Heveron&Company
CERTIFIED PUBLIC ACCOUNTANTS

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NON PROFIT GPS

HELPING TO KEEP YOU ON THE RIGHT ROAD

Published by Heveron & Company CPAs

This Month's WebStar Winner Is:

EXEMPT: The Financial Magazine for Nonprofit Executives

www.exemptmagazine.com

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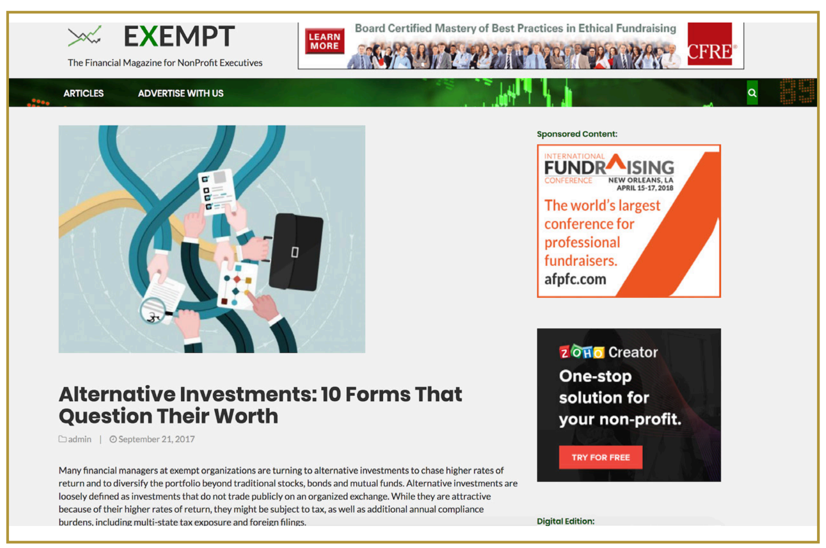
WEBSTAR



This online magazine is geared to CEOs and CFOs and includes topics such as: planned giving, changes to nonprofit financial statements, state charitable solicitation laws, and donor advised funds.

Visit their website and scan their articles for jewels such as "Ten Questions for the CFO" or "Finance: What Are You Measuring and Why?"

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How the New Tax Law Affects Nonprofits

The recently enacted tax law has both direct and indirect effect on nonprofits. The indirect effect is the decreased tax incentive for charitable contributions that results from doubling the standard deduction, decreasing individual and corporate tax rates, and increasing the estate tax exemption. It is difficult to know how these will affect charitable giving, but the huge increase in online giving at year-end (*The Chronicle of Philanthropy* reported online donors gave 38% more to charities during the last week of 2017 than in the last week of 2016) indicates tax incentives do impact charitable giving. The fact that individuals can now deduct cash contributions to qualified charities up to 60% of adjusted gross income (previously 50%) isn't likely to do much to offset these disincentives.

Unrelated Business Income

Although lower rates will apply to nonprofits paying unrelated business income tax, a new provision restricts losses from one unrelated activity from being offset against other activities.

Unrelated Business Income Taxation will also be applied to certain fringe benefits paid for by tax exempt organizations for qualified transportation fringe benefits or for on-premises athletic facilities. There is also an excise tax on certain nonprofit salaries exceeding $1 million.

Moving Expense Deductibility

If your organization pays moving expenses for new or current employees, these are no longer excludable from taxable income. This may require non-profit employers to pay more to make their employees "whole."

Provisions that Did Not Make it into the Final Law

Several provisions did not make it into the final law, including:

- A repeal of the Johnson amendment,

Continued on next page.

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- Changes to private foundation excise taxes,
- Reductions to qualified tuition plans and employer-provided educational assistance,
- Taxing the value of housing for the convenience of the employer,
- Unrelated business income tax on royalties from licensing an exempt organization's name, and from research activities where results were not made publicly available,
- Enhanced donor advised fund reporting, and
- Taxing interest on certain private activity bonds.

Stephanie Annunziata, CPA, presents a nonprofit update to the Monroe County Bar Association

Heveron & Company partner, Stephanie Annunziata, along with attorney Bridget Kehm, presented to the members of the Monroe County Bar Association and the NYS Society of CPAs on February 27.

The session included governance topics, initial and annual filings, and the impact on nonprofits of the recent federal tax law changes.

