



## 2023 Public Policy Agenda for North Carolina's Nonprofit Sector

*The North Carolina Center for Nonprofits takes positions on state and federal public policy issues that affect most or all 501(c)(3) nonprofits in North Carolina. The Center generally does not take positions on issues that affect only one field – such as arts or early childhood – unless the issue sets a precedent that could affect all nonprofits. The Center also generally does not take positions on local public policy issues unless these would set a precedent that could affect all North Carolina nonprofits. When appropriate, the Center will work with state associations of local government officials to ensure that counties and cities across North Carolina have consistent rules and policies that facilitate a strong, vibrant nonprofit sector.*

### Tax Policy Affecting Nonprofits:

#### State policy

##### 1. Nonprofit tax exemption.

- Oppose further limits on nonprofit sales tax refunds or property tax exemption for any 501(c)(3) nonprofits.
- Support conversion of the sales tax refund system to a sales tax exemption for all 501(c)(3) nonprofits. Under current law, nonprofits pay sales tax but can request semi-annual refunds of the taxes they pay.
- Support elimination of limits on nonprofit sales tax refunds based on amounts of refunds or National Taxonomy of Exempt Entity (NTEE) classifications. Under current law, 501(c)(3) nonprofits are ineligible for sales tax refunds if they are “properly classified” in the NTEE system as “community improvement and capacity building”, “public and societal benefit”, or “mutual and membership benefit” organizations.
- Support clarifications necessary to ensure that all 501(c)(3) nonprofits are exempt from paying property tax on property they own that is used for nonprofit purposes. The North Carolina constitution requires exemptions from property tax to be consistent in all parts of the state, but counties and municipalities are inconsistent in their interpretation of the standards for nonprofit property tax exemption that are part of the state tax code.
- Oppose unreasonable new taxes on 501(c)(3) nonprofits.
- Oppose policies that condition state or local tax exemption for 501(c)(3) nonprofits operating in North Carolina on criteria beyond those required of 501(c)(3) tax-exempt organizations under federal law.

##### 2. Incentives for charitable giving.

- Support universal, non-itemizer tax deductions or credits for charitable contributions to incentivize all North Carolinians to give generously to the work of charitable nonprofits.
- Oppose limits on the charitable deduction on state income taxes.

##### 3. Sales tax on services.

- Encourage inclusion of nonprofits' input on any expansion of sales tax to services, and generally oppose imposition of sales tax on services provided by nonprofits.
- Support clarification that nonprofits are not required to collect and remit sales tax on their fundraising events and educational events.

##### 4. Taxes on student loan forgiveness.

- Support policies that would ensure that student loan forgiveness for nonprofit employees and people served by nonprofits is not treated as taxable income for state tax purposes.

## **Federal policy**

### **1. Nonprofit tax exemption.**

- Support repeal of 2017 change to unrelated business income law that treats each revenue stream of a nonprofit as a separate trade or business. The impact of the new law has been a net increase in unrelated business income tax for some nonprofits with multiple revenue streams that are classified as unrelated business income (e.g., book sales, t-shirt sales, and rental of space in a nonprofit's building), since nonprofits can no longer use expenses from one revenue stream to offset income from a separate revenue stream.
- Oppose unreasonable new taxes on 501(c)(3) nonprofits. Even taxes that only apply to certain types of charitable organizations can undermine nonprofits' missions and set precedents that can ultimately lead to burdensome taxes on all nonprofits.

### **2. Incentives for charitable giving.**

- Support a universal, non-itemizer deduction for charitable giving with appropriate caps and/or floors to ensure that it incentivizes taxpayers to make more generous charitable contributions than they otherwise would make.

### **3. Nonprofit nonpartisanship and advocacy.**

- Oppose all efforts to repeal or weaken the provision in Section 501(c)(3) of the Internal Revenue Code that prohibits charitable nonprofits from supporting or opposing candidates for office or making campaign contributions. This law protects nonprofits from demands for endorsements of candidates for public office and the diversion of charitable assets to support partisan campaigns.
- Support tax law changes that protect and expand the ability of nonprofits to lobby.

### **4. Disaster tax relief.**

- Support provisions in federal disaster tax relief legislation that encourage donations to nonprofits responding to, or recovering from, disasters, that facilitate automatic extension of federal tax filing deadlines for nonprofits affected by disasters, and that treat nonprofits equitably with for-profit employers in temporary job-retention tax credits during and after disasters.

### **5. Tax policy affecting people served by nonprofits.**

- Support reinstatement and extension of the expanded and improved child tax credit, similar to the changes made by the American Rescue Plan Act for 2021. The temporary improvements to the child tax credit in 2021 significantly reduced child poverty in North Carolina during the year they were in effect, complementing the work of many nonprofit service providers and helping alleviate some of the heightened demand for nonprofit services.

