Profitable Solutions for Nonprofits

5 planning strategies in uncertain times

Classifying workers as employees or independent contractors
When bringing back workers, follow the rules

Influencer marketing comes to nonprofits

NEWSBYTES

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
5 planning strategies in uncertain times

The COVID-19 pandemic, waves of civil unrest and rocky economic times have led to a tsunami of external and internal forces for which many nonprofits have found themselves unprepared. Organizations are struggling to continue serving their constituencies while keeping their employees safe and doors open to the extent permitted, all under the shadow of questions about funding.

The uncertainty makes it challenging to plan, but not impossible. The strategies below can help you navigate today’s turbulent waters.

1. **Change your approach.** Most organizations plan for time horizons of one to five years, but the current environment calls for much shorter increments. Reduce the window to one to three months, with regular reviews and adjustments within those periods.

   Similarly, you might find that your long-term strategies have gone up in smoke due to the topsy-turvy COVID-19 world. It may make more sense to think tactically for now so you can adapt on the fly to deal with how shifting social landscapes and economic developments affect your constituency and your organization. Of course, even short-term tactics should reflect your mission, goals and values.

2. **Re-evaluate your programs.** Rather than making across-the-board cuts of a certain percentage to address budget constraints, take the time to perform a reassessment of your programs. Determine the impact and effectiveness of each, considering current and expected needs. Allocate your funding to those programs first. Include as many stakeholders as possible in the evaluation process, including all levels of the organization and your clients.

   You may need to put some programs on hold and even eliminate others. This often is painful, but it will allow you to deploy the freed-up resources to other work that has greater immediate value.
3. **Explore alternative revenue sources.** It’s always preferable to maintain multiple revenue streams so you’re less vulnerable to the loss of one. Many organizations have discovered this the hard way as COVID-19 forced the cancellation of major fundraising events.

If you depend largely on one or two funding sources, you should begin researching the feasibility of additional sources. Many foundations have vowed to increase their grant making in response to recent events, and some local governments are approving emergency funding for organizations that support at-risk populations. You also could expand your high-impact services to more locations or populations or provide them on a fee basis (perhaps on a sliding scale or pay-what-you-can basis).

4. **Think about joining forces.** Smaller organizations, in particular, might benefit from working with nonprofits with similar values or constituencies (or even with for-profit businesses; see “Newsbytes” on page 7 for an example). A collaboration could be a merger, joint venture or something less formal.

You might also consider cutting your rent expenses by sharing space. And you could see savings by sharing equipment or staff and consolidating certain purchases to obtain lower rates or discounts from vendors.

5. **Establish a COVID-19 crisis management team.** COVID-19 may get worse later in the year. If you haven’t already, form a crisis management team to monitor internal and external virus-related developments. It should meet regularly to evaluate risks and opportunities and closely follow governmental and health care guidance to ensure compliance.

The crisis management team also should take a hard look at how COVID-19 has played out so far for the organization. They should seek input from stakeholders on what has worked and what hasn’t. As the team identifies gaps, it can devise solutions to improve future responses to pandemics and other crises.

**Act now**

One thing is certain: You can’t afford to put off planning, tempting though it might seem under current circumstances. The financial crisis back in 2008–09 demonstrated that the nonprofits that took prompt action were more likely to avoid the need for drastic measures later. Contact your CPA or accountant if you need planning assistance.
Classifying workers as employees or independent contractors
When bringing back workers, follow the rules

Part of your nonprofit’s entrance into the “new normal” nonprofit world may involve rehiring workers — and perhaps hiring some new replacements. For tax obligation purposes, you’ll be required to classify those workers as employees or independent contractors (ICs).

Sizing up IC benefits
Treating a worker as an independent contractor (IC) rather than an employee can provide an organization with important advantages. For example, there’s no need to withhold federal income and FICA (Social Security and Medicare) taxes, pay the employer’s share of FICA or have state unemployment tax obligations.

You also may avoid certain other state obligations, such as income tax withholding, unemployment, workers’ compensation and disability insurance (if your state requires it). Plus, you won’t have to provide ICs with employee benefits, minimum wages or overtime pay.

But simply labeling someone an IC doesn’t make it so. Whether a worker is properly classified as an IC or employee depends on several factors targeting the level of control you exert over that individual.

Tax authority’s point of view
There’s a common misconception that the IRS and state tax agencies aren’t concerned about worker classification, as long as you provide ICs with Forms 1099 and satisfy the reporting requirements. But tax authorities prefer employees over ICs for several reasons, including the following:

› Employers are less likely to default on tax obligations.
› Employers remit income and payroll taxes more quickly (usually monthly), whereas ICs make quarterly estimated tax payments.
› It’s easier to audit, and collect from, a single employer rather than multiple ICs.

