

The logo for KLR, featuring the letters 'KLR' in a green serif font above two horizontal brown bars, all within a white square. The background of the entire slide is a photograph of the U.S. Capitol dome at dusk, with its white columns and arches illuminated from within, and an American flag waving on the right side.

KLR

# Not-for-Profit Tax Update: Important Tax Cuts and Jobs Act Changes You Need to Know



## Presented by



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**SANDY F. ROSS, CPA, CFE, MSNM**

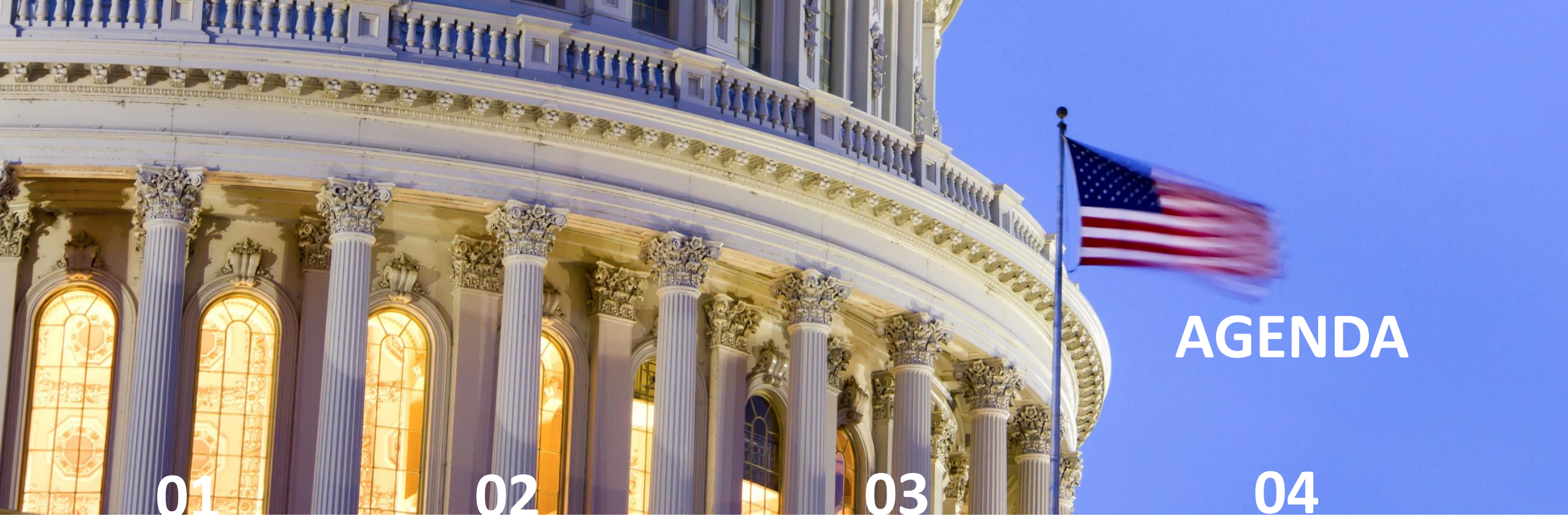
Sandy has a passion for helping the nonprofit community and advises clients from application to dissolution, providing services such as strategic planning, audits, compliance audits, and assistance with developing and improving internal controls.



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**JAMIE HANSEN, CPA, MSNM**

Jamie helps clients with management consulting relating to internal controls, internal financial reporting, board governance and strategic planning. She also has a passion for volunteering with animals and serves as the treasurer of Animal Rescue Rhode Island.



# AGENDA

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TCJA**

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Business Income:  
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and Parking  
Benefits**

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**Frequently Asked  
Questions**





# Tax Cuts and Jobs Act Changes You Need to Know

- Signed into law on December 22, 2017
- Largest tax reform bill since 1986
- Profound impact on charitable giving expected

## UPDATE ON TCJA

# **What Has Happened Since December 22, 2017**

- Donor behavior has changed
- Organizations are focusing on donor stewardship
- Final regulations issued on April 9, 2019 for:
  - [Excise Tax on Excess Tax-Exempt Organization Executive Compensation](#)
  - [Excise Tax on Investment Income of Private Colleges and Universities](#)

UPDATE ON TCJA  
**What to Watch Out For**

- IRS Technical Guidance
- Simplified Excise Tax Rate for Private Foundations
- Johnson Amendment
- Universal Charitable Deduction





# Unrelated Business Income: Multiple Activities





## UNRELATED BUSINESS INCOME

# How Does This Impact My Nonprofit?

- Determine if you have unrelated business taxable income from multiple activities (silos).
- Do I have any net operating losses that will offset my tax expenses?
- Do I need to make estimated tax payments in order to avoid penalties?





