NONPROFIT NAVIGATOR

Spring 2016

ABOUT US

Our not-for-profit niche at Henry & Horne was officially formed 30 years ago, but we have been serving the not-for-profit community since we opened our doors in 1957. We are dedicated to Arizona's nonprofit community, and as a local firm with such a long history, we truly understand what is important to our nonprofit clients. Our team members receive quality continuing education specifically in nonprofit topics and are continually researching various nonprofit issues, which results in a very broad level of nonprofit expertise.

HENRY & HORNE, LLP
Certified Public Accountants

Work Opportunity Tax Credit
Can Nonprofit Organizations Benefit?
By Colette Kamps, CPA

Unless there is UBIT, nonprofit organizations usually don't get to benefit from tax credits. However, here is one that could apply, even if your organization doesn't pay income taxes. The Work Opportunity Tax Credit (WOTC) is a federal tax credit that allows employers to take a credit against payroll taxes paid if they hire veterans as employees, as long as these employees fit the required criteria.

If a nonprofit organization employs a "qualified veteran", the organization can take a credit against the employer's portion of total Social Security taxes. The credit is calculated as a percentage (ranging between 16.25% and 26%) of the wages paid to the veteran in the first year of employment and can be as much as $6,240. The percentage applied is based on the number of hours the individual works.

What makes a veteran a "qualified veteran" under the IRS rules? A qualified veteran would have had to serve on active duty in the U.S. Armed Forces for more than 180 days, or have been discharged due to a service-related disability. In addition, the veteran must basically not have served in the U.S. Armed Forces during the 60 day period ending on the hire date. The individual must also meet one of several criteria:

- His or her family receives food stamp assistance;
- He or she has been unemployed for 4 weeks to 6 months; or
- He or she has a service-related disability.

In order to receive the WOTC, the employer was previously supposed to file the appropriate form within 28 days of the hire date. In addition, the WOTC was supposed to expire on January 1, 2015. But just recently, "transition relief" was issued by the IRS, which not only extended the availability of the credit through 2019, but also allows employers to receive the credit for any eligible employees hired between January 1, 2015 and May 31, 2016. So, this means employers (including nonprofit organizations) can obtain the credit retroactive back to the beginning of last year for any veterans hired since that time. Any credits for this time period must be requested by June 29, 2016. Starting June 1, 2016, employers will only have 28 days from the hire date of the veteran to submit for certification on the veteran hired in order to receive the credit later, after the payroll taxes are paid.

What is the process for a nonprofit organization to receive the WOTC? After a veteran who meets the criteria is hired (or if the veteran was hired between the dates of January 1, 2015 and May 31, 2016), the first step is for the employer to receive certification from the State Workforce Agency (SWA), which can be done by completing and filing Form 8850 (Pre-Screening Notice and Certification Request for the Work Opportunity Credit). There is a brief section on this form for the employee to complete, as well as a brief section for the employer to complete. This form should then be submitted to the SWA in your state. Also, the SWA may request additional forms or information. There are third party verification assistance companies who can assist with this process. After the certification is received from the SWA, and after the employer files their employment tax return, then the employer should file Form 5884-C (Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans) to request the credit.

For more information and for a table showing the credit amounts available based on number of hours worked, visit irs.gov.

If you have any questions, Colette can be reached at (480) 839-4900 or ColetteK@hhcpa.com.

Coordinates

GuideStar recently introduced a new feature called Nonprofit Profiles. It gives organizations a free platform to tell their full stories including describing their programs, accomplishments and issues they're facing. The goal is to help organizations increase their funding. (guidestar.org)

~

A judge in New Jersey recently found 15 nonprofit hospitals are being used for for-profit purposes and are, therefore, subject to property taxes. Many towns are now looking into filing claims against the hospitals. However, the governor is pushing for a two-year freeze on all litigation until a further review is done. (nonprofitquarterly.org)

~

According to a new study, 56% of organizations surveyed experienced an increase in revenue after they completed a comprehensive rebranding process, and 41% experienced an increase after undergoing a limited rebranding process. (networkingforgood.com)

Henry & Horne, LLP
Certified Public Accountants

Update to the Proposed Nonprofit Financial Reporting Changes

By Sharlynn Garza, CPA

If you attended our 2nd Annual Nonprofit Conference held on January 28, 2016, you may have heard that there are some big nonprofit reporting changes coming. It was discussed during that session that the FASB had upcoming meetings scheduled to hopefully make decisions on some of the proposed reporting changes for nonprofit organizations. Since our conference, the FASB Board met on February 3rd and March 2nd of this year. Below is a summary of what was decided at these board meetings.

- **Investment expenses** – The Board decided to move forward with the proposal to require external and direct internal investment expenses to be netted against investment return on the financial statements, taking away the option to show gross investment expenses on the Statement of Functional Expenses. As for the disclosures, the Board decided that nonprofits will not be required to disclose the internal salaries and benefits netted against investment return. They are also no longer requiring nonprofits to disclose external investment expenses that are netted against investment return, as is the current requirement.

- **Expenses** – The Board decided that all nonprofit organizations should disclose expenses by natural classification. The Board has not yet made a decision on whether all nonprofit organizations should be required to report expenses by functional category. For those organizations required to report expenses by functional category, the Board is moving forward with requiring these organizations to disclose the methodology used for allocating costs between program and support functions. The Board is also moving forward with updating the current guidance on allocation of expenses. The updated guidance will better define what can be included in "management and general activities" and will provide enhanced guidance relating to the types of expenses that can be allocated between program and support functions and those expenses that should not be allocated. Currently, the guidance relating to the allocation of expenses is vague.

- **Operating measures** – For those nonprofit organizations that choose to present operating measures, the Board decided to enhance the reporting requirements and they have directed staff to provide illustrating examples in the final Accounting Standards Update of how operating measures can be presented either on the financial statements or in the footnotes. With regards to assessing liquidity and available resources of an organization, the Board has decided to require nonprofits to disclose, either on the face of the financial statements or in the footnotes, the qualitative and quantitative information on how the organization manages its liquid resources available to meet cash needs for general expenditures, and the amount available to meet its cash needs for general expenditures within one year of the Statement of Financial Position date. The Board has directed staff to provide examples of how this information may be disclosed in the final Accounting Standards Update.

Even though the FASB Board has made decisions on some of the proposed reporting changes, they have not yet announced when the final Accounting Standards Update will be released. You can stay updated on any announcements and Board decisions by visiting www.FASB.org.

If you have questions, Sharlynn can be reached at (480) 839-4900 or SharlynnG@hhcpa.com.