Summer 2018

Profitable Solutions for Nonprofits

Will the TCJA make your UBIT jump?

Getting the most from your social media use

Raffles: Follow the rules of the game

Newsbits

LAPORTE
CPAs & BUSINESS ADVISORS

New Orleans | Houston | Baton Rouge | Covington | Houma
Check out our Nonprofit Industry Group page and nonprofit blog.
laporte.com/industry/nonprofit

Will the TCJA make your UBIT jump?

As the new tax bill worked its way through Congress last fall, nonprofits across the country raised their voices high to share concerns about its disincentives for charitable donations — as well as the proposed repeal of the Johnson Amendment. Little was heard, though, about changes to the rules for unrelated business income tax (UBIT). And it turns out that the final law, the Tax Cuts and Jobs Act (TCJA), includes several provisions that could boost your organization's liability for the tax, regardless of whether you operate an unrelated business.

Why your UBI could grow

The most important change relates to how unrelated business income (UBI) is computed. The new law requires nonprofits to calculate UBI separately for each unrelated business, with the $1,000 deduction typically allowed applied to the aggregate UBI for all businesses.

Your UBI also could increase because net operating losses (NOLs) can only be claimed against future income from the specific business that generated the loss. Under previous law, you could use NOLs from one business to offset the income of another or to offset gains from alternative investments or pass-through entities, also considered UBI.

UBI also might grow due to a change in how certain fringe benefits are treated under the TCJA. In previous years, you could provide your employees qualified transportation benefits (including commuter transportation and transit passes), qualified parking fringe benefits and on-site athletic facilities free of income tax for both you and employees.

The TCJA, however, treats the payments for such benefits as UBI unless they're directly connected to an unrelated business (for example, parking benefits provided employees of an unrelated business). Congress made the change to create parity between nonprofits and taxable organizations. For-profit businesses lost a previous tax exemption for certain fringe benefits under the TCJA. The end result, though, is that nonprofits could owe UBIT even without operating any unrelated businesses.

It's not all bad news. The new law also changes the corporate tax rate that nonprofits pay on UBI to 21% from a range of 15% to 35%. So your UBIT liability might fall despite your higher UBI.

What you can do

Fortunately, you have some options to avoid the worst effects of these changes. For example, you could conduct an audit of your unrelated businesses. You might find that you've been overreporting your UBI because you haven't captured all the related business expenses.

Another option for nonprofits with multiple unrelated businesses is forming a single taxable corporate subsidiary to hold all of them, which would permit you to again offset their income and losses. Any restructuring will likely carry some implications, whether tax-related, financial or operational.

The treatment of certain fringe benefits can pose a problem for organizations that don't want to revoke benefits, especially in today's competitive job market. Perhaps you could replace benefits with alternative forms of compensation. Many employees may prefer the cash up front, even though it would be taxable to them.

Act now

Changes to the UBIT rules haven't received as much coverage as some of the other TCJA provisions. But that doesn't mean they won't have negative repercussions for your organization. Consult with your CPA to determine steps you can take to minimize the impact of the TCJA on your bottom line. ■

Getting the most from your social media use

It may seem hard to believe in today's hyper-connected world, but some nonprofits still don't have a presence on social media. And, among those that do, many could do it better. Social media underperformance frequently can be tracked to some common missteps. But you usually can get past them at little to no cost.

Silo-ing social media strategy

Your social media efforts shouldn't exist as an island, apart from your organization's other strategies. Be sure to incorporate social media into your overall strategic planning and align your social media tactics with the organization's mission and goals.

This will help you avoid another common pitfall: failing to set clear goals for your social media function. As a part of your communications strategy, determine exactly what you are hoping to achieve. And let the overarching goals of your nonprofit guide your social media objectives.

Quality vs. quantity

Many nonprofits struggle with finding the right frequency for posting on social media. At one end of the spectrum are organizations that believe opening an account and posting once a month is all that's required to engage on social media. On the other end, some organizations pump out multiple posts a day, to the point of potentially annoying and alienating supporters.

The appropriate number of posts will vary by organization. But it's something that should be studied and determined in advance, rather than done on an ad hoc basis. Solid, appealing content should lead the way.

Picking the right platforms for your organization

Facebook, Twitter, Instagram, Snapchat, Pinterest, LinkedIn, YouTube — not to mention all the up-and-coming platforms you've probably yet to hear about. The sheer number can easily overwhelm a nonprofit, whether it's dipping its toes in social media waters for the first time or just trying to swim with the current.

But you don't need to engage on every possible platform. In fact, you're better off establishing a regular presence with a consistent voice on a few platforms rather than spreading yourself so thin that it's impossible to post material that has impact.

At this point, Facebook and Twitter are de rigueur for most organizations, but you can select additional platforms based on factors such as your target audience. For example, professionals regularly use LinkedIn and younger adults tend to congregate on Instagram, while many teenagers currently use Snapchat.

