5 critical issues for your nonprofit's finance committee

Don't roll the dice
Rules for charitable gaming activities

Employee retention credit
Get the credit you deserve

News for Nonprofits

OCTOBER/ NOVEMBER 2021

NONPROFIT AGENDAS

SECHLER MORGAN
Certified Public Accountants, PLLC

info@azcpa.com
2418 W Barrow Drive, Chandler, AZ 85224
Tel: 602.230.2700/Fax: 602.230.2705
www.azcpa.com

5 critical issues for your nonprofit's finance committee

The role of a nonprofit's finance committee is probably more important now than at any time since the 2008 financial crisis and ensuing Great Recession. Here are some of the areas your committee should focus on almost two years into the COVID-19 pandemic.

1. Cash flow

Financial reserves have taken a hit across all types of nonprofits, and some organizations haven't yet recovered to the point that they can budget for replenishment. To make matters worse, for many nonprofits, fundraising has fallen far short of expectations. This makes effective cash flow management essential to survival.

Your nonprofit's staff should prepare cash projections for the quarter, the month and possibly even the week, as well as expense projections. To avoid being caught off-guard, the finance committee should review regular reports on funding sources, especially those that dropped significantly or are in jeopardy of vanishing altogether.

2. Government relief programs

Nonprofits have been eligible for a number of relief programs, including the Paycheck Protection Program, the expanded Economic Injury Disaster Loan program from the Small Business Administration and the employee retention credit (ERC). (See "Employee retention credit: Get the credit you deserve," on page 5.) Health care organizations may have qualified for the Provider Relief Fund and performing arts and cultural organizations might be eligible for the Shuttered Venue Operators Grant program.

The potential amount of assistance is substantial, but these programs all come with strict rules. For example, your nonprofit should be careful when applying for programs, accounting and reporting for your use of program funds, and, where applicable, obtaining forgiveness. Your finance committee should ensure that your organization has applied for all appropriate relief and is following the rules to maximize benefits and avoid penalties.

3. Unrelated business income (UBI)

Under the Tax Cuts and Jobs Act (TCJA), for tax years beginning after December 31, 2017, nonprofits must calculate UBI separately for each unrelated business. The IRS issued final regulations regarding this TCJA provision in November 2020 that apply to tax years beginning after December 2, 2020.

Among other things, the regulations require nonprofits to identify each separate unrelated trade or business with the appropriate two-digit code in the North American Industry Classification System (NAICS). Organizations with multiple unrelated trades or businesses must allocate deductions among them using a "reasonable basis" standard. Certain types of investments can be treated as single trades or businesses.

4. Budgets and plans

With so many uncertainties remaining, your finance committee (and appropriate staff) should initiate scenario planning, if it isn't already a

customary part of your process. In scenario planning, the participants assemble budgets for multiple revenue situations your organization could face — typically, best case, worst case and somewhere in between. Ask how your nonprofit could cover the projected expenses in each situation.

The budgeting process also often involves evaluating an organization's financial performance in the most recent fiscal year, usually by comparing metrics with previous years or other benchmarks. Bear in mind, though, that circumstances in 2020 and, for many organizations, 2021, may render the data from these years of less value when it comes to projecting revenues and costs for a more "normal" future.

5. Fraud threats

The pandemic raised the risk of fraud for all types of organizations. Cybersecurity experts reported a surge in phishing schemes, often baited with the premise of some type of COVID-related relief.

And, of course, fraud can come from inside your nonprofit. Occupational fraud can climb when employees feel overworked and underpaid. Plus, rapid-fire changes made to accommodate the shift to remote work may have created vulnerabilities. When was the last assessment of risks and internal controls? Your nonprofit should perform an updated fraud assessment if it was last done pre-pandemic. You may need to implement new internal controls to address new fraud threats.

Survive and thrive

The COVID-19 pandemic has spurred challenges that will linger for some time. But it also has highlighted how vital nonprofits are in times of trouble. With proper oversight from your finance committee, your organization can clear substantial hurdles.

ARE YOUR FINANCIAL STATEMENTS IN COMPLIANCE?

With so much on the plate of your nonprofit's finance committee, members could fall into the trap of assuming that financial statements already comply with the latest applicable accounting standards. But because some effective dates on new standards have shifted in the wake of the pandemic, critical compliance measures may have fallen through the cracks.

