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CERTIFIED PUBLIC ACCOUNTANTS
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NON PROFITGPS
HELPING TO KEEP YOU ON THE RIGHT ROAD
Published by Heveron & Company CPAs

This Month's WebStar Winner Is:
Grants4Good
grants4good.com

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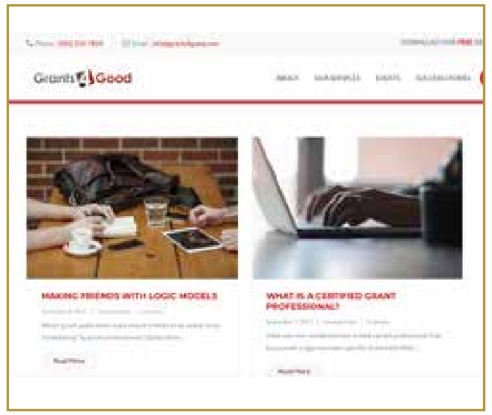
WEBSTAR

Grants4Good is a New York State certified woman-owned business established to help charities find and obtain grants.

The events section of their website details upcoming training such as webinars like, "How to Research Grant Opportunities and Build Funder Relationships" and "Strengthening Your Proposal Through Collaboration and Partnerships".

Their other resources include a downloadable checklist to help you become grant ready.

They also maintain a blog with additional tips for seeking grants and for finding and working with a grant professional.



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Workplace for Good: Facebook's Free Enterprise Collaboration Tool for Nonprofits

Most people are familiar with Facebook. Their Facebook Workplace is a private Facebook site on steroids. In addition to the secure communications you have with a private Facebook page, Workplace adds a variety of features such as newsfeeds, integration with popular tools for storing policies, and other company information that needs to be readily accessible, learning tools such as Avanno, cloud computing tools, and tools for audio and video streams.

One helpful feature allows you to set up knowledge centers by topic, profiles and other information about your staff, vendors, donors, and clients.

You can also use live chats with anyone in your organization, and the site provides unlimited storage of photos and videos.

Facebook states around 2,500 of their roughly 30,000 users are nonprofits including Oxfam, Save the Children and a variety of educational organizations.

The site can improve training, information sharing, employee feedback, and fostering connections with new employees.

Facebook benefits because nonprofits use this tool in unique ways they can continuously learn from. Examples include: unexpectedly successful donor-originated fundraising of legal fees for families detained and separated at the US-Mexico border, and also a live streaming video of migrant rescue operations.

Check it out!

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INSIDE THIS ISSUE:

Changes in Your Legal Form

If a charity changes its incorporation from one state to another or makes a similar significant change to its legal entity, but no changes to its operations, it generally had to apply for exempt status much like a new organization. The IRS made that process significantly easier with the new procedure known as Revenue Procedure 2018-15.

The Revenue Procedure allows an organization to migrate its nonprofit status to the new legal entity when there are no significant changes in the organization's operations.

We had a chance to try this new procedure recently for an organization with a flaw in its original incorporation document. The organization needed to form a new corporation with a slightly different name. We were successful in getting exempt status transitioned to the new organization without a new application for exemption.

Check the Revenue Procedure online or contact us for information about how this procedure works and when it applies.

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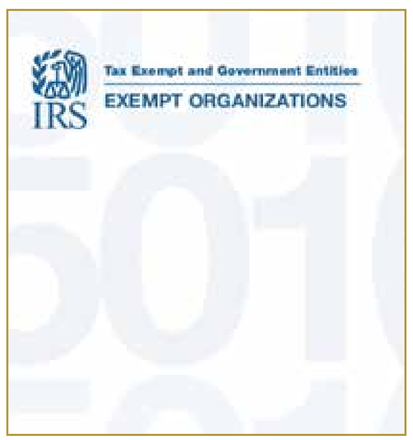
New Financial Reporting Implementation Guide

Most nonprofits have held off on implementing the financial statement changes until more guidance was developed, but the time is here for some nonprofits and near for the rest, so we have compiled information into an implementation guide that will help you identify each of the key areas of change. That guide is included as a separate insert for your convenience. Please call us if you have questions.



New Publications and Updates from the IRS

The IRS recently updated publication 4220, applying for 501(c)(3) tax-exempt status. This document contains guidance for new charities and also useful information about responsibilities for all charities.

Publication 3386, the tax guide for veterans' organizations, was also updated. If this applies to you, make sure to review it.

