Profitable Solutions for Nonprofits

CARES Act can provide nonprofit relief

Staying afloat — or better
Do your sources of income make your nonprofit sustainable?

What you need to know about the SECURE Act

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Forgivable SBA loans

Charitable and veterans’ nonprofits with 500 or fewer employees are among the organizations that qualify for the Small Business Administration’s Paycheck Protection Program (PPP). The program extends two-year, low-interest loans that are subject to 100% forgiveness if certain requirements are met.

The program was set up on a “first-come, first-served basis,” and the first round of funding was claimed in less than two weeks. On April 24, President Trump signed legislation that provides $310 billion in additional funding. That includes $60 billion designated for smaller lenders, such as community banks and credit unions, with the aim of helping smaller organizations that lack relationships with big banks. But, without even more funding, it’s still possible the program could be out of money by the time you’re reading this.

Other loan options

The CARES Act also expands the existing SBA Economic Injury Disaster Loan (EIDL) program to provide small businesses (generally with less than 500 employees) suffering a temporary revenue loss an immediate $10,000 advance upon applying for the EIDL loan. If the loan application is denied, the applicant keeps the advance as a grant. The SBA has simplified the application process and relaxed credit standards.

The program is available to “private nonprofit organizations,” including faith-based organizations. Nonprofits can apply EIDL funds to cover paid sick leave, payroll, mortgage, rent and other debts, as well as increased costs due to disrupted supply chains.

Unlike PPP loans, these loans aren’t subject to forgiveness. The interest rate is 2.75% for nonprofits, and you can receive as much as $2 million. Repayment periods up to 30 years are determined on a case-by-case basis, and payments are automatically deferred for one year.

CARES Act can provide nonprofit relief

Much of the economy is reeling from the novel coronavirus (COVID-19) crisis, and the nonprofit sector is no different. Fortunately, Congress recognized this while drafting the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The law, enacted in late March 2020, contains several provisions that might help distressed nonprofits weather the storm.
This program also quickly ran out of money and was also bolstered by the CARES Act amendments, which added $50 billion in loans and $10 billion in grants. But, again, without even more funding, this program may also be out of money by the time you’re reading this.

The CARES Act also creates an Industry Stabilization Fund for nonprofits with between 500 and 10,000 employees that retain or rehire at least 90% of their workforces at full compensation and benefits. The fund will provide loans at an interest rate of no more than 2%, with no interest accrual or repayments for the first six months.

Workforce retention tax credits

The law establishes a new refundable credit against payroll tax available to employers whose:

- Operations were fully or partially suspended due to a COVID-19-related governmental shutdown order, or
- Gross receipts fell more than 50% compared to the same quarter in the previous year.

Employers, including 501(c) organizations, with more than 100 employees are eligible for the credit for employees not providing services (or whose hours have been reduced) because of the previously mentioned suspension of operations or reduction in gross receipts. Those with 100 or fewer employees can qualify for the credit whether or not employees are providing services.

The credit equals 50% of up to $10,000 in compensation — including health care benefits — paid to an eligible employee from March 13, 2020, through December 31, 2020. But employers that receive a PPP loan don’t qualify for the retention tax credit.

Payroll tax and unemployment benefit help

The CARES Act generally allows employers to defer their payment of the employer share (6.2% of wages) of the Social Security payroll tax. You can pay half of the tax by December 31 of each of the following two years: 2021 and 2022.

Some nonprofits will receive reimbursement for 50% of the costs incurred from March 13, 2020, through December 31, 2020, to pay unemployment benefits. The benefit applies to organizations that reimburse their states for benefits paid to former employees, instead of paying unemployment taxes.

Breaks for gifts from contributors

The CARES Act temporarily expands the availability of business and individual charitable contribution deductions. Individual taxpayers who don’t itemize deductions can take advantage of a new $300 deduction for cash contributions to qualified charities in 2020. Contributions to donor-advised funds (DAFs) don’t qualify, though.

