COMMONWEALTH INSIGHTS

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Massachusetts Nonprofit Network

Strategies to Make the Most of Year-End Fundraising

Individual donors are critical to the success of nonprofits across Massachusetts. They take on even more importance in the fourth quarter each year, as tax deadlines and end-of-year generosity prompt giving.

But things are different in 2018. Last year's federal tax law has changed the landscape for many individual donors. The changes are mixed—some negative and some positive—depending on the donor and the fundraising plan of each nonprofit.

This edition of *Commonwealth Insights* outlines recent tax law changes affecting donors, and shows nonprofits how to respond to them with strategies to make the most of 2018 year-end fundraising.

KEY POINTS:

- Federal tax law changes passed in 2017 will affect nonprofits and donors that support the sector.
- Middle-income donors, particularly homeowners who have paid off their mortgages, will see their cost of giving rise. This could impact individual donations to the nonprofit sector going forward.
- To ensure fundraising levels don't decrease in 2018 and beyond, nonprofits can:
  - Increase outreach and messaging to mid-level donors;
  - Promote other types of giving including qualified charitable distributions, non-cash assets, and accelerated giving;
  - Strengthen corporate partnerships.

I. The Changes - To Tax Law That Affect Donors

At the end of 2017, Congress passed the Tax Cuts and Jobs Act (TCJA) which made significant changes to the federal tax code. The 2018 first edition of *Commonwealth Insights* discussed many of the tax changes that would impact the nonprofit sector in depth. The changes to federal tax law that stand out for their impact on nonprofit donors include:

- **Doubling of the Standard Deduction** - The TCJA nearly doubled the standard deduction, to $12,000 for single filers and $24,000 for married couples filing jointly. That change will significantly reduce the number of taxpayers who will continue to itemize deductions on their federal tax returns. Many of them will be middle-income households.

- **$10,000 Cap on the Deductibility of State and Local Taxes** - The TCJA also put a limit of $10,000 on the amount of state and local taxes (SALT) that can be deducted on a federal tax return. This provision will further reduce the number of taxpayers itemizing deductions in Massachusetts, where high property values and above-average incomes result in large state and local tax payments.

The result of those two changes is that beginning in 2019, when people file their 2018 taxes, large numbers of Massachusetts middle-income taxpayers will no longer itemize their federal tax deductions.

Why does this matter to nonprofits? Because only taxpayers who itemize deductions receive a federal tax break for charitable contributions. Donors who no longer itemize will see their cost of giving go up, on average by 28%. While it is difficult to identify specific people in that category, most will be middle-income taxpayers, particularly homeowners who have paid off their mortgages. Many will still give—for reasons more important than a tax incentive—but some will give less because their cost of giving has increased.

- **IRA and 401(k) Distribution Gifts to Nonprofits** - A change made permanent in 2015, more relevant in the wake of tax reform, is that donors 70 ½ and older can make tax-free donations to a nonprofit if the funds come from their traditional IRAs or 401(k)s. Owners of those accounts age 70 ½ and up are required to withdraw funds from them each year (required minimum distributions). Those withdrawals are taxed—unless the funds are donated to nonprofits as Qualified Charitable Distributions (QCDs) from the account. QCD funds are not taxed, providing the donor with a tax benefit equivalent to the charitable contribution deduction.

- **Corporate Tax Rate Reduction** - The TCJA significantly reduced tax rates for businesses both large and small, including S corporations. The top corporate tax rate was reduced from 35% to 21%. This presents an opportunity for nonprofits to explore additional support from businesses they work with, as well as other businesses located in their service area.

Did You Know?

☑ Gifts from individuals are essential to nonprofits. **85%** of MNN members surveyed rely on individual donations.

☑ Giving by individuals represented **70%** of total giving nationwide in 2017. (Source: Giving USA)

☑ Massachusetts residents give over **$5 billion** to nonprofits every year. (Source: IRS data)

II. The Strategies - To Make the Most of 2018 Year-End Fundraising

Nonprofits are now planning and executing their year-end fundraising plans. While fundraising best practices won't change, for many nonprofits the year-end fundraising push may look different. Given the challenges presented by the federal tax changes, nonprofits should consider new strategies to increase giving and attract new donors:

- **Increase Outreach to Mid-Level Donors** - As outlined above, many middle-income taxpayers will no longer itemize deductions and therefore will lose their charitable contribution tax break. The Association of Fundraising Professionals suggests that most of them have "mid-level" annual giving totals between several hundred and several thousand dollars. Nonprofits should redouble fundraising outreach to donors whom they know to be, or think could be, in that category.

  There are several strategies that fundraising experts suggest to reach mid-level donors:

  - Nonprofits should share meaningful, inspirational, and tailored content from their programs to such donors throughout the year, so that donors don't just hear from nonprofits at solicitation time.

  - Nonprofits should encourage mid-level donors to adopt regular giving programs, in which they donate a set amount each month or quarter. Such programs can make the cost of giving more manageable for donors and strengthen their connection to the nonprofits they support.

  - Nonprofits should communicate the true impact of gifts to donors in recurring, compelling ways. Those that articulate the impact of each gift to potential donors, regardless of the gift's size, are typically more successful in retaining donors and gaining new ones.

- **Promote Qualified Charitable Distributions to Donors Age 70 ½ and up** - Nonprofits with donors aged 70 ½ and older should ask them to consider a qualified charitable distribution (QCD) to the organization. The graphic on page 3 illustrates how a QCD works. QCDs are likely to become more important in the years ahead.