Your finance committee should confirm that your organization has started implementing several important Accounting Standards Updates (ASU) from the Financial Accounting Standards Board. The following have recently taken, or are poised to take, effect:

- ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606),*
- ASU No. 2016-02, *Leases (Topic 842),*
- ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made,* and
- ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.*

Finance committee oversight should include the adoption of these new standards, which often takes more time and resources than initially anticipated.

Don't roll the dice

Rules for charitable gaming activities

Gaming can seem like an appealing and low-cost option for boosting nonprofit revenues. But bingo, poker tournaments, raffles and the like are subject to some strict tax rules and local laws where noncompliance could lead to penalties and even personal liability for board members. Here's what you need to know.

Unrelated business income

Income from gaming can create unrelated business income (UBI) tax liability because gaming generally is considered unrelated to an organization's exempt purpose. Of course, UBI also must be "regularly carried on." So, gaming conducted only at the annual fundraiser probably won't produce UBI, but a weekly poker game might.

Several other exceptions might also apply. For example, income generated by certain bingo games, gaming run primarily by volunteers, and "qualified public entertainment activities" (activities traditionally conducted by a qualifying organization at a fair or exposition promoting agriculture and education) generally aren't treated as UBI. Games of chance in North Dakota are excluded also.

Excise taxes

If your gaming activity requires a payment for a chance to win, you may need to know about two excise taxes. One is on the amount wagered (the wagering tax) and the other applies to the person or entity in the business of accepting wagers (the occupational tax).

Bingo is never subject to these taxes, and neither is other charitable gaming as long as none of the proceeds benefit private individuals or insiders. This means the taxes don't apply to 501(c)(3) organizations, whose income can't benefit such parties.

However, other nonprofits may be liable for the taxes, regardless of whether the gaming activities qualify for a UBI tax exception. These organizations should check with their CPA for guidance, especially if they conduct "pull-tab" or "instant" games, common gaming types subject to the excise taxes.

Reporting and withholding

When must your nonprofit report information about gaming winners to the IRS? Generally, you must report if you pay out winnings (including raffle prizes) that exceed $600 (after deducting the wager amount) and that are at least 300 times the amount of the original wager (the buy-in or entry fee). Thresholds vary for certain types of games, though:

- Bingo and slot machines: Gross winnings, before deducting the wager, of $1,200 or more,
- Keno: Winnings of $1,500 or more after deducting the wager, and
- Poker tournaments: Winnings of more than $5,000 after deducting the wager.

You'll need to report winnings on IRS Form W-2G, "Certain Gambling Winnings," and give a

copy to the winner. If the payee is part of a group of winners or not the actual winner, he or she must provide you with a completed and signed IRS Form 5754, "Statement by Person(s) Receiving Gambling Winnings."

You also may have withholding obligations. Nonprofits must collect federal income tax on winnings that exceed $5,000 when the wager was placed in a sweepstakes, pool, lottery, raffle or poker tournament, or any other wager, if the proceeds are at least 300 times the amount wagered.

Withholding isn't required on winnings from traditional bingo, keno or slot machines, nor on poker tournament winnings if you report those on Form W-2G. But you are required to withhold 24% of gambling winnings (including from bingo, keno, slots and poker tournaments) if the winner doesn't furnish a correct taxpayer identification number.

In many cases, state reporting is also required. In addition, be sure to determine if you need a state or local license to carry on gaming in your location.

Proceed with caution

Gaming can provide a fun avenue for engaging supporters and fundraising, but it's not without potential pitfalls. Consider all the ramifications, including state and local laws, before you play your hand.

Employee retention credit

Get the credit you deserve

In response to the financial impact of the COVID-19 pandemic, the CARES Act established the employee retention credit (ERC) to encourage employers — including nonprofits — to keep employees on the payroll. The credit has been expanded and increased for 2021, but it's also not too late for eligible employers to amend their 2020 employment tax returns to take full advantage of the break if they haven't already.

