

# NFP ADVISOR

ADDRESSING IMPORTANT ISSUES IN THE NOT-FOR-PROFIT SECTOR

Fall 2011

## IRS Revokes Tax-Exempt Status of Many Nonprofits



## Giving Trends Reveal Unexpected Opportunities



Visit [www.cohencpa.com](http://www.cohencpa.com) to view our newsletters, archives, and much more.



## Relationship Building with Older Donors

As Baby Boomers head into retirement, charities can expect to see the pool of potential donors and volunteers grow.

A 2010 study by nonprofit marketing consultancy, Russ Reid, found that older donors give three times as much as younger donors, and that the older a person is, the more likely he or she is to give to charity. Results also showed that, even as new social media giving channels are gaining in importance, mature donors are still likely to contribute through more traditional channels, including direct mail and collection boxes. Of the 55–69 age group surveyed, 77% said they gave through the mail, compared with 25% who donated online; and in the 70-plus age group, 71% gave through the mail, while just 11% gave online.

Fundraising materials targeted to a mature audience should be concise and direct, while incorporating a strong emotional component that appeals to the donor prospect's altruism. Due to possible vision limitations in this population, 12- or 14-point type is preferable, with easy-to-read fonts and formats, leaving plenty of white space between characters and lines. For enhancing readability, paragraphs should be short, and longer documentation may be broken up by subheadings,

numbered or bulleted lists, and pull-out quotes. To reduce glare, matte is a better choice than glossy paper. Similarly, websites need to be user-friendly and easy to navigate. Whether online or in print, contrasting colors, especially black type against a white background, are preferable to more subtle color combinations or text on a photograph or patterned background.


When marketing to an older demographic, word choice also matters. Avoid using "ageist" language and images that could be perceived as patronizing. Market research indicates that Boomers in particular, choose not to be referred to directly as "the elderly" or even "seniors."

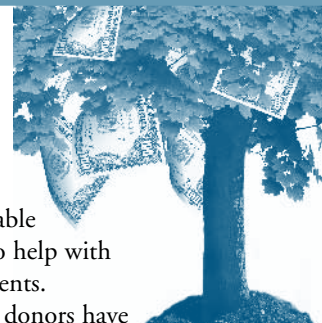
Since older donors are expected to play an even greater role in the future of charitable giving and volunteering, nonprofits should develop multi-pronged strategies for engaging people prior to late middle age. More than half (53%) of consumers over age 50 participate in volunteer work, and 76% provide monetary donations to causes they support, according to a 2009 survey by the Hartford Financial Services Group. So, in addition to donation appeals, your organization may want to find ways to encourage seniors and younger Boomers to volunteer on projects related

to your charitable activities, or to help with fundraising events.

Once older donors have established a relationship with your organization—whether through making regular gifts, volunteering or attending events—your fundraising team may want to approach individual donors about making a more substantial contribution in the form of a bequest. Estate planning is a delicate topic, but could be introduced by offering informational materials and checklists to older donors to guide them through the process of making planned gifts.

When the time is right, fundraisers can open a discussion about how estate planning can give individuals greater control over their financial future in relation to the causes they value. Staff members also need to be sensitive to people who may have hearing difficulties, especially when speaking to them on the phone. Inviting older donors to discuss their wishes concerning bequests in a comfortable setting improves communication, and can strengthen the bond between donors and your organization.

While reaching out to older donors can require more time and resources than other types of fundraising, your organization may find it is worth the effort. 



## IRS Revokes Tax-Exempt Status of Many Nonprofits

On June 8, 2011, the Internal Revenue Service (IRS) announced that approximately 275,000 nonprofit organizations automatically lost their tax-exempt status because they did not file legally required annual reports for three consecutive years. While agency officials said they believe that the vast majority of tax-exempt organizations are in compliance with the new filing requirements, and that most of the organizations that failed to comply are defunct, the IRS is providing assistance to organizations that need to apply for reinstatement.

