



Welcome to the Schneider Downs Not-for-Profit Breakfast Briefing

FAQ on Tax Reform
and the Not-for-Profit Sector

Big Thinking. Personal Focus.

Schneider Downs offers more than 80 unique services from five distinct business units



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Audit

- Financial Statement Audit
- Review and Compilation
- SEC
- Internal Audit
- Co-Sourcing/ Outsourcing
- ERISA

Tax

- Traditional Compliance
- International
- State and Local Tax
- Tax Accounting/FIN48
- Employee Benefits
- Cost Segregation
- Co-Sourcing/Outsourcing

Business Advisors

- Productivity Improvement
- Business Valuation
- Forensic Accounting/ Litigation Support
- Transaction Advisory Services

Wealth Management

- 401(k) Plan Management
- High Net Worth

Corporate Finance

- Mergers and Acquisitions
- Buy Side
- Corporate Finance
- Sell Side

Technology

- Software Solutions
- Process Reengineering
- Security Vulnerability
- Software Selection
- Internal Control Assessment
- Review of Ongoing Technology Operations

Schneider Downs Staffing

- Permanent Staffing
- Temporary Staffing

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- Performance Improvement
- Turnaround/Restructuring
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Our Thoughts On ...

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Please Complete Your Evaluation Form

Please complete and return your evaluations to the Schneider Downs registration desk after the event.

We greatly appreciate the feedback on today's session, as well as ideas for future topics.

Upcoming Events and Webinars

Pennsylvania 2018 Tax Update (Webinar) – March, 14, 2018

2018 Employee Benefits Forum – March 22, 2018 at the Rivers Club

The Future of Banking: 2018 Pittsburgh Seminar – March 22, 2018 at PPG Paints Arena

The Business of Higher Education (Webinar) – March 26, 2018

The Business of Higher Education (Webinar) – April 30, 2018

Schneider Downs Quarterly Not-for-Profit Breakfast Briefing – May 3, 2018 at the Rivers Club

To sign up for the events listed above visit

www.schneiderdowns.com/events



What We Are Hearing: FAQ on Tax Reform and the Not-for-Profit Sector

Presented by:
Eugene J. Logan, CPA

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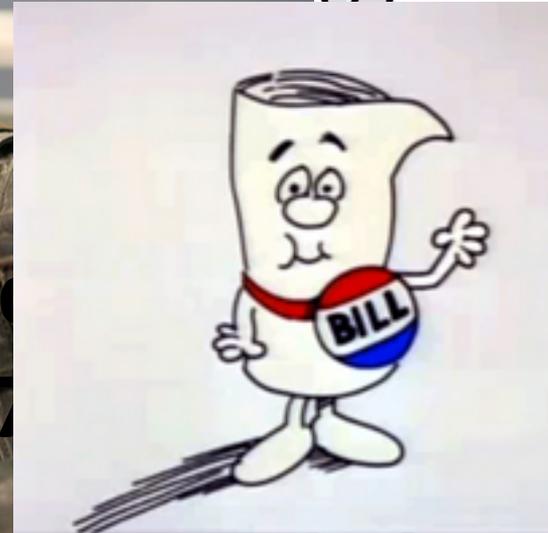
2017 Tax Reform

- Short Title: The Tax Cuts and Jobs Act of 2017

Short Title:

The Tax Cuts and Jobs Act of 2017

\$1.5 trillion over the next 10 years (practical effect is many provisions of new Act sunset prior to 10 year window)



Provisions Impacting Exempt Organizations

- Unrelated Business Income
- Excise Taxes
- Charitable Contributions
- Employee Benefits
- Pennsylvania Changes



Unrelated Business Taxable Income

- Unrelated trade or business taxable income must be separately computed
 - Deductions of one trade or business cannot offset income of another unrelated trade or business for the same taxable year (“silo-ing”)
- The term “trade or business” is not defined
 - Application of the new provision to alternative investments of pass-through entities such as partnerships is unclear



Unrelated Business Taxable Income

- Application of new Provision on alternative investments
 - Is each partnership a separate silo?
 - Each activity within a partnership
 - Can we group?
- Changes to structure
 - Does a C-Corporation make sense?
 - Low rate and opportunity to net
- Effective for taxable years beginning after December 31, 2017