## UNREALTED BUSINESS INCOME

### **Unrelated Trade or Business**

- Business losses from one unrelated trade or business **cannot be used** to reduce income of another unrelated trade or business.
- Carryforward losses **from an unrelated business** can be used to reduce income from another year's operation of the same unrelated business.
- Carryforward losses incurred **prior to** Tax Cuts and Jobs Act (TCJA) can be used to offset any unrelated trade or business until fully used.



## Unrelated Business Income Example #1

	OLD	NEW	
Advertising Income	\$ 2,000,000	\$ 2,000,000	
Debt-Financed Rental Loss	(\$ 1,000,000)		(\$ 1,000,000)
Taxable Income (Loss)	\$ 1,000,000	\$ 2,000,000	(\$ 1,000,000)
Tax Rate	35%	21%	21%
Tax Expense	\$ 350,000	\$ 420,000	\$ 0



## Unrelated Business Income Example #2

	OLD	NEW	
Advertising Income	\$ 1,000,000	\$ 1,000,000	
Debt-Financed Rental Loss	(\$ 300,000)		(\$ 300,000)
Taxable Income (Loss)	\$ 700,000	\$ 1,000,000	(\$ 300,000)
Tax Rate	35%	21%	21%
Tax Expense	\$ 245,000	\$ 210,000	\$ 0



# Transportation and Parking Benefits





## TRANSPORTATION AND PARKING BENEFITS

### **How Does this Impact my Nonprofit?**

- Determine if you have taxable or disallowed transportation and parking fringe benefits.
- Do I have employee taxable compensation related to transportation and parking fringe benefits?
- Do I need to make estimated tax payments in order to avoid penalties?



## TRANSPORTATION AND PARKING BENEFITS

### **Qualified Transportation Fringes**

- Transportation in a commuter highway vehicle between the employee's residence and place of employment;
- Any transit pass;
- Qualified Parking.





## TRANSPORTATION AND PARKING BENEFITS

### **Parking Expenses**

The method of determining the nondeductible/ deductible portion of Parking Expenses depends on the following:

- Does your Organization pay a Third Party for Employee Parking spaces?
- Does your Organization own or lease a parking facility for its employees?



## TRANSPORTATION AND PARKING BENEFITS

### **Third Party Parking - Calculation Steps**

1. Is there compensation to the employee related to transportation and parking fringe?
2. Determine the employee compensation amount (if any).
3. Determine disallowed transportation expense?





## Employer Pays Third Party Example #1

Employer pays for 10 employees to park in local parking garage.

### Employee Benefit:

Monthly Parking : \$ 100

Annual Parking: \$ 1,200

### Employer Expense:

Monthly \$ 1,000

Annual \$ 12,000

### Calculations:

Employee Compensation? **NO**

Total Expense Per EE \$ 1,200

Total Exclusion (\$265/mo.) \$ 3,180

Total Taxable Per EE \$ 0

Compensation (10 EEs): \$ 0

Transportation benefit \$12,000

Total Expense \$12,000

Form 990-T , Line 34

Transportation benefit \$12,000

## Employer Pays Third Party Example #2

Employer pays for 10 employees to park in local parking garage.

Employee Benefit:

Monthly Parking : \$ 300  
Annual Parking: \$ 3,600

Employer Expense:

Monthly \$ 3,000  
Annual \$36,000

### Calculations:

Employee Compensation? **YES**

Total Expense Per EE \$ 3,600

Total Exclusion (\$265/mo.) \$ 3,180

Total Taxable Per EE \$ 420

Compensation (10 EEs): \$ 4,200

Transportation benefit \$31,800

Total Expense \$36,000

Form 990-T , Line 34

Transportation benefit \$31,800



# TRANSPORTATION AND PARKING BENEFITS

## **Employer Owns or Leases Parking Facility**

### **Calculation Steps**

1. Calculate the disallowance(expense) for reserved employee parking spaces.
2. Determine the primary use of the remaining spaces “primary use test”.
3. Calculate the allowance for reserved non-employee spaces
4. Determine remaining use and





## TRANSPORTATION AND PARKING BENEFITS **Special Rule**

- Employers had until March 31, 2019 to reduce or eliminate the number of parking spaces reserved for their employees.
- This change would apply retroactively to January 1, 2018.





