2017 Public Policy Agenda for North Carolina’s Nonprofit Sector

**Tax Policy:**

1. **Nonprofit tax exemption.** All 501(c)(3) nonprofits should be fully exempt from state and local taxes – including sales, property, and business taxes – on activities related to their charitable missions. New taxes on nonprofits would reduce their ability to provide essential services and force them to cut jobs. Specific policy proposals:
   - Establish sales tax exemption for all 501(c)(3) nonprofits to replace the current system where nonprofits pay sales tax on purchases but can request refunds from the state twice a year.
   - Allow all 501(c)(3) nonprofits to be fully exempt from sales tax on their purchases – rather than arbitrarily limiting sales tax exemption based on a nonprofit’s size or activity code.
   - Preserve property tax exemption for all land owned by 501(c)(3) nonprofits that is used for charitable, religious, or educational purposes.

2. **Incentives for charitable giving.** Tax policies should encourage North Carolinians to give back generously to their communities by supporting the work of charitable nonprofits. Specific policy proposals:
   - Preserve the charitable deduction on state income taxes.
   - Reinstate the state IRA charitable rollover – which allows seniors to donate to nonprofits from their IRAs – on state taxes.
   - Protect businesses that give generously to nonprofits by allowing them to take the same deduction for charitable giving on their state taxes as they take on their federal taxes.
   - Reinstate a state tax credit for individuals who make significant charitable contributions but use the standard deduction on their state taxes.

3. **Sales tax on services.** Many nonprofits’ charitable services should not be taxed. If they were, nonprofits would have to increase their fees, and fewer people would be able to afford nonprofits’ essential services, even when they are priced below the cost of providing them.

4. **Sales tax on admission fees.** Policymakers should make clarifying changes to this law to minimize red tape for nonprofits and to avoid taxing North Carolinians on their contributions to private nonprofits. Specific policy proposals:
   - Clarify that nonprofit fundraising events are not subject to sales tax since they are not for the purpose of entertainment.
   - Eliminate a confusing and unnecessary exemption for “volunteer-only” nonprofits.

5. **Tax policy in the state constitution.** Policymakers should avoid constitutional amendments or other policies that would institutionalize limits on legislators’ fiscal policy options. These types of limits can have unintended consequences for nonprofits.

**Government Grants and Contracts with Nonprofits:**

1. **Prompt payment and full payment for costs.** Half of all NC nonprofits with state grants and contracts are paid late by state agencies, the 11th-worst record in the nation. The majority of these nonprofits are not paid the full cost of providing public services and most are underpaid for their actual, reasonable, documented indirect costs. Specific policy proposals:
Ensure that state agencies (a) avoid delays in paying nonprofits that deliver services; and (b) inform them in advance if a payment will be late.

Include provisions in the state budget or other laws requiring state agencies to sign contracts with nonprofits before nonprofits are asked to begin delivering public services.

Include enforcement mechanisms in prompt contracting and prompt payment provisions in the state budget and other legislation.

Have the Joint Legislative Program Evaluation Division study problems with nonprofit-government contracting, including late contracting, late payments, and underpayment for indirect costs and recommend legislative, regulatory, or policy solutions to help nonprofits provide services more effectively and efficiently.

2. Less red tape. Three-fourths of NC nonprofits that provide public services through state grants and contracts experience problems with the application processes and reporting requirements required by state agencies. Policymakers should find ways to streamline regulations, applications, and reporting and auditing requirements for nonprofit service providers.

3. State compliance with federal rules. Policymakers should ensure full and fair implementation of the cost principles and other grants reforms in the new OMB Uniform Guidance issued in December 2014.

4. Adequate state support for public services provided by nonprofits. Nonprofits have proven to be efficient and effective in delivering public services through government grants and contracts.

Specific policy proposals:
- Maintain, and, where appropriate, expand state support for nonprofits that provide essential public services for North Carolinians.
- Ensure that the state budget includes adequate financial support for nonprofits that are expected to provide services instead of state or local governments.

Nonprofit Operations:

1. Annual reporting. North Carolina is one of the only states that does not require nonprofits to file annual reports with the state. An annual reporting requirement would help protect the integrity of the nonprofit sector. Any legislation to establish annual reporting requirements should ensure that: (1) information required on the reports is reasonable and not excessive; (2) the reporting process is not burdensome for nonprofits; (3) a process is in place to notify nonprofits about the new legal requirement; (4) nonprofits are not charged filing fees; and (5) the N.C. Secretary of State has adequate funding to maintain a user-friendly online filing system.

2. Charitable solicitation. Strong and fair regulation of nonprofits and others who solicit funds on their behalf is essential to preserving the public’s trust in the nonprofit sector. Specific policy proposals:
- Preserve the N.C. Secretary of State’s authority to regulate nonprofits and others that solicit funds on behalf of charitable organizations.
- Ensure that the state budget continues to provide adequate funding for oversight of nonprofits.
- Clarify that the mere presence of a "donate" button on a nonprofit’s website – or a similar passive link – is not enough to trigger charitable solicitation registration requirements.

3. Laws affecting nonprofits as employers. Nonprofits provide one in 10 jobs in North Carolina. As lawmakers consider changing laws that affect businesses – such as revisions to health care policy, employment laws, or regulatory reform – they should actively seek input from nonprofits, ensure that nonprofit employers are treated equivalently to other businesses, and take into consideration any unique legal considerations necessary for tax-exempt nonprofits.

4. Nonprofit fundraising. Lawmakers should ensure that any rule changes for nonprofit fundraising events, such as charitable gaming, are clear and consistent with best practices for nonprofits.

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