

Tax Reform and Its Impact on Nonprofits



What changed in the Tax Reform?

Tax Cut and Jobs Act of 2017 – H.R. 1

- Reduced tax rates for individuals
- Reduce maximum corporate tax rate from 35% to 21% (flat tax)
- 20% tax deduction on business income earned by pass-through S corps & LLCs and self-employed (Artists, etc. *are eligible*).
- Raise estate tax threshold to \$11.2 million per person
- Charitable deduction: max is 60% of income (up from 50%)
- Double the standard deduction, but eliminate deductions for personal exemptions and dependents
- Eliminate most itemized deductions except (1) home mortgage interest, (2) charitable gifts, (3) medical expenses and (4) up to \$10,000 of state & local income taxes and property taxes

Impact of Tax Reform on Nonprofit Business Practice

- Changes in standard deductions, estate tax, cash contribution limitation may impact on contributions and/or cash flow.
- Excise tax on highly compensated executives
- Computation of unrelated business taxable income
- Unrelated business income includes certain fringe benefits (qualified parking & on premises athletic facilities)

Who Gets Tax Benefits from Charitable Gifts?

- Donors who itemize tax deductions (who don't take the "standard deduction")

Impact of 2017 tax changes

- Number of returns that itemize is projected to fall from 47 million tax returns to just 19 million
- Number of taxpayers who deduct charitable gifts is projected to fall from 36 million to 16 million.

Will Donors change their giving?

Why do donors make charitable donations?

- Receiving tax benefits only motivated 18% of wealthy donors in 2015 (compared to 34% in 2013)

Personal and altruistic reasons for giving:

- Belief in mission (54%)
- Belief that gift can make a difference (44%)
- Personal satisfaction, enjoyment, or fulfillment (39%)
- Volunteering had a big impact on giving. Over 84% made financial gifts to the charities at which they volunteered

Source: www.ustrust.com/publish/content/application/pdf/GWMOL/USTp_ARMCGDN7_oct_2017.pdf

How do Nonprofits Change Fundraising Strategies?

Tax Saving Strategies for Charitable Gifts

- Don't forget the 11% who itemize their tax deductions
- "Bunching" charitable gifts every few years -- donor advised funds will become more popular
- Most donors over age 70 ½ should make ALL of their charitable gifts from their IRAs: "Charitable IRA Rollover"

Fundraising Strategies for Donors

- Unite donor's goals and passions with nonprofit's priorities
- Stewardship, Stewardship, Stewardship
- Prediction – Tax laws will change in the future
- Most donors give because they believe in the mission of the organization.... tell your story

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Notes/Highlights/Follow-Up Questions/Links

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