Nonprofit Navigator

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Entertainment and transportation fringe benefit expenses could be taxable to nonprofits

By Colette Kamps, CPA

Everyone has heard about the new "tax reform" – the Tax Cuts and Jobs Act (TCJA) which is effective on January 1, 2018. You wouldn't think there would be rules in a tax law that would affect nonprofit organizations, especially those who don't have any unrelated business taxable income, right? There actually are a few provisions within the TCJA that DO affect tax exempt organizations. This article specifically addresses certain business expenses and their deductibility.

Entertainment expenses

For the "for-profit" business world, entertainment expenses will no longer be deductible on their business tax returns. This is also true for tax exempt entities, but ONLY when the entity already has unrelated business taxable income (UBTI). So, if the entity completes a Form 990-T for an unrelated taxable activity, entertainment expenses cannot be included in the deductible expenses. All tax exempt entities should always remember that all expenses should be limited to only those promoting the exempt purpose or mission of the organization.

What about meals expenses? Are those considered entertainment expenses too for entities with UBTI? Currently, there is some uncertainty on this. There is also uncertainty if meals could be considered entertainment only in certain situations. It's expected that more guidance will be coming from the IRS on this, but it's also hoped that meals with a business purpose and intent would remain 50% deductible (and, therefore, not taxable to a tax exempt entity on the 990-T).

Transportation fringe benefits

Transportation fringe benefits include employer-provided parking (where parking normally must be paid for) and employer-provided mass transit. These types of expenses are also no longer deductible for "for-profit" businesses. If a tax exempt entity pays for these items for their employees, they will have to complete a Form 990-T and pay tax on the amounts they have paid. However, if the amount is added to the compensation of an employee on their annual Form W-2, then the employee is actually paying tax on the amount, resulting in the tax exempt organization not having to complete the Form 990-T or pay tax on this expense.

For employer provided parking, if the employer (tax exempt entity) provides parking for free, meaning the employees would normally not have to pay for parking, then there is no fringe benefit being provided. BUT, if the employer incurs costs for providing the free parking, the organization is providing a benefit that is taxable to the organization. There is a chance that this part of tax reform will be delayed, so stay tuned!

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

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- 150+ team members
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- Nonprofit CPAs volunteer on boards and committees for local charities
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Membership dues under the new revenue recognition standard

By Sharlynn Garza, CPA

I think it's safe to say that most people (in the accounting profession) have heard of the changes coming with revenue recognition. I am sure most are confused as to how the new standard is going to impact their organization. While there are many factors to consider and analyze, this article specifically focuses on membership dues and some of the related considerations.

Is it a contribution or an exchange transaction?

First, you need to determine whether the membership dues paid are a contribution or an exchange transaction, or a combination of both. Depending on the nonprofit, "membership" can mean different things. The key to analyzing this is to determine what benefits the member will receive. If a member is paying dues, but not really receiving anything in return, the dues paid are most likely a contribution, which is not within the scope of the new standard. If a member is receiving some benefits, then there is most likely an exchange transaction component that would be applicable under the new standard.

The new standard

For the portion of the dues paid that is an exchange transaction, you would need to go through the five criteria for determining how and when to recognize revenue.

- **Step 1. Identify the contract.** Considerations include determining the rights to and the payment terms for the benefits provided. Is the agreement signed by both parties? Are the terms of the agreement non-cancelable?
- **Step 2. Identify the performance obligation(s).** Determine what types of benefits are provided. If there are several, you should assess if each benefit (performance obligation) needs to be accounted for separately or if they can be bundled together. If each is received separately, you may have separate performance obligations. For some organizations, identifying the performance obligations and the selling price may not be too complex. For others, this may be very difficult, especially with multiple benefits that are difficult to value.
- **Step 3. Determine the transaction price.** Each performance obligation, or bundled performance obligations, identified should be assigned a price.
- **Step 4. Allocate the transaction price.** Allocate the dues paid to each performance obligation identified.
- **Step 5. Recognize revenue.** Is the performance obligation satisfied at a point in time or over a period? The answer to this will determine when you should recognize revenue.

Get your organization ready

Implementing the new standard is going to take time and planning. A good start is making sure everyone in the accounting department is aware of and familiar with this change. You can get more detailed information about this topic and other impacted nonprofit revenue streams by downloading our e-Book at **www.hhcpa.com/revrec**.

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

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Henry+Horne has performed several audits of our annual financial statements, and each year they have submitted the reports on or before deadline. All members of the engagement team are very knowledgeable, extremely responsive and professional.