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September 2014 Nonprofit Newsletter

Director Independence

Three main groups focus on the number of independent directors an Exempt Organization (EO) has: IRS, state attorneys general and prospective donors. Unanimously they believe that the higher percentage of independent directors the EO has, the less likely a violation of the private benefit and private inurement policies will occur.

To be independent, four criteria have to be applied at all times throughout the year.

1. Employee Compensation. The director cannot receive compensation as an officer or other employee of the EO or related organization, nor can he or she be compensated by an unrelated organization for services to the EO. Reasonable compensation for director services is allowed [although such compensation is discouraged by the Massachusetts Attorney General].
2. Independent Contractor Services. Excluding expense reimbursements, the director cannot receive more than $10,000 of total compensation from the EO as an independent contractor during the EO's tax year.
3. Transactions with the EO. Neither the director nor a family member can be involved in a transaction with the EO that is required to be reported on the EO's Schedule L.
4. Related-Party Transactions. Neither the director nor a family member can be involved in a direct or indirect transaction with a related organization (taxable or exempt) that is required to be reported on that organization's Schedule L.

Appreciated Stock Provides Greater Tax Benefits Than Cash

Since 2012, growth in the stock market and household wealth has led to increased charitable giving. While the percentage of donations of appreciated stock is up 14% over last year, most wealthy people are not taking advantage of the benefits of gifting appreciated stock versus cash. Appreciated stock is valued at market value, allowing individuals to avoid tax on capital gains from cashing in the securities before gifting them. Donors could capitalize on their investments with the upward market trends while supporting a good cause. Read more on this trend here.

Impact Investing as a Growing Trend

In 2012, about 11% of total United States assets under management were placed in sustainable investments, according to the Forum for Sustainable and Responsible Investment. Investments in companies, organizations, and funds that are specifically designed to produce a measureable and beneficial, social and environmental impact has been a fairly recent trend, but one that is growing exponentially. Financial firms, such as Morgan Stanley and Bank of America Merrill Lynch, are recognizing the trend and creating avenues for like investments. Morgan Stanley created the Institute for Sustainable Investing to support social and environmental impact and Bank of America Merrill Lynch sold $12 million in green bonds to support alternative energy programs.

For more information on how to get involved and the full article, read here.

The Social Impact Calculator

The Low Income Investment Fund sought out higher quality research that would allow them to assign a monetary value to the future social impacts of building low cost housing, childcare centers, and health clinics in less affluent neighborhoods.

- Where does the research come from? *Research that has been conducted by Nobