

Crowdfunding FAQ

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Several students and faculty in the College of the Environment were early adopters of the crowdfunding approach to obtain support for scientific research. Based on their experiences and a growing understanding of the process, the College of the Environment Advancement group has identified essential issues that anyone should understand before embarking on raising money through crowdfunding. The focus of this memo is on crowdfunding for research conducted at the University of Washington.

1. What is crowdfunding?

Crowdfunding is an informal term referring to a type of microfunding that is done via web-based, for-profit companies such as Kickstarter.com. Crowdfunding can be an effective way to raise modest sums of money in a relatively short period of time. Most crowdfunding companies are focused primarily on creative projects or business/product start-up efforts; though some like MicroRyza.com, RocketHub.com, and Petridish.org tend to have a science focus.

The mechanics and requirements vary from service to service, but in most cases a project owner identifies a highly marketable project that has a clear outcome, well-defined fundraising goal, and distinct timeline, and then lists the project online alongside other, similar projects via the crowdfunding service. Contributors pledge funds, and typically (though not always) their credit cards are not charged unless the minimum fundraising goal is met. Many services require that status updates about the project be provided to contributors.

Successful crowdfunding requires the strategic use of social media and communication, so a significant investment of time and energy to a communication plan is essential for success. Many crowdfunded projects are not successfully funded, which often hinges on whether the project owner was able to approach a large group of potential contributors via their own personal, professional, and social networks. In this way crowdfunding operates more like a bake sale than a reliable funding source, unless one's project has the good fortune to "go viral." A project owner's savvy and sophistication with social media can be an essential part of the success of a crowdfunding effort.

2. Crowdfunding companies are for-profit...why is this important?

The company charges a fee for services, typically between 5-10% of the total raised, plus credit card fees. This can decrease the total funds available for your project. For example, if the project owner seeks to raise \$5,000, and succeeds in doing so, he or she will receive a net amount ranging from \$4,500 to \$4,750 depending upon the crowdfunding service used.

3. I want to raise money and then put the funds into a UW budget. How do I do this?

The simple answer is that the crowdfunding company typically subtracts their fee from the total raised and then issues a check to the UW Foundation to be placed in a designated account. However, there are important considerations (also outlined in the attached flowchart) to keep in mind. It is critical that the following be considered before launching a crowdfunding appeal, especially if the project manager is a student:

- The project owner should be a UW faculty/staff member, or directly supervised by UW faculty/staff member. (i.e., a student doing work in a lab under faculty supervision). A departmental budget will need to be identified or created that can accept the funds. In the College of the Environment, the Associate Dean of Research should be notified when the crowdfunding effort is launched. It is highly recommended that the departmental or program administrator also be notified.
- Like all gifts, funds raised via crowdfunding and put into UW budgets are subject to UW spending policies. For example, large equipment purchases are subject to UW purchasing policies, data-sharing might have intellectual property implications, and departmental budgets usually have restrictions on use. It is the responsibility of the project owner, and their faculty/staff supervisor when applicable, to understand all legal requirements and restrictions, including compliance issues that may require the involvement of the Institutional Review Board (IRB), the Human Subjects Division (HSD), or the Office of Sponsored Programs (OSP).
- The UW currently cannot accept funds from services like Paypal or Amazon Payments, but can accept checks and wire transfers.
- If the funds are put into a UW budget, they become the property of the UW. If the student or faculty/staff member leaves the UW, the unspent funds remain at the UW to be used for the designated purpose. For this reason, it is also important to have a plan for the use of unspent funds.

4. Do contributions to a crowdfunding project constitute charitable gifts?

Typically, no. Individual contributions to a crowdfunded project are almost always made via a for-profit company, and thus are not considered deductible charitable gifts for the contributor under IRS rules. If the crowdfunding company sends the funds directly to the UW, then the crowdfunding company is the donor of record (the donor of record receives the charitable gift credit). If the project manager accepts the funds personally, this most likely constitutes taxable income in the year the funds are received. The project manager can then make a tax-deductible gift to the UW, and the project manager becomes the donor of record. Please note that IRS rules governing charitable gift deductions vary depending upon the nature of the gift. It is advisable to check with a tax advisor so individuals fully understand the tax implications of such an arrangement.

It's also important to keep in mind that individual crowdfunding contributors are essentially anonymous. This means the UW will not be able to thank or follow up with these contributors. All

acknowledgment and stewardship of these contributors is the responsibility of the project owner, whether the funds raised end up in a UW budget or not.

5. *My colleague/friend/mom wants to support my project but wants to make a tax deductible gift. Is this possible?*

If a gift budget has already been designated, and there are no compliance issues with funding your work in this way, then it might be possible to make a gift directly to the university. Check with your administrator and/or faculty supervisor as applicable. This could be tricky if the project is funding student work – again, it is recommended that students always check in with their departments before soliciting funding!

