



# Should Crowdfunding Be Part of Your Toolbox?

This form of raising funds can bestow great benefits – with the right planning.

By Diane Wittenberg

**W**hen crowdfunding first hit the scene, it was primarily used to fund small-scale for-profit business ventures. Since then, its popularity has grown tremendously and it is used for an almost endless array of purposes. Whether it be fundraising to help pay for an extravagant European honeymoon, cover a friend's medical bills, raise capital for a product launch, or support a local nonprofit, crowdfunding can be used for almost any personal or professional cause. In fact, one study predicts crowdfunding will be a \$90 to \$96 billion industry by 2025.

Crowdfunding presents an especially valuable opportunity for nonprofits, allowing them to bolster their fundraising efforts, increase their donor base, and spread awareness about their work. Logistically, it often takes less manpower, money, and time than other forms of donor solicitation.

Every nonprofit leader's dream is for their crowdfunding campaign to go viral. The ALS Association's "Ice Bucket Challenge" is one immensely successful campaign that brought a largely underfunded cause into the spotlight. It also brought in an unprecedented amount of cash. According to ALS Association CEO Barbara Newhouse, the 2014 campaign raised \$220 million globally. Between the viral videos almost everyone was making and the extensive media coverage, those who didn't know what ALS was before the challenge certainly do now.

Your nonprofit may never have a viral campaign as successful as the Ice Bucket Challenge, but careful planning can ensure

you make the most out of your crowdfunding efforts. Consider these five tips.

**1. Be strategic in your planning.** It's tempting to rush into signing up for a crowdfunding platform and hoping the dollars start rolling in. But to be successful your campaign needs to be carefully managed and planned.

Some crowdfunding Web sites allow you to keep the funds only if you meet your goal, while others let you keep any amount. Fees are also a big consideration, as is the level of support you'll receive from your chosen platform. Telling a compelling story about why you're raising the money and what it will go toward is imperative, as is providing appropriate rewards and recognition for your donors.

For some campaigns, an e-mailed thank you may be sufficient, but for others a tiered award system offering tangible rewards will be more effective. Plan incentives carefully, and be creative so your donors feel appreciated. Outlining how far their money goes (such as "\$50 feeds one child for a month") is also a strong incentive. Be specific. Instead of general goals, choose specific objectives for contributing to the community you serve.

**2. Know the rules.** There are laws that regulate fundraising for nonprofits, and those laws vary by state. Most states require organizations to register before making any charitable solicitation within that state. The failure to register can result in both civil and criminal penalties. Crowdfunding potentially can expose an organization to the jurisdiction of every state where it solicits funding.

There has been some debate as to whether crowdfunding triggers state solicitation registration requirements. Definitive answers haven't yet been provided, but there is some guidance under the Charleston Principles, which are nonbinding

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principles written by the National Association of State Charity Officials (NASCO). That guidance can be found at: <http://www.afpnet.org/ResourceCenter/ArticleDetail.cfm?ItemNumber=3309>.

**3. Make full use of tax regulations.** Not all crowdfunding donations are tax deductible, even if they're for a good cause. For example, covering someone's medical bills may be worthy, but donations to such a campaign don't qualify for tax exemption. Your 501(c)(3) organization has an advantage because contributions to your campaign are tax deductible, so be sure people understand this distinction. Clearly state that you're a qualified charitable organization under IRS code 501(c)(3).

**4. Build your community.** Start with your own database. Reach out to your network first to get some traction. Ask everyone you know to spread the word. New donors will look to see if your campaign has some traction before they decide to support your cause. Some advisors recommend that you have 30% of your funding "teed-up" prior to posting your campaign on the crowdfunding Web site so that you show momentum and community support.

Be sure to maintain proper records and send acknowledgments to all donors, just as you would for any other type of donations. Think of crowdfunding as a way of expanding your relationship database of potential donors. Show those donors gratitude and respect by being transparent. Show them how their money is being used and what type of impact your organization is making. Razoo.com offers great advice: "Love your donors. Treat them like investors."

**5. Use crowdfunding success to help win large donations and corporate sponsors.** Someone who is giving a grant or choosing a cause for their corporation to support may want to hear more than just a heartfelt pitch. Those giving grants or sponsorships may want to see tangible proof that a nonprofit's initiative has a strong support base and can bring in funds from the everyday donor. Crowdfunding is a great way to provide that evidence. For instance, a domestic violence prevention nonprofit looks much more attractive if its crowdfunding campaign to build a new shelter raised \$200,000 in one month on Kickstarter.

Plan your crowdfunding campaign carefully and it can become a recurring staple in your nonprofit's fundraising efforts. 

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- IRS Audits: What Could They Mean for You?
- Anatomy of an Award-Winning Campaign
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