North Carolina Center *for* Nonprofits
Many missions | *100* counties | *One* voice

March 15, 2022

The Honorable Richard Burr
United States Senate
Washington, DC 20510

RE: Senate Finance Committee Hearing
"Examining Charitable Giving and Trends in the Nonprofit Sector"

Dear Senator Burr,

I write on behalf of the North Carolina Center *for* Nonprofits and the 40,000 charitable nonprofits in our state. As you prepare for the upcoming hearing, "Examining Charitable Giving and Trends in the Nonprofit Sector," I want to thank you for your past support for pandemic relief, to update you on the ongoing challenges that nonprofits are facing, and to explain the need for targeted relief within the jurisdiction of the Senate Finance Committee.

Before addressing these important issues that will be raised during the Committee's hearing on Thursday, it is helpful to understand the state of the nonprofit sector prior to and during the COVID-19 pandemic.

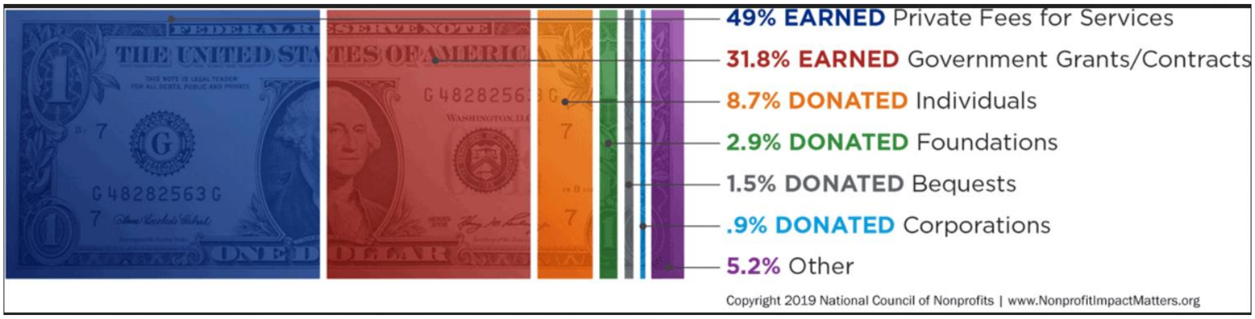
Economic Impact of North Carolina's Nonprofit Sector

As you know, charitable nonprofits are a major part of North Carolina's economy. Nonprofits employ about 10% of North Carolina workers in the private sector, paying more than $19 billion in wages to North Carolinians. Overall, nonprofits put $56 billion directly into North Carolina's economy each year through their expenditures.

It is important to recognize that, although the nonprofit sector is a significant part of North Carolina's economy, most nonprofit organizations are very small. Of the 40,000 North Carolina 501(c)(3) nonprofits, only about 11,800 organizations have annual revenues over $50,000 (*i.e.* those that file IRS Forms 990 every year).

Nonprofit Revenue Sources

While charitable giving is an important revenue source for many individual nonprofits, donations account for only a small percentage of the financial resources for the nonprofit sector as a whole. According to a 2019 report from the National Council of Nonprofits, only about 11% of the total revenue of America's nonprofits comes from individual or corporate donations. In fact, nearly half of nonprofits' revenue comes from private fees for services, and nearly one-third comes from government grants and contracts. Nonprofits often provide services to low-income individuals and others in need in their communities, and the fees that private individuals or governments pay for these services frequently do not cover nonprofits' full cost to provide the services. The graphic below provides a breakdown of revenue sources for the nonprofit sector as a whole.



I share this information to provide some context that tax incentives for charitable giving, while important for the sustainability of many nonprofits, are not the only tax policy solutions that the Senate Finance Committee can provide to help strengthen our nonprofit sector and assist our work in communities throughout North Carolina. I will highlight a few other potential policy solutions below, and I hope that, during Thursday's hearing, you will consider mentioning these other ways that federal tax policy can help nonprofits more fully meet the needs of the communities they serve.

Impact of the Pandemic on Nonprofits

Over the past two years, North Carolina nonprofits have struggled to respond to skyrocketing with inadequate resources. More than half of nonprofits in our state experienced an increase in demand for their services during the COVID-19 pandemic. Record numbers of people across the state are seeking help at food banks, crisis assistance centers, affordable housing providers, community health centers, domestic violence agencies, and consumer credit counseling services.

