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Some local nonprofits are seeing fewer donations in wake of federal tax law changes

SEAN TEEHAN

Kristie Scott got an unwelcome surprise this year.

When she looked at how much her Windham-based addiction and mental health services nonprofit, Perception Programs, has been able to raise through its annual fundraiser she did a double take.

"Did I write a crappy letter? Did [the letters] all go out?" she asked herself.

As of late March, Perception Partners, which kicked off its fundraiser in December, raised only about \$8,600 from donors, less than a third of what it logged during the same period in 2018. The number is so far off from the \$20,000 to \$25,000 the nonprofit typically receives at this point in the year — mostly from individuals donating between \$100 and \$200 — Scott decided to hire Perception Partner's first-ever donor-relations staffer.

"I try not to panic," Scott said. "We are almost into April and we are looking at a huge loss."

Perception Partners isn't the only Connecticut nonprofit noticing a fall-off in donations.

Forty-two percent of the 108 nonprofits recently surveyed by the CT Nonprofit Alliance and Connecticut Council for Philanthropy said they saw a decrease in donations in 2018, or expect a downturn this year.

Karla Fortunato, president of the Connecticut Council for Philanthropy, which represents grantmakers in the state, can't say for certain why some people seem to be eschewing their regular donations to local nonprofits, but she believes the 2017 federal tax reform law has a lot to do with it.

A key change under the Tax Cuts and Jobs Act has made fewer people eligible to claim a deduction for charitable giving. Local nonprofit and foundation leaders feared that would give people less incentive to donate to nonprofits or charities, but they've been waiting to see how things play out. The recent survey was done specifically to gauge the effects of the new law and it indicates some Connecticut nonprofits are feeling the pinch, though the reasons are likely varied.

Specifically, the tax law doubled the standard deduction to \$24,000 for married couples and \$12,000 for individuals, which means far fewer taxpayers need to itemize their deductions. As a result, they aren't eligible to receive a charitable deduction, which reduces federal income tax liability.

The Urban Institution and Brookings Institution's Tax Policy Center last year predicted a 56 percent dropoff in people who itemize their taxes following passage of the tax reform law.

"In 2018, most individual givers did not know what their tax bill was going to look like," Fortunato said. "A decline in 2018 [donations] flagged that people were concerned about the tax law and reduced their giving, but I expect we'll see an even bigger fall in 2019."

It's not clear exactly how big of an impact the tax changes are having. The Connecticut Council for Philanthropy does an overall statewide analysis of charitable giving annually, but its data lags by several years. Its most recent report last June found that charitable giving in Connecticut reached an all-time high of \$5 billion in 2015, but the number of residents giving decreased.

Smaller nonprofits are especially vulnerable to the impact of the 2017 federal tax changes, industry officials say, because they usually don't have big-money donors, and often lack the resources to beef up their fundraising operations. A recent Blackbaud Institute of Philanthropic Impact study found that smaller nonprofits nationwide — with less than \$1 million in annual revenues — saw a 2.3 percent decrease in donations in 2018, while gifts to medium and larger tax-exempt organizations remained largely flat.

Frank Smith, national nonprofit tax leader at accounting firm Marcum LLP, said it's difficult to tell how much the tax law is affecting donations, and how it will in the future, but he's not sure people will stop donating simply because they no longer get a tax break. But that doesn't mean tax reform isn't having an impact.

For example, if people know their donations won't translate into a tax benefit they may not be in a hurry to give before a tax year ends on Dec. 31. That could lead some people to delay or forget to donate to their favorite charity.

"You're talking about human psychology," Smith said. "How do [nonprofits] create some type of an artificial deadline to say ... 'contribute now'?"

For larger donors with tax advisors, there's a good chance donation habits will change, even if the amount of money given doesn't, Smith said. That might include methods like bundling donations, or paying twice the amount donors typically would one year, but pay nothing the next year, in order to surpass the standard deduction threshold and get a tax benefit.

Maintaining loyal donors

Jeff Shaw, director of public policy at the CT Nonprofit Alliance, which represents small- to medium-sized nonprofits, said the recent survey results are concerning, but he warned it's too early to determine whether the downturn in donations is a temporary blip that will self-correct once people are more familiar with the new tax law.

Shaw said individual nonprofits' ability to handle a possible reduction in donations will likely depend on the resources they focus on donor relations.

"The ones that have dedicated marketing staff or people that are running development programs, they're probably going to be a little better prepared in weathering the storm," Shaw said. "[Smaller nonprofits are] really going to feel the pinch more because they're just not going to have the resources to adjust their approach."

Some nonprofits will need to develop alternative fundraising methods, said Smith, from accounting firm Marcum.

But the way Jack Horak sees it, it's the responsibility of nonprofits to market themselves to possible donors so they give regardless of a tax benefit.

Horak, an attorney and nonprofit advisor for TANGO Nonprofit Education and Consulting in Farmington, said that in addition to tax issues, people in the U.S. are beginning to see charities in a different light. Many nonprofits haven't worked hard enough to show that their organizations are achieving the results they set out to accomplish.

"People are realizing that the [nonprofit] sector is grossly inefficient, and doesn't have datasets to prove that their programs are working," Horak said. "Get better at what you do, and be able to prove that you're good at what you do."

Prudence Crandall Inc., a domestic-violence nonprofit in New Britain saw fewer year-end donations in 2018, but has been holding steady in terms of the overall amount raised, Executive Director Barbara Damon said. That's because, Damon said, her nonprofit worked to create a coalition of donors dedicated to the cause of reducing the impact of domestic violence, rather than people looking for a tax break.

"We have seen ... fewer large gifts from people we may not know as well," Damon said. "We really are relying on our community supporters to continue to give and continue to see the value of our work."