Under the Pension Protection Act (PPA) of 2006, most tax-exempt organizations are required to file an annual information return or notice with the IRS using Forms 990, 990-EZ, 990-PF or 990-N. The law imposed a filing requirement for the first time in 2007 for very small organizations (with annual gross receipts of \$25,000 or less through 2009, or \$50,000 or less starting in 2011), but these groups are permitted to file using the 990-N “e-postcard.” The law automatically revokes the tax-exempt status of any organization that does not file required returns or notices for three consecutive years; in this case, for 2007, 2008 and 2009. Nonprofits that have met the filing requirements may want to contact donors, funders and other constituents to assure them that their organization is in good standing with the IRS,

and that their donations will remain tax-deductible.

IRS officials said they made extensive efforts to inform nonprofit groups of the changes in the law through multiple outreach and education avenues, including mailing more than 1 million notices to organizations that had not filed. In 2010, the IRS published a list of at-risk groups and gave smaller organizations an additional five months to file required notices and come into compliance. During this extension period, 50,000 organizations filed. The 275,000 nonprofits on the final list represent more than 17% of the 1.6 million organizations previously listed as tax-exempt in IRS Publication 78.

“The IRS has gone the extra mile over the past several years to help make tax-exempt groups aware of their legal filing requirement and allow them additional time to file,” said IRS Commissioner Doug Shulman. “Still, we realize there may be some legitimate organizations, especially very small ones, that were unaware of their new filing requirement. We are taking additional steps for these groups to maintain their tax-exempt status without jeopardizing their operations or harming their donors.”

The IRS has issued guidance on how organizations can apply for reinstatement of their tax-exempt status, including retroactive reinstatement,

and offered transition relief for tax-exempt organizations with annual gross receipts of \$50,000 or less for 2010. The relief allows these small organizations to regain their tax-exempt status retroactive to the date of revocation, and pay a reduced application fee of \$100 rather than the typical fees of \$400 or \$850, provided they file by December 31, 2012. To receive retroactive reinstatement, a nonprofit must re-file Form 1023 or 1024, and demonstrate reasonable cause for failure to file an annual return. These reinstatement procedures are not, however, available to organizations that lost their exempt status as a result of an IRS examination.

The list of organizations whose tax-exempt status has been revoked is available on the IRS website and includes each organization’s name, Employer Identification Number (EIN) and last known address. The list also includes the effective date of the automatic revocation

and the date it was posted. The IRS will update the list monthly to include additional organizations that lose their tax-exempt status. Publication 78, Cumulative List of Organizations, is also being updated to reflect the changes.

The IRS offered assurances that the listing should have little or no impact on donors who previously made deductible contributions to organizations whose tax-exempt status has been automatically revoked, because donations made prior to the list’s publication remain tax-deductible. However, organizations that are on the list and are not subsequently reinstated are no longer eligible to receive tax-deductible contributions, and the income they receive may be taxable. An organization that loses its tax-exempt status could, for example, be subject to corporate income taxes at the Federal level, and may be liable to pay state and local taxes, including property and sales taxes. &



## Giving Trends Reveal Unexpected Opportunities

The turbulent economic climate has impacted virtually every section of society, including nonprofits and the donors on whom they so greatly rely. While it's easy to assume that charitable giving would be drastically reduced in such a stressful economy, the reality is that nonprofit giving has not decreased as much as its composition has changed. The new face of giving reveals an unexpected type of donor generating the most assistance, often via non-traditional types of donations. The key to maximizing the potential of an organization's giving base in such an economic climate hinges on recognizing and acting on these changing trends.

### FOUNDATIONS VS. INDIVIDUALS

One common misconception among the nonprofit community is that corporations and foundations provide the majority of donations, and that accessing and capitalizing from those channels is key. In truth, roughly 80% of contributions are provided by individuals and bequests. That's a significant statistic hard to ignore. On a related note, a study conducted by Giving USA relating to gifts made to charitable organizations in 2010 noted that gifts made to foundations decreased by 11%. In turn, gifts from foundations comprised only 10% of the total gifts received by charitable organizations, down 2% from 2009.

