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# Overview of Workshop

- Tax Cuts & Jobs Act
  - Specific provisions for exempt organizations
  - How is the Act affecting your donors
- Other Proposed Legislation
- State Issues
- Tax Exempt & Government Entity FY 2018 Work Plan



# Tax Reform

Prior to 2017, in what year was the most recent comprehensive tax reform legislation passed, renaming the Internal Revenue Code?

1997

1981

1993

1986

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# Tax Cuts and Jobs Act – 2017

- Most comprehensive tax reform in decades
- There are winners and losers, EO's drew the short straw
- Tax increases on EO's are funding other tax decreases in the Act
- Only a handful of EO specific provisions

# UBI– multiple sources? - no offset

- Pre-Reform Law – UBI calculated on aggregate basis: activity loss offsets other activity income
- 2017 Reform Act – UBTI calculated separately for each activity, netting not allowed.
- Effective for tax years beginning after 2017


# UBI – on the fringe

- Pre-Reform Law – certain fringe benefits (transportation benefits, qualified parking benefits, and access to on-site athletic facilities) not UBTI
- 2017 Reform Act – these fringe benefits, where deduction is disallowed, now included in UBTI
- Effective for amounts paid or incurred after 2017



# UBI – the silver lining of Tax Reform

- Pre-Reform Law – UBTI - tax rate graduated rate – 35% max
- 2017 Reform Act – now 21% corporate flat rate



## Executive Compensation – Fairness and the Level Playing Field

- Pre-Reform Law – no limits on deductibility of compensation, and no tax regime on any compensation paid
- 2017 Reform Act – now an excise tax of 21% on compensation in excess of \$1mm paid to “covered” employee (generally one of 5 highest paid)
- Effective for tax years beginning after 2017



## Investment Income – The Ivy League Takes a Hit

- Pre-Reform Law – Private educational institution is a public charity, not taxed on investment income as private foundation
- 2017 Reform Act – now 1.4% excise tax on private institutions with more than 500 students, 50% of students in USA, and endowment assets > \$500K per full time student
- Effective for tax years beginning after 2017



## Tax Reform 2017 proposals – didn't survive Conference Committee agreement

- Private Foundation excise tax on investment income – 1%/2% simplified to 1.4%
- Failure to distribute exclusion for art museums
- Exception from excess business holdings tax for independently-operated philanthropic business holdings



## Tax Reform 2017 proposals – didn't survive Conference Committee agreement

- c3's permission to make political statements
- Additional reporting requirements for DAF sponsoring organizations



# Tax Reform – The Rest of the Story

- Identify changes applicable to your organization
- Consider strategies to minimize impact
- Budgetary impact should be considered
- Await regulatory guidance

# Tax Reform – The Rest of the Story

Do you think your organization is positively or negatively affected by the Tax Cuts & Jobs Act?

Positively

Negatively

No Impact

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The Correct Answer is:





# Tax Reform – The Rest of the Story

- How does this affect your donors?
  - Itemizing vs. Standard Deduction
  - Income & Property Tax Deduction Limitations
  - Raising Limitation on Cash Donations
  - Repeals the “Pease limitation”
  - Increase in the Estate Exemption

# Itemized Deductions

- Standard Deduction - Nearly Doubles
  - 2017: \$6,350 Single, \$12,700 MFJ
  - 2018: \$12,000 Single, \$24,000 MFJ
- State Income & Property Tax Deduction
  - Limited to \$10,000



# Change in Cash Donation Limitation

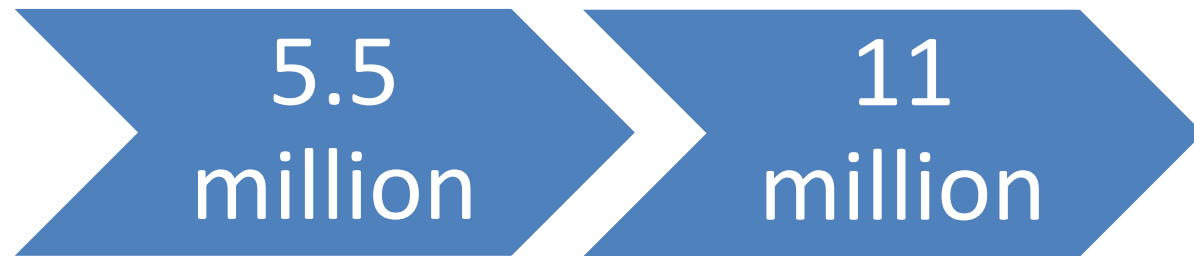


## Removal of the "Pease" Limitation

- No more limitation on certain deductions for high income individuals

# Estate Tax Limitations

- Doubles the exemption
  - Individuals



- Couples





## How to minimize the impact?

- Continue to cultivate lasting relationships
- Encourage your donors to plan
- Talk to tax professionals to help your donors make the most of the donation



# Proposed legislation

- Charitable Giving Tax Deduction Act
- Deduct charitable donations “above the line”
- Take the deduction even if do not itemize
- Effective 2018 to 2025

# Substantiation for charitable contributions

- Recent Tax Court Memo decision
- Taxpayer denied contribution deduction.
- Contemporaneous
- Written acknowledgment:
  - Date
  - Amount
  - Whether goods or services provided



# Donor Advised Funds (DAF)

- IRS considering proposed regulations:
- Tax distributions if:
  - DAF pays for tickets
  - Contribution fulfills individual pledge
- Change the public support test:
  - Treat donation as coming from donor
  - Limit to 2%

# IRS Online Tools

- Tax Exempt Organization Search (TEOS) replaces EO Select Check to find:
  - Eligible organizations for contributions
  - Automatically revoked organizations
  - IRS determination letters
  - Form 990 and Form 990-N
- IRS offers training videos



# IRS Updated Publications ([irs.gov](https://irs.gov))

- Veterans Organizations
- Applying for 501(c)(3) Tax-Exempt Status
- 990-N Electronic Filing System (e-Postcard)





# Applications for exempt status

- Form 1023
- Form 1023-EZ
- Form 1024-A
- Form 1024



# IRS Advisory Committee

- Public meeting June 7, 2018
- Recommendations to the IRS, including:
  - IRS Determination Letter Program
  - Retirement plans
  - E-filing forms 990
  - Tribal government programs
  - Issuers of tax exempt bonds



# State Charitable Registration

- Register with the charitable registration section
- All states from which an organization solicits charitable contributions
- Evaluate each state's requirements
  - Registration
  - Annual filing

# Arkansas Charitable Registration

- 2018 – AR SOS rather than AR AG
- Exemptions:
  - Solicit under \$25,000 in contributions
  - Religious organizations
  - Educational institutions
  - Political candidates and organizations
  - Governmental organizations
  - Nonprofit hospitals



# Tax Exempt and Government Entities FY 2018 Work Plan

- IRS released their most recent annual work plan late last summer
- Assisting and enforcing non-compliance of exempt organizations
- Employee plans, tribal governments and tax exempt bonds outside our scope



# 2017 Accomplishments

- Clarified what types of exempt organizations (EO) can use 1023-EZ
- K-Net
- Determination letters



# 2018 Rulings and Agreements

- Increasing number of determination applications
- Form 8976
- Knowledge Management (KM)



# 2018 Compliance Program

- Supporting organizations
- For-profit switching to non-profit
- Private benefit/inurement



# Questions?

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