



## State Policies Can Help Nonprofits with COVID-19 Recovery

*Updated: March 30, 2020*

As Governor Roy Cooper and state legislators develop policy solutions to best equip North Carolina to handle the COVID-19 pandemic, it is essential that they take action to support the operations of the thousands of nonprofit organizations in the state that are struggling to meet growing needs with fewer resources during this crisis. Nonprofits provide essential services in communities in all 100 counties of North Carolina, often in partnership with the public sector. Nonprofits are also a substantial employer, comprising more than 10% of North Carolina's private workforce. It is in everyone's best interest to maintain a thriving nonprofit sector in our state.

The North Carolina Center *for* Nonprofits has been seeking input from nonprofits about the ways that the COVID-19 pandemic is affecting their organizations and the communities they serve. Here are six policy solutions that would be immensely helpful to the nonprofit sector. The Center will make additional suggestions for policy solutions as we continue to learn more about the hardships nonprofits are facing during the pandemic.

**State grants and contracts.** The state is a critical partner to many nonprofit service providers. Significant disruptions in state grants and contracts could permanently shut down organizations providing health services, child care, food assistance, senior care, and many other essential services in our state. Nonprofits may have difficulty fulfilling their deliverables on state grants and contracts due to the necessary public health response to this emergency and the impact it is will have on all parts of the economy. Through the Center's survey, a significant portion of nonprofits with state grants and contracts indicated that additional flexibility in use of these funds would be helpful in enabling them to continue operations during and after the current crisis. These organizations include:

- Arcs (disability service providers funded through DHHS contracts);
- Boys & Girls Clubs;
- child abuse prevention organizations;
- child care service providers;
- Communities in Schools organizations;
- community action agencies;
- domestic violence organizations;
- family services organizations;
- food banks;
- homelessness/affordable housing service providers;

- legal services nonprofits;
- literacy councils;
- local arts councils and other arts organizations funded through the NC Arts Council;
- mental health service providers;
- senior service providers;
- Special Olympics; and
- wildlife conservation organizations.

*Policy solutions:* The General Assembly should pass legislation requiring that, if a nonprofit cannot fulfill its deliverables on a state contract due to circumstances related to the COVID-19 pandemic, then the contract would be paid on the basis of intended deliverables without penalty for inability to meet deliverables. In addition, we encourage the NC Office of State Management and Budget to consider following the lead of the federal Office of Management and Budget (OMB) in temporarily loosening grant and contract reporting, application, and renewal requirements.

**Unemployment insurance.** Businesses and nonprofits throughout North Carolina are making (and will continue to make) difficult decisions in light of the economic challenges that are resulting from the public health response to the pandemic. For more details about nonprofit-specific issues related to unemployment insurance (UI), see this [blog post](#).

*Policy solution:* To the extent that the General Assembly makes temporary changes to unemployment insurance (UI) benefits, it is important to fully hold harmless nonprofits that have the option of self-insuring and reimbursing the state for UI claims (under NCGS § 96-9.6) rather than paying SUTA based on experience rating. The federal CARES Act (Section 2103) provides federal funding for *half* of the UI claims of the reimbursing nonprofits. This is a start in helping to relieve the extreme financial burden of unexpected COVID-19 related UI claims by self-insured nonprofits. However, the state needs to take two additional steps to ensure that these organizations are held harmless:

1. Ensure that Chapter 96 of the General Statutes allows the state of North Carolina to receive the federal funds to cover half of the costs of COVID-19 related UI claims for self-insured nonprofits and to apply these funds toward the reimbursements that these nonprofits would ordinarily owe for these claims; and
2. Provide forgiveness from North Carolina's UI Trust Fund for the other half of the amounts that these self-insured nonprofits would typically need to reimburse the state for COVID-19 related UI claims.

Affected organizations include healthcare providers, food banks, housing providers, and senior care facilities. Without this specific UI relief, which is consistent with the relief that organizations that pay SUTA are receiving, many of these organizations will need to close their doors or significantly reduce services at a time when access to healthcare, food, housing and other basic needs is more essential than ever.

*Policy solution that has been addressed by the federal CARES Act:* Two types of charitable nonprofits are exempt from UI laws: (1) churches and other religious nonprofits; and (2) small nonprofits with fewer than four employees. Normally, employees working for these types of nonprofits are ineligible for UI benefits if they lose their jobs. The federal CARES Act (Section 2102) provides Pandemic Unemployment Assistance (PUA) that extends special UI coverage

(paid by the federal government) to workers not covered by state UI laws. Consequently, the General Assembly should not need to take further action to provide assistance for these nonprofit employees if they are out of work due to COVID-19. The Center will continue to monitor the PUA process and notify state policymakers if there are any unforeseen gaps in coverage for laid-off employees of religious organizations and small nonprofits under this new federal program.

**Extending small business assistance to nonprofits.** Like many small businesses, nonprofits are suffering significant financial losses due to the necessary public health response to the COVID-19 pandemic. Policymakers are rightly seeking to help mitigate the financial harm to small businesses. However, any assistance to employers through a corporate or income tax mechanism will likely leave out nonprofit employers.

*Policy solution:* Any employer benefit should be available to nonprofit employers, either by making the tax mechanism relate to taxes that nonprofits pay (such as payroll taxes or unrelated business income taxes) or by using a grant mechanism for nonprofits.

