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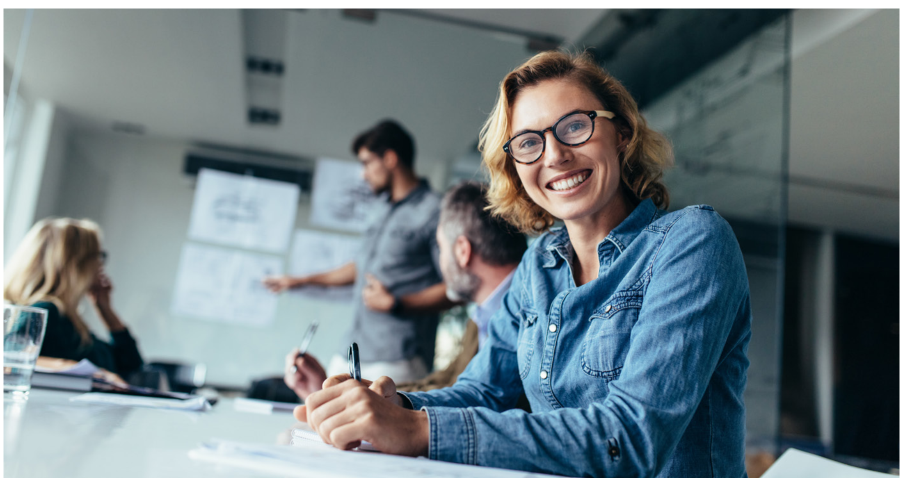

TOP 10 BEST PRACTICES AND TRENDS: EMPHASIS ON INCREASING PUBLIC SUPPORT

"Transparency = increased funding from the public"

A brief overview of my top 10 best practices and trends for not-for-profits (NFPs) includes the following:

1. **Board governance** – three duties include monitoring/strengthening financial resources, ensuring adequate financial resources and protecting assets/providing proper financial oversight.
2. **Watchdogs and transparency** – some of the major players include Better Business Bureau, Charity Navigator, Charity Watch and GuideStar. They provide NFPs with transparency guidelines and financial metrics on top performing NFP entities.
3. **Enterprise risk management (ERM)** – this area includes social media policies, succession planning and contract/3rd party risk.
4. **Cyber risk** – this area includes performing a risk assessment, collection/storing of sensitive data, and educating users on phishing, passwords and dual authentications.
5. **Social media and channels of giving** – this area includes trends and proven methods of increasing contributions and private grants, including recent technology and how to build lasting donor relationships.
6. **Connect the dots of data sources** – ensuring that your website and your financial, tax and annual reports present the best financial picture that is easy for donors and users to understand and support.
7. **Benchmarking** – tracking that your entity compares to others by types of activities, by regions, by compensation and other metrics.
8. **Key performance indicators (KPI)** – have management share with the board details on how the revenue and expenses, including metrics on number of donors/grants/employees/volunteers/vendors/outside or 3rd party fundraisers.
9. **Federal grants** – understanding that grant funds are available from local/state/federal agencies to meet program needs and the extra costs of compliance with the associated regulations.

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10. **Tax issues** – understanding the new tax act and emphasis on transparency. New issues include qualified transportation fringe benefits, impact of higher standard deductions/limit of state taxes on individuals. Other planning opportunities are available for individuals to contribute IRA funds and establish donor advised funds.

As noted in item 1 above, NFPs need to implement best practices that secure adequate resources and funding from the general public. So, the remainder of this article shares resources on financial development.

GuideStar is a major player and one of the top charity watchdogs in the United States. Through their website at www.GuideStar.org, they provide all tax exempt entities in the US with the ability to tell their story, share their mission and solicit program funding. GuideStar's Jan. 16, 2019 blog included a list of the 10 most read articles on **fundraising/revenue generation** that included the following:

1. *Thoughtful Solutions for Reluctant Fundraising Board Members*
2. *5 Fundraising Tips-Straight from Donors and Grantmakers*
3. *Partners in Philanthropy: How to Work with Donor-Advised Funds*
4. *The Crucial Role of Silence When Asking for a Gift*
5. *Top 6 Ways a Board Can Help Its CEO*
6. *Understanding Your Donors is Crucial to Keeping Them*
7. *How Nonprofits can Build Partnerships with Businesses*
8. *Want to Rock Your Year-End Fundraising?*
9. *The Fundraising Cheat Sheet for Board Members*
10. *Kick Off the Year-End Giving Season with Your Giving Tuesday Campaign*