The CARES Act also loosens the limitations on charitable deductions for individuals’ cash contributions made in 2020, boosting it from 60% to 100% of adjusted gross income. (Again, donations to DAFs are ineligible.) The limit for business rises from 10% to 25% of taxable income.

Moving ahead

These programs are only pieces of a larger puzzle many nonprofits have needed to assemble to make it through these challenging times. Your CPA can help you develop the short- and long-term plans you need to continue your mission and come out healthy on the other side.
Staying afloat — or better
Do your sources of income make your nonprofit sustainable?

In the wake of the novel coronavirus (COVID-19) crisis, many nonprofits are facing rough waters as they maneuver to remain financially viable. Organizations with only one or two sources of revenue are particularly shaky.

Time will tell which nonprofits will weather the storm. But it’s not too late to evaluate your revenue streams to make sure they’re sufficiently diverse as you head into the future.

Multiple life savers are crucial
Relying on a single source of revenue can leave you with empty coffers if that source dries up. For example, nonprofits dependent on state funding in the late 2000s had to scramble as states across the nation began reducing, suspending and even eliminating grants.

Of course, government funding isn’t the only source that could unexpectedly disappear. Tough economic times can hurt major gifts, corporate giving, individual donations and foundation grants.

Additionally, if you sell goods or services, you might see sales dry up as potential customers are forced to cut back on personal spending.

Navigate toward diversity
In contrast, stable nonprofits generally have a good mix of revenue sources, with no one source accounting for more than 25% or 30% of the budget. The following practices can help you achieve that goal.

Get an accurate reading on where your income originates before you attempt to broaden your revenue stream. Nonprofit boards of directors sometimes are reluctant to pursue new revenue sources, but visual aids — such as pie charts — can help them understand the need.

In your initial evaluation, include a review of your organization’s plans for the next five years and their anticipated expenses. Present the board with multiple scenarios where those costs are compared to revenues with and without the current revenue sources. Seeing how eliminating a revenue stream could jeopardize your nonprofit’s mission may be the nudge that reluctant directors need to embrace diversification.

Select your destinations
After deciding to pursue new revenue sources, keep everything on the table as you begin that process. Consider a wide range of potential sources, weighing the pros and cons of each. Include implications for staffing and other resources, accounting processes, unrelated business income taxes and your organization’s exempt status.
In addition, assess how well-aligned potential sources are with your mission. For example, does the company that has proposed a joint venture engage in practices akin to your values?

While you don’t want to put all your eggs in one basket, you also don’t want to depend on too many baskets. Each new revenue stream will require its own strategy and executing too many implementation plans can strain resources.

Each plan should include initial and ongoing budgets, as well as any new systems, procedures and marketing campaigns that will be needed. It also should have a timeline with milestones to help with monitoring.

**Adjust course accordingly**

Once your new sources of income are in place, take the time at the end of every month to closely review each revenue source. Is it living up to expectations? Is it costing more than expected or is it falling short of revenue projections? If a source fails to deliver over time, don’t feel tied to it. Your CPA can offer advice.

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In late 2019, the first significant legislation related to retirement savings since 2006 became law. Whether you offer your employees a 403(b), a 401(k), a 457(b) or no retirement plan, the Setting Every Community Up for Retirement Enhancement (SECURE) Act includes provisions that could affect you and your employees.

**Expanded opportunities in multiple employer plans**

If you don’t currently offer a retirement plan, now is a good time to reconsider. A plan can improve your recruitment and retention efforts, and the SECURE Act makes it easier for small employers to offer 401(k) plans. For plan years starting in 2021 or after, it establishes a new type of multiple employer plan (MEP) known as a pooled employer plan (PEP).

Employers that join forces in MEPs can see lower plan costs as a result of economies of scale. For example, investment managers may charge lower fund fees for plans with greater asset accumulations. By pooling plan participants and assets in one large plan, MEPs let small employers give their workers access to the same low-cost funds offered by large employers.