## **Nonprofit Operations:**

### **State policy**

#### **1. Nonprofit governance.**

- Support clarification and modernization of the state nonprofit corporation statute to ensure nonprofit organizations can operate efficiently, effectively, and in a manner consistent with best practices for the nonprofit sector.
- Support state laws and policies that allow public officials to serve on nonprofit boards and work and volunteer for nonprofits, while also ensuring transparency of – and, where necessary, recusal from – any situations that might create potential conflicts of interest between public officials' government duties and their service to nonprofits.

#### **2. Regulation of nonprofits.**

- Support clarification and modernization of the state charitable solicitation statute to ensure that licensing requirements are consistent with IRS filing requirements and nonprofit best practices.

- Support legislation or executive action to help minimize the compliance burden of review of nonprofit mergers, asset transfers, and other transactions – particularly those involving small and mid-sized organizations – by the NC Attorney General.
  - Support legislation to create simple, no-fee annual reports for nonprofits.
  - Support adequate funding for regulation of nonprofits by the NC Secretary of State.
  - Support policies creating official or unofficial state agency liaisons with nonprofits.
  - Oppose “mandatory volunteerism” requirements for recipients of government services, since these can create financial and administrative burdens for nonprofits.
3. **Laws affecting nonprofits as employers.**
    - Support policies to address the workforce shortages that are creating challenges for many nonprofits. Such policies include including increased funding to support jobs in the nonprofit sector and investment in accessible and affordable child care.
    - Support policies that enable nonprofits to provide affordable and high-quality benefits for their employees.
    - Support policies that reduce unnecessary employment law red tape or expenses for nonprofits.
  4. **Nonprofit funding and fundraising.**
    - Support legislation to expand opportunities for nonprofit fundraising events.
    - Support legislation that promotes access to capital for nonprofits.
  5. **Donor privacy and donor secrecy.**
    - Support policies that ensure that personal information about individual donors to 501(c)(3) nonprofits remains protected from public disclosure while also ensuring that state agencies that regulate 501(c)(3) nonprofits and other tax-exempt organizations have access to information they need to protect the public and the integrity of the nonprofit sector by providing oversight of nonprofits.
    - Oppose policies that would limit the ability of state agencies to provide reasonable oversight of 501(c)(3) nonprofits or other tax-exempt organizations.
  6. **Nonprofit independence.**
    - Oppose policies that limit nonprofits’ governance as independent, nongovernmental corporations with control over their own organizational policies and practices.
  7. **Efficiency ratios.**
    - Oppose policies that would rate nonprofits or condition government treatment of nonprofits on “efficiency ratios” related to nonprofits’ administrative expenses, indirect costs, overhead, or fundraising expenses. The use of this type of “efficiency ratio”, while sometimes helpful in comparing the programs and services of similar nonprofits, can be misleading when comparing nonprofits that provide very different types of programs and services. Some types of nonprofits have inherently higher fundraising and administrative expenses than others.
  8. **Election laws.**
    - Oppose election law changes that make it more difficult for people to vote, since these changes ultimately diminish nonprofits’ policy influence by reducing the civic participation of people served by nonprofits, including low-income North Carolinians, seniors, and individuals with disabilities.
  9. **Benefit corporations.**
    - Support policies that would formally recognize benefit corporations in North Carolina law and provide legal protections to benefit corporations and their board members. Benefit corporations have been important partners with nonprofits in North Carolina.
  10. **Response to natural disasters, public health crises, and economic challenges.**
    - Support state and local grant programs and state tax credits that treat nonprofits equitably with for-profit businesses in providing economic relief to employers.
    - Support policies that prioritize state support to nonprofits that are providing increased services during challenging times.
    - Support policies that would help nonprofits hire employees to offset reductions in volunteers or workforce shortages.

## Federal policy

1. **Regulation of nonprofits.**
  - Support adequate funding for the IRS to provide reasonable regulation and oversight of tax-exempt organizations.
2. **Laws affecting nonprofits as employers.**
  - Support policies to address the workforce shortages that are creating challenges for many nonprofits. Such policies include including increased funding to support jobs in the nonprofit sector and investment in accessible and affordable child care.
  - Support policies that enable nonprofits to provide affordable and quality benefits for their employees.
  - Support labor laws and regulations that treat nonprofits similarly to for-profit businesses and that provide adequate protections for nonprofit employees and clients while not creating unreasonable unexpected new costs for nonprofits. In particular, it is essential that any significant changes to labor laws and regulations provide adequate transition periods for nonprofits to absorb increased costs due to fixed reimbursement rates under government grants and contracts or through limits imposed by private funders. It is also important for federal labor regulations to provide clear guidance on job functions that are unique to the nonprofit sector, such as fundraising, volunteer management, and certain types of program service providers.
  - Oppose policies – such as elimination of student loan forgiveness programs – that would harm nonprofit employees.
3. **Nonprofit independence and advocacy.**
  - Oppose new restrictions on nonprofit advocacy rights.
  - Support policies that would limit the influence of political donors on policymaking. This would help level the playing field for advocacy by nonpartisan nonprofits.
4. **Response to natural disasters, public health crises, and economic challenges.**
  - Support federal grant programs and federal tax credits that treat nonprofits equitably with for-profit businesses in providing economic relief to employers.
  - Support policies that prioritize federal support to nonprofits that are providing increased services during challenging times.
  - Support policies that would help nonprofits hire employees to offset reductions in volunteers or workforce shortages.

