



## Suggestions for Tax Provisions to Help Nonprofits Respond to Natural Disasters

The North Carolina Center *for* Nonprofits has more than 1,400 nonprofit members serving all 100 counties of North Carolina. Many of our member nonprofits were directly affected by Hurricane Matthew in 2016 and Hurricane Florence in 2018, suffering flooding, wind damage, and loss of power for significant periods of time. In addition, many of our members provided a wide range of relief and recovery services to individuals, businesses, and communities that were affected by the storms. These services included food assistance, emergency shelter, water, and medical assistance, both in the immediate aftermath of the storms and for extended periods. Based on experiences of these nonprofits, the Center offers these suggestions to the Senate Finance Committee task force exploring disaster tax relief provisions.

**Suggestion #1: Provide automatic extensions of filing deadlines for tax-exempt organizations in areas that have been designated as affected by natural disasters.**

### Rationale

- In the period immediately following a natural disaster, tax exempt organizations – like other businesses and individuals – often lack access to print and electronic records that are necessary to complete and file tax returns with the Internal Revenue Service (IRS). In addition to payroll and related returns, nonprofits may also experience difficulty filing informational tax returns such as the Form 990, 990-EZ, 990-N, and 990-T.
- Providing automatic extensions to tax-exempt entities in areas affected by natural disasters would provide greater certainty, consistency, and clarity to nonprofits than waiting for Congress or the IRS to provide filing deadline extensions after disasters occur.

**Suggestion #2: Extend the employee retention credit to tax-exempt employers.**

### Rationale

- In previous disaster tax relief legislation, tax-exempt organizations were not eligible for the tax credit businesses could receive for wages paid to employees while businesses were inoperable after natural disasters.
- Nonprofits employ about 10% of the workforce in North Carolina and a similar portion of the workforce throughout the nation.
- By extending this temporary tax credit to tax-exempt nonprofit employers, Congress could help these organizations continue to pay regular wages to their employees after disasters strike. This would prevent the unintended consequence of taking away a primary source of income from 10% of working families during a time of greatest need.
- Congress could extend this tax credit to tax-exempt organizations either by allowing them to apply it to federal payroll taxes that they already pay or by making it a refundable tax credit as part of the unrelated business income tax, which is the form of corporate income tax that some tax-exempt organizations pay.

### **Suggestion #3: Create a temporary non-itemizer tax deduction for charitable contributions made for disaster relief and recovery.**

#### **Background**

- In past disaster tax relief legislation, Congress has temporarily suspended percentage limitations on adjusted gross income (AGI) for cash contributions made for disaster relief efforts to charitable organizations.
- Nonprofits providing disaster relief certainly appreciate this provision, and we would encourage it to be included in future disaster tax relief legislation.
- This provision, however, predates the Tax Cuts and Jobs Act (TCJA), which significantly increased the standard deduction and correspondingly reduced the percentage of taxpayers who use itemized deductions. As a result, lifting the AGI cap would incentivize far fewer taxpayers to increase their disaster-related contributions after TCJA.
- In a post-TCJA tax environment, when the vast majority of taxpayers use the standard deduction, a temporary above-the-line, non-itemizer deduction for charitable contributions used for disaster relief and recovery would be the best way to increase private donations to disaster relief and recovery.
- Encouraging private giving for disaster relief and recovery is critical for ensuring that essential services can reach affected communities in a timely and efficient way. Unlike nonprofits, governments cannot always provide disaster relief and recovery services and resources immediately to affected communities. For example, a recent state legislative report showed that, more than two years after Hurricane Matthew struck eastern North Carolina in 2016, the State of North Carolina had only spent 1% of the federal Community Development Block Grant – Disaster Relief funding it received to provide housing assistance to affected communities.
- An automatic, temporary above-the-line, non-itemizer deduction would provide immediate, targeted support for organizations in the disaster area struggling to reopen, relieve suffering, and help in recovery efforts in their communities.

### **Suggestion #4: Broaden the scope of temporary tax incentives for disaster-related charitable giving to apply to recovery efforts.**

#### **Rationale**

- In previous disasters, the provision suspending AGI percentage limitations for certain disaster-related contributions has been applied to contributions “made for relief efforts.”
- During the two recent hurricanes that struck eastern North Carolina, charitable nonprofits have not only provided immediate *relief* to affected individuals, but have offered many services to help communities *recover* from the devastation of the storms. In addition, many nonprofit service providers experienced disruptions in their own operations – and their ability to provide basic relief and recovery services – because of storm damage.
- To maximize the ability of nonprofits to help communities recover from natural disasters, we encourage Congress to broaden the scope of contributions eligible for temporary tax incentives (whether it is the suspension of AGI limitations, a non-itemizer deduction, or other tax incentives that Congress may develop) to apply to contributions “made for relief or recovery efforts” (emphasis added).

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