

Nonprofit Strategies



SAN LUIS OBISPO COUNTY COMMUNITY FOUNDATION

Donating To Nonprofits Has Tax Benefits

By Barry VanderKelen

Someone asked me recently how small businesses can receive maximum tax benefits for donating to local nonprofits. To answer this question, I contacted Kathleen O'Connor, a partner in the Paso Robles accounting firm of Roy & O'Connor.

Businesses can be organized in at least seven structures—C-corporation, S-corporation, limited liability corporation (LLC), limited partnership, general partnership, limited liability partnership (LLP) and sole proprietorship. Business stock can either be privately owned or traded in public markets. The ownership form dictates the financial impact of a donation to the business and its owners.

Corporations are separate entities from their owners with profits distributed as dividends. Corporations can donate up to 10 percent of their taxable income, subject to certain adjustments. If a corporation's donations exceed the 10 percent limit for the year, they are carried over for use in the next year.

The other business forms have few if any shareholders and are almost always private companies. Contributions from these businesses are passed

through to the partner or owner through their reports of income and certain expenses, known as K-1 forms. The partners then itemize these deductions on their personal income taxes. Contributions that are treated as true contributions (even if paid from a business account) are not deducted as expenses on the business' reports. They are treated as personal itemized deductions.

So why is this review important to nonprofits? Because business owners regularly complain that nonprofits don't understand how to interact with them. Understanding how donations are treated might help staff and board members structure solicitations in ways that help business owners realize maximum tax benefit for donations.

For example, financial support that comes from a marketing budget is an operating expense and may reduce the owner's profits, thus also reducing the self-employment tax that will be due. Furthermore, marketing expenses are not subject to the 10 percent limitation on charitable donations from corporations. Businesses must be careful that marketing expenses are for marketing activities; many charitable donations cannot be considered anything other

than a straight donation.

This review points out that business owners may be able to financially support nonprofits from three sources: donations from the company, as marketing expenses, and donations from their personal resources.

So how much money do businesses give to local nonprofits annually? I estimate that the answer is at least \$5 million in cash plus products and services worth a few million dollars more; wineries report donating more than \$1 million in wine annually. Calculating this cash estimate requires convoluted math. A good source of information is the National Center for Charitable Statistics, www.nccsdataweb.urban.org.

Even if the estimate is tenuous, the point remains that donations from businesses are important to keeping local nonprofits vibrant.

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Resource Use

- Support nonprofit leadership
- Board development/training
- Strategic planning

Nonprofit Business Column of The Tribune

The San Luis Obispo Tribune publishes a column every other week in the Business section dedicated to the business practices of nonprofit orgs. Barry VanderKelen, Executive Director of the San Luis Obispo County Community Foundation writes the bi-

weekly column to help strengthen nonprofit organizations in the community. Each column is reprinted here as a one-page handout for use by local organizations. Barry can be reached at 543-2323 or by e-mail at barry@slocf.org.