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Hertzbach Nonprofit Advisor

Crowdfunding Campaigns: What to Know Before You Click

By Zeynep Orhan, CPA

More so now than ever, we all come across crowdfunding campaigns on social media. A successful crowd funding campaign can launch a nonprofit from just an idea to a fully-funded organization. Crowdfunding is when an individual or group puts in an effort to raise money with donation solicitations from a large number of people – the proverbial crowd. There are multiple ways to run a crowdfunding campaign. Web based campaigns are now the most common, as they access a larger audience and are cost-effective. However, traditional in-person events remain popular as they are high-energy and usually led by a passionate spokesperson. Regardless of the way people crowdfund, this method of fundraising through a wide donor base is becoming valuable part of the nonprofit fundraising toolkit and making it easier for people to donate.

By 2025, crowdfunding is expected to become a more than $90 billion industry. However, before implementing crowdfunding for your nonprofit, here are some important to considerations.

Hidden Fees

Two of the most popular crowdfunding sites at the moment are Kickstarter and Indiegogo. While similar in their online presentation, these sites have different fundraising rules. For example, when using Kickstarter and the campaign is successfully funded, there is typically a 5% fee. If funding isn't successful, there are no fees. However, if a Kickstarter campaign fails then no money is collected from the prospective donors.

With Indiegogo, there is also typically a 5% Indiegogo platform fee. However, Indiegogo allows the nonprofit to keep the all the funds you raised, even if

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At Hertzbach we realize the unique challenges that nonprofits encounter daily. For over 65 years we have served many nonprofit organizations and have advised our clients on specialized nonprofit tax and operational issues.

Our dedicated Nonprofit Services Group offers the hands-on expertise and technical skills needed to serve the distinct needs of this important sector. As trusted business advisors, we are proactive in assisting each association's management team and board of directors.

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IRS Focuses on Employment Tax Issues DuringTax-Exempt Organization Audits

By Robert Kaelber, J.D.

With tax filing season well underway, organizations of all sizes are beginning to identify areas of potential noncompliance and, for nonprofits, a common culprit is employment tax issues.

The IRS has emphasized employment tax compliance during its tax-exempt audits for many years. As we've noted in multiple prior Nonprofit Standard blog posts (see "IRS Issues 2017 Work Plan for Tax Exempt Organizations" and "UBI Issues: Is Your Organization at Risk?"), the IRS has officially stated that this employment tax focus will continue into 2017. In the IRS' Tax Exempt and Government Entities FY 2017 Work Plan, which details its priorities and mission for the coming year, the IRS disclosed that more than 25 percent of closed audits had a "primary issue" related to employment tax. At the end of June 2016, 1,323 audits involved primarily employment tax issues, out of a total 4,984 closed examinations. Further, the IRS continues to include employment tax issues within its list of high-risk areas of noncompliance.

The IRS states in its 2017 Work Plan that, "Employment Tax includes unreported compensation, tips, accountable plans, worker reclassifications and noncompliance with FICA, FUTA and backup withholding requirements." While this definition covers a wide range of areas, our experience with IRS employment tax audits and associated information document requests (IDRs) indicates that likely issues for review may include, but are not limited to, the following:

- Expense reimbursements and accountable plan compliance;
- Fringe benefits (e.g., relocation/moving, automobiles, group term life, cell phone reimbursement, prizes/awards, spousal travel and education benefits);
- Independent contractor classification and income reporting;
- Supplemental pay reporting and processes, including timing of wage inclusion for various tax and wage types (including retirement pay and incentives);
- Form W-9 process, Form 1099 TIN matching procedures and backup withholding compliance;
- Forms W-2c and 941-X processes;
- International cross-border employment tax issues; and
- General compliance procedures for employment tax filing obligations.

The IRS appears to be trying to streamline its processes for audit target identification, focusing on increasing efficiency as it works with fewer resources. As such, the agency has implemented a "data-driven case selection process," and is seeking new ways to identify data that can indicate patterns of noncompliance. Other 2017 IRS priorities include working to develop an employment tax knowledge database (the "Employment Tax K-Net") to track and disseminate what is learned during audits, and to use it to further train employees in this area. It is likely that with enhanced training, IRS examiners will more readily identify more complex potential employment tax issues for review rather than merely focusing on the "low hanging fruit."