Unrelated Business Taxable Income

- The value of certain fringe benefits provided to employees on a tax-free basis will be treated as unrelated business taxable income (UBTI)
 - Qualified transportation fringe benefits
 - Parking
 - On-premises health facilities
- Provision attempts to provide parity between tax-exempt organizations and taxable corporations
- Effective for amounts paid or incurred beginning January 1, 2018



Net Operating Loss

- New rules:
 - Net operating losses incurred by trade or business may be used to offset income from the same unrelated trade or business in another year
 - Special transition rule – net operating losses arising in a taxable year before January 1, 2018 that are carried forward are not subject to the limitation

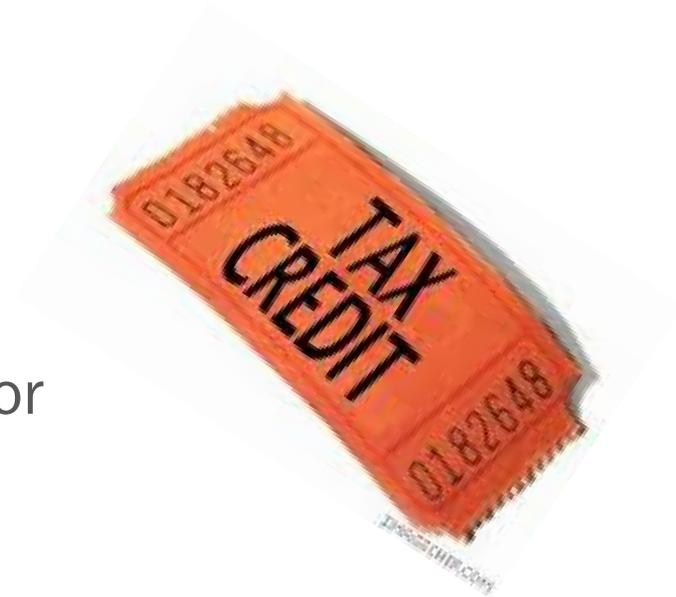
Corporate Provisions

- Several corporate provisions will affect exempt organizations organized as Nonprofit Corporations
 - Net Operating Loss
 - Limited to 80% of taxable income
 - Infinite carryforward, but no carryback
 - Effective for losses on tax years beginning January 1, 2018
 - Flat corporate tax rate of 21%



Corporate Provisions

- Elimination of corporate Alternative Minimum Tax (AMT)
- Refund of minimum tax credits
- Changes to Bonus Depreciation and Section 179 Deduction Rules
- Like-kind exchanges available only for real estate



Excise Tax on Investment Income

- New 1.4% excise tax on investment income of private colleges and universities that meet the following criteria:
 - 500 tuition-paying students
 - Assets of at least \$500,000 per student (daily average of full time students or equivalent)
 - Institution has more than 50% of their tuition paying students in the U.S.
- Assets of all related organizations are treated as assets of the institution
- Assets utilized to directly carry on educational purposes are excluded
- Effective for tax years beginning after January 1, 2018



Excise Tax on Executive Compensation

- New 21% excise tax on compensation in excess of \$1 million paid to the five highest paid employees for the tax year
 - Applies to “covered employees”
 - Compensation treated as paid when rights to remuneration are no longer subject to substantial risk of forfeiture
 - Exempts parachute payment compensation paid to non covered employees
- Special Rules apply to remuneration paid to licensed medical professionals and qualified medical professionals.



Charitable Contributions

- AGI Limitation on cash charitable contributions increased to 60%
- 80% deduction for charitable contributions made for university athletic seating rights were repealed
- Exception to the contemporaneous written acknowledgement requirement for contributions of \$250 or more was repealed (exception permitted reliance upon an organization's Form 990 as an acknowledgement)

Charitable Contributions

- Suspension of the Pease Limitation
 - Up to an 80% phase-out of itemized deductions for high income taxpayers
- Changes to the Gift and Estate Tax Lifetime Exclusion (\$11.2M for 2018)
- Uncertain whether charitable giving will decrease due to the changes to individual taxes (i.e., increase in standard deduction)
 - Year-end check writing
 - Indiana University Study

