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News for Nonprofits

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NONPROFIT AGENDAS

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Don't let reimbursements trip up your nonprofit

Why it's important to establish a formal plan

Whether it's for employees, board members or other volunteers, your nonprofit organization likely will need to provide reimbursements for expenses at some point. While some nonprofits handle such transactions on an ad hoc basis, you're better off establishing a formal reimbursement plan. Here's what you need to know.

Understanding accountable vs. nonaccountable plans

In the eyes of the IRS, expense reimbursement plans generally fall into two main categories: accountable and nonaccountable. The difference can have significant tax implications for both your organization and the person being reimbursed.

Reimbursements made under an accountable plan generally aren't taxable income for the employee. As such, the nonprofit isn't required to withhold income taxes or pay the employer's share of Social Security, Medicare or federal unemployment taxes.

The IRS has established three requirements that a reimbursement plan must satisfy to be deemed accountable and to secure this favorable tax treatment:

1. The expenses must have a connection to your organization's purpose (for example, expenses incurred driving to deliver meals),

2. Claimants must adequately substantiate the expenses within 60 days after the expenses were paid or incurred, and

3. Claimants must return any excess reimbursement or allowance within 120 days after the expenses were paid or incurred (an excess reimbursement or allowance is the amount by which the organization's payment exceeds the actual expenses substantiated by the individual seeking reimbursement).

Arrangements where you advance money to an employee or volunteer meet the third requirement only if the advance is reasonably calculated not to exceed the amount of anticipated expenses; and you make the advance within 30 days of the time the recipient pays or incurs the expense.

Nonaccountable plans are those that don't fulfill the above requirements. Reimbursements made under nonaccountable plans are treated as taxable wages.

Reimbursing for vehicle use

You can reimburse employees for vehicle use at the federal standard mileage rate (65.5 cents per mile for 2023). Volunteers are only entitled to mileage reimbursement at the charity rate of 14 cents per mile, but, unlike employees, they can be reimbursed for commuting mileage.

You also can choose to reimburse employees and volunteers for the actual costs of using their vehicles for your nonprofit's purposes. That might include gas, lease payments or depreciation, repairs, insurance, and registration fees for employees. For volunteers, the only allowable actual expenses are gas and oil.

Crafting your reimbursement policy

Your reimbursement policy should address several areas, including:

Covered expenses. Make it clear which types of expenses are reimbursable and which aren't. Be sure to include any restrictions. For example, you might set a limit on the nightly cost for lodging or exclude alcoholic beverages from reimbursable meals.

Substantiation of expenses. Require documentary evidence of travel, mileage and other reimbursable expenses within 60 days. The documentation should include items such as a statement of expenses, receipts (showing the date, vendor, and items or services purchased), and account book, day planner or similar records. The latter should have entries made for each expense at or near the time it was incurred.

Note that the IRS does allow some limited exceptions to its documentation requirements. Specifically, no evidence is necessary for a per diem allowance for out-of-town travel (see "What about per diems?," below for more information); non-lodging expenses less than $75; or transportation expenses for which a receipt isn't readily available (for example, fare for public transportation).

Volunteers are entitled to mileage reimbursement at 14 cents per mile, but they can be reimbursed for commuting mileage.

Excess payments. Your policy should require the timely (within 120 days) return of amounts you pay that are more than the substantiated expenses.

Mileage. State the method you'll use for reimbursement (actual cost or federal rate). Require receipts, as well as the dates of travel and the purpose and number of miles driven.

Leave no doubt

A formal written reimbursement policy can preempt confusion for your staffers, board and other volunteers. It can also reduce your odds of inadvertent tax liability. Your tax advisor can help you develop a policy that protects you and stakeholders seeking reimbursement.

WHAT ABOUT PER DIEMS?

One approach that can simplify expense reimbursement with employees is to provide a per diem allowance. When you pay a per diem for lodging, meal and incidental expenses, the per diem is treated the same as if made under an accountable plan. As a result, it isn't reported as wages or other compensation and subject to employment tax withholding and payment (although the excess of your per diem amount over the federal allowable rate is taxable income for the employee if not returned). And as long as the employee provides time, place and business purpose substantiation within 60 days, no receipts are required.

You also can use the "high-low" method to determine the federal per diem rate for travel in the United States. This way you don't have to check the current rate for the particular destination. For 2023, the federal rate is $297 for travel to "high-cost" locales (including $74 for meals) and $204 for others (including $64 for meals).

How to stay on the right side of the IRS

Obtaining a determination letter from the IRS is no guarantee that a nonprofit organization's tax-exempt status is secure for the long run. Your nonprofit must meet additional requirements to maintain its exempt status.