In general, tax authorities collect more from employees than from ICs, who’re permitted to deduct various business expenses.
With the competition for donation dollars fierce these days, nonprofits increasingly are turning to so-called influencers like Grande to help drum up interest in a cost-efficient manner. Here’s what you need to know to get started.

**Influencer marketing comes to nonprofits**

As the COVID-19 crisis intensified earlier this year, pop singer Ariana Grande began taking to Twitter every week to share a list of organizations she was supporting to help provide relief to those hit hard. As a result, organizations such as The Bail Project, Fund for Families and The Mental Health Fund saw a significant jump in contributions and new donors.

With the competition for donation dollars fierce these days, nonprofits increasingly are turning to so-called influencers like Grande to help drum up interest in a cost-efficient manner. Here’s what you need to know to get started.

**What the IRS scrutinizes**

The IRS will examine whether you have the right to direct or control how an individual performs his or her work — not whether you actually do so. Providing detailed instructions to the worker, training on the organization’s specific procedures and methods, and evaluation systems that measure how the person performs will help support a finding that an employment relationship exists.

Evidence that you’ve the right to control the financial aspects of the work also indicates an employment relationship. The IRS is more likely to deem an individual an IC if he or she incurs significant unreimbursed expenses and has a self-employed business with the potential of profit or loss. The IRS also looks at whether the organization provides the tools or supplies for the job, and if the individual is available to work for other companies or clients.

The IRS also considers the payment method. ICs typically are paid a flat fee for a contract or job, while employees generally are guaranteed a regular wage amount for an hourly, weekly or biweekly period. In many cases employees are provided with traditional benefits, such as health insurance, retirement benefits and paid vacation days. An IC paid under these terms could raise a red flag with the IRS.

**Employer-worker relationships count**

A written contract between the employer and the IC, spelling out terms and making explicit the nonemployee status, shows how both parties view the relationship. While only a factor in the IRS determination, it can cover the aspects that make a person count as an IC.

The duration of the relationship is relevant, too. Does it continue indefinitely (more like an employee) or only for the run of a specific project or period (more likely an IC)? Similarly, if the worker provides services that are critical to the nonprofit’s operations, the employer is more likely to have the right to control his or her activities. Thus, he or she is more likely to be classified as an employee.

**Avoid mistakes**

The consequences of improperly treating an employee as an IC can be severe. You may be liable for unpaid back taxes (including the worker’s share), plus penalties and interest. Other risks exist. For example, ICs reclassified as employees may bring claims to recover benefits, wages and other rights associated with employee status. Your CPA can provide more advice on classification to make sure you get it right.

**The case for influencers**

If influencer marketing didn’t work, for-profit companies wouldn’t pay the Kardashians buckets of money to tout their products on their social media accounts.
These sponsors realize that influencers have ready access to the thousands, if not millions, of people who follow them online.

For most of these followers, influencers have a built-in credibility on a wide range of topics. When an influencer promotes a nonprofit, that organization immediately assumes an air of legitimacy with his or her followers. They may explore the cause more thoroughly or just immediately click a link to donate.

Of course, for nonprofits, it’s also hard to beat the cost-efficiency of influencer marketing. By connecting with a charitably minded influencer, you can get the word out about your cause or campaign to a mass audience fast and at virtually no cost.

3 steps to success

Like your other marketing initiatives, effective influencer marketing takes planning, preparation and continuing work. Here are some essential steps:

1. **Find the right influencer.** The right influencer can increase awareness and generate support and donations; the wrong one can hurt your reputation or worse. That’s why you need to consider more than just his or her number of followers.

First and foremost, you must ensure an influencer’s values and interests align with those of your mission. It’s also critical that an influencer’s interest in your organization be genuine. Social media consumers can sniff insincerity from miles away, so successful endorsements and calls to action require authenticity.

Bear in mind that not every influencer is a celebrity or entertainer. Journalists and authors, subject matter experts, academics and other thought leaders may have smaller audiences, but their followers might be more engaged with their areas of interest. *New York Times* columnist Nick Kristof, for example, includes various nonprofits on his annual holiday guide of “presents with meaning.”

2. **Cultivate the relationships.** To make the most out of influencer marketing, take the time to build true relationships with your influencers. Don’t treat your interactions as purely transactional.

Establish rapport and common cause and do what you can to shine a light on influencers’ charitable acts on your social media and elsewhere. Give them branded swag, share accomplishments and invite them for a tour (even virtually) or to events.

