WINTER 2011

NFP ADViSOR

ADDRESSING IMPORTANT ISSUES IN THE NOT-FOR-PROFIT SECTOR

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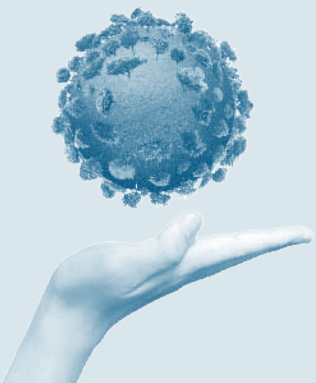
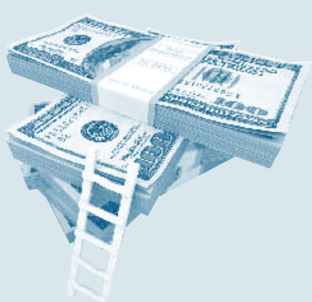
Global Consumers Value Social Responsibility



Tax Relief Act Aims to Pump Life Into Economy, Could Benefit Not-For-Profits



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How Sustainable Is Your Organization?

In recent years, the term "sustainability" has come to be associated with the environment, as individuals discuss how to protect the earth's ecosystems so they remain diverse and productive far into the future. But, the concept of sustainability can also be applied to nonprofits, as their leaders challenge themselves to build organizations that not only fulfill their current mission, but also have the capacity to endure over the long term, as conditions change and the needs of the community evolve.

There are many elements that go into the organizational stability of a nonprofit, including an experienced board and a management team whose members are committed to the organization's mission. Securing funding for the organization and attracting leadership talent are also important to continued existence, but an organization that focuses too much on recruitment, fundraising, and the crunching of data may run the risk of alienating its clients, and even potential donors and volunteers.

EVALUATING SUSTAINABILITY

With this in mind, an evaluation of your organization's sustainability may start with a seemingly simple question: Why does your organization exist? For most nonprofits, the answer will be to serve both a specific set of clients and the community as a whole. While this may seem obvious, many not-for-profit leaders lose sight of this basic principle, choosing instead to focus on increasing their organization's "market share" and competing with similar groups for grants and gifts. These battles may be fought at the expense of the very people the organization was established to serve.

Thus, sustainability often means more than just securing the bottom line. In many cases, it involves constructing alliances with other groups that serve the same community, with the goal of providing the best services possible. It may also mean reaching out to other charities and businesses with whom your organization has not traditionally partnered. Creating broad, varied networks can be extremely useful if your organization needs help from beyond your usual set of supporters. This may, for example, occur if the needs of your community shift and you require additional resources to develop new programs.

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Global Consumers Value Social Responsibility

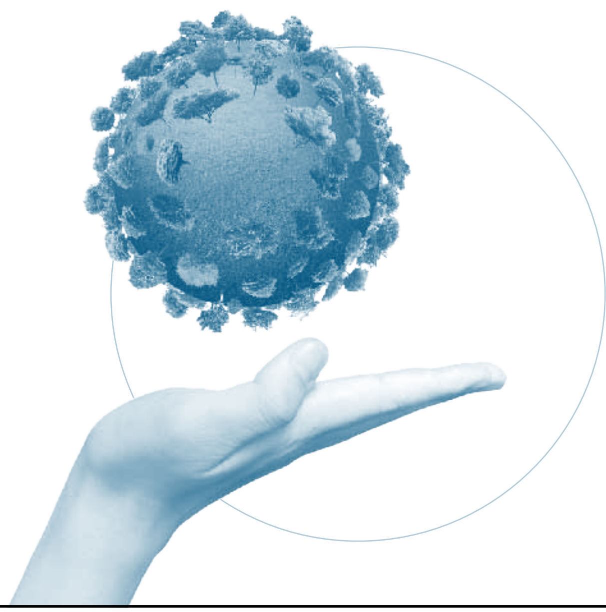
No longer content to buy from companies that merely contribute to good causes, consumers in the United States and around the world increasingly expect corporations to make accepting responsibility for society and the environment an integral part of their business strategies, according to a 2010 survey by public relations firm Edelman.

The fourth annual survey, which seeks to explore consumer attitudes around social purpose, included responses from more than 7,000 adults in 13 countries. Results showed that 87% of Americans believe that businesses should place at least equal weight on society's interests as those of business, and 62% think corporations should integrate good causes into their day-to-day business activities. Moreover, 74% believe brands and consumers could do more to support good causes by working together.

The survey also found that consumers in emerging markets, like Brazil, Mexico, China, and India, have even higher expectations than Americans. An average of 8 in 10 respondents in these countries (87% in Brazil, 85% in Mexico, and 79% in China and India) expect brands to do something to support a good cause, compared to 63% of respondents from the United States.

"Purpose must now be ingrained into the core of a company or brand's proposition. It is no longer enough to slap a ribbon on a product. It must be authentic, long-term, and participatory," said Carol Cone, managing director of brand and corporate citizenship at Edelman.