## Government Grants and Contracts with Nonprofits:

### State policy

1. **Prompt payment, red tape, and full payment for costs.**
  - Support policies to ensure that state agencies: (a) deliver contracts to nonprofits in a timely manner; (b) avoid delays in paying nonprofits that deliver services; and (c) inform them in advance if a payment will be late.
  - Support adequate funding for grants and contract management staff in all state agencies that collaborate with nonprofits to provide public services through grants and contracts and for the NC Office of State Budget and Management.
  - Support policies that provide for multi-year contracts with nonprofits with recurring state funds and automatic short-term contract extensions when contracts are not renewed on time to ensure continuity of services by nonprofits.
  - Support policies that will reduce overly complex application and reporting requirements for nonprofits with state grants and contracts. Examples of such policies may include the elimination of redundant reporting and audit requirements, the use of document vaults by state agencies to minimize redundant filings by nonprofits, and consistent use of electronic funds transfer by state agencies.

- Support policies that prevent state agencies from unilaterally making changes to nonprofits' contracts after the execution of the contract, except in circumstances where such changes are absolutely necessary.
  - Support policies and appropriations that ensure that nonprofits with state grants and contracts have fair and reasonable indirect cost rates and that the state establishes a *de minimis* 10% indirect cost rate on grants and contracts with nonprofit service providers.
  - Support full and fair implementation of the OMB Uniform Guidance in state and local contracts.
2. **Adequate and appropriate state support for public services provided by nonprofits.**
- Support continued state investment in the work of nonprofits through appropriations and grants.
  - Support enactment of a state budget each year to ensure adequate state support of current community needs.
  - Oppose unfunded mandates for nonprofits in the state budget.
  - Support transparency in the state budget process, including the process for determining which nonprofits receive state funds.
  - Oppose government policies – including state budget provisions, separate legislation, and executive action – that limit nonprofits' ability to receive government grants or contracts based on factors such as efficiency ratios or nonprofits' organizational policies.

## Federal policy

1. **Prompt payment, red tape, and full payment for costs.**
- Support further improvements to the OMB Uniform Guidance.
  - Support legislation to simplify grant reporting requirements for nonprofits.
2. **Adequate and appropriate state support for public services provided by nonprofits.**
- Support continued federal investment in nonprofits through appropriations and grants.
  - Oppose arbitrary, across-the-board cuts to federal government spending.
  - Oppose government policies – including federal budget provisions, separate legislation, and executive action – that limit nonprofits' ability to receive government grants or contracts based on factors such as efficiency ratios or nonprofits' organizational policies.
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## Major State and Federal Policy Issues That Affect the Nonprofit Sector:

### State policy

1. **Independent redistricting.**
- Support legislation and/or a constitutional amendment to establish an independent, nonpartisan legislative redistricting process in North Carolina. This would make our state legislators and members of Congress more accountable to nonprofits in their districts.
  - Support legislation and policy changes that improve the transparency of the legislative redistricting process.
2. **Health care policy.**
- Support Medicaid expansion in North Carolina. This would complement the work of many nonprofits by ensuring that hundreds of thousands of North Carolinians – including many employees and clients of nonprofits – have medical coverage.
  - Support legislation that will continue to provide adequate funding for the transition of NC's Medicaid program to a system of managed care. A well-developed Medicaid transformation could lead to better coordinated investment in, and focus on, social determinants of health.
  - Support policies that enable nonprofits to provide affordable, high quality health insurance for their employees. This may include new health care options for nonprofits and businesses or policies that

would enable nonprofits to pool together to negotiate better health insurance options in a way that does not fundamentally harm the overall health care market.

## **Federal policy**

### **1. Federal government shutdowns.**

- Support the position that federal policymakers should not use government shutdowns as a way to settle policy disputes, since government shutdowns hurt nonprofits and the communities they serve.
- Support policies that will ensure continuity of government services in the future and the continued payment of nonprofits for the services they deliver on behalf of governments.

### **2. Health care policy.**

- Support policies that enable nonprofits to provide affordable, high quality health insurance for their employees. This may include new health care options for nonprofits and businesses or policies that would enable nonprofits to pool together to negotiate better health insurance options in a way that does not fundamentally harm the overall health care market.