



BRACING FOR A DOWNTURN:

Nonprofits, Charitable Deduction Worries,
and How Foundations Can Help

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Many U.S. nonprofits and foundations are concerned about a potential drop-off in individual donations in the wake of the tax legislation passed by Congress late last year, and nonprofits are looking to funders to step up — both to help close the potential gap and to make the case to the broader public about the importance of nonprofits' work. Those are among the key findings from surveys we at the Center for Effective Philanthropy (CEP) fielded earlier this year.

THE CONTEXT

On January 1, 2018, the Tax Cuts and Jobs Act went into effect, providing significant tax reductions for individuals and corporations. Three major associations of nonprofits and foundations, the National Council of Nonprofits, the Council on Foundations, and Independent Sector, issued a joint statement encouraging their members to speak out against the bill. They predicted that “the changes proposed in the tax code would fundamentally weaken the ability of charitable organizations to raise money, provide services, and benefit our communities.”¹ In addition to potential downturns in charitable giving, leaders in the sector also worried about a potential related loss of government revenue that could further hurt those whom nonprofits seek to help. Increases in deficits associated with the legislation could ultimately reduce government's direct funding of crucial social services.

¹ “Charities Set to Lose on Most Provisions of Tax Bill, Except Ban on Politicking,” *The Chronicle of Philanthropy*, December 18, 2017, <https://www.philanthropy.com/article/Charities-Set-to-Lose-on-Most/242079>.

By doubling the amount of the standard deduction that individuals can claim in their tax returns, the number of individuals utilizing the charitable giving tax deduction could be reduced by more than half, according to analysis by the Tax Policy Center (a joint effort between Urban Institute and Brookings Institution).² Simultaneous changes to the estate tax law are additionally predicted to reduce giving via bequests.

Of course, the actual effect of the legislation on future charitable giving remains unknown. The Tax Policy Center predicts giving reductions as high as \$20 billion of the approximately \$400 billion in annual donations from individuals.³ In contrast, the *Wall Street Journal* Editorial Board asserts that the worry is much ado about nothing, predicting that tax deductions aren't behind Americans' traditional generosity at all, and, with more money in their pockets, taxpayers may actually give more.⁴

We wanted to learn how nonprofits and funders view the implications of this new legislation. In particular, we sought to understand what role funders could play in helping grant recipients — and the sector more broadly.

KEY FINDINGS

- 1** A majority of foundations and nonprofit leaders are concerned about a potential decrease in charitable giving, and many of the remainder are not sure what they think.
- 2** Funders suggest they can best help nonprofits directly by providing advice and assistance to support nonprofits' fundraising and financial sustainability efforts.
- 3** Nonprofits suggest that funders could best help by providing direct assistance to affected nonprofits and by broadly promoting the importance of nonprofits and their work to donors and the public.

² "21 Million Taxpayers Will Stop Taking the Charitable Deduction Under The TCJA," Tax Policy Center, January 8, 2018, <http://www.taxpolicycenter.org/taxvox/21-million-taxpayers-will-stop-taking-charitable-deduction-under-tcja>.

³ *Ibid*; Giving USA, "Giving USA 2017: Total Charitable Donations Rise to New High of \$390.05 Billion," Giving USA, June 12, 2017, <https://givingusa.org/giving-usa-2017-total-charitable-donations-rise-to-new-high-of-390-05-billion>.

⁴ The Editorial Board, "The Uncharitable Charities," *Wall Street Journal*, December 25, 2017, sec. Opinion, <https://www.wsj.com/articles/the-uncharitable-charities-1514237452>.

METHODOLOGY

In January and February 2018, we invited CEOs of 337 nonprofits from across the United States to respond to a survey; 170 responded for a 50 percent response rate. CEP's survey sample is designed to be representative nationally of nonprofits receiving foundation grants from private or community foundations giving at least \$5 million annually.⁵ We also surveyed individuals at U.S., private and community foundations with a minimum annual giving of \$5 million who hold the highest level of responsibility for programmatic work at their organization. We sent surveys to 569 leaders; 187 responded for a 33 percent response rate.

NONPROFIT CEOS WERE ASKED:

Are you concerned about a potential decrease in individual giving to your organization as a result of the tax bill that takes effect this year?

If answer was "Yes" or "Not Sure":

What can foundations do, other than making more or larger grants, to assist your organization in responding to this possibility?

FOUNDATION LEADERS WERE ASKED:

Is your foundation concerned about a potential decrease in individual giving to grantee organizations as a result of the tax bill that takes effect this year?