Currently, MEPs generally are limited to employers that share a “common interest,” such as the same location or industry. But, for PEPs, employers need no other relationship beyond their joint participation in the plan. (Note: The SECURE Act’s definition of PEPs doesn’t include 403(b) and 457(b) plans.)
A pooled plan provider (PPP) will serve as the plan’s named fiduciary and administer the plan, although each employer is responsible for choosing and monitoring the PPP. So, you’ll also significantly reduce the administrative burden and potential fiduciary liability typically associated with retirement plans.

Participation by part-time employees

If you offer a 401(k), you’ve generally been allowed to exclude employees who work fewer than 1,000 hours per year from participating. The SECURE Act expands participation for non-full-time employees. Starting next year, you must allow participation in the plan for employees who 1) have worked three consecutive years of at least 500 hours and 2) are at least age 21 at the end of the three-year period. No employer contributions for such participants are required.

Mandatory lifetime income disclosures

The SECURE Act requires employers with 401(k) and 403(b) plans to include a lifetime income disclosure on plan participants’ benefit statements at least once a year. You must disclose the estimated monthly payments the employee would receive if his or her total account balance were used to purchase an annuity for the participant and his or her surviving spouse. The Act instructs the U.S. Secretary of Labor to develop a model disclosure for plans to use, along with guidance on how to calculate the estimated lifetime income stream.

Penalty-free birth and adoption withdrawals

The SECURE Act has some welcome news for employees expecting or planning to adopt a child. Under the law, they can make early withdrawals of up to $5,000 from 401(k), 403(b) and 457(b) plans to cover qualified birth or adoption expenses, without the 10% normal tax penalty. If the employee is married, each spouse with a separate retirement account can make a withdrawal. They’re also allowed to repay the withdrawal to their accounts, without the usual restrictions, if they’re eligible to make contributions to the accounts. They must make the withdrawal within one year of the birth or adoption of a minor or an individual physically or mentally incapable of self-support. Eligible adoptees don’t include a spouse’s child.

But wait — there’s more!

The changes above represent a sample of the provisions in the sweeping SECURE Act. Among other things, the law includes guidance on the termination of 403(b) plans, permits transfers of annuities between plans in certain circumstances and boosts the penalties for failing to file retirement plan tax returns. Your CPA can help you navigate the applicable provisions.

The SECURE Act makes numerous changes that could affect your donors’ retirement planning, including their charitable giving behavior. For example, it raises the age for required minimum distributions (RMDs) from traditional individual retirement accounts and other qualified plans from 70½ to 72 years, starting in 2020, which could delay your receipt of qualified charitable distributions (QCDs).

Some individuals have used QCDs to satisfy both their RMD obligations and their philanthropic inclinations. A donor can distribute up to $100,000 per year to a 501(c)(3) organization with a QCD. Although charitable contribution deductions aren’t allowed for such distributions, the distribution is removed from the donor’s taxable income. Therefore, it provides a benefit regardless of whether the donor itemizes deductions.

Donors still can begin making QCDs at 70½ years of age, but those donations won’t count against future RMDs. Changes allowing working individuals to make IRA contributions after age 70½ also could reduce QCD giving. You may need to budget for these impacts.

The SECURE Act and qualified charitable distributions

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Entrepreneurial mindset more important to giving than gender

The economic impact of the novel coronavirus (COVID-19) crisis has heightened nonprofits’ fund-raising needs. The findings of a new Fidelity Charitable study are one of many pieces of information you might want to keep in mind as you launch your next fundraising effort.

The study found that both male and female entrepreneurs report higher rates of charitable giving than their non-entrepreneur peers. The analysis examines, through a “lens of gender,” how entrepreneurs with business of $1 million or more in revenue approach philanthropy.

Both male (78%) and female (82%) entrepreneurs say charitable giving is “a critical piece” of who they are. But men are more motivated by their legacies, while women care more about the causes themselves. Similarly, men volunteer to boost reputation, and women volunteer to improve leadership skills.

