity holds title or to which the charity has the ability to transfer title."

Other state laws may be worded differently, but I'd expect the spirit to be similar. Definitely check with legal counsel in your state and locality to see how it would be for you. A good place to start is [House Raffles: Are They Legal In Your State?](#)

The part about "does the homeowner end up with any money for themselves...after the mortgage is paid, percentage to charity, CPA, fundraising organization are all paid"...is a bit turned around. From what I've read so far, the nonprofit collects the money, purchases the home from the homeowner, and keeps the remainder. **Remember, above all things the house raffle is a fundraising event for the nonprofit.** Notably?

- The mortgage doesn't necessarily get paid. The home is purchased at appraised value, so it would likely be a problem if the home's value has fallen below its mortgage (as many have). In my state, as noted above, if the nonprofit can't take ownership of the house because of a lien or such, the whole project is a no go.
- There is no "percentage" that goes to charity...they get the entire remainder after the sale and use it to cover their costs (the ticket/flyer printing, advertising, CPA, labor) and ideally have something leftover to fund their programs.

The homeowner does benefit, however! If the house raffle is successful, their home is sold in a tough housing market at its appraised value. The homeowner doesn't have to fund the event, nor are they responsible for its management, and they may not have to haggle over sale price,.

At the same time, the homeowner is committed to the end. They can't sell the home to an interested buyer once the house raffle has started. Also, if the nonprofit doesn't raise enough money through ticket sales, then they can't buy the home and the homeowner has waited for nothing. No loss to the homeowner financially, but they've lost anywhere from 3-9 months.

That last bit may look discouraging, but that's how I see the house raffle from the homeowner's perspective. There were 10 house raffles in Maryland last year, but only one of them sold enough tickets to follow through and buy the house.

Whether or not any interest is received from the ticket proceeds would certainly depend on how the nonprofit manages their accounts. I would expect them to have a separate account for the event to avoid mingling funds, and if it's interest bearing...well, again, it's their money. If it were me, I wouldn't expect their income to affect my taxes, but I would check with my tax manager to be doubly

sure.

Hope this helps, and thanks again!

Crystal