Employee Benefits

- The exclusion from gross income for qualified moving expense reimbursements and the moving expense deduction have been suspended for tax years beginning after January 1, 2018 and before January 1, 2026
- Employees are no longer able to exclude from gross income the value of employee achievement awards (regardless if the gift is given as cash, cash equivalents, gift cards, vacations, meals, lodging, event tickets, stocks, bonds or other securities)



Employee Benefits

- Pick up of qualified transportation or qualified parking as income
- Credit for Family Medical Leave payments
 - Applies to exempt organizations?
 - Offset to UBIT and Parking Fringe Tax

Pennsylvania Changes – Act 43

- Enacted in October 2017, effective January 1, 2018
- PA Notice 2017-01 issued December 14, 2017
- Requires PA income tax withholding on certain compensation or business income payments over \$5,000 made to nonresident nonemployees, or certain disregarded entities if the disregarded entity has a nonresident member
- Applies to non-resident non-employees if a federal Form 1099-Misc is required to be filed

Pennsylvania Changes – Act 43 (Cont.)

- Business income payments includes royalties, rents and other payments made pursuant to a lease
- Subsequent relief from the Pennsylvania Department of Revenue provides that the income subject to withholding will not be subject to assessment for failure to withhold for a period ending prior to July 1, 2018

Other Provisions

- Elementary and secondary school expenses (up to \$10,000 per year) qualify toward qualified tuition programs. The provision applies to contributions made after Dec. 31, 2017
- Discharge of student debt is not taxable if the discharge is due to the student's death or disability. The provision applies for tax years 2018 through 2025

Not Included in the Final Act

- Private foundation excise tax reduction on investment income
- Private foundation excise tax on failure to distribute income
- Exception from excess business holdings tax for independently operated philanthropic business holdings
- 501(c)(3) organizations permitted to make statements related to political activities (“The Johnson Amendment”)
- Additional reporting requirements for donor advised funds
- Licensing of an organization’s name or logo considered UBTI
- Elimination of research exemption from UBTI unless results freely available to the public



Not Included in the Final Act

- The following provisions related to education were not repealed:
 - Deduction of interest on student loans
 - Deduction for qualified tuition and related expenses
 - Exclusion for qualified tuition reduction programs
 - Employer-provided education assistance
- Employer-provided housing exclusion
- American Opportunity Tax Credit



Going Forward



Going Forward

- Diligently track and document expenses incurred with unrelated business taxable income (UBTI)
- Consider the impact of the tax reform changes on the deferred tax provision
- Review and revise budgets to account for tax changes made to employee benefits





Schneider Downs Not-for-Profit Breakfast Briefing Discussion

Beth Smith and David Iganski, Sentric

Big Thinking. Personal Focus.



Tax Cuts and Jobs Act (TCJA) Payroll Topics

Beth Smith and David Iganski, Sentric

Big Thinking. Personal Focus.



TCJA Federal Withholding Tables

- Notice 1036 - Release of 2018 Withholding Tables
- Standard Deduction Increase
 - Individuals/Married Filing Separately – from \$6,530 to \$12,000
 - Heads of Household – from \$9,350 to \$18,000
 - Married Filing Jointly – from \$12,700 to \$24,000



TCJA Federal Withholding Tables

- Tax Rates and Brackets Decreased
Slight decrease in rates and adjusted income ranges
- More Accurate Withholding Throughout the Year
Reduce over- and under-withholding



TCJA W-4 Concerns & Reactions

- Under-Withheld
 - [Turbo Tax's W-4 Withholding Calculator](#)
 - [H&R Block's W-4 Calculator](#)
 - IRS – End of February 2018
- New W-4 Form - End of February 2018
- State Withholding

TCJA Taxation of Transportation Fringe Benefits

2017	2018
<ul style="list-style-type: none">• Allow employee pretax dollars• Allow employers to deduct contributions• Expenses<ul style="list-style-type: none">• \$255 PEPM transportation/parking• \$20 PEPM biking-related	<ul style="list-style-type: none">• Allow employee pretax dollars• Allow employers to deduct contributions• Expenses<ul style="list-style-type: none">• \$260 PEPM transportation/parking• \$20 PEPM biking-related



TCJA Taxation of Transportation Fringe Benefits

Considerations:

- Unrelated Business Taxable Income (UBTI) of a tax-exempt institution will include the value of any qualified transportation fringe benefit provided pre-tax to employees.
- Employers may still need to offer transportation benefits.
- Employers could evaluate the loss of the deduction (decrease in corporate tax rate from 35% to 21%).