Meanwhile, nonprofits are struggling to maintain the staffing and financial resources to respond to this increased need in our communities. Specifically:

- Three-fourths of nonprofits reported having at least 10% of their staff positions vacant in late 2021. Also, North Carolina nonprofits lost about 40% of their volunteers in 2020, and the majority of these volunteers have not returned.
- Nonprofits are struggling financially due to COVID-19. Three-fourths of NC nonprofits lost revenue during the first three months of the pandemic in 2020 and many are still behind on their budgets because of this shortfall.

In 2020 and 2021, Congress enacted several pandemic relief programs that helped nonprofits begin to recover, including the Paycheck Protection Program, the Employee Retention Tax Credit, the universal charitable deduction, and one-time federal grants to a variety of nonprofits. The relief provided by Congress made the difference for many organizations by replacing revenues lost due to declines in individual and corporate giving, fees for service, and cancelled fundraising events. The largest of these by far was forgivable loans under the Paycheck Protection Program.

More than 6,000 North Carolina nonprofits received in excess of $810 million in forgiven PPP loans in 2020 and 2021, according to Small Business Administration data.

Unfortunately, all of these pandemic relief programs have expired, though the need for them has not, as nonprofits continue to struggle to meet increased demands with reduced financial resources and personnel. In the face of the ongoing public health and economic crises, too many North Carolina nonprofits are still struggling to meet increased demands for services, confronting a combination of decreased revenue, expenses that are higher than pre-pandemic, and nonprofit workforce and volunteer staffing shortages.

With the above context, I want to highlight three areas of challenges that nonprofits are facing:

1. Fundraising challenges;
2. Nonprofit workforce shortages;
3. The loss of volunteers.

It will be essential for the nonprofit sector to overcome all three of these challenges for nonprofits to be able to more fully and effectively advance their missions. The Senate Finance Committee can help our communities by pursuing tax policy issues that would help alleviate all three of these nonprofit challenges.

Charitable Giving Has Not Kept Up

Charitable giving nationwide has not kept up with need and rising expenses. The 2021 Giving USA report found that individual giving decreased by nearly 0.8% in 2020 compared with 2019, when one major donor's contributions are removed from the data. A separate analysis, the Nonprofit Trends and Impacts 2021 from the Urban Institute, found that small nonprofits were under particular stress. The NC Secretary of State, which tracks donations made through professional fundraisers, found that these contributions were down about 2.5% during the 12-month period ending on June 30, 2021.

Nonprofits' pandemic-related fundraising challenges come at a time when raising money from individuals was harder than ever for charitable nonprofits. The federal tax law changes that took effect in 2018 – specifically the increased standard deduction – mean that fewer than 10% of North Carolinians now use the charitable deduction on their taxes, down from more than 30% of taxpayers previously. Traditionally, donors have given more generously to nonprofits when they recognized a tax benefit that reduced the effective cost of their contributions. The Joint Committee on Taxation report prepared in advance of Thursday's hearing provides helpful background information on the underlying economics of the effectiveness of tax incentives for charitable giving. Now that the charitable deduction is available to far fewer taxpayers than in the recent past, many nonprofits – particularly small charitable organization that rely heavily on individual donations – are finding it more challenging to raise the funds necessary to maintain the quality and quantity of services that their communities demand.

Tax Policy Solutions

In the aftermath of virtually every natural disaster since Hurricane Katrina, Congress has recognized the value of nonprofit relief and recovery efforts by enacting charitable giving incentives that encourage some individuals and corporations to help cover some of the costs of these community-based services. The COVID-19 pandemic and resulting economic crises have certainly qualified as natural disasters and Congress – on a bipartisan basis – swiftly enacted giving incentives for those who itemize and for corporations. Recognizing the catastrophic impact of health and economic crises, Congress went further by enacting, and then expanding and extending, the universal charitable deduction (non-itemizer deduction) to ensure that *all* taxpayers, including those who claim the standard deduction, received a tax benefit for giving back to their communities by supporting the work of charitable nonprofits.