While donations from foundations certainly cannot be underappreciated and

are continually relied upon, the emerging trend appears to focus on individuals giving directly to specific entities. Therefore, targeting individual donors may be a strategic tactic nonprofits can use to maximize contributions, especially when facing grant and other funding cuts.

Anticipated cuts also support the need to focus on individual donors. National and state deficits/debt are becoming central issues, causing significant public funding cuts to be made at all levels. And those cuts are expected to continue. Recent trends seem to suggest a two-pronged effect:

1. The direct effect of decreased public funding, depending on the nature of programs, is easy to predict.
2. On the other hand, recent data shows individuals are very cognizant of these cuts and will adjust their giving accordingly.

Strong, direct and meaningful communication with individual donors could help organizations fill in gaps left by other funding holes.

### A DIFFERENT "LOOK" FOR GIVING

The latest IRS Statistics of Income Bulletin suggests that the complexion of giving is changing, rather than decreasing—showing a reported \$52.8 billion in noncash charitable donations. Individuals seem to be willing to part ways with other assets and services when cash is not

as readily available. The plea for in-kind donations and needed volunteer services is a valid one to make with an organization's donor base. It often may provide an avenue of giving more palatable to donors, yet it can be critical to covering shortfalls in an organization or augmenting the entirety of its revenue base.

Staying in tune with, anticipating and adapting to the current donor climate will always help a nonprofit make the most of its resources. Use that knowledge to play to the strengths and needs of your organization. And, for now at least, redirecting the strategy of a giving campaign to focus

outreach efforts on individuals and on obtaining valuable, noncash donations may provide a creative way to beat the budgetary constraints many nonprofits are experiencing. &



### ABOUT THE AUTHOR



Adam Schultz is a Staff Accountant in our Not-for-Profit Services

Department. He works closely with many nonprofit organizations on various attest services, including OMB Circular A-133 audits.

### CONTACT INFO

For additional information, contact Adam at 216.774.1108 or [aschultz@cohen CPA.com](mailto:aschultz@cohen CPA.com)

Cohen & Company  
1350 Euclid Ave., Ste 800  
Cleveland, OH 44115

Change Service Requested

Your New Issue  
of NFP is here!

PRSR STD  
U.S. POSTAGE  
PAID  
Cleveland, OH  
Permit # 2111

# NFP ADVISOR

ADDRESSING IMPORTANT ISSUES IN THE NOT-FOR-PROFIT SECTOR



**Akron**  
330.374.1040

**Cleveland**  
216.579.1040

**Columbus**  
614.707.5400

**Westlake**  
440.250.8540

**Youngstown**  
330.743.1040

[www.cohencpa.com](http://www.cohencpa.com)

## Our Services

Our Not-For-Profit Services Group is specially trained and qualified to help organizations succeed—regardless of size or mission. Our team members provide proactive, innovative ideas to effectively and efficiently manage the organization.

### Services

- Financial Statements
- Compliance Auditing
- Tax Consulting
- Cost Allocation Plans

### Contact Information

Kerry Gubics - Partner  
216.774.1104 | [kgubics@cohencpa.com](mailto:kgubics@cohencpa.com)

Pat Piteo - Partner  
330.480.4624 | [ppiteo@cohencpa.com](mailto:ppiteo@cohencpa.com)

**HOT TOPIC UPDATES**

To receive email updates regarding the latest hot topics in the not-for-profit industry, please visit [www.cohencpa.com/nfp](http://www.cohencpa.com/nfp).

Be advised that this information was not intended or written to be used, and cannot be used, for the purpose of avoiding tax-related penalties; or for promoting, marketing, or recommending to another party any tax-related matters addressed herein. This publication is intended to provide accurate and authoritative information on the subject matter covered. It is distributed with the understanding that the publisher and distributor are not rendering legal, accounting, or other professional advice and assume no liability whatsoever in connection with its use. © 2011