If answer was "Yes" or "Not Sure":

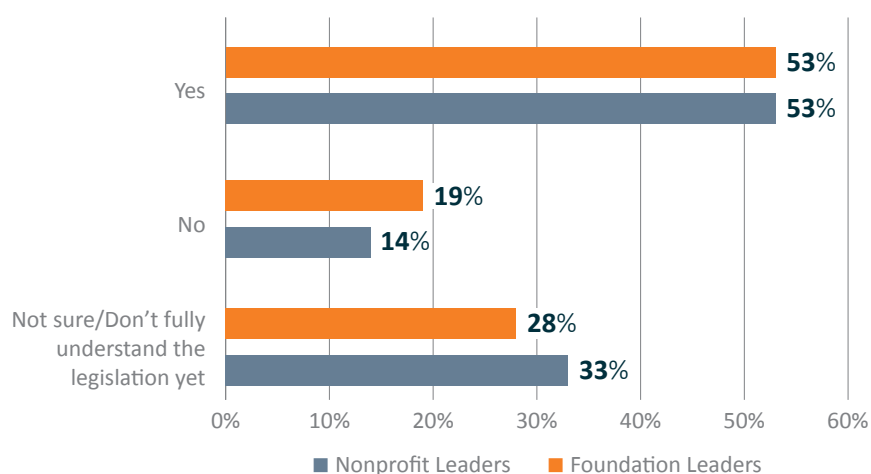
What, if anything, might your foundation do to assist grantee organizations in responding to this possibility?

⁵ Of the 3,820 nonprofits from across the country that were invited to join CEP's Grantee Voice panel, 676 (17.7%) accepted the invitation to join. A chi-square analysis of expense quartiles of those nonprofits was conducted, and a statistically significant difference of a small effect size was found. Nonprofits with annual expenses less than \$1.7 million were slightly more likely to accept the invitation to join the panel, and nonprofits with annual expenses of \$1.7 million or more were slightly less likely to accept the invitation to join the panel. A chi-square analysis of geographic region was conducted, and a statistically significant difference of a small effect size was found. Nonprofits located in the western United States were slightly more likely to accept the invitation to join the panel, and nonprofits located in the southern United States were slightly less likely to accept the invitation to join the panel.

CONCERN AND UNCERTAINTY ABOUT NEW LEGISLATION

The same percentage of nonprofits and funders — 53 percent — indicate concern about reduced charitable giving in response to the new tax law.⁶ About 30 percent of both nonprofits and funders say that they don't fully understand the legislation yet or aren't sure what its effect would be on giving. As one nonprofit CEO writes, funders need to “keep abreast of the information and address how to counter this loss, if in fact there will be one.” Only 19 percent of nonprofit CEOs indicate that they are not concerned about reduced giving to their organizations, and only 14 percent of foundation leaders are not concerned about reduced giving to the sector generally.

ARE YOU CONCERNED ABOUT A POTENTIAL DECREASE IN INDIVIDUAL GIVING TO GRANTEE ORGANIZATIONS AS A RESULT OF THE TAX BILL THAT TAKES EFFECT THIS YEAR?



Funders need to keep abreast of the information and address how to counter this loss, if in fact there will be one.

FUNDERS CAN DIRECTLY HELP NONPROFITS, PROVIDE EDUCATION, AND PROMOTE THE SECTOR'S IMPORTANCE

All nonprofit and foundation respondents who reported concern or uncertainty about the effect of the legislation were asked to comment on how foundations could play a role in addressing potential consequences of the legislation. Foundations and nonprofits both suggest two potential roles — directly helping **build the capacity of nonprofits to respond** and **educating nonprofits and the public** about the consequences of the legislation. Nonprofit — but not foundation — respondents further suggest that foundations could help nonprofits raise support by broadly **promoting the importance of the nonprofit sector and its work**.

⁶ A contemporaneous survey of nonprofit fundraisers conducted by the Nonprofit Research Collaborative (NRC) found a somewhat lower level of concern among nonprofit *fundraisers*: 21 percent of respondents to the NRC survey predicted a decrease in giving to their organization as a result of the tax law, 28 percent were unsure, and the remainder predicted no change or an increase in giving related to the tax law. (<https://www.npresearch.org/images/pdf/2018/NRCW2018.pdf>)

There were several key differences between CEP's survey and the NRC survey that may explain the dissimilarity in findings.

- Respondent role: CEP's survey respondents were nonprofit CEOs. NRC surveyed nonprofit fundraising professionals.
- Survey sample: CEP's survey sample is designed to be representative nationally of nonprofits receiving foundation grants. NRC uses a convenience sample, largely drawn from membership in associations of fundraising professionals. Smaller organizations were underrepresented among NRC respondents.

MOST COMMON ROLES FOUNDATION FUNDERS CAN PLAY TO SUPPORT NONPROFITS IN RESPONSE TO TAX LEGISLATION

THEMES FROM OPEN ENDED COMMENTS	PROPORTION OF FOUNDATION RESPONSES	PROPORTION OF NONPROFIT RESPONSES
Supporting Nonprofits' Capacity to Respond	39%	33%
Educating about the Legislation and Its Effects	20%	25%
Promoting the Importance of the Nonprofit Sector and Its Work	0%	36%
Unsure How Foundations Could Help	26%	5%

Note: All nonprofit and foundation respondents who reported concern or uncertainty about the effect of the legislation were asked how foundations could play a role in addressing potential consequences of the legislation.

SUPPORTING NONPROFITS' CAPACITY TO RESPOND

Funders most commonly write about a potential role for them to **help individual grantees directly**: 39 percent of respondents to this question mention opportunities to support grantees in building the capacity to weather any changes brought about by the legislation. In particular, these funders write about providing assistance to nonprofits in developing or executing contingency, sustainability, or fundraising plans and “working with them on donor cultivation and management.” They see possibilities to help nonprofits strengthen their own economic models to fill any potential gaps caused by decreased individual giving or bequests.