Required filings and recommended recordkeeping

Although your organization is exempt from income taxes, it's probably required to file an annual IRS Form 990-series return, reporting income and expenses. (Religious congregations and certain of their affiliated organizations are exempt from filing.) You also may need to submit unrelated business income and employment taxes returns.

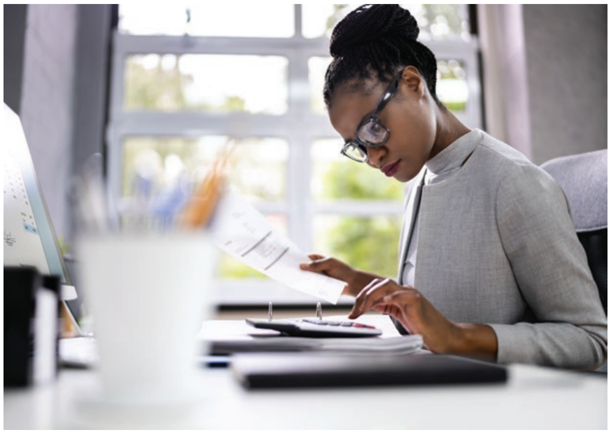
To fulfill these requirements, the IRS advises nonprofits to maintain records of:

Money coming in. This includes, for example, cash register receipts, bank deposit slips, receipt books, invoices, credit card slips and any Form 1099 documents.

Money going out. Account statements, canceled checks, cash register receipts, credit card slips and invoices are all examples. Keep these documents for three years after the date the return is due or filed, whichever is later.

Employment taxes. Keep documents for at least four years that show salaries, wages, benefits and taxes withheld.

Assets your organization owns and uses. For assets such as investments, buildings, equipment and furniture, maintain purchase and sales invoices, real estate closing statements, canceled checks, financial account statements, and financing documents. Keep these for as long as you own the assets plus three years after disposal.



In addition, your permanent records should contain a copy of your organizing documents (such as the articles of incorporation), as well as copies of your exemption application and determination letter. Also keep copies of any returns and attachments you send the IRS and the records used to prepare the returns, including financial records, information about your programs, and board and committee meeting minutes.

Ongoing compliance

Your nonprofit's activities and public disclosure of information are also subject to compliance obligations. Your activities generally must be limited to those related to accomplishing your exempt purpose. Certain other activities — including prohibited political activity, lobbying, or private benefit or inurement — also can put your tax-exempt status in jeopardy.

Hopefully, you're already aware of these limits on activities. You may not, however, be familiar with the IRS's public disclosure requirements for nonprofits. You must make your exemption application, determination letter and the three most recently filed annual information returns available to the public on request. Provide copies immediately for in-person requests and within 30 days for written requests. You don't have to respond to individual requests if you make the documents "widely available" — for example, as a PDF on your website.

Nonprofit organizations should keep copies of any returns and attachments sent the IRS and the records used to prepare the returns.

Provide these documents without charge, except for a reasonable copying fee and actual postage costs. If your nonprofit is a 501(c)(3) organization and files IRS Form 990-T, "Exempt Organization Business Income Tax Return," you're also required to make available the three most recent returns.

The disclosure requirement applies to the forms, attachments or separate items you sent with the forms, and any correspondence with the IRS about the forms. You don't have to provide the internal books and records you used to prepare your forms. Form 990, Schedule B, "Schedule of Contributors" also is exempt from public inspection.

Keep the IRS informed

Finally, if you're required to file an annual return, you must report name, address, and structural and operational changes on your return. If you decide to make material changes in your structure or activities, there may be tax consequences. Consult your tax advisor for advice on how to proceed in such circumstances.

Is your nonprofit ready for the next disaster?

It's easy for disaster planning to fall by the wayside when your nonprofit is focused on pursuing its mission. But taking the time to prepare now can help you avert mission-threatening consequences later. From hurricanes, wildfires, active shooters and cyberattacks — to events as seemingly minor as a burst pipe — your operations are vulnerable.

4 risks areas

The first step to effective disaster planning is to conduct a risk assessment. This can seem a daunting prospect, particularly for larger nonprofits, but breaking it down into discrete components can simplify the process.

1. Evaluate your facilities. Review structural integrity, including the elevators and fire suppression, water, gas, telephone and electrical systems. Consider, too, each facility's location — for example, do the traffic, crime levels or neighbors pose any threats?

2. Review needed operations. The main goal in disaster planning is to ensure that you can return to full operations as soon as possible. To that end, identify the equipment, information and people that are essential and at risk. For example, how would a lengthy power outage affect your operations? What are your staff's critical functions? Is there sensitive information or inventory that would need to be recovered? Are certain supplies required?

