

How have the 2018 tax changes impacted non-profits?

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The 2017 Tax Cuts and Jobs Act (the TCJA) will likely have a significant impact on non-profits. Most of the changes took effect on January 1, 2018. The key changes impacting a non-profit's financials are outlined below.

The UBTI (Unrelated Business Taxable Income) on certain employee benefits changed and may have the most significant effect on non-profits. Under the new law, certain benefits previously provided tax-free to employees will now become taxable, such as certain transportation fringe benefits (e.g. bus passes, parking passes, and bicycle commuting reimbursements). Since January 1, 2018, non-profit employers that want to continue providing these benefits had to either include these benefits as taxable income to employees or elect to pay tax on these benefits.

The new tax law imposed the new corporate rate (21%) on non-profits on income from each unrelated business activity separately. Therefore, income/losses from individual business activities will need to be reported separately, and losses from one may not be used to offset income from other business activities. This means that it is important for all nonprofits with unrelated business activity to carefully track the expenses so they can be used to offset any gains from that particular activity.

In addition, the new law doubles the standard deduction, which could result in fewer people needing to itemize their personal deductions (which is required with charitable donations). And with a reduction in the tax rate, the benefits of making a charitable donation are lessened, which may result in a decrease in private, or charitable donations. This could mean that non-profits need to be even more proactive about applying for grants and contracts to offset potential decreases in funding.

When funds, such as grants and contracts, are awarded to you by another entity, whether a government agency or a private entity (such as a foundation), then you are subject to accountability to that funding source. As it relates to a non-profit's financials, budget and time (or expenditure) reports are necessary.

This requires careful budgeting and management of funds, in addition to being ready to show that the costs covered by the funding source were in compliance with the award guidelines if and when audited.

To be ready for funding source reporting, you may be keeping track of all costs across grants, programs, or contracts on spreadsheets, using fixed allocations through your Time and Attendance system, and pulling together data from your separate Time, Payroll, and/or Accounting systems, which can be unreliable and time-consuming to manage.

How can IDI help?

IDI can automate your time-consuming processes and help prevent audit anxiety!

Our web-based solution GrantAlytics is designed for non-profits to optimize your pre-award and post-award grant (or other funds) management and budgeting processes in one place.

Along with our Time Bank™ Salary Allocation solution data feed, GrantAlytics lets you see how your

funds are performing—and why—with actual data, not estimates, by leveraging labor data from your workforce management system. When salary exempt employees work over or under standard pay period hours, Time Bank can be configured to allocate their earnings proportionally across different labor codes worked (e.g. department, project, grant, contract). Time Bank also has the flexibility to allocate the exempt employee's PTO earnings proportionate to the worked time labor distribution or to a fixed account. These results are sent to payroll and populated in GrantAlytics each pay period in order to compare the award budget to actual labor expenses.

GrantAlytics gives ongoing visibility and insight across all funded projects, including allowing for cost-sharing of matching funds and the ability to import non-labor expenses. You can also import post-payroll benefits and taxes so your true labor burden across funds match your general ledger. Labor burden, the actual cost of the employee including salary and benefits paid to the employee on your payroll, is important to include when reporting on the full cost of labor.

With GrantAlytics' interactive dashboard you can take a proactive approach to fund management with visibility into actual labor effort, expenses, funding balances, and wage allocations in order to take corrective action sooner rather than later to prevent over or underspending.

You can stay prepared for audits and reporting requests and maintain peace of mind that you can easily deliver up-to-date, customizable reports in case of an audit or any time your funding sources require a status update on how funds are performing against budget. With GrantAlytics' Outcomes Tracking feature you can also provide accurate forecasting.

With GrantAlytics you can also manage grant, program, or contract-related tasks and documentation in one place. At the individual fund level in the budget tool on the dashboard you can assign staff to the grant or fund, assign tasks to staff, share notes, and upload copies of receipts or presentations.

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