Perspective

Life After Tax Reform: What Nonprofits, Donors & Funders Must Do

By SHERRY MAGILL

We begin this new year with a new set of rules – rules that will impact individual giving, the operations of all types of nonprofits, from community organizations and churches to colleges and universities, and, consequently, the communities in which we all live, work and raise families.

The new rules are embodied in Public Law No. 115-97, or the Tax Cuts and Jobs Act of 2017, more commonly known as Tax Reform. Whether you supported it or opposed it, it is now time to pay close attention to its provisions and be prepared for what lies ahead.

Many of the scenarios are grim, particularly those predicting changes in charitable giving by individuals. But, in truth, the actual effects of tax reform are not yet known. Much of what happens will be influenced by the actions of nonprofits, donors and funders.

Understanding the Challenges

Perhaps the greatest area of concern is the new tax law's potential impact on charitable giving by individuals. While the new law did not change the 100-year-old provision allowing taxpayers to deduct the amount of their charitable contributions, it made it less likely that taxpayers will access that provision.

The new tax law doubles the amount of the standard deduction, meaning that far fewer taxpayers will reach the threshold necessary to enable them to itemize their deductions. Experts at the National Council of Nonprofits estimate that this change alone will reduce the proportion of taxpayers who itemize from 30% to 5% and could result in a $20 billion annual drop in charitable giving.

In addition, the new tax law doubles the exemption on estate taxes, which may be a disincentive to bequests.

While none of us would argue that individuals only give out of a desire to avoid taxes, anything that threatens to undermine charitable giving is of great concern. Here in Northeast Florida, we know that since 2006 we have lost roughly 26,000 donors, based on IRS data, and that overall charitable giving has declined in excess of $50 million, adjusted for inflation. While much of that loss can be attributed to the Great Recession, it also coincides with a decline in the proportion of tax filers who itemize.

Beyond the potential impact on giving, the new tax law directly impacts nonprofit operations in a multitude of ways.

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The law changes the way unrelated business income is taxed.

The law imposes new excise taxes on those nonprofits – including churches – that pay any of their five highest paid employees salaries in excess of $1 million. (There are some exemptions for medical personnel.)

It imposes excise taxes on colleges and universities that have very large endowments.

And it impacts a host of smaller items related to the way nonprofit employers financially interact with their employees.

Organizational, Individual and Collective Responses

Given the scope of these changes, nonprofits, donors and funders cannot go into 2018 anticipating "business as usual."

At the organizational level, it has never been more important for CEOs, senior staff *and boards* to fully and completely understand their organization's finances. What are the various streams of revenue and how do they interrelate? How much revenue comes from contributions? What type of contributions? From whom? What are your organization's reserves? Are they adequate?

This type of detailed information positions decision-makers to take appropriate actions that may minimize potentially negative impacts.

Board and staff may benefit from scenario planning: If contributions decline 50%, what is the plan of action?

At the same time, nonprofits need not panic about fundraising. Stay the course. Make sure the organization has a solid fundraising plan and continue to work the plan. Provide excellent stewardship and recognition to donors *of all types and sizes*. Donors of small and mid-sized gifts are just as important to your organization's future as those who give large gifts. Our research shows that 35% of all charitable giving comes from households earning less than $100,000 a year.

For donors, the message is similar: stay the course. Continue to give to those organizations whose work has meaning for you.

It is important to remember that as donors, we never reaped 100% of the contribution as a deduction. If we gave $10,000 in a year, the actual impact on our tax bill might have been less than $1,000.

Funders, meanwhile, should be mindful of the new stresses placed on the nonprofits that they support. This is an excellent time to support organizations trying to manage their finances with greater care or ensure their fundraising plan is current, robust and on target.

Finally, all of us together – nonprofits, donors and funders – must be assertive about making our voices heard and advocating for good public policy for the independent sector.

Connect with the professional organization that represents your interests – the National Council on Nonprofits, the Council on Foundations and local and regional nonprofit and funder organizations. These organizations provide the strong unified voices that influence national public policy. They are critical to our sector and critical to our individual survival.

When faced with major changes, businesses of all types must be adaptable, diligent and smart. Nonprofits, donors and funders are no different. Our businesses – and our communities – need our full and careful attention now more than ever.

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