3. Ensure access to data. Digital data lies at the heart of many organizations, and you may house much of it on cloud storage. Ideally, you'll still have access after a disaster. Nonetheless, think about backing up cloud data for an extra layer of protection. Also make sure that you have digital copies of your organization's important documents — for example, your articles of incorporation and IRS determination letter — that might be on paper. You'll also need access to contact lists, banking and financial information, insurance documents, and similar records that might reside outside the cloud.

4. Prepare a crisis communication plan. You may need to reach out to media, clients and vendors with urgent messages. What would a press release look like and where should it be released? Will clients need backup services while you're unable to provide them?

Steps to mitigate risk

Once you've identified risks, take a two-pronged approach to addressing them:

1. Do what you can to reduce your exposure, and
2. Plan your response to the risks that remain.

For example, purchasing a backup generator could support full operations or at least key functions if you experience a power failure. If you rely on specific suppliers, make plans with other vendors in case your usual sources aren't available. You generally can maintain "active" status with a vendor merely by placing occasional orders. You also should dual-train staff for vital functions so that a single employee's unavailability doesn't undermine operations.

Insurance plays an important role in reducing exposure, too. Review coverages with your insurance broker and fill any gaps with, for example, cyber or business interruption policies.

What to do after a disaster

You can't eliminate every risk, of course. For those that remain, plan for how you'll respond in the immediate aftermath. Establish an emergency response team composed of several employees. This team should:

- Develop an emergency response manual that describes roles and assigns responsibilities,
- Map evacuation routes,
- Prepare a crisis communications plan including a phone or email tree for contacting employees and clients, and
- Identify alternative worksites and partnerships for continuing operations in case your facilities are disabled.

An often-overlooked resource at this stage is first responders. Don't let your first contact with emergency help come in the frenzy of a crisis — reach out to the police and fire department pre-disaster. The first responders' suggestions can make for a smoother response in an actual emergency.

And finally, your emergency response team should reevaluate your organization's risk assessment and response plan frequently. Adjust your plan as needed.

Time to prepare

No organization today, nonprofit or otherwise, can afford to ignore the possibility of a natural or man-made threat that undermines operations. While some disasters are unpreventable, you nonetheless can reduce the repercussions by preparing now.

News for Nonprofits

LinkedIn announces new resources for nonprofits

The networking site LinkedIn has launched a free online "Resource Hub" to help nonprofits make the best use of its platform. Its research indicates that only 19% of nonprofits feel confident that they're using LinkedIn to its full potential.

The hub includes guidance on how to use LinkedIn Live, Events and Groups, as well as newsletters, articles and other features. It also offers custom support through live webinars and "Ask-Me-Anything" sessions to answer individual questions from nonprofit professionals in real time. The content will be tailored to address nonprofit concerns, such as attracting talent, volunteers and donors.

A 2023 LinkedIn survey of nonprofit professionals found that 63% had used the platform to connect with a potential donor. And 64% asserted that the people they want to connect with to raise money are on LinkedIn.

Foundation assets fell in 2022

FoundationMark, a nonprofit that tracks the investment performance of more than 40,000 foundations with assets of at least $1 million, reports that U.S. foundations saw a 18.9% decline in total asset value last year compared with the previous year. The drop — from $1.30 trillion in 2021 to $1.06 trillion in 2022 — could signal a similar decline in grantmaking to nonprofits going forward. Currently, many nonprofits rely more heavily on foundation funding than they ever have.

The CEO of FoundationMark, which follows more than 97% of all foundation assets by aggregating data from IRS filings, told *The NonProfit Times* that the falloff was the largest year-over-year dollar decline ever. Notably, it was the second largest percentage decline since the nearly 25% drop after the 2008 stock market crash. It can largely be traced to the dramatic reductions in the value of both equity and fixed-income investments.

Why AmazonSmile program ended

The AmazonSmile program came to an end on Feb. 20, 2023. Since 2013, the program had donated 0.5% of the sale price of certain merchandise to designated charities. According to Amazon, the program hadn't "grown to create the impact" the company had originally hoped. With over one million organizations eligible globally, Amazon said its ability to have an impact was often spread too thin.

As part of the transition, Amazon will provide charities that participated in the program with a one-time donation equal to 25% of the total donations they earned in 2022. It also has pledged to continue to invest in other areas where it "can make meaningful change," including building affordable housing, providing students in underserved communities access to computer science education, and assisting communities struck by natural disasters.

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.

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