We can “increase grant amounts to strengthen marketing, communications, engagement, and development strategy and infrastructure,” writes one private foundation leader. Sharing a similar sentiment, one community foundation leader comments, “We’re less worried about a significant decline in annual giving than a potential decrease in large, transformational gifts driven by estate planning. Supporting nonprofits in strengthening their development capacity and in strategic planning around long-term financial sustainability may be helpful.”

Of the nonprofits that responded, 33 percent also suggest that funders could **help them directly by modifying the support they’re currently providing**. Many of these nonprofit leaders ask for more capacity building generally or targeted specifically to strengthening fundraising and marketing. For example, one nonprofit CEO writes, “Help strengthen development skills,” and another asks funders to “provide technical assistance in fundraising in this new environment.” Yet another suggests funders could provide “training on how donors are responding to the bill.” About one-fifth of these comments suggest that funders should remove restrictions from grants to support their capacity to respond in an uncertain time: “Provide funding that is not donor designated. Listen to our needs.”



Supporting nonprofits in strengthening their development capacity and in strategic planning around long-term financial sustainability may be helpful.

EDUCATING NONPROFITS AND THE GENERAL PUBLIC

Of the foundations that responded, 20 percent mention opportunities to “provide information” and “resources” to **educate nonprofits and the general public** more broadly about the implications of the law. Almost three-quarters of comments about an educational role come from community foundation leaders, who themselves would be more directly affected than private foundations by reductions in donor contributions.⁷ These community foundations see opportunities to take advantage of their networks of professional advisors, donors, and regional leaders to provide educational information about the ways in which the tax bill could affect nonprofits and how donors could respond. As one commented, “We launched an education series, with periodic updates, for our board of directors; a professional advisor network; and advisors to donor-advised funds. We are supporting our statewide nonprofit association’s work with education and resources for the broader nonprofit community.”

A quarter of nonprofit respondents suggest that funders can educate and “raise awareness” about the effects of the new legislation. These nonprofit leaders most often suggest that funders can help keep nonprofits informed about the meaning of the legislation and its ultimate effects on giving. “Monitor and analyze giving data, disseminate to the nonprofit sector — so that we can learn whether the impact is as dire as we fear,” writes one leader, echoing others. Some also see a role for funders to provide education more broadly — to the public and other donors. “Help organizations educate the public about the impact of the tax bill on individuals and charitable giving, as well as strategies for mitigating changes brought about by the law,” suggests one nonprofit CEO.

PROMOTING THE IMPORTANCE OF THE NONPROFIT SECTOR AND ITS WORK

To help counteract any decline in giving, 36 percent of nonprofit leaders — and no foundation leaders — suggest that foundations could play a role in **broadly endorsing the value of nonprofits, the importance of their work, and the needs of their beneficiaries**. These nonprofit leaders suggest that foundation advocacy could be directed broadly at “inspiring” the public with efforts akin to marketing campaigns for nonprofits and issues they support. “Educate the general public that support is crucial for nonprofits and that without their support many services that assist those who live in poverty or are disabled will not be able to continue,” suggests one nonprofit leader.

These nonprofits also believe that foundations could take advantage of their “platform” and “trusted” position in the nonprofit landscape to push for increased support of nonprofits from “new philanthropists,” “donors,” “public fund[ers],” “corporations,” and even legislators. Funders can “convene partners and other potential funders. Seek to help engage the business community,” writes one. “Advocate. Contact legislators. Write op-eds,” comments another. Sometimes, it could be as simple as “showing up at our events so others can see the vote of confidence.”

⁷ Foundation respondents mentioning an education role were disproportionately from community foundations. Community foundation respondents made 15 of 21 comments (71 percent) related to this theme. A chi-square analysis was conducted between whether or not an education role was mentioned and respondents’ foundation type, and a statistically significant difference of a medium effect size was found ($\phi = 0.38$). Community foundation respondents were more likely than expected to mention an education role, compared to independent foundation respondents.



Help organizations educate the public about the impact of the tax bill on individuals and charitable giving.



Advocate.
Contact legislators.
Write op-eds.

REFLECTING ON THE ROLE YOUR FOUNDATION CAN PLAY

These findings suggest that even as the sector waits to fully understand how the new legislation affects giving, funders have an important role to play in helping nonprofits now.

Below are some questions you can use to guide discussions with your board and staff.

What opportunities do you see to support trustworthy analysis of the legislation's effect on charitable giving to the issues, communities, or organizations you support? How could you use any findings to help educate potential donors about the impact of the legislation?

What approaches can your foundation use to best identify the grantees most in need of help now, or most likely to be affected in the future by changes in individual donations or bequests?

What role could you envision your organization playing in using its voice — perhaps alongside other funders — to promote the importance of nonprofits and their work?

How can conversations you have with grantees about the new legislation build your broader awareness of grantees' challenges? How can it strengthen your ongoing relationships with grantees in ways that will make it easier for them to share any issues they may face?

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