New Tax Rules: How To Circumvent The Adverse Impact On Charitable Giving

Even as nonprofit leaders, each of us must pay attention to the regulatory changes that the government enacts because, in some way or another, these changes impact what we do and the strategic changes we have to make. The recent tax regulation changes are key examples of this. In fact, it is something that we all have to start considering — quickly — because there could be adverse effects to the amount of charitable giving we see in 2018 and beyond, impeding what we are trying to do as organizations for social good.

First, it's important to know why the changes in the Tax Cuts and Job Act will impact nonprofits in an adverse way. Then, it's time to proactively work around these changes to maintain the much-needed donations that help us continue assisting others.

Why Donations May Shrink

The Council on Foundations estimates that the new tax law will drain $16 billion to $24 billion from the nonprofit sector each year. The loss is due to the changes that tax laws make to the overall structure of how people and businesses can earn and keep their money. For example, the ability to or purpose of itemizing on your taxes will no longer be pertinent. And, since donations can only be deducted by itemizing, the interest in making donations will diminish. Therefore, the tax changes will essentially lead to fewer donations. Furthermore, certain states like California will be impacted even greater. The tax changes also reduce the ability to deduct as much property, state and local income taxes. The new limit is $10,000. That means Californians will have to pay more on their taxes, which leaves less to donate to charities and nonprofit organizations. Along with less incentive to itemize, this can really hit California's nonprofits hard, as well as those in any other state facing a similar situation.

Overall, the level of uncertainty among donors has gone through the roof. Many want to wait and see how the tax changes really affect them before they proceed with their annual donations. We've already heard this from many of our donors, which creates a challenge for us and other nonprofit organizations in terms of how we will meet our fundraising goals this year and beyond.

We've seen donations decrease before in various economic market cycles, most notably the Great Recession. However, there are ways around such gloomy forecasts that you can start focusing on to maintain your donation numbers.

First, the reality is that these tax changes will not impact the wealthiest taxpayers -- those earning more than $1 million dollars a year -- except to provide them with more wealth. They will now have a lower top marginal tax rate than in previous years. With more money in their pockets, there is a good chance they may feel more generous.

This means you should focus on these top donors and provide them with information and personalized messaging about how their contributions have made a difference in the past and are now needed more than ever. Find out what really engages them and why they have previously selected your charity. The 2012 Nonprofit Donor Engagement Benchmark Study found that nearly half of the donors surveyed tended to give most of their money to one charity in particular because they felt emotionally vested in what it represented. If you can assess what the driving factors are, then this is the time to focus on that angle.

Clearly, the biggest challenge will be learning how to continue working with small-level and mid-level donors — the hardest hit by the tax changes. Your strategy should be to continue to engage with them. That way, you stay top of mind and they are reminded why they wanted to help you in the first place.

Talk to your donors about the tax laws and acknowledge that you understand the dilemma they're facing. Suggest that even the smallest amount will help until they can regain some tax benefits or improve their financial position. Always show appreciation for what they can give or do to help you in any way.

Returning to a potential bright spot, there may still be hope for corporate donations. These are worth pursuing in 2018 and beyond due to some of the tax breaks these companies now receive. Think of how you can reach out to them for various types of assistance. Beyond donations, there might be an opportunity for a corporate sponsorship for an event or conference that you typically hold each year. Also, there may be more in-kind donations from corporations that can offset the decrease in regular donations.

The Changing Philanthropic Landscape

Whether it is the current tax changes or another external force, the philanthropic landscape will continue to evolve. It keeps us on our toes and illustrates why we must always have numerous strategies and backup plans to ensure that we can continue our mission to help the many individuals, families, communities and tribes of people in need. It's important to remain positive, proactive and vigilant to achieve our goals — tax changes or not.

The yellow highlighted mark is added by treasurer Bill Baker