But exercise caution when it comes to jumping on the newest, hottest thing. History shows that these often burn out. Go ahead and grab your account name but hold off on pouring a lot of energy into a new site until you confirm that its audience is one you want to reach.

One factor that will drive the decision about your posting frequency is the type of content you publish. Basically, you need to post enough so that you can get in your "asks" (for example, for donations, event registrations or petition signatures) without seeming as if all you do is make requests of supporters.

Mix in calls to action with content that engages, educates and promotes. Include visuals, videos, volunteer recognition, white papers, how-to tips and humor. And tell stories! One of the benefits of social media is that you can tell a story as it develops, allowing your followers to watch as, for instance, an empty, polluted lot becomes a thriving park or an at-risk student graduates from high school.

Unrealistic expectations

Nonprofits understandably can grow frustrated when social media work doesn't produce quick results. No one likes to see few or no "likes" or comments. But unless you're a celebrity or famous athlete, understand that social media growth is a slow-moving train. Your leaders may need to lower their expectations and allow more time to realize their goals.

Of course, you can help boost your number of followers by actively promoting your social media accounts. And don't worry — "promoting" doesn't require money. Place links and URLs with the familiar logos for your chosen social media channels in your newsletters, invoices, email signature boxes, website home page, and donation thank-yous. Add the text "follow" or "stay connected."

For many nonprofits, a lack of resources is a major stumbling block when it comes to social media use. If you can't afford a full-time social media manager, consider hiring or offering an internship to a college or even a high school student. Or you could spread the responsibility across multiple employees. That could reduce the stress employees who work full-time on social media sometimes experience due to the hectic, nonstop pace and the drain of dealing with online trolls.

A moving target

With social media evolving as quickly as it does, you'll need to review your social media strategies, and the results of your efforts on each platform, on a regular basis. Fortunately, many free social analytics tools are available to help you look back and chart your best course forward. ■

Raffles: Follow the rules of the game

If your organization anticipates raising big amounts with a raffle at your next fundraising event, you might want to step back and revisit your assumptions. State laws vary, but the IRS has rules related to unrelated business income (UBI) that need to be followed, and raffle income may be subject to UBI tax. Here's what you need to know before you place all your bets on this event.

Taxing UBI

Nonprofits must pay income tax on UBI — defined as income from a trade or business, regularly carried on, that isn't substantially related to the organization's exempt purpose. The IRS considers raffles to be a form of gaming, which is a trade or business. If you routinely hold raffles, it's possible they could be considered "regularly carried on," and raffles likely aren't related to your exempt purpose. Keep in mind that, under the Tax Cuts and Jobs Act (TCJA), losses in another unrelated trade or business can no longer be used to offset UBI generated by your raffle. (See "Will the TCJA make your UBIT jump?" on page 2.)

But, raffle income can be exempted from UBI tax, if the raffle is conducted with "substantially all" volunteer labor. The term "substantially all" hasn't been formally defined. But the IRS's unofficial guideline is that 85% or more of the labor running the raffle should be from volunteers. Remember to keep records to demonstrate your level of volunteer support.

Reporting winnings

Your nonprofit must report when the winnings are $600 or more and at least 300 times the amount of the winner's wager (the raffle ticket price). You can deduct the wager amount when determining if the $600 threshold is met.

For example, you sell $4 tickets and your winner receives $2,000. Because the winnings ($1,996) are more than $600 and more than 300 times the amount of the $4 wager, you must report them to the IRS.

You should file Form W-2G, "Certain Gambling Winnings," and give a copy to the winner to show reportable winnings along with related income tax withheld. The winner should provide you with his or her name, address and Social Security number on Form W-9 or 5754, to include on the filing. Copy "A" of the W-2G is due to the IRS by February 28 following the calendar year of the payment if you're filing on paper. If you file electronically, you have until March 31. The winner must receive copies "B" and "C" by January 31.

Under the Tax Cuts and Jobs Act, losses in another unrelated trade or business can no longer be used to offset UBI generated by your raffle.

What about income tax?

Federal income tax must be withheld from the winnings and remitted to the IRS if the proceeds (the difference between the winnings and the amount of the wager) are more than $5,000. If the winnings are not in cash (for example, a vacation package or motor boat), the proceeds are the difference between the fair market value (FMV) of the item won and the wager amount. When the value of a noncash prize isn't obvious, it's wise to obtain a valuation before the drawing.

Effective for tax years beginning after December 31, 2017, you must withhold 24% (previously 25%) in tax from the winnings. Note that the 24% rate applies to the total amount of the proceeds from the wager, not just the amount that exceeds $5,000. Say that you hold a raffle with $1 tickets. The winner receives $6,000. But, because the proceeds ($5,999) exceed $5,000, you must withhold $1,440 ($5,999 × 24%).