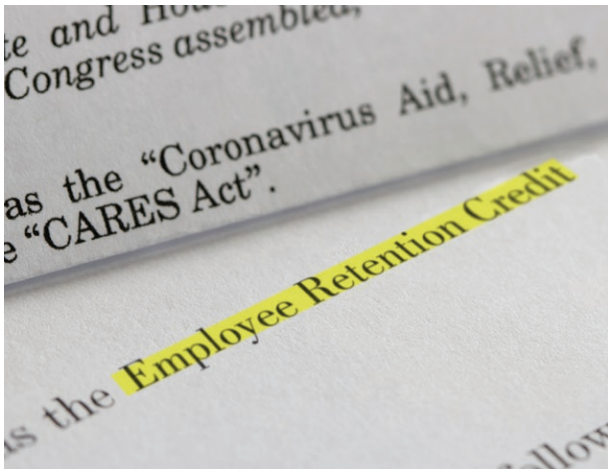
2020 rules

The CARES Act provided eligible employers with a refundable tax credit of up to $5,000 per employee against the employer's share of Social Security taxes. The credit equaled 50% of up to $10,000 of qualified wages per employee paid from March 13, 2020, through December 31, 2020. The ERC is calculated on a separate quarter-by-quarter basis and is claimed on your quarterly IRS Form 941 payroll tax return.

Employers were eligible for the ERC for any quarter if either:

- Their operations were fully or partially suspended under a COVID-19-related governmental order, or
- They suffered a significant decline in gross receipts.

A significant decline occurred if gross receipts in a 2020 calendar quarter were less than 50% of gross receipts in the same calendar quarter of 2019. If an employer qualified for the ERC because of such a decline, it continued to qualify in 2020 until the end of the quarter its gross receipts went above 80% of the comparable quarter in 2019.



For employers with more than 100 full-time employees, qualified wages were limited to wages paid to employees who weren't working. Smaller employers, however, could claim the credit for all employees, regardless of whether they continued to work. However, employers who received Paycheck Protection Program (PPP) loans weren't eligible for the ERC.

2021 follow-up

The Consolidated Appropriations Act (CAA), signed into law in December 2020, extended the ERC to wages paid in the first two quarters of 2021. It also increased the available credit from 50% of up to $10,000 in qualified wages for the *year* to 70% of up to $10,000 in qualified wages per *quarter*.

The law expanded eligibility for the credit by defining a significant decline as gross receipts in a 2021 calendar quarter that are less than 80% of gross receipts in the same calendar quarter of 2019. Employers that didn't exist in 2019 may use the corresponding quarter in 2020 to measure their decline in gross receipts in 2021. And certain employers may use the immediately preceding calendar quarter.

The CAA also increased the small employer cutoff criteria from 100 to 500 full-time employees. Now employers with 500 or fewer employees may claim the credit for qualified wages paid to eligible employees, regardless of whether they continued working.

Expanded 2021 updates

In March 2021, the American Rescue Plan Act (ARPA) extended the ERC to qualified wages paid through the end of 2021. So, an employer eligible for the ERC in all four quarters of 2021 can potentially receive credits totaling $28,000 per employee for 2021 (70% × $10,000 × 4). However, by the time you're reading this, Congress may have eliminated the ERC for the fourth quarter of 2021 as part of an infrastructure bill. Contact your tax advisor to confirm.

The ARPA also expanded eligibility for the credit in the third and fourth calendar quarters of 2021 to these additional employers:

Recovery startup businesses. These are employers that: 1) opened their doors after February 15, 2020, 2) have annual gross receipts of $1 million or less, and 3) aren't otherwise eligible for the ERC. Employers may claim the credit for the last two quarters of 2021, up to a maximum credit of $50,000 per quarter in the aggregate.

Severely financially distressed employers. This includes employers whose gross receipts in a calendar quarter have declined by more than 90% from the same quarter in 2019 (or, in some cases, the same quarter in 2020 or the immediately preceding quarter). Even employers with more than 500 employees may claim the credit for all wages, regardless of whether employees continue working.

Claim the correct amount

Significantly, the CAA expanded ERC eligibility to PPP loan recipients, both prospectively and retroactively to March 13, 2020, as long as the credit isn't based on wages paid with a forgiven PPP loan. Your total ERC for 2020 and 2021 may add up to a significant amount for each employee you kept on the payroll. Contact your CPA and/or payroll processing company for help if you'd like to amend your IRS filings.