**Support for charitable giving.** Nonprofits have seen a decline in private giving the past two years, and widespread closures and cancellations of public events have eliminated important sources of earned income revenue (tickets for performances, registration for educational conferences, etc.) for the foreseeable future. An infusion of private giving is essential to help organizations continue to operate and provide essential services. The federal CARES Act (Section 2204) allows individual taxpayers who use the standard deduction a limited, above-the-line deduction (capped at \$300 per year) for charitable contributions made in 2020. Nonprofits appreciate this is token of support, which may help generate a few additional small contributions to nonprofits (while also providing a small measure of deferred tax relief to individuals next spring). However, an above-the-line charitable deduction with such a small cap will likely only mean a small increase in private giving and will little to relieve the current fiscal challenges facing charitable nonprofits.

*Policy solution:* As the General Assembly considers temporary tax law changes to respond to the pandemic, it would be extremely helpful to add a targeted, temporary giving incentive (whether a credit or a deduction) to encourage North Carolinians to support the work of charitable organizations in their community that are responding to, or suffering from, the COVID-19 pandemic. At the minimum, the General Assembly could help generate additional private charitable giving by reinstating the non-itemizer tax credit for charitable contributions (repealed in 2014 as part of state tax reform) on 2020 taxes. That repealed provision was a 7% credit (set at the then-lowest individual income tax rate) with a floor of 2% of adjusted gross income (to match the average percentage of income that American taxpayers contribute to charitable organizations each year). To reflect the current individual income tax rates, an equivalent credit today would be set at 5.25%. A temporary credit without a floor would be the most beneficial approach to help nonprofits. It could be created by adding the following new section of Article 4 of Chapter 105 of the General Statutes:

**“§ 105-153.11. Credit for charitable contributions by nonitemizers.**

A taxpayer who elects the standard deduction under G.S. 105-153.5.(a)(1) is allowed as a credit against the tax imposed by this Part an amount equal to five and one-quarter percent (5.25%) of the taxpayer's charitable contributions.

A nonresident or part-year resident who claims the credit allowed by this section shall reduce the amount of the credit by multiplying it by the fraction calculated under G.S. 105-153.4(b) or (c), as appropriate. The credit allowed under this section may not exceed the amount of tax imposed by this Part for the taxable year reduced by the sum of all credits allowed, except payments of tax made by or on behalf of the taxpayer.”

Language for a credit with a 2% floor, which would still be at least somewhat helpful for nonprofits could be:

**“§ 105-153.11. Credit for charitable contributions by nonitemizers.**

A taxpayer who elects the standard deduction under G.S. 105-153.5.(a)(1) is allowed as a credit against the tax imposed by this Part an amount equal to five and one-quarter percent (5.25%) of the taxpayer's excess charitable contributions. The taxpayer's excess charitable contributions are the amount by which the taxpayer's charitable contributions for the taxable year that would have been deductible under section 170 of the Code if the taxpayer had not elected the standard deduction exceed two percent (2%) of the taxpayer's adjusted gross income.

A nonresident or part-year resident who claims the credit allowed by this section shall reduce the amount of the credit by multiplying it by the fraction calculated under G.S. 105-153.4(b) or (c), as appropriate. The credit allowed under this section may not exceed the amount of tax imposed by this Part for the taxable year reduced by the sum of all credits allowed, except payments of tax made by or on behalf of the taxpayer.”

**Extension of charitable solicitation filing deadlines.** Most charitable nonprofits are required by state law to have charitable solicitation licenses, which are issued annually by the NC Secretary of State. Many of these nonprofits will need to file for renewal of their licenses on May 15 and will need an extension due to workplace disruptions stemming from COVID-19 and social distancing practices.

*Policy solution:* Currently, state law (NCGS § 131F-5(d)) only grants the Secretary of State the authority to grant filing extensions of up to 60 days. It would be extremely helpful for the General Assembly either: (1) to provide for automatic six-month extension of these filing deadlines; or (2) to expand the Secretary of State’s authority to allow it to grant extension of up to six months.

**Continuing input from nonprofits.** Last week, the Center initiated a survey of nonprofit leaders to learn more specifically about the needs of individual nonprofits. So far, we have received about 700 responses from nonprofits in more than 70 counties, and we are working with private funders and state agencies to increase the outreach so that we hope to hear from thousands of additional nonprofits in the next week. Already it is clear that nonprofits, particularly nonprofit service providers, are being called upon to adapt quickly to new operating requirements, educate community members, and support vulnerable populations without any new resources. Initial findings from the survey suggest several types of immediate impact that have been felt by nonprofits:

- 87% of respondents have had to cancel programs or events and have lost revenue from this;
- 76% have had a disruption of services to clients;
- 74% are suffering budgetary challenges due to the economic impacts of COVID-19;
- 60% are having challenges with staff or volunteers working remotely;
- 48% are challenged by increased and sustained staff and volunteer absences; and

- 35% have experienced disruption of their supplies.

In most cases, nonprofits now have fewer resources to meet greater needs, since most organizations are suffering financial loss, significant reduction in the availability of in-person volunteers, and the reduction in staff capacity as nonprofit employees are sick, at home with children who are unexpectedly out of school, or having to work remotely to avoid in-office interactions.

*Policy solution:* It is essential that state government leaders consult with nonprofits as the state of North Carolina continues to respond proactively to this crisis. If the General Assembly or the executive branch of state government are putting together task forces or commissions to help advise the state on COVID-19 response, leaders at the North Carolina Center *for* Nonprofits are ready and able to participate. We are also happy to share results of our survey periodically to help track the ongoing and changing needs of nonprofits and the communities they serve throughout North Carolina.

*For more information: David Heinen, Vice President for Public Policy and Advocacy, N.C. Center for Nonprofits, 919-986-9224 (cell) or [dheinen@ncnonprofits.org](mailto:dheinen@ncnonprofits.org).*