For a noncash prize with proceeds of more than $5,000, you have two options:

1. The winner reimburses you the amount of withholding tax that you must pay to the IRS.

2. You pay the withholding tax on behalf of the winner, calculated at 31.58% of the FMV less the wager.

Taxes withheld from raffle winnings must be reported on Form 945, "Annual Return of Withheld Federal Income Tax." Include the total amount of tax withheld that you reported on all the Forms W-2G filed for the year.

If taxes withheld are under $2,500 in total, use Form 945 and file by January 31 following the close of the tax reporting year. If they're greater than $2,500, file them on a monthly or semiweekly basis.

More to handle

Your organization might be required to withhold 24% (formerly 28%) of raffle prizes for federal income tax backup withholding if the winner doesn't furnish a correct Social Security number. Ask your CPA for more details on this and other raffle requirements. ■

NEWSBITS

Giving study yields disappointing results

A new study based on data gathered over 15 years from more than 9,000 U.S. families offers an in-depth look into charitable giving during that period — and it includes some discouraging data. The Philanthropy Panel Study is conducted every two years by the Indiana University Lilly Family School of Philanthropy and the University of Michigan Institute for Social Research.

The study indicates that the share of Americans who give to charity has fallen across all ages, as well as all education and income levels. The percentage of households that donated overall fell from 66% in 2000 to 56% in 2014, the most recent year tracked. Giving to houses of worship or religious organizations dropped from 46% in 2004 to 34% in 2014.

Although older working-age Americans are often considered among the most reliable donors, donations from households led by individuals ages 41–64 have tumbled a hefty 13% since 2006, down to 57%. To learn more about the study and find advice for fundraisers based on its findings, visit the GenerosityForLife website. ■

Getting new blood for your board

A for-profit start-up company is playing the role of match-maker for young professionals and junior boards of directors at non-profits. CariClub bills itself as "the professional network for social impact." And it's partnering with employers such as Citigroup, Unilever and UBS to connect their employees with up to 15 years' experience with hundreds of organizations.

The nonprofits enhance their succession planning by establishing a pipeline of talented, high-achieving individuals as associate board members they can groom to eventually serve on the senior board of directors. In return, the professionals enjoy the opportunity to network with industry leaders, develop new skills and make an impact. These individuals organize events, attend meetings and give or raise funds, deepening their emotional and financial investments in the organizations. And the service comes at no charge for nonprofits. ■

Nonprofits brew up alternative funding source

As the new tax law threatens revenues for many nonprofits, some organizations and their supporters are finding creative ways to fill the potential gaps. One approach finding traction? Appealing to beer lovers.

For example, a Lutheran minister and some nonprofit colleagues in the Columbia, S.C., area are in the process of launching Ex Gratia Brewing Company, a nonprofit brewery and taproom that will donate its net profits to other area and national nonprofits. Ex Novo Brewing in Portland already donates all its profits to four local charities. And Grace in Growlers operates a for-profit tasting room in Kailua, Hawaii, that donates its profits to its own nonprofit. ■

LAPORTE
CPAs & BUSINESS ADVISORS

111 Veterans Memorial Blvd, Suite 600 | Metairie, LA 70005-3057
504.835.5522 | FAX 504.835.5535

How will the new lease accounting standard affect your organization?

For fiscal periods beginning after December 15, 2018, organizations will have to start reporting leases differently on their statements of financial position.

That's because the Financial Accounting Standards Board and the International Accounting Standards Board released new rules that will now require organizations to record both assets and liabilities for operating leases on the statements of financial position. While ASC 842 and IFRS 16 are converged in many important respects, such as requiring lessees to recognize right-of-use assets and lease liabilities for most of their leases, there are significant differences between the two.

For public organizations, the new standard is effective for fiscal years beginning after December 15, 2018, while nonpublic organizations will have an extra year to adopt the rule. Early adoption is permitted for all entities.

The change applies to all leases except for those with a term of 12 months or fewer. The rule encompasses everything from real estate and vehicles to office equipment. Organizations will be required to report all fixed lease payments in addition to variable lease payments, which management can record using the rate or index from the commencement of the lease, according to the *Journal of Accountancy*.

This change could have a significant impact on organizations' financial reporting and affect the financial ratios they use to calculate key performance indicators and debt covenant compliance. Organizations should be prepared to list more liabilities on their statements of financial position than they previously had to, and management should know how the increased reporting of these liabilities will affect their financial reporting moving forward.

How should organizations prepare?

Management should immediately begin evaluating how this new requirement will affect their organization. Organizations need to consider the rule's effects on accounting and financial reporting processes and where changes are needed. Boards or management should also scrutinize every current lease agreement of their organization and determine if the legislation affects any elements of the lease. Management should consider things such as variable rents, service components, renewal and purchase options, residual guarantees and future rent increases when thinking about how the updated standard will impact their financial reporting.

The new lease requirements can be confusing. LaPorte's accounting professionals are monitoring for updates to the new lease standards, and can help guide you through the process of implementing the new accounting rules.