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Institutional Advisors

Weathering the Storm: How Nonprofits Can Thrive in Uncertain Times

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Nonprofits are the backbone of our communities, providing essential support and services. But in turbulent economic times, their resilience is put to the test. This paper offers a roadmap for navigating challenges and seizing opportunities in turbulent times.

Among the approaches that can bolster financial resilience and safeguard organizational impact are diversifying revenue streams, managing finances and operations prudently, improving communication, and preparing for potential changes in the tax laws.

Diversifying revenue streams

In a volatile economy, it's critical that organizations not depend too much on one source for their funding. Financial strategies such as these could help prevent that:

Expanding earned income

Nonprofits should explore opportunities to generate revenue through fee-based services, product sales or social enterprises aligned with their missions. For instance, a health clinic might offer wellness workshops, or a food bank could establish a grocery store.

Cultivating corporate partnerships

Building strong relationships with corporations can yield significant funding, in-kind donations, or volunteer support. Collaborations may range from joint marketing campaigns to corporate sponsorships of specific programs.

Enhancing individual giving

Implementing robust donor retention and acquisition strategies, including planned giving and legacy gifts, can secure a steady stream of individual donations. Personalized communication, donor recognition events, and regular updates on organizational impact can strengthen donor relationships.

Government grants

Researching and applying for federal and local government grants can provide another source of funding, especially for programs addressing pressing social issues. Nonprofits should stay informed about government funding opportunities and cultivate relationships with government agencies to increase their chances of securing grants.

Crowdfunding

Leveraging online platforms is important for engaging a wider donor base and mobilizing support for specific projects or initiatives. Crowdfunding campaigns can be highly effective in generating excitement and raising funds for innovative projects.

Prudent financial management

In addition to exploring new revenue sources, nonprofits must also adopt sound financial management practices to ensure long-term sustainability. Some suggestions:

Budgetary discipline

Developing detailed budgets, closely tracking expenses, and implementing cost-saving measures are essential to maintain financial stability. Nonprofits should regularly review their budgets and make necessary adjustments to ensure they operate within their means.

Risk management

Identifying potential financial risks, such as economic downturns or regulatory changes, and developing contingency plans can mitigate unexpected challenges. Active risk assessment and strategic planning can safeguard financial health.

Financial forecasting

Using financial forecasting tools to project future revenue and expenses can inform strategic decision-making. By analyzing historical data and identifying trends, nonprofits can make informed decisions about resource allocation and budgeting.

Building financial reserves

Setting aside a portion of surplus funds can create a safety net for future uncertainties. Nonprofits should work to build a financial reserve that can cover operating expenses for several months, if not longer.

Investing in technology

Adopting technology solutions can streamline operations, improve efficiency, and reduce costs. By investing in technology, nonprofits can automate tasks, enhance communication, and optimize overall performance.

Enhancing operational efficiency

Another key strategy to help nonprofits weather economic storms is improving operational efficiency. This can be accomplished through:

Lean operations

Identifying and eliminating unnecessary processes or redundancies can optimize resource allocation. Streamlining operations can reduce costs and improve efficiency.

Volunteer engagement

Leveraging volunteer support can significantly reduce labor costs and increase capacity. By effectively managing volunteers and providing meaningful opportunities, nonprofits can maximize their impact.

Strategic partnerships

Collaborating with other nonprofits or organizations can share resources, reduce overhead, and expand impact. By forming strategic partnerships, nonprofits can pool their resources and achieve greater impact.

Data-driven decision-making

Using data analytics to inform strategic decisions can improve program effectiveness and resource allocation. By analyzing data on program outcomes, donor behavior, and operational performance, nonprofits can make data-driven decisions that lead to better results.

Strong communication and advocacy

Nonprofits must also communicate transparently and advocate for their needs to maintain stakeholder support with strategies such as:

Transparent communication

Maintaining open and honest communication with donors, volunteers, and stakeholders can foster trust and support. Regular communication, such as newsletters, social media updates, and impact reports, can keep stakeholders informed and engaged.

Impact measurement

Quantifying and communicating the impact of programs and initiatives can strengthen the organization's case for support. By measuring and reporting on their impact, nonprofits can demonstrate their value to donors, funders, and the community.

Advocacy efforts

Engaging in advocacy efforts to influence public policy and secure additional funding can be crucial for long-term sustainability. By advocating for policies that support their missions and building relationships with policymakers, nonprofits can increase their chances of securing funding and advancing their causes.

Thinking ahead to 2025 — Assessing the impact of potential tax changes on nonprofits

The Tax Cuts and Jobs Act of 2017 (TCJA) introduced significant changes to the U.S. tax code, some of which are set to expire at the end of 2025. These impending changes have the potential to significantly impact nonprofits, both positively and negatively.

Nonprofits may experience change in the following areas because of new tax laws:

Charitable deductions

- **Reduction in deduction limits**

  The TCJA increased the standard deduction, leading fewer taxpayers to itemize deductions, including charitable contributions. More taxpayers may itemize if the standard deduction reverts to pre-TCJA levels, potentially increasing charitable giving. However, other factors such as economic conditions and individual priorities may offset this increase.

- **Limitations on deductibility of donations**

  The TCJA temporarily increased the deduction limit for charitable contributions to 60% of adjusted gross income (AGI). If this limit reverts to 50%, it could discourage larger donations, particularly from high-income individuals who rely heavily on charitable deductions for tax-planning purposes.

Unrelated Business Income Tax (UBIT)

- **Expansion of UBIT**

  The TCJA introduced changes to UBIT regulations, making it easier for the IRS to classify certain activities as unrelated business income. Nonprofits engaging in revenue-generating activities should review their operations to ensure compliance with UBIT rules. Failure to do so could result in significant tax liabilities.

- **Increased tax rates**

  While not directly related to the TCJA, future tax reform could include increases in the UBIT tax rate, further affecting nonprofits with unrelated business income. Such increases could erode nonprofit resources and divert funds away from their core missions.

Estate tax

- **Reduction in estate tax exemption**

  The TCJA significantly increased the exemption for estate taxes. If this exemption reverts to pre-TCJA levels, it could lead to increased estate tax burdens on wealthy donors, potentially reducing charitable giving through estate planning. This could have a significant impact on nonprofits that rely on large estate gifts to fund their operations and programs.

For more information, please contact your advisor.

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