Financial Sustainability in the Wake of the New Tax Reform

An SVA/Settlers Bank Nonprofit Business Briefing

SVA and Settlers Bank recently hosted an educational luncheon where the discussion centered on the nonprofit industry's financial sustainability in the wake of the Tax Cuts and Jobs Act of 2017 (the Act).

The Act includes temporary provisions that are in effect beginning on January 1, 2018 and expire on December 31, 2025 and include, but are not limited to, the following:

- Elimination of the personal exemption
- $10,000 cap on itemized deductions for state and local taxes
- Elimination of itemized deductions subject to 2% of the adjusted gross income (AGI) floor
- Reduction of tax rates at most levels
- Increase in the charitable contribution deduction limitation for cash contributions (from 50% of AGI to 60% of AGI)
- Increase in the standard deduction from $6,350 in 2017 for single taxpayers to $12,000 in 2018. For married taxpayers filing jointly, the standard deduction increases from $12,700 in 2017 to $24,000 in 2018

As a result of the tax law changes, taxpayers who routinely give to charitable organizations will find that it may no longer be beneficial for them to do so and they may opt to take the standard deduction. It is anticipated that the increase in the standard deduction will substantially reduce the number of taxpayers that can benefit from the charitable contribution deduction from approximately 30% of taxpayers in 2017 to 6% in 2018.

Within the nonprofit sector, industry projections indicate that a loss of jobs in the nonprofit sector will occur and estimates range from 220,000 to 264,000 jobs. The potential also exists for significant reductions in overall charitable giving, approximately $13 billion annually.

Three executive directors from various local nonprofit organizations joined us to share their plans for the future and best practices in light of the tax law changes. Each plans to create success by developing a proactive response to fundraising and effectively communicating the organization's mission and message.

These professionals shared the following insights and recommendations with our attendees:

- The impact of the last significant national event to affect the nonprofit sector, the 2008 recession, did not deter individuals from donating to their favorite charities.

- The dire statistics cited regarding the impact of the new tax law on the nonprofit sector does not take into consideration the motivation of donors to give.

- To address the tax law changes, it was suggested that is it important to examine your organization and fill in any gaps (i.e. fill open staff positions such as marketing, donor database manager, etc.). If an organization can staff appropriately, it will be better positioned to handle the challenges ahead.

- Corporations are in a place to give more to nonprofit organizations. It is important to engage with these companies and demonstrate your organization's unique value proposition.

- Organizations must ask themselves a key question during this time – Do we have the right business model? An organization should also consider if it needs to collaborate or partner with other organizations or if it should expand or contract.

- Donors tell you what your organization's unique value proposition is. Typically, the mission and unique value proposition are one and the same and if donors are not supporting the organization then it is not the fault of the donor - it is the organization's fault for not adequately communicating its message.

We hope this overview on the new tax law and the insights our panelists provided help you to better prepare your nonprofit organization for the changes ahead.