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Non-Profit Notes Newsletter

New Tax Law Could Affect Not-for-Profits

By Mark Piszko, CPA, CGMA, Partner

The historic tax reform bill approved by Congress expected shortly to be signed into law by President Trump — the "Tax Cuts and Jobs Act Bill" — will affect almost all individual and corporate taxpayers beginning in 2018. Not-for-profit organizations, as well, may be affected, though the actual impact is difficult to determine at this point. Many charitable organizations fear that the tax law changes will negatively impact much-needed revenue streams, both from individual contributions and government subsidies, potentially hurting non-profits, particularly those located in high state and local tax areas, including New York.

We outline in this e-newsletter some of the changes which may impact not-for-profit entities.

Increase in the Standard Deduction

The new tax law nearly doubles the standard deduction in 2018. The increase in the standard deduction is expected to reduce the percentage of taxpayers who itemize deductions on their tax returns from approximately 30% to 5%. Because fewer people would itemize, the tax benefit incentive to make charitable contributions would diminish.

For the small fraction of people who will continue to itemize, however, the new tax law raises the threshold for cash donations and repeals the "Pease" provision, which currently limits charitable deductions for the wealthiest taxpayers. The increase in the donation threshold and elimination of the "Pease" provision may soften an expected reduction in donations, but probably not enough to compensate for it entirely.

A recent study by the Indiana University Lilly School of Philanthropy estimates that overall charitable giving would decline by 5%, or $13 billion, as a result of changes in the tax law.

Reduction in State and Local Tax Deductions

The new tax law limits the deductibility of state/local taxes and property taxes (combined) to $10,000. This may impact charitable giving in those states with the highest state/local taxes and property taxes because under prior tax rules, taxpayers could deduct all state and local taxes paid and all property taxes paid. Under the new law, the limitation on this deduction may result in fewer taxpayers itemizing deductions, or may result in higher tax bills at year-end for individuals living in high tax states and locales.

In addition, having constituents with higher tax bills may give pause to state and local legislators when considering tax increases in those states and cities to fund governmental services, including monies earmarked for not-for-profits, so as not to impact their constituent taxpayers to an even greater degree.

Increase in the Estate Tax Exemption

The new tax law doubles the exemption on the estate tax to approximately $11 million for individuals and $22 million for couples. This increased threshold on taxable estates is estimated to reduce tax collections an estimated $95 to $150 billion dollars over the next ten years. There is some concern among certain not-for-profits that fewer individuals will consider planned gifts to charitable organizations as part of their estate tax planning since the increase in the estate tax exemption may reduce the incentive for potential donors to establish planned giving to charities.

Federal Deficit

There is great concern among a number of not-for-profits that — as a result of the changes effected by the new tax law — tax collections by the federal government will decrease, causing a reduction in federal subsidies to states and local governments. Many charitable organizations, particularly those providing social services programs to communities, are reliant on government funding, both federal and local, to subsidize their operations. A reduction in government funding, combined with a potential drop in individual donations, could be disastrous for some organizations, or, at the very least, could result in increased budget constraints and a potential reduction in program services provided.

What Now?

The tax reform act contains other changes that could affect charitable organizations that we will discuss in future editions of our newsletter. The full impact the tax reform changes will have on not-for-profit organizations cannot be predicted at this point; however, in the meantime, we encourage Boards and management executives to have open, frank discussions about the potential impact the tax changes may have on your organization and what, if any, actions you need to take to address that impact.

Contact Us

If your organization has any questions about the new tax reform and its potential effects on your not-for-profit organization or on any other matters affecting your organization, please contact Mark Piszko, CPA, CGMA, Partner at mpiszko@pkfod.com or the partner in charge of your account.