Regrettably, Congress allowed all three of these disaster-related giving incentives to expire at the end of 2021. Unfortunately, the pandemic continues to disrupt services, individuals in our communities continue to come to their local nonprofits for support, and private giving to these frontline organizations still has not returned to pre-pandemic levels. The need to restore and improve these giving incentives will almost certainly be discussed extensively during the Senate Finance Committee hearing on Thursday. The North Carolina Center *for* Nonprofits strongly supports renewal of the universal charitable (non-itemizer) deduction at least through 2022. Indeed, the Center fully endorses the Universal Giving Pandemic Response and Recovery Act (S. 618) because it will further promote giving by *all* American taxpayers — regardless of their income — and generate needed resources for charitable and faith-based organizations to continue providing vital services to families, workers, and communities, especially those who continue to be affected by the ongoing pandemic.

Similarly, we ask that you speak up during the hearing in support of extending the two additional disaster-relief giving incentives that expired on December 31, 2021:

1. The provision permitting individuals who itemize to deduct charitable donations up to 100% of their adjusted gross income; and
2. The measure allowing corporations to deduct charitable donations up to 25% of taxable income.

While these two heightened incentives for charitable giving are available for fewer taxpayers than the universal charitable deduction, they have provided some charitable nonprofits with significant new resources to provide mission-related programs and services in their communities.

Nonprofit Workforce Shortages Crisis

One of the greatest challenges that nonprofits of every type of mission are experiencing is the inability to hire and retain qualified workers. A recent Federal Reserve survey found that 40% of responding organizations reported that staffing levels are down. As of December 2021, the nonprofit sector was still more than 450,000 short of pre-pandemic levels, according to the report COVID-19 Jobs Update, December 2021 from the Center for Civil Society Studies at Johns

Hopkins University. The report found, “as of the end of 2021, nonprofits have recovered approximately 72.1% of the jobs estimated to have been lost as of May 2020.”

This past fall, the National Council of Nonprofits conducted a survey of the difficulties nonprofits across the country were confronting in retaining staff and filling vacancies. Three out of five (60%) survey respondents reported vacancies of between 10% and 30%, according to the NCN report, The Scope and Impact of Nonprofit Workforce Shortages, published in December. Another 16% reported vacancies greater than 30%. Nationwide, nonprofits explained the two most significant causes of the vacancies were salary competition, particularly with employers outside the nonprofit sector, (79%) and the inability of potential employees to find child care (23%).

North Carolina nonprofits responding to the survey made clear that these workforce challenges are hurting the people and communities their organizations serve. A few comments from North Carolina organizations include:

- “We work in rural areas where finding staff was always challenging; the pandemic has exacerbated this, and we are excited that people have lots of job options, but we can't always compete with salary, benefits, and hours.”
  – Human services provider in North Carolina
- “We are finding that volunteers are not returning, resulting in a need to hire for positions previously filled by volunteers. Wage compression is also a factor for our current employees. Inflation is requiring large pay increases, which we are struggling to provide.”
  – Human services provider in North Carolina
- “As a small education nonprofit in Winston-Salem North Carolina, your support for the workforce shortage we are experiencing is much appreciated. Our dedicated staff have been providing direct service to the highest risk families and students experiencing the greatest learning loss, but workforce issues continue to be a major challenge for us to serve "all" in need.”
  – Nonprofit professional in Winston-Salem

Importantly for current public policy debates, a national average of 15% of responding nonprofits reported having claimed the Employee Retention Tax Credit (ERTC). In North Carolina, nearly one in four nonprofits (24%) applied for the ERTC, the highest utilization rate in the county. The early repeal of the ERTC was problematic for many nonprofits, particularly those that had included this refundable payroll tax as part of their budget for the fourth quarter of 2021.

<u>Tax Policy Solutions</u>

The North Carolina Center for Nonprofits and more than 150 North Carolina nonprofits joined more than 1,500 organizations from all 50 states in signing onto the recent letter to Congress and the Administration seeking Pandemic and Workforce Shortage Relief for Charitable Nonprofits. Among other things, that letter calls on Congress to address critical staffing shortages at nonprofits by retroactively restoring the Employee Retention Tax Credit, as proposed in the bipartisan ERTC Reinstatement Act (S. 3625). Congress could further help relief the nonprofit workforce shortage by extending the ERTC as a refundable payroll tax credit through 2022.

To address the unique impact of nonprofit workforce shortages on individuals and communities, Congress could make two improvements to the ERTC:

1. Modifying nonprofit eligibility under the ERTC beyond the current "gross receipts" test to ensure more nonprofits qualify.
2. Revising the definition of eligible payroll expenses under the ERTC to include child care and education subsidies to reflect the increased costs charitable organizations experienced as they struggle to maintain or expand services. Nonprofits believe this change is justified and provides for tax fairness and parity because, unlike for-profit employers, tax-exempt nonprofits are not currently able to receive income-tax relief for providing those employee benefits.