TCJA Tax Credit on Leave/FMLA

2017	2018
<ul style="list-style-type: none">• No credit	<ul style="list-style-type: none">• Federal tax credit for employers that provide paid family and medical leave to their employees• Requirements<ul style="list-style-type: none">○ Provide 2 weeks of leave○ Minimum 50% of regular earnings• Credit<ul style="list-style-type: none">○ Range increments from 12.5% (if half of earnings) to 25% (if entire earnings)○ Only applicable toward workers earning less than \$72,000 per year.



TCJA Tax Credit on Leave/FMLA

Considerations:

- Employers are waiting for more details, including guidance from the IRS.
- Employers should review state and local leave legislation to avoid conflicts with a program.



TCJA Taxation of Achievement Awards

2017	2018
<ul style="list-style-type: none">• Employer can deduct up to \$400 (or up to \$1,600 for certain plan)• Employee can exclude the award from income	<ul style="list-style-type: none">• Same concept, but...• Does not apply to cash, cash equivalents, gift cards/coupons/certificates, vacations, meals, lodging, tickets (sporting or theater), securities, and other similar items



TCJA Taxation of Achievement Awards

Consideration:

- Employers will need to identify awards that are now taxable fringe benefits and deduct payroll taxes accordingly.



TCJA Taxation of Other Fringe Benefits

2017	2018
<ul style="list-style-type: none">• Moving expense reimbursement paid by an employer excluded• Onsite gyms corporate deduction allowed• Meals corporate deduction allowed in full (de minimis fringe benefit)	<ul style="list-style-type: none">• Moving expense reimbursement fully taxable (with exceptions)• Onsite gyms deduction repealed (employee exclusion remains)• Meals corporate deduction repealed, but expands the 50% limit to de minimis fringe benefit (employee exclusion remains)

TCJA Additional Revisions to Note

2017	2018
<ul style="list-style-type: none">• ACA individual mandate in place• Retirement plan loans due at termination with offset rollover within 60 days• 529 savings for future college costs• Employee business expenses deductible as itemized deduction	<ul style="list-style-type: none">• ACA individual mandate ended*• Retirement plan loans offset rollover extended to due date of individual tax return• 529 asset use expanded including grade school and ABLE• Employee business expenses no longer itemized deduction <p>* 2019 tax filing</p>



Act 43 of 2017

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1099 Nonresident PA Tax Withholding

- Withholding is optional for payors/lessees paying less than \$5,000 annually. If unsure of the total for the year, you are encouraged to withhold and remit income tax.
- Governmental payors, including the PA State System of Higher Education and its institutions, are exempt.
- Employer can use existing PA withholding account or open register for a new one.

http://www.revenue.pa.gov/GeneralTaxInformation/Tax%20Types%20and%20Information/EmployerWithholding/Documents/1099-MISC_Fact_Sheet.pdf



Tax Cuts and Jobs Act Accounting Considerations

Staci L. Brogan

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Tax Cuts and Jobs Act: Accounting Impact

- Enactment Date – December 22, 2017
- Established flat corporate rate of 21%
- Reduces maximum deduction for NOLs

ASC 740, Income Taxes

- Unrelated Business Income Tax
 - Current liability
 - Existing deferred tax assets or liabilities: must be remeasured and recorded as an adjustment to income tax expense
 - May also require a reevaluation of a valuation allowance

Net Operating Losses (NOLs)

- NOLS generated after December 31, 2017 can be carried forward indefinitely; however, are limited to 80% of the taxpayer's taxable income.
- Should still be evaluated for realizability on an annual basis.

ASC 740, Required Disclosures

- Requires entities to disclose the effect of adjustments of a deferred tax asset or liability as a result of the enacted changes in tax laws or rates.