## Organization Owns Parking Lot Near its Office: **Facts** - Example #3

Total Parking Expenses:	\$20,000
Total Parking spaces	500
Total Employees	50
Reserved Parking spaces – Employees	0
Reserved Parking spaces – Non-Employees	0
Non-Employee Parking	450



## Organization Owns Parking Lot Near its Office: **Calculation** - Example #3

Step	Description	Calculation	Result
1	<b>Expense Related to Reserved spaces</b> Reserved Employee Parking spaces Total Parking spaces	$\frac{0}{500}$	\$ 0
2	<b>Primary use of remaining spaces:</b> <b>Non-employee</b> Parking spaces Total Parking spaces	$\frac{450}{500}$	90%
3	Calculate the allowance for reserved non-employee spaces	N/A Primary Purpose is Public Parking	
4	Determine remaining use and allocable expenses		



## Organization Owns Parking Lot Near its Office: **Facts** - Example #4

Total Parking Expenses:	\$20,000
Total Parking spaces	500
Total Employees	400
Reserved Parking spaces – Employees	0
Reserved Parking spaces – Non-Employees	25
Non-Employee Parking	100



## Organization Owns Parking Lot Near its Office: **Calculation** - Example #4

Step	Description	Calculation	Result
1	<b>Expense Related to Reserved spaces</b> Reserved Employee Parking spaces Total Parking spaces	$\frac{0}{500}$	\$ 0
2	<b>Primary use of remaining spaces:</b> <b>Employee</b> Parking spaces Total Parking spaces	$\frac{400}{500}$	80%
3	<b>Calculate the allowance for reserved non-employee spaces:</b> Reserved Non-Employee Parking spaces Total Parking spaces	$\frac{25}{500}$	5% \$1,000
4	<b>Determine remaining use and allocable expenses</b> Parking Expenses Percentage of non-reserved spaces	$19,000 \times 80\%$	\$15,200



## Organization Owns Parking Lot Near its Office: **Facts** - Example #5

Total Parking Expenses:	\$20,000
Total Parking spaces	500
Total Employees	400
Reserved Parking spaces – Employees	50
Reserved Parking spaces – Non-Employees	10
Non-Employee Parking	100



## Organization Owns Parking Lot Near its Office: **Calculation** - Example #5

Step	Description	Calculation	Result
1	<b>Expense Related to Reserved spaces</b> Reserved Employee Parking spaces Total Parking spaces	$\frac{50}{500} = 10\% \times \$20,000$	\$ 2,000
2	<b>Primary use of remaining spaces:</b> <b>Employee</b> Parking spaces Total Remaining Parking spaces	$\frac{400}{500-50} = 450$	89%
3	<b>Calculate the allowance for reserved non-employee spaces:</b> Reserved Non-Employee Parking spaces Total Remaining Parking spaces	$\frac{10}{500-50} = 450$	2% \$360
4	<b>Determine remaining use and allocable expenses</b> Parking Expenses Percentage of non-reserved spaces	$\begin{array}{r} \$17,640 \\ * \quad 89\% \end{array}$	\$ 15,700



## Organization Owns Parking Lot Near its Office: **Facts** - Example #6

Total Parking Expenses:	\$20,000
Total Parking spaces	500
Total Employees	100
Reserved Parking spaces – Employees (1 <sup>st</sup> Level – Accessible by Employee Badge Only)	100
Reserved Parking spaces – Non-Employees	0
Non-Employee Parking	400