Volunteers Have Not Returned

A unique aspect of charitable organizations is that they can expand their impact by leveraging the commitment of armies of volunteers who are dedicated to the work of nonprofits in their communities. Pre-pandemic estimates by AmeriCorps indicate that the volunteerism rate in North Carolina was 35.1%, contributing 265.3 million hours of service. Nationally and in North Carolina, nonprofits reported throughout the pandemic that volunteerism dropped precipitously.

In our state, many types of nonprofits rely on volunteers, ranging from docents at museums and parents in schools, to drivers delivering meals to seniors, to name only a few examples. The pandemic kept, and is keeping, many long-term volunteers away, yet the nonprofits remain committed to serving their communities. During the first six months of the pandemic, North Carolina nonprofits lost about 40% of their volunteers, according to a North Carolina Center *for* Nonprofits survey of 2,000 nonprofit organizations. Many nonprofits report that their volunteers have still not returned. The sustained loss of volunteers is taking a particularly large toll on the two-third of North Carolina nonprofits that are entirely run by volunteers.

<u>Tax Policy Solutions</u>

As discussed in the recent nonprofit letter on policy priorities, Congress can incentivize volunteerism by eliminating unfair tax policies. Specifically, nonprofits are asking for an increase in the volunteer mileage rate for nonprofit volunteer drivers to the business rate (58.5 cents/mile) for 2022 and the elimination of the tax on mileage reimbursements up to the business rate. The rapid increase in gas prices means that many nonprofits will need to reimburse their volunteers for driving on the charity's behalf. Yet, those drivers will be forced to pay income tax on any reimbursement rate greater than the volunteer mileage statutory rate of 14 cents per mile. This existing tax policy, enforced at both the federal and state levels, imposes a disincentive on all but the most well-off volunteers. It is unfair, harmful to the missions of charitable organizations, and must be changed.

The extension and improvements to the ERTC described above would also go a long way to helping nonprofits that have lost volunteers hire staff to provide some of the services that had previously been performed by volunteers.

American Rescue Plan Act Resources
Before closing, I want to raise an important issue that, while not within the Finance Committee's jurisdiction, is of critical concern to the charitable nonprofits in our state. The American Rescue Plan Act (ARPA) allocated $8.8 billion to governments in North Carolina through the Coronavirus State and Local Fiscal Recovery Fund. The North Carolina General Assembly has already appropriated all of state's $5.4 billion in ARPA relief, and many of North Carolina's 100 counties and 552 municipalities have appropriated some or all of their ARPA funds.

The federal government is showing tremendous trust that governments closest to the people and their problems are best positioned to decide the best ways to spend their allocated resources to meet local needs. While available for many purposes, the statute and Treasury Department regulations make abundantly clear that governments at all levels may use these funds in partnership with charitable nonprofits to address many challenges in our communities.

The North Carolina Center *for* Nonprofits is actively engaged in working with state and local officials to ensure the money is properly invested. We ask that you and your Senate colleagues allow these ARPA funds to go to the state and local governments as scheduled so that we may achieve greater impact.

Conclusion
As you consider the issues raised during the Finance Committee hearing, we ask that you reflect on the important, sustaining work that North Carolina nonprofits performed throughout the pandemic and recognize that our challenges are far from over. Most for-profit businesses and government offices have or soon will reopen to something amounting to normal business. Most charitable organizations – particularly those addressing the immediate needs of our residents – never had the luxury of closing. Yet, at this stage in the pandemic when demand for nonprofit services remains high, North Carolina's nonprofits remain short of resources to meet normal as well as pandemic-related expenses. But we don't just lack adequate resources; our nonprofits lack the staff and volunteers to meet the very high needs, which is resulting in waiting lists, denial of services, and outright closures of local nonprofits. In light of these compelling challenges, we ask that you champion tax-policy solutions, at the hearing and in the Senate, that will restore and enhance the charitable giving incentives and the Employee Retention Tax Credit, and remove tax disincentives for volunteers to support the missions of nonprofits in their communities.

Sincerely,

David R. Heinen

David Heinen
Vice President for Public Policy and Advocacy