If you have not yet launched your crowdfunding appeal, and/or your timeline is longer or your project ongoing, it might be preferable to go through the UW (specifically, online giving via the UW Foundation website) rather than a crowdfunding company. Gifts given in this way are nearly always tax deductible and the entirety of the gift benefits the project (UW Advancement pays all credit card fees). Once a budget is identified, UW Advancement can provide you with a link that you can share with those who wish to make gifts directly to that budget, and you can share it from your website, Twitter, etc.

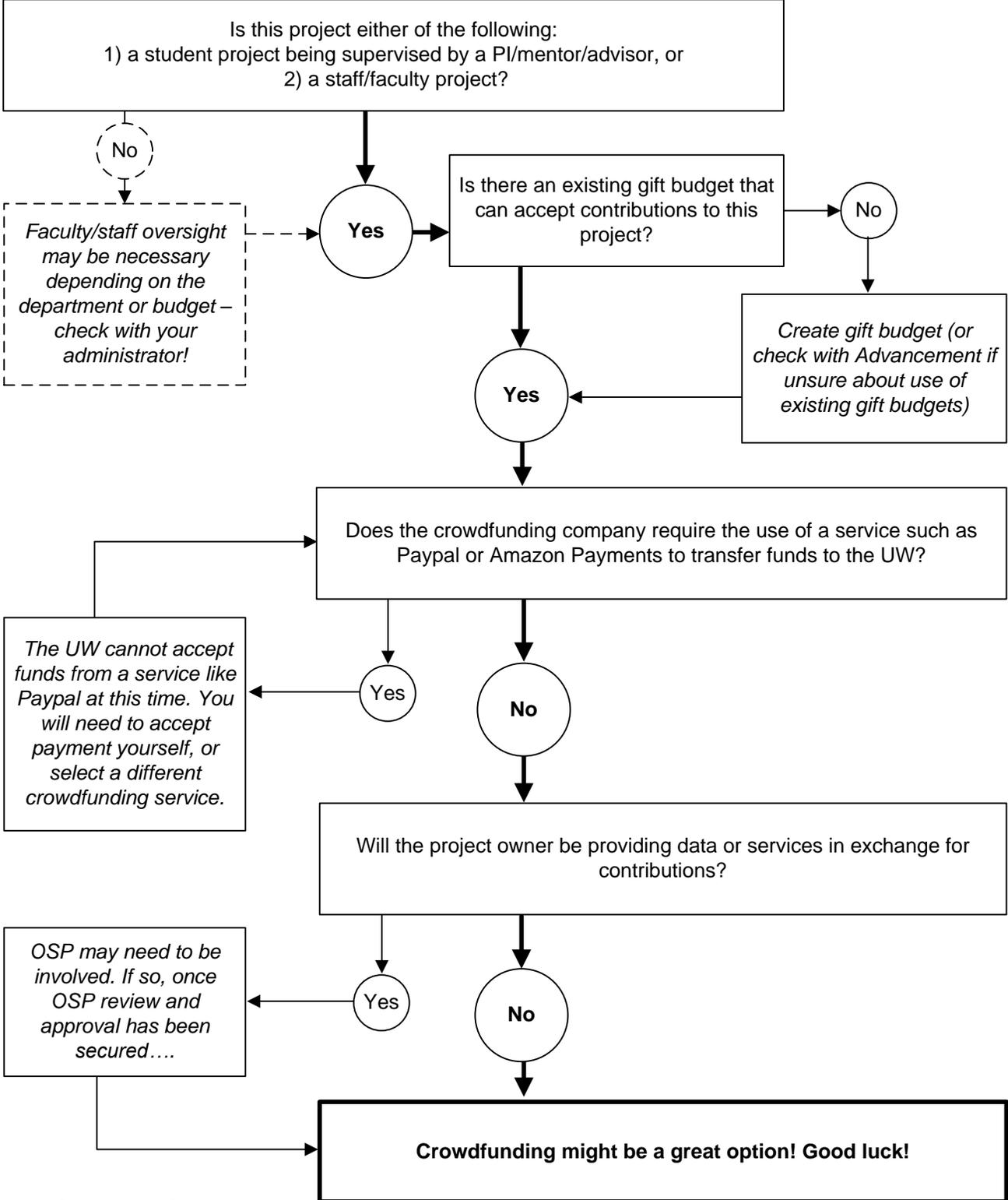
If you are unsure which is the better option for you, the attached flowchart can help, or you can contact Caroline Rosevear, Assistant Director for Advancement, rosevear@uw.edu, or 206-221-0562 in the CoEnv Advancement office for more assistance.

6. *I raised money via crowdfunding, and I can't or don't want to put the funds in a UW budget. Now what?*

Some project owners might prefer to accept funds directly from the crowdfunding company and thus maintain complete control over how the funds are used (this would be, essentially, self-funded research). If you accept funds directly from the crowdfunding company, this may be considered taxable income (see question 4 above). For students this could have potentially serious implications for financial aid eligibility (the Office of Student Financial Aid should be consulted in advance). For students seeking or already receiving financial aid, it is very important to explore these issues before launching your appeal.

There can also be significant compliance issues with self-funded research – it would be a good idea to check in with OSP before proceeding.

Is this project a good candidate for crowdfunding via a UW budget?



Questions? Contact:
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