



## **The Tax Cuts and Jobs Act: What Your Nonprofit Needs to Know**

The Tax Cuts and Jobs Act makes sweeping changes to the federal tax code beginning in 2018. Below is a brief summary of the new law for nonprofit organizations. For a deeper analysis of the impact for nonprofits, review the summary published by the National Council of Nonprofits available at <https://goo.gl/9AS8RM>.

### **Changes in the Tax Law:**

The following items are changed beginning in 2018:

- ***Doubling of the Standard Deduction:*** This is projected to reduce the number of taxpayers who itemize, which means that fewer taxpayers will receive a tax benefit for making donations to nonprofit organizations. It is estimated by the U.S. Congress Joint Economic Committee Democrats that the new law places approximately \$285 million in charitable giving in Washington State at risk.
- ***State and Local Tax (SALT) Deduction Cap:*** SALT deductions are capped at \$10,000, which could put pressure on local governments and school districts to lower taxes, which in turn could cause them to seek out new revenue or cut services.
- ***Doubling of the Estate Tax Exemption:*** The Estate Tax exemption doubles from \$11 million to \$22 million, which will likely impact planned giving.
- ***No Penalty for Being Uninsured Beginning in 2019:*** The new law essentially repeals the Affordable Care Act's individual mandate by changing the penalty for not having insurance to \$0. This could increase the number of voluntarily uninsured people.
- ***Unrelated Business Income Tax:*** Each UBIT transaction is now taxable, instead of the previous method of aggregating gains and losses from unrelated business income.
- ***High Compensation Excise Tax:*** The new law imposes a 21% excise tax on nonprofits with top employees making \$1 million or more.
- ***University Endowment Excise Tax:*** The new law imposes a new 1.4% excise tax on the net investment income of nonprofit colleges and universities with assets of at least \$500,000 per full-time student and more than 500 full-time students.

### **What Remains the Same:**

The following proposals were under consideration for change, but were not included in the final tax reform law:

- ***The Johnson Amendment,*** which requires nonprofits to be nonpartisan, remains in place. This is due to the work of nonprofits advocating to retain the Johnson Amendment.
- ***Private activity bonds, donor advised fund rules, volunteer mileage rate, the status of art museums, and the foundation excise tax*** stay the same.

### **Contact Washington Nonprofits with Questions or Observations About the New Tax Laws**

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### **Possible Federal and State Responses:**

***Tax cuts lead to lower revenue, which ultimately leads to spending cuts.*** Anticipate these ripple effects at the federal, state, and local levels:

- Expect the federal government to cut spending on programs supporting or implemented by nonprofit organizations.
  - Expect additional spending and government shutdown drama from Congress.
- Expect Washington State to look for new revenue sources to make up for diminished federal funds.
  - There are campaigns currently working to reform Washington State's tax code; federal tax reform provides extra motivation.
- Expect the SALT deduction cap to put pressure on local governments and school districts to lower their taxes, seek new revenue, or make local service cuts.
- Expect the Washington Legislature to attempt to circumvent the SALT deduction cap by creating so-called "excellence funds," which give taxpayers a state tax credit for contributing to a state-sanctioned charitable entity.
  - This could create confusion over what constitutes a charitable gift in our state.

### **What Your Organization Can Do to Stay Current on the Changing Landscape:**

- ***Stay informed about how the law is being implemented.***  
Watch for updates from Washington Nonprofits, others in your network, and the media.
- ***Look out for operational compliance issues.***  
Look for updates to be posted to the IRS' website as well as items that may come from your vendors, such as your payroll processor, auditors, legal counsel, and others.
- ***Keep fundraising with a focus on your mission.***  
Work to emphasize your mission and impact over the tax deductibility of donations.
- ***Be prepared to advocate for your mission and services.***  
Anticipate that opportunities will arise for you to advocate for your mission to elected officials, the public, and the media as the impact of the tax law begins to be seen in your community.
- ***Plan for disruptive scenarios in your revenue streams.***
  - If you receive public funds, what is the outlook for your public funding streams? Talk regularly with the federal, state, county, and local agencies that fund you.
  - If you receive contributions from donors who itemize their tax deductions, how will your donors adjust to the new deduction threshold?
  - If you receive planned contributions, what does the increased estate tax exemption mean for your planned gifts?
- ***Connect with other nonprofit organizations and your funders about the new tax laws.***  
Ask them what they are seeing and how they are adjusting to the new tax laws.

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