The IRS has also issued new guidance for charitable gaming. Google "IRS exempt organization updates" to find an IRS "snapshot" for Exempt Organization Gaming, including when gaming is treated as Unrelated Business Income.

The De Minimis Indirect Cost Rate-Not All It's Cracked Up to Be

Several nonprofit organizations that receive federal funds, and carry on multiple programs, elect the 10% de minimus indirect cost rate for reimbursement because of the complexity of applying for an indirect cost rate.

However, indirect costs are usually more than 10%, and often significantly more, which means an organization will need to find other resources to pay for indirect costs that are not covered.

Also, 10% doesn't mean 10% of all of your direct costs. The 10% rate only applies to what the federal government calls "Modified Total Direct Costs". These are payroll and payroll overhead, materials and supplies, direct services, travel, and up to the first $25,000 of each sub award.

The 10% does not apply to equipment purchases, capital expenditures, rental, tuitions, scholarships or fellowships in any patient care, or participant support.

Nonprofits selecting the 10% de minimis reimbursement also need to have proper controls to be sure no items that should be categorized as indirect are included with their direct costs.

It is helpful to structure your general ledger so that it is easy to identify direct and indirect costs and also because they are subject to limitation (such as sub-awards). Doing this will make your true indirect costs clearer and may prompt you to request an indirect cost rate that all federal programs should reimburse for.

Contact us if you would like some help or guidance with these calculations or with applying for an indirect cost rate.

Affordable Housing: Paying for Your Section 168(h) Election

When a nonprofit is involved in an affordable housing or similar project with a for-profit investor, the nonprofit generally uses a taxable for-profit subsidiary to hold the property. The benefit is that the property can be depreciated over 27 ½ years rather than 40 years, which means better tax results for the investor, and translates to a higher price for the tax credits.

However, to get this treatment the taxable subsidiary must make an election under Internal Revenue Code section 168(h)(6)(F)(ii). The effect of this election is that dividends or interest, paid from the taxable subsidiary to the non-profit parent, are taxable as Unrelated Business Income.

This requirement only exists when not all tax attributes between the project and its owners (share of income and loss, distributions, equity) are the same. But, that usually is the case for these joint venture projects.

Additionally, any gain from disposition of an interest in the taxable subsidiary is also taxable as Unrelated Business Income to the nonprofit.

Techniques for reducing tax on dividends, interest or dispositions include first repaying all loans and developer fees to the nonprofit sponsor. Additionally, the entity holding the project (usually a limited partnership) can make payments directly to the nonprofit as reimbursement for expenses. However, the nonprofit needs to document these expenses are costs the nonprofit has incurred on behalf of the project.

Examples of allowable costs include payroll and related taxes and benefits, as well as indirect costs that are necessary for providing services to the project. Indirect costs typically include items such as: occupancy, insurance, general accounting, and administration.

The Other Public Support Test: the 10% Facts and Circumstances Test

This test is all about whether a charity is or is not publicly supported. Charities that do not meet a specific exception (like churches and schools) must have broad public support, which is based on mathematical tests.

Success in attracting large donors or developing a substantial fund to sustain the organization may create a situation where the organization is unable to meet the public support tests. The result is that the organization will be reclassified as a private foundation. Assuming they carry on a program they will be classified as a private operating foundation.

The impact of a change to private operating foundation status includes some excise taxes, which are generally modest, but also a risk of the loss of some funding.

Private foundations cannot contribute to other private foundations, and many grantmakers have policies against supporting private foundations even if they are private operating foundations.

The most common public support tests use the current year and prior four years' averages to determine whether you meet the mathematical tests to be publicly supported by contributions, or by a combination of contributions and related activities. Organizations that fail those mathematical tests can use the 10% facts and circumstances test. This only requires the organization "normally" have at least 10% broad public support, but they must also have an ongoing program to attract public or governmental support. Additionally, their governing board must represent the public interest rather than personal or private interests, and their programs must be designed for the benefit of the general public.

When this method is used to demonstrate public support, the IRS will also look at whether the organization has a well-defined program for accomplishing its charitable work and whether members of the public with special knowledge or expertise, public officials, or community leaders participate in or sponsor any of the nonprofit organization's programs.

Monitor your public support percentage by reviewing your form 990, Schedule A each year. Look at the public support percentage for the current year and for the prior year, noting the trend.

Contact us if you would like more detailed information on all of the public support tests including the 10% facts and circumstances test.