GuideStar's blog from Jan. 8, 2019 included an article by Jacob Harold, *"New Research Shows Nonprofit Transparency Matters"*. New research supports that (1) donors give more to transparent nonprofits and (2) transparent entities tend to be stronger. Research from this article found that *nonprofits that earned a gold seal of transparency averaged 53 percent more in contributions the following year compared to those that don't have seals*. The article suggests that nonprofits that can put a "finger on the scale" of raising money to meet their missions by simply telling the world about their work in a structured way on their GuideStar profiles.

This study points out that the number one factor in establishing donor trust is a clear and solid message on the entity's accomplishments. They reference a new www.give.org report on "Donor Trust".

Note that many corporations, lawyers and accountants use GuideStar to verify data on charities and use this information to offer advice to clients on the questions they have about transparency and financial accountability. Similar to other charity watchdogs like the Better Business Bureau and Charity Navigator, they assign seals of transparency, based on the data provided (e.g., Platinum, Gold, Silver & Bronze).

It is imperative that your charity periodically update and monitor its data with GuideStar and other charity watchdogs. Transparency and accountability are critical to positioning your entity for consideration for funding from major donors.

The table below presents information on the seals of transparency along with data on nonprofits that provide grants/funds to charities.

GuideStar Stats - Entity Profile "Seal of Transparency"	# of Entities	% with Seal
Platinum - Share your quantitative measures of progress and results to show the difference you make (provide metrics)	7,372	0.3%
Gold - Share your goals and strategies so you can tell others about your work, capabilities, indicators and progress	14,165	0.6%
Silver - Be transparent on your website about your finances so you can build trust (option A: audited F/S or option B: basic F/S data (contributions, gifts, grants, expenses for program/admin/fundraising, assets, liabilities and net assets))	16,542	0.8%
Bronze - Provide basic information about your organization so you can be found (address, contact information, mission statement, leadership, program names/descriptions/population served and geography served)	29,812	1.3%
Those with Seals on www.GuideStar.org	67,891	3.0%

In 2017, 78 percent of the nonprofits that received donations through GuideStar's website had seals. GuideStar has over 10 million visitors a year.

Given that there are over 2.3 million tax exempt entities, charities have a great opportunity to improve their transparency and messaging of their programs. This will allow them to improve their odds of applying for and obtaining more or increased gifts/grants from over 161,317 gifting and grant making organizations.

The table below presents information on nonprofits that provide grants/funds to other charities.

Philanthropy, Voluntarism, and Grantmaking Entities:	NTEE code	# of Entities
Fund raising and/or fund distribution	T12	5,800
Private grantmaking foundations	F20	61,091
Private independent foundations	T22	35,951
Private operating foundations	T23	2,011
Public foundations	T30	13,859
Community foundations	T31	5,762
Other philanthropy, voluntarism, and grantmaking foundations	T99	7,157
		131,631
	Others	29,686
NTEE code = National Taxation of Exempt Entities (used by GuideStar)	Total	161,317

A few other sources that focus on leading edge fundraising technology include:

MobileCause https://www.mobilecause.com/amazon-smile/ is a platform for smaller to mid-sized charities that allows them access to technology and advanced tools to be on a level playing field with more established/larger entities. Some of the tools include:

- Webinars – monthly for fundraisers
- Infographics – fundraising ideas
- EBooks – engagement strategies
- Blog – latest tips and trends
- Case Studies – fundraising success stories
- Stats – ensure Return on Investments (ROI) with fundraising and communication benchmarks

Other websites that should be considered for legal and grant related information include the following: National Council of Nonprofits https://www.councilofnonprofits.org has some great resources on state laws and grant research and how to apply to grant making organizations. www.FoundationCenter.org www.grantstation.org

Summary: The stakes are high for all exempt organizations to be transparent, accountable and leverage technology. Those entities that are proactive with their mission, their resources and their message will continue to thrive and be leaders in their fields. The research shows that nonprofit transparency matters. UHY looks forward to continuing our role of sharing knowledge with those involved in the tax exempt area.

