NONPROFITS: INTERNAL REVENUE SERVICE

Hello, 2017! Four Big Changes Set to Affect the Charitable Sector

01.01.17 | Linda J. Rosenthal, JD

As we say a (hopefully) fond farewell to 2016 and we give a welcome "hello" to 2017, it's important to note that ***2017 is shaping up to be a watershed year for nonprofit charities.*** Major change looms, especially in government policy, where government discretionary spending will go down, tax policy will very likely change and health care and other social services will get major rearranging. We've selected

(1) Rule change to the Combined Federal Campaign

New rules for the Combined Federal Campaign, originally scheduled to start January 1, 2016, were pushed back a year and take effect today – January 1st, 2017.
These new rules, finalized in April 2014, now prohibit federal workers from making donations in cash, consolidate local drives into larger regional drives, and charge participating nonprofits an application fee to pay for campaign costs instead of taking a portion of their donations. Many nonprofits, including United Way Worldwide and YMCA of USA, opposed these rules when they were proposed. The new rules state that without a "qualified central campaign administrator," the campaign cannot take place. This change has been on the horizon for over a year, but if your nonprofit organization is unaware of this change, and depends upon revenue from the CFC it's about time to come up to speed!

(2) Trump Tax Reform and the Charitable Tax Deduction

Among the tax-saving strategies to consider as part of your year-end planning always involves thinking about your charitable donations.

President-elect Trump' tax plan could create some significant changes to charitable giving in the 2017 tax year, and beyond. He wants to reduce the number of individual income tax brackets from the current seven to three, with rates of 12, 25 and 33 percent. This means the current top tax rate of 39.6 percent would be cut by 6.6 percentage points, to 33 percent. Trump's tax plan would also cap the total amount of itemized deductions at $100,000 for single filers and $200,000 for joint filers.

Under current rules, if you're in the top 39.6 percent bracket, each $1,000 donated to a charity in 2016 will result in federal tax savings of about $400 – and there's no "cap." But if Trump's plan becomes reality in 2017, that same donation made next year would yield a tax savings of only about $330 (under the proposed top 33 percent bracket) and any incentive for larger gifts would be discouraged due to the "cap."

(3) Changes to Obamacare

President-elect Donald Trump has also promised to dismantle Obamacare as one of his first acts after taking office, but he can't eliminate Obamacare on day one with the stroke of a pen. Killing the massive program that provides insurance to 20 million Americans would take time to work its way through Congress. Plus, there are many popular provisions that Trump has indicated he would retain in some form, such as covering those with pre-existing conditions.

Trump has yet to lay out a detailed plan on how he'd replace Obamacare. But it's unlikely he and Congress will do anything that kills Obamacare for those who sign up for coverage in 2017. Open enrollment has already started, and the Obama administration estimated more than 11.4 million people will be insured through the exchanges in 2017.

Nonprofit organizations, however, should use 2017 to prepare and to advocate on behalf of those they serve – acknowledging that a rather big storm is brewing and currently sits just below the horizon.

(4) Major Change to FASB Accounting Standards for Nonprofits

The Financial Accounting Standards Board (FASB) announced in April of 2015 proposed changes to reporting for nonprofit organizations that will impact the approximately 13,340 nonprofits currently registered with the state Department of Consumer Protection.

The proposal represents the first major overhaul of nonprofit reporting requirements in more than two decades. From the Hartford Business Journal:

Net Assets

With multiple proposed changes on the table, the greatest impact calls for elimination of the three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. If passed, nonprofits would have to report two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

Income statement

Another significant change would impact the statement of activities, which presents a nonprofit's income and expenses. The proposed rule would require all nonprofits to report net income or loss from operating activities separate from non-operating activities. This would more clearly show the income and costs directly related to accomplishing the mission of the organization.

Cash flows

A change likely to stir the most controversy is the proposed overhaul of the statement of cash flows, which identifies the organization's sources and uses of cash.

Key stakeholders frequently gloss over the statement of cash flows, considering it unreadable. FASB's proposed change would present the statement using the direct method, requiring the reporting of cash receipts from key revenue sources as well as disbursements to suppliers versus to employees for wages. It's anticipated that this change would provide a clearer presentation of cash in and out related to operations.

While the amendments in the standard are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018, preparation for such a change will have to be started well before – earlier in 2017.