NYS SOCIETY OF CPAS NYSSCPA

MCBA MONROE COUNTY BAR ASSOCIATION

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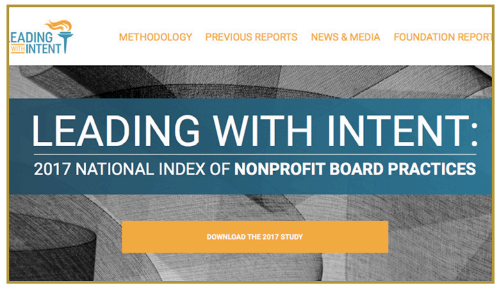

Leading with Intent : a *BoardSource* Report

This report, which is available for a free download, is based on an investigation of board practices. The report contains good and bad news, such as that finding boards are no more diverse than they were two years ago and current recruitment priorities will not likely lead to greater diversity.

One of the most positive findings is boards that assess their performance regularly perform better on core responsibilities and get higher grades across all areas of board performance. While this won't shock anyone, it is a strong, clear message about the value of board assessments.

Boardsource.org has several tools to aid board assessment.

Another important finding is that a strong understanding of the organization's programs is linked to stronger engagement, improved strategy, and external leadership including fundraising. A clear message is that board training about your programs and activities will improve engagement and fundraising.

Chief executives and board chairs included in this study agreed that the two most important board characteristics are: the board's understanding of its roles and responsibilities and the board's ability to work corroboratively toward shared goals.

Download the report by searching for "Leading with Intent." Be sure to get the most recent study—the "2017 National Index of Nonprofit Board Practices."

Volunteering Out of Unrelated Business Income Taxation

Did you know your volunteers can change an activity that would be treated as taxable Unrelated Business Income to an exempt activity?

When volunteers perform substantially all of the labor to carry on an activity the activity meets an exception from treatment as unrelated business income. "Substantially all" isn't specifically defined; but is usually considered to be around 85%.

You do need to be careful, though. No paycheck doesn't necessarily mean no compensation. If you remunerate or reward volunteers with free goods or services, or reduced rates, these can be considered compensation. Immaterial items generally won't be a problem, but you must use care.

Reimbursement of out-of-pocket expenses is permitted and is not treated as compensation as long as reimbursement is for specific expenses, not based on hours worked and not a general allowance. Typical reimbursements are for meals and lodging while away from home overnight, as well as mileage for the volunteers' personal car use or other travel expenses.

This exception is only valid for activities where labor is an important factor. It doesn't apply in circumstances where volunteers receive tips or other compensation from patrons. However, this can be a useful exception that may allow you to avoid Unrelated Business Income Taxation.

How the New Federal Tax Law Affects Affordable Housing

The new tax law was not a direct hit on affordable housing. Affordable housing tax credits remain intact and interest on affordable housing private activity bonds continue to be nontaxable. Still many people are concerned the new tax law will have a significant indirect adverse effect because reduced corporate tax rates decrease incentive to purchase affordable housing tax credits.

The process for affordable housing tax credits have not changed. State governments award credits to affordable housing developers. Those developers sell the tax credits to taxpayers in exchange for equity investments in affordable housing.

The taxpayers who buy these credits are mostly corporations, particularly banks who can satisfy Community Reinvestment Act obligations by acquiring these credits. The new tax law cuts the top corporate rate from 35% to 21% which decreases incentive to acquire these tax credits. However, while corporate tax rates are significantly lower, a dollar of affordable housing tax credit still offsets a dollar of federal tax, so we will need to wait and see how the appetite for these affordable housing credits changes under the new federal tax laws.

The demand for affordable housing continues to increase and the benefit of affordable housing to communities is well-documented. A report by *Harvard's Joint Center for Housing Studies* finds the number of renters has surged to about 1 million additional renters per year since 2010.

The Best Board Meeting Ever!

An article by Les Wallace the president of Signature Resources was published by BoardSource and contained some great wisdom for board meetings. The title of the article was "The Best Board Meeting I Ever Attended."

Les shared the following from his best meeting ever:

- The meeting started online 10 days before the physical meeting with approval of an agenda that included a CEO report and updates from key staff members.
- The most important business and strategic issues were first on the agenda. Other topics followed in order of importance.
- A dashboard financial report was provided. This was one page of key financial indicators that allowed the board to quickly scan for monthly and year-to-date performance with budget and prior year comparisons. He clarified that the finance committee does a deeper dive into the financials.
- Board succession was a topic and successor candidates were identified.
- No unnecessary talk/no repeating what other board members said. Stay focused on the matters at hand.
- Staff and committee presentations and recommendations were summarized on a single page. More detailed information was available on the website.
- Within 30 minutes, the board had completed its business oversight. This allowed 45 minutes for discussion of strategy and progress.
- Board development: 15 minutes was devoted to the board's role in risk management, and strategic planning. Board development is part of every meeting, but the topic varies at each meeting.
- Assessment: Board members evaluated the meetings using a survey that included questions like, 1. *Are you leaving the meeting confident in the overall performance of our organization*; 2. *Did you feel you had ample opportunity for input*; 3. *Would you change anything for future meetings?*