News for Nonprofits

Candid shares key nonprofit data for 2021

Candid, the information services organization formed by the merger of GuideStar and Foundation Center, has released its annual snapshot of the nonprofit sector. Among other things, *Key Facts on U.S. Nonprofits and Foundations, 2021* reports that individuals still provide the majority (69%) of giving.

Community and private foundation giving accounts for a modest (17%), but growing, slice of overall giving in the United States. Nearly 128,000 foundations with $1.2 trillion in assets have donated $90 billion since 2016. Most foundation funding goes to education (26%) and health (23%) causes.

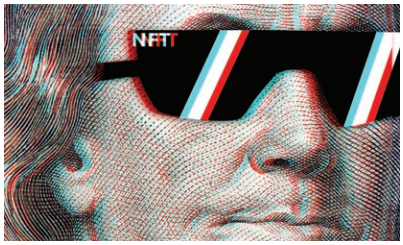
The report also examines public charities, the most common type of nonprofit (72%). More than three-quarters of these organizations have budgets under $100,000, and 53% depend on contributions for the majority of their revenue. About a third get most of their funding from program services.

Why the gender pay gap is greater with negotiations

A new study of executive compensation at nonprofit organizations reveals that women earn 8.9% less than men. The gap is even bigger when salary negotiations are allowed. These results might surprise some, considering the higher percentage of women in the nonprofit workforce compared with for-profit sectors.

The study analyzed data from IRS Form 990 filings for four years across various industries. Researchers found that executives' external employment options and competition lead to greater gender pay gaps. Also, male executives are more likely to capitalize on a broader external labor market or other opportunities to negotiate additional compensation. However, in organizations with more female representation on their boards or that have a female CEO, the gap is smaller. Researchers theorize this may be because female leadership increases the willingness of female employees to negotiate.

Tip-toeing into the world of NFTs



Nonfungible tokens (NFTs) have made headlines for astronomical sale prices, and, like cryptocurrency before them, are prompting speculation about fundraising possibilities. NFTs are unique digital assets that represent tangible and intangible items. NFT ownership records are stored and transferred on blockchain ledgers.

The digital artist known as Beeple recently sold an NFT for $6 million — which he donated to the Open Earth Foundation, a nonprofit dedicated to developing environmentally friendly digital infrastructure. Twitter's CEO sold an NFT of his first tweet for $2.9 million, then converted the proceeds to Bitcoin and donated them to the charity GiveDirectly.

Whether gifted directly or first auctioned, NFT donations raise a variety of questions for nonprofits. Donors, for example, must determine how to properly value donated NFTs. This is uncharted waters; nonprofits that hope to auction donated NFTs must figure out how to handle bids in the form of cryptocurrency. As NFTs become more prevalent, nonprofits will need to understand their reporting requirements.

The support you need. The service you're looking for.

Succeeding in the not-for-profit sector today requires more than a strong commitment to your mission. It takes shrewd fiscal management, careful regulatory compliance, skillful use of technology and the assistance of advisors who know the issues nonprofit organizations face and how to address them.

This is where Sechler Morgan CPAs, PLLC comes in. Our team of experienced professionals cherishes the opportunity to support nonprofit organizations, meet their management challenges and fulfill their missions. We offer a variety of specialized accounting, tax and consulting services including:

- Audit intermediary services
- Budget and policy design
- Outsourced accounting/bookkeeping
- Tax form preparation (990, etc.)
- Strategic and management consulting
- Speaking on financial literacy and other topics
- Technology and virtual system design

RESPONSIVE QUALITY

We are committed to providing responsive, personalized service to the highest quality. We take time to truly understand your Organization so that we can customize our recommendations to your specific situation. Our goal is to make your processes easier, streamline your operations and ensure your success in reaching *your* goals.

We welcome the opportunity to discuss your mission and vision so that we may assist you with our expertise. Please call us at 602-230-2700 or e-mail info@azcpa.com and let us know how we may support you. Be sure to visit our website at www.azcpa.com for additional tools and information, as well as our archive of this newsletter.

SECHLER MORGAN CPAs, PLLC

2418 W Barrow Drive
Chandler, AZ 85224
www.azcpa.com