"Americans are seeking deeper involvement in social issues and expect brands and companies to provide various means of engagement," Cone continued. "We call this the rise of the 'citizen consumer'." &



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CREATING A COMMUNITY

Just as the preservation of the earth's ecosystem depends on natural processes working in harmony, the survival and well-being of a community relies on the successful collaboration of the groups and individuals who make up the city or town. Rather than treating financial contributions as scarce resources to be fought over at the expense of other nonprofits, think about how your organization can promote the resilience of the community as a whole, including other stakeholders who are integral to your healthy functioning. Then, when your organization requires assistance, the community may be more likely to lend a helping hand.

Concretely, this may mean that, when funding through the usual channels is tight and your organization is unsure about the future of its programs, you can turn to your allies in the community for support. These potential partners might include other nonprofits and members of the business community, churches, and other clubs and associations. Consulting with a wide range of groups may lead to the development of unconventional solutions to problems.

Further, other groups or businesses with excess capacity may offer to take over tasks that are vital to maintaining your programs on a short- or long-term basis, such as transporting goods or repairing a leaky roof. Partners with political connections can lobby for the interests of your organization at council meetings and in the legislature.

PREPARING FOR THE FUTURE

Even if the assistance provided is temporary, the relationships that are forged through working together to achieve common goals can help to ensure that your organization is supported and sustained far into the future. &

Tax Relief Act Aims to Pump Life Into Economy, Could Benefit Not-For-Profits

The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (Tax Relief Act) was signed into law on December 17, 2010. The law's enactment creates or extends significant provisions that impact charitable giving, employees and individuals and may help not-for-profits regain momentum in 2011.

QUALIFIED CHARITABLE DISTRIBUTIONS EXTENDED

From a not-for-profit operating perspective, the most noteworthy provision in the Tax Relief Act may be the extension of qualified charitable distributions (QCDs) through 2011. Taxpayers who have reached age 70½ can make a tax-free distribution of up to $100,000 directly from their IRA to a charitable organization. Although no charitable deduction is allowed for the QCD, it does count toward a taxpayer's required minimum distribution. For joint filers, each spouse can make a QCD of up to $100,000.

This provision encourages high-net worth individuals to give to their favorite causes. The provision is especially beneficial to taxpayers who do not itemize their deductions and therefore do not receive a tax benefit for their charitable contributions. It also is beneficial to taxpayers who are residents of states (such as Ohio) that do not permit a deduction for itemized deductions.

EMPLOYEE SOCIAL SECURITY TAXES REDUCED

The Tax Relief Act reduces the employee share of the OASDI portion of Social Security tax from 6.2% to 4.2% for wages earned in 2011. The new rate applies to all employees. The employer share of OASDI, however, remains at 6.2%; and the Medicare portion of the Social Security tax remains unchanged at 1.45% for both the employee and the employer.

INDIVIDUAL BREAKS EXTENDED

As a result of the Tax Relief Act, many individual tax breaks and credits were extended through 2012, including the following:

- Individual and capital gain tax rates remain at the 2010 levels through 2012.
- Child tax credit remains at $1,000 through 2012.
- The American Opportunity Tax Credit for qualified higher education expenses is extended through 2012.

The Pease limitation on itemized deductions does not apply through 2012. This limitation reduces the tax benefit of itemized deductions by 3% of the amount by which adjusted gross income exceeds a threshold amount. The Pease limitation can significantly reduce the tax savings attributable to charitable contributions. The fact that it does not apply in 2011 or 2012, but that top tax rates are scheduled to increase to 39.6% in 2013, means that a careful analysis is required to identify the appropriate timing to result in the highest tax savings.

ESTATE AND GIFT TAX PROVISIONS

The Tax Relief Act also made significant and favorable changes to the estate and gift tax rules:

- The estate, gift and generation skipping transfer (GST) tax exclusions are reunified at $5 million ($10 million for a married couple) for 2011 through 2012, with a 35% tax rate. The ability of taxpayers to make taxable gifts of up to $5 million during 2011 and 2012 provides tremendous opportunities to transfer wealth without incurring a gift tax liability.
- The estate tax exclusion is portable. The unused portion of a pre-deceased spouse's $5 million exclusion may now be transferred to a surviving spouse, such that the surviving spouse may exclude up to $10 million. Although portability may provide a temporary fix for an inadvertent lack of tax planning, careful estate planning is still recommended.
- For persons who died in 2010, the estate tax (with step-up) is restored at 35% with a $5 million exclusion. Executors, however, are allowed to opt for zero estate tax (without step-up), which is consistent with the repeal of the estate tax for 2010 prior to the Act's passage. Anyone facing such a decision should consult their advisors.

The Tax Relief Act provides significant opportunities for both not-for-profits and individuals. However, many of these benefits are scheduled to sunset as of December 31, 2012. Understanding how these provisions may impact your organization and educating your donor base on these developments is essential to proper planning for 2011 and 2012. &

ABOUT THE AUTHOR

Laura White is a Manager in the Tax Department. She is well versed in issues affecting not-for-profit organizations, including executive compensation and non-qualified deferred compensation plans.

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