Will turnover projections come true?

A pre-COVID-19 survey taken in late 2019 by Nonprofit HR, a for-profit human resources consultant, found that 45% of responding nonprofit employees will look for new or different employment in the next five years. The survey of more than 1,000 employees spanned the United States.

Of the respondents who plan on searching for other opportunities, 23% said that nonprofits wouldn’t be among the types of organizations they’d pursue. The top reason cited (49%) is inadequate pay, suggesting organizations should re-evaluate their compensation packages. In addition, 19% said nonprofits don’t offer good long-term career opportunities. Of course, how the COVID-19 crisis may affect turnover remains to be seen.

Organizations largely lack whistleblower policies

The Nonprofit Times reports that a majority of nonprofits don’t have a policy to protect employees who blow the whistle on fraud or other illegal practices. The publication examined almost 330,000 Form 990s in the Internal Revenue Service’s Business Masterfile and found that only 41% of filers indicated they have a written whistleblower policy.

As the Times notes, an organization’s exempt status doesn’t hinge on checking the whistleblower policy box on its Form 990, but several federal laws include nonprofits in their whistleblower provisions. For example, the False Claims Act, Sarbanes-Oxley Act and Dodd-Frank Wall Street Reform and Consumer Protection Act all extend protections to whistleblowers in nonprofits.

Few donors “highly trust” charities

Only 19% of individuals highly trust charities, according to the Better Business Bureau’s charity evaluator Give.org — and 70% rate trust in a charity as essential before giving. The figures come from the “2019 Give.org Donor Trust Report,” an annual survey of 2,100 adults across America. Respondents identified accomplishments shared by the organization, independent third-party evaluations and financial ratios as the top signs of trustworthiness.
During these tumultuous times, nonprofits are among those organizations hit hardest. Donations are down, while need has risen. LaPorte’s Nonprofit Industry Group, a multidisciplinary group of over 30 dedicated professionals, is working in various ways to get information out to its clients and the nonprofit community on relief options available to them during this pandemic.

In addition to a firm-hosted webcast offered to its clients, including over 250 nonprofits, LaPorte has had numerous opportunities to partner with local media and organizations to share its knowledge of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. LaPorte was invited by the Greater New Orleans Foundation (GNOF) to partner with them to present a webinar and address questions related to key aspects of the CARES Act designed to provide some needed relief for nonprofits. Key points covered included loan programs available for 501c(3) organizations; payroll tax deferrals and credits; new and retroactive tax deductions; and new charitable contributions limits. Presenters included Bruce Prendergast, Director and Jack Wiles, Senior Manager, of LaPorte’s Tax Services Group. The presentation also included commentary from the President and CEO of Fidelity Bank (Louisiana,) who provided details on what nonprofits needed to know when applying for the Paycheck Protection Program. The webcast was part of a series presented by GNOF and attended by representatives from several hundred nonprofit organizations.

To help keep its clients abreast of changes due to COVID-19, LaPorte created a Coronavirus Resource Center (www.laporte.com/coronavirus). It provides answers on relief legislation, tax and regulatory guidance and impact of the coronavirus on the economy. The guidance contained in the Resource Center is updated on an ongoing basis.

For information beyond COVID-19 updates, look to the LaPorte Nonprofit Industry Group blog (www.laporte.com/industry/nonprofit). The blogs there contain information on a wide variety of topics useful for nonprofits, including in-kind contributions; nonprofit transportation fringe benefits; donor acknowledgement letters; and timely deposits of participant 401(k) plan contributions.

It will likely be a long road to recovery for many nonprofits, but LaPorte is here to help navigate that path. To learn more, contact LaPorte’s Nonprofit Industry Group co-leaders Dawn Laborie, CPA, at dlaborie@laporte.com and Jack Wiles, CPA, at jwiles@laporte.com.