3. **Help them help you.** Give your influencers the tools they need to help you. Begin by establishing expectations, possibly in writing. Lay out your respective roles and responsibilities, with timelines and suggested tactics.

Provide them with all of the information they’ll need to clearly carry your message — for example, facts about your cause, success stories, details about upcoming events or campaigns, graphics, photos, and links to make donations or to volunteer. Depending on the influencers, they also might appreciate some assistance drafting their posts. Remember, though, that their posts must reflect their own voices.

Play the long game

Ideally, your influencer relationships and support will run for many years. As time passes, check your results against your goals and adjust as necessary. With patience and planning, influencer marketing can provide a substantial boost at little to no cost.
Restaurant thrives by teaming up with nonprofit

An organization’s ability to turn on a dime and creatively adapt to changes in circumstances is critical these days. A New Jersey nonprofit called Be Awesome to Somebody demonstrated this during the COVID-19 pandemic.

The organization, which usually supports international humanitarian work, teamed up with a local boutique ramen restaurant to support first responders and health care workers. They launched two temporary, nonprofit pop-ups selling takeout, delivery pizza and Thai rotisserie chicken at discounted prices. (Ramen, it seems, isn’t a great candidate for portable meals.)

Customers can add a contribution to their bill to pay for a half-price donated meal for first responders or someone in need. Profits are used to provide more meals. The project also has allowed the restaurant to bring back some employees who had been laid off when it closed.

Pandemic concern boosts NFP worker interest in unions

An article in Nonprofit Quarterly reports that the COVID-19 pandemic and related uncertainties in the workplace have “created a sense of urgency around workers’ involvement in decisions about organizational directions and employee benefits.” This, in turn, has led to greater interest in unionizing.

According to the article, union membership at nonprofits historically has been quite low — an estimated 1% to 3% of nonprofit workers over the past decade. But the Nonprofit Professional Employees Union, for example, reported in May that it was receiving an average of one lead per day for potential bargaining units and the number of locations where it works had increased by 35% in less than a month. This might be a heads-up for some nonprofits to review their pandemic-era policies and benefits.

U.S. giving falls to historic lows

Is charitable giving in trouble? A survey conducted by Gallup last April found that the share of Americans who have given to a religious or other type of charity during the previous 12 months dropped to a historic low of 73%. (In previous years, this figure was more than 80%.) Although the April 2020 survey inquired about activity over the past year, Gallup cautions that many respondents may have answered only about their current or very recent activity, which could have been affected by the COVID-19 crisis.

The majority of respondents (66%) said they didn’t plan to change the amount they contribute to charity in the coming year, and 25% said they plan to increase the amount. As Gallup notes, though, the duration and severity of the COVID-19-related economic downturn will be a critical factor in whether Americans are able to fulfill those plans.
IRS Releases New Draft of Form 941 for 2020

Employers filing Form 941 each quarter will need to allocate a bit more time to preparing their second, third, and fourth quarter reports this year. At the end of April 2020, the IRS released a refurbished draft of Form 941 and accompanying instructions. The agency instructed employers to start using the draft form prospectively beginning with reports for second quarter payroll taxes. The draft form is a page longer than the one it replaced and includes new fields that accommodate new payroll tax incentives provided in response to COVID-19-related economic pressures. These include three new payroll tax credits and one payroll tax deferral program. The Families First Coronavirus Response Act (FFCRA) created two credits, and the Coronavirus Aid, Relief, and Economic Security (CARES) Act created one credit and the deferral program. These four tax-saving and tax-deferral mechanisms can now be reported on the draft Form 941.

What’s in the New Form?
The draft Form 941 helps employers calculate each of these four benefits. It breaks out qualified sick leave and family leave wages; reports health plan expenses for those wages; summarizes credits (both refundable and nonrefundable portions); reports deferrals; and details advances from Form 7200. Part 1 summarizes payroll taxes and incentives while Parts 2 and 3 ask for details about the business to determine incentive eligibility and deposit schedules.

Because each incentive is dependent on employers’ use of the others, it’s important to understand how they work in tandem. Our LaPorte advisors can help you determine how best to capitalize on these benefits and can help you collect and tabulate the information your payroll providers will need to fill out the new form accurately.

Because the Form 941 is a draft, it may change before it gets finalized. We anticipate the bulk of the form will stay the same and think it’s safe to rely on the draft form as-is until we are given more information. If you have questions about these tax incentives and want to get a head start on filling out the new Form 941, contact LaPorte Senior Manager Karen Monteverde at kmonteverde@laporte.com.