"The research shows that nonprofit transparency matters."

Patrick Rohrkaste, Managing Director (St. Louis, MO)

NONPROFIT PARKING TAX

What is the "parking tax"?

The Tax Cuts and Jobs Act (Tax Act) which was signed into law in late 2017 includes the controversial treatment of qualified transportation fringes (QTF). The Tax Act disallows the deduction of QTFs provided by taxpayers to their employees. The tax treatment of QTFs for nonprofit employers will mirror those of for profit employers as an effort to "level the playing field" between for profit and nonprofit organizations. What has been coined the "parking tax" has stirred up some confusion. To help clear up some of the confusion, let's break it down.

What is a QTF?

A QTF could be one of the following:

- Qualified parking
- Transit passes
- Rides in commuter highway vehicles

For the purposes of this article, the focus will be on qualified parking. The IRS defines "qualified parking" as parking provided to employees on or near your business. It does not include parking on or near property used by the employee for residential purposes. The term "employee" is defined as a current or leased employee who provides services on substantially a full time basis for at least one year, including common law employees and officers. Partners, sole proprietors, independent contractors and two percent shareholders are not considered employees under the IRS definition.

An employer may provide a QTF to their employees as a supplement to their employee's compensation, either in kind, as a reimbursement, or via a compensation reduction arrangement. Under the Tax Act, an employee could exclude the value of qualified parking benefits from their wages up to $260 per month for 2018, which increases to $265 per month in 2019. Unfortunately, nonprofit employers must include the amount of QTF expense that exceeds the portion excluded from the employee's wages as unrelated business income (UBI). Parking provided to employees through an employer owned parking lot or facility is also considered a QTF.

How is the taxable portion calculated?

Calculating the amount disallowed depends on the circumstances in which the parking benefit is provided. There are a couple of scenarios under which a QTF may be incurred:

Scenario 1: *The employer pays a third party directly for employee parking.*

Examples:

- A nonprofit employer pays a parking facility directly for the nonprofit employees parking at that facility. The employer pays $200 per month for 10 employees in 2018. The total expense is ($200x10) x12 = $24,000. The entire $24,000 is disallowed and should be included as UBI. The employee does not report any taxable income.
- Consider the same scenario as above, although instead of paying $200 per month, the employer pays $400 per month for 10 employees, equaling $48,000 in 2018. Since the amount per month per employee is more than the threshold of $260, the amount considered UBI is calculated as follows: ($260x10) x 12 = $31,200. The amount in excess of $260 per month, $140, is treated as additional compensation and wages to the employee.

In a nutshell – the first $260 ($265 for 2019) is subject to UBI at the nonprofit employer's rate and the amount over that is subject to tax at the employee's rate.

Scenario 2: *The employer owns or leases all or a portion of the parking facility.*

The IRS states that any reasonable method may be used to calculate the disallowance when parking is provided by an employer who owns or leases the parking lot or facility. There are a couple of caveats to be aware of – using the value of the parking is not a reasonable method, it must be based on the cost, and, beginning Jan. 1, 2019, a reasonable method is one in which reserved employee parking spots must be considered when allocating costs. The IRS published Notice 2018-99 to offer guidance on how to calculate the disallowed QTF expense. The IRS has outlined a four step approach which has been deemed "reasonable". The steps are as follows:

Step 1: Calculate the disallowance for reserved employee spots. Identify the number of spots that are reserved for employees, these spots may be marked with signage, or segregated by a barrier or limited by terms of access. Determine the percentage of reserved employee spots in relation to the total spots in

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the facility, this percentage is multiplied by the total parking expenses for the facility, the resulting product is the amount disallowed for reserved parking spots. *Employers have through March 31, 2019 to eliminate employee only parking spots retroactive to Jan. 1, 2018.*

Step 2: Determine the primary use of the remaining spots. Primary use is 50 percent or more. If the remaining spots are to provide parking to the general public, the total remaining spots are exempt from the disallowance calculation. The IRS defines the "general public" to include customers, clients, visitors, patients, students of an educational institution, and congregants of a religious organization.