Based upon the IRS' continued focus on employment tax issues, it is imperative that tax exempt entities review their policies and processes and invest in initiatives and resources to ensure compliance. Organizations should also document all policies and processes so that they may readily demonstrate upon audit that IRS compliance protocols are followed. Being proactive and completing an internal employment tax process review or even a "mock audit" may help to identify issues and result in the early implementation of corrections before the IRS is involved. Failure to comply with employment tax reporting obligations can result in the imposition of significant tax, penalties and interest. Additional wage inclusion due to employment tax noncompliance could also trigger further questions from the IRS pertaining to inurement or private benefits. [1]

Best Practices for an Effective Investment Committee

By Lee Klumpp, CPA CGMA

Most nonprofits rely on an investment committee to oversee their investment portfolios. This oversight group can have a big impact on real long-term wealth preservation and ensuring resources are available to realize organizational goals and aspirations. These best practices are consistent with the fiduciary duties of care, loyalty and obedience, and include:

1. Form a strong investment committee that embraces the "commit" in committee.
2. Ensure diversity and experience in committee composition.
3. Set a strong Investment Governance and Operational Framework that establishes an Investment Policy Statement—including asset allocation, risk constraints, performance metrics and pay-out. It should be consistent with furthering the organization's objectives and realistic given its resources.
4. Refresh the organizational Investment Policy Statement on a regular basis to make sure that it continues to articulate the organization's long-term objectives and unique needs.
5. Define a realistic target for investment success that is consistent with the organization's resources, and focus on the implementation.
6. Be strategic in asset and investment manager selection and perform regular evaluations.
7. Find an appropriate person or organization that can act as the organization's Chief Investment Officer (CIO), to manage its investment portfolio, be held accountable to the committee and regularly review its performance.
8. Monitor results and make changes as needed.
9. Have regularly structured investment committee meetings and draft minutes from these meetings.

Above all, these best practices, which are fundamental regardless of the nature or size of the organization, can be boiled down to five C's: commitment, coordination, communication, continuity and completion.

While an investment committee can operate successfully with a variety of structures and approaches, these best practices can make any investment committee more efficient and effective. This should lead to improved long-term portfolio operation—ultimately benefiting grantees, beneficiaries and stakeholders. [1]

We hope you find this information useful. If you know of others who should regularly receive this newsletter, or would like to be removed from this mailing list, please email marketing@hertzbach.com

Crowdfunding Campaigns: What to Know Before You Click (continued)

the goal is not reached. Currently, it appears that all platforms have in common is that they charge payment processing fees, per donor, of between 3-5%.

Revenue Recognition

Donations to nonprofits are recognized when an unconditional promise is made. The challenge with a crowdfunded donation is at what time does this triggering event happen and how quickly could the nonprofit be informed. If the donation is contingent on a fully funded campaign, the amount should not be recognized. When the funds are received by the crowdfunding platform, is the money treated as received by the organization's agent and therefore recognized as received by the nonprofit or is the money being held by a third party and a receivable to the nonprofit? Clearly, it is essential to closely scrutinize the contractual terms to determine the appropriate accounting treatment for any crowdfund campaign.

Tax Issues

State law regulates charitable fundraising activities. A majority of states require nonprofits to register with the state before soliciting their residents. Many nonprofits request their CPA to submit these registration forms as much of the information required for the IRS Form 990 is the same as the information requested for the state charitable registration form.

Crowdfunding sites will reach potential donors across the country, and solicitation laws in most states do not typically address solicitations via the internet - yet. For example, online crowdfunding for a Maryland nonprofit sending messages to potential donors in Florida could possibly be an issue, however it depends on each state's laws and these laws are subject to change in the future. We recommend that you consult with your CPA about these potential state tax issues before crowdfunding.

Nonprofit crowdfunding is changing the landscape in online fundraising. While an exciting and useful tool, we encourage you to do as much research and planning as possible. If you have any questions about your nonprofit crowdfunding ideas, please feel free to contact us at nonprofits@hertzbach.com.

Nonprofit Facts:

The IRS granted 501(c)(3) designations to 79,545 religious and charitable organizations in 2016, according to the Chronicle of Philanthropy.

The Bill and Melinda Gates Foundation had a 1.5 billion impact in the Seattle area in 2015, according to the organization's Economic Impact Study.

As of 2016, there are 1,571,056 tax-exempt nonprofit organizations in the United States according to the National Center for Charitable Statistics.

British charities received contributions totaling £9.7 billion in 2016, a Charities Aid Foundation report found.

Sixty-eight percent of U.S. nonprofits reported that they met fundraising goals in 2016, according to a Nonprofit Research Collaborative study.

About 62.8 million people volunteered between Sept. 2013 and Sept. 2014 in America. That's a volunteer rate of 25.3%. according to the U.S. Bureau of Labor Statistics.