## Organization Owns Parking Lot Near its Office: **Calculation** - Example #6

Step	Description	Calculation	Result
1	<b>Expense Related to Reserved spaces</b> Reserved Employee Parking spaces Total Parking spaces	$\frac{100}{500} = 20\% \times \$20,000$	\$ 4,000
2	<b>Primary use of remaining spaces:</b> <b>Non-Employee</b> Parking spaces Total Remaining Parking spaces	$\frac{500-100=400}{500-100=400}$	100%
3	<b>Calculate the allowance for reserved non-employee spaces:</b> Reserved Non-Employee Parking spaces Total Remaining Parking spaces	N/A Primary Purpose of Remaining Spaces is Public Parking	
4	<b>Determine remaining use and allocable expenses</b> Parking Expenses Percentage of Non-Employee Parking		

## Organization Leases its Parking Lot from a Third Party Near Office: **Facts** - Example #7

Total Parking Expenses:	\$20,000
Total Parking spaces	500
Total Employees	300
Reserved Parking spaces – Employees	0
Reserved Parking spaces – Non-Employees	0
Non-Employee Parking	200



## Organization Leases its Parking Lot from a Third Party Near Office: **Calculation** - Example #7

Step	Description	Calculation	Result
1	<b>Expense Related to Reserved spaces</b> Reserved Employee Parking spaces Total Parking spaces	$\frac{0}{500}$	\$0
2	<b>Primary use of remaining spaces:</b> <b>Employee</b> Parking spaces Total Parking spaces	$\frac{300}{500}$	60%
3	<b>Calculate the allowance for reserved non-employee spaces:</b> Reserved Non-Employee Parking spaces Total Remaining Parking spaces	$\frac{0}{500}$	\$0
4	<b>Determine remaining use and allocable expenses</b> Parking Expenses Percentage of Non-Employee Parking	20,000 * 60%	\$12,000

## Organization Owns Parking Lot Near its Office: **Facts** - Example #8

Total Parking Expenses:	\$20,000
Total Parking spaces	500
Total Employees	400
Reserved Parking spaces – Employees	25
Reserved Parking spaces – Non-Employees	0
Non-Employee Parking	100



## Organization Owns Parking Lot Near its Office: **Calculations** - Example #8

Step	Description	Calculation	Result
1	<b>Expense Related to Reserved spaces</b> Reserved Employee Parking spaces Total Parking spaces	$\frac{25}{500} = 5\% \times \$20,000$	\$1,000
2	<b>Primary use of remaining spaces:</b> <b>Employee</b> Parking spaces Total Remaining Parking spaces	$\frac{400}{(500-25)=475}$	84%
3	<b>Calculate the allowance for reserved non-employee spaces:</b> Reserved Non-Employee Parking spaces Total Remaining Parking spaces	$\frac{0}{(500-25)=475}$	\$0
4	<b>Determine remaining use and allocable expenses</b> Parking Expenses Percentage of Employee Parking	$\begin{array}{r} \$20,000 \\ - \$1,000 \\ \hline 19,000 \\ * 84\% \end{array}$	\$15,960

## Organization Owns Parking Lot Near its Office: **Facts** - Example #9

Total Parking Expenses:	\$20,000
Total Parking spaces	500
Total Employee	60
Reserved Parking spaces – Employees	10
Reserved Parking spaces – Non-Employee	0
Non-Employee Parking	440



# Organization Owns Parking Lot Near its Office: **Calculation** - Example #9

Step	Description	Calculation	Result
1	<b>Expense Related to Reserved spaces</b> Reserved Employee Parking spaces Total Parking spaces	$\frac{10}{500} = 2\% \times \$20,000$	\$400
2	<b>Primary use of remaining spaces:</b> <b>Non-Employee</b> Parking spaces Total Remaining Parking spaces	$\frac{440}{(500-10)=490}$	90%
3	<b>Calculate the allowance for reserved non-employee spaces:</b> Reserved Non-Employee Parking spaces Total Remaining Parking spaces	N/A Primary Purpose of Remaining Spaces is Public Parking	
4	<b>Determine remaining use and allocable expenses</b> Parking Expenses Percentage of Employee Parking		



## TCJA Focus for Not-for-Profit Organizations



Focus on donor engagement and stewardship



Review compensation arrangements (including related organizations)



Review transportation benefits to determine if qualified transportation benefits exist



Separate different unrelated business activities and establish system of tracking expenses





# Questions? Let's Connect



sross@KahnLitwin.com



jhansen@KahnLitwin.com



888-KLR-8557

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