Step 3: Calculate the allowance for reserved non-employee spots, when the primary use of the parking facility is not for the general public. If there are spots reserved through signage or other means for visitors, customers or partners and sole proprietors, the amount not disallowed is a percentage of these spots to the total spots, multiplied by the total parking expense.

Step 4: Determine remaining use and allocable parking expenses. Parking expenses may include rent, repairs, maintenance, insurance, property tax, snow and leaf removal, security and attendant expenses. Depreciation is not deemed a parking expense by the IRS, nor are capital improvements such as paving or construction costs. If, after completing steps 1-3, the employer has remaining parking expenses not allocated, the employer must reasonably determine the employee use of the remaining spots on a typical day during normal business hours.

Tip: Many nonprofit employers may not need to go past Step 2 if they meet the primary public use test.

Remember – the amount included as UBI is the cost of providing the parking, not the value.

Examples:
Example 1: A nonprofit organization owns a parking lot with 100 spaces, and incurs $5,000 in parking-lot related expenses, on a typical day 40 spots are used by employees, 60 spots are typically used by visitors and no spots are specifically reserved.

Step 1 – none of the spots are reserved for employees, nothing to allocate to employee reserved spots.

Step 2 – the primary use is to provide parking to the general public since the primary use is 60% for the general public ((100 – 40)/100). Since the primary use is for the general public none of the $5,000 in parking expenses are subject to UBI.

Example 2: Same scenario as above except 40 spots are reserved for employees through signage.

Step 1 – calculate the disallowed portion for employee spots: (40/100) X 100 = 40%, 40% x $5,000 = $2,000. $2,000 is UBI, since the primary use of the remaining spots is for the general public, that portion of the remaining expenses ($3,000) is not subject to the disallowance.

Example 3: A nonprofit owns a parking lot and incurs $5,000 in related expenses. The lot includes 100 spaces, 10 spaces are reserved for visitors, 20 spaces reserved for employees. The remaining spaces are not reserved, but on a typical day 60 of those spaces are used by employees, and 10 spaces are used by visitors.

Step 1 – 20% of the spaces are reserved for employees, ($5,000 x 20%) $1,000 of total parking expense is UBI.

Step 2 – 60%, of the spaces are used by employees, the primary use is not for the general public since the majority (60/100 = 60%) of total parking expense is disallowed, therefore $3,000 ($5,000 x 60%), is considered UBI.

Step 3 – 10% of the spaces are reserved nonemployee spaces, these spaces are excluded from UBI.

Step 4 – on a typical day 60 of the unreserved spaces are used by employees, so the remaining spaces are available to the general public.

Since the primary use is for employees, the cost subject to UBI is allocated based on the primary use and the reserved employee spots, therefore the total UBI is $4,000.

Now what?

Nonprofit employers that provide parking through owned lots or facilities that do not have employee reserved spaces, and if the primary use is determined to be for the general public, are not subject to the tax. An employer who has reserved employee parking, and if the remaining primary use is not for employee use, signage or other means to designate employee only parking can be removed by March 31, 2019 to be retroactive to Jan. 1, 2018, to avoid the tax.

An organization that has more than $1,000 in disallowed parking expenses may be subject to the tax and should include it on their 2018 990T. Under the current IRS guidance, UBI resulting from a QTF is not considered an "activity" so therefore can be offset by losses from other UBI activity.

Still have questions? Contact us in one of our many locations, we will be happy to help.

Carol Shepherd,
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(Columbia, MD)

NOT-FOR-PROFIT INDUSTRY INSIGHT

With the increasing complexity of laws and regulations, it's important for associations, foundations, charities, hospitals, schools and other tax-exempt entities to seek out professionals with extensive experience in nonprofit compliance issues. We understand there are many challenges affecting the industry and provide the attention needed to help clients stay focused on their job at hand.

UHY LLP's National Not-For-Profit Practice offers comprehensive audit and assurance, tax planning and compliance and business advisory services to meet the unique, complex needs of nonprofit organizations.

These types of specialized services, which cut across the traditional service lines, demonstrate our philosophy of skilled professionals integrating industry expertise with technical services.

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