Qualifying Charitable Distributions (QCDs): A Great Option for Donors 70 ½ and Older

The Lees are a retired couple who have paid off their mortgage. They give $5,000 every year to nonprofits.

Their adjusted gross income (AGI) is $85,000.

When determining how they will give to charity this year, they have two options.

Option 1

They make charitable contributions from their checking account.

↓

They give a total of $5,000 to nonprofits.

↓

Their taxable income is **$59,700**.

Total tax bill: **$6,783**

Option 2

They make **Qualifying Charitable Distributions (QCDs)** from their IRA to nonprofits.

↓

They give a total of $5,000 to nonprofits via QCDs.

↓

On their tax returns, their QCDs **do not count as taxable income.**

Their taxable income is **$54,700**.

Total tax bill: **$6,183**

Donating through QCDs saves the Lees *$600* a year.

Because of the tax reform changes outlined above, millions of retirees will see their cost of giving rise. The risk is especially high for retirees who have paid off their mortgages; they are less likely to have deductions large enough to itemize. QCDs can enable them to continue to receive a tax benefit for their charitable giving.

- Encourage Accelerated Giving - As outlined above, because of the doubling of the standard deduction and the $10,000 SALT cap, millions of taxpayers will no longer itemize their deductions. Some accountants and fundraising experts have suggested that donors consider “accelerated giving”: moving future years’ contributions into 2018 so that the total 2018 amount triggers itemizing and the charitable contribution deduction. Nonprofits can encourage accelerated giving in their year-end solicitations to donors. When donors make accelerated gifts, nonprofits should note it and plan for the possibility of lower contributions from those donors in the years that follow.

- Consider Soliciting Non-Cash Donations - Non-cash donations, whether of mutual fund shares, stocks, or collectibles, provide a unique tax benefit to the donor. That benefit is even more significant in the wake of tax reform. When a donor gives a nonprofit a non-cash asset that has been held for at least a year and gained value—such as shares that have gained value with the stock market—the gains are tax-free.

Donor advised funds (DAF) can make non-cash donations more accessible to both donors and nonprofits. A DAF is an account that a donor opens at a sponsoring organization (e.g. a community foundation or brokerage firm), contributes money or assets to, and uses to makes charitable contributions. DAF contributions are tax-deductible in the same way as regular charitable contributions. While there is a range of opinions about DAFs in the nonprofit world, they are growing and becoming a larger part of the fundraising conversation.

If a donor sets up a DAF, moves mutual funds or stock shares or other assets into it and then sells them, the cash proceeds can be given to a nonprofit. The donor does not pay tax on the assets’ appreciation, and the nonprofit does not have to handle the shares or be involved in their sale.

Two Policy Fixes to Increase Giving to Massachusetts Nonprofits

Universal Federal Charitable Deduction

While effective, the current federal charitable tax deduction is not available to a majority of the 103 million federal tax paying Americans who do not itemize their taxes. This makes the incentive to give dependent on income levels. MNN supports and will continue to push for a federal universal charitable deduction. It would incentivize all Americans, regardless of income, to support their local communities through donations to nonprofits.

State Charitable Deduction

In 2000, Massachusetts voters approved a ballot petition creating a state income tax deduction for charitable contributions. The deduction was in effect for one year before it was suspended by the Legislature. The state's charitable deduction is on track to resume a full fiscal year after the state's income tax rate drops to 5%. While that trigger is a few years away, MNN supports and will work for the state deduction's resumption.

DAFs can also be part of an accelerated giving plan as outlined above.

- Fundraise from Business Partners - Nonprofits across Massachusetts have relationships with a wide range of businesses, as vendors, business partners or contributors. The business tax reductions in the TCJA present an opportunity to strengthen these relationships, and in some cases, build new partnerships. Many businesses, large and small are looking for ways to support the communities they serve.

  There are several important strategies for nonprofits to consider to boost their corporate giving programs:

  - Nonprofits can reach out to local vendors, business partners, and other companies with whom they already have relationships.
  - Nonprofits should consider the "quid pro quo" nature of some partnerships, and prepare a solid value proposition for corporate partners that incentivizes their support.
  - Nonprofits should be open to accepting different types of support from businesses, such as donated goods, services, or other in-kind gifts. Such gifts can be initial steps in a long-term journey that could lead to financial support.

III. Conclusion

While the new tax changes present real challenges for the nonprofit sector, they also present opportunities for creativity, deeper donor engagement, and more emphasis on messaging and communications. As the giving landscape shifts, the nonprofit sector can respond by concentrating on one of the most important parts of fundraising - keeping donors and supporters actively engaged. Instead of waiting to see if fundraising is impacted by these changes, nonprofits should act with a sense of urgency and communicate value year-round. Engaged donors will be more likely to stay invested even if their cost to give rises.

By incorporating the ideas outlined above to grow year-end fundraising, Massachusetts nonprofits can strengthen their finances and increase their ability to do the work that is essential to people and communities across the Commonwealth.

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About the Massachusetts Nonprofit Network

MNN brings together nonprofits, funders, business leaders, and elected officials across Massachusetts to strengthen nonprofits and raise the sector's voice on critical issues. The network has more than 750 nonprofit member organizations and more than 100 for-profit affiliate partners. To join visit massnonprofitnet.org/join.

MNN's work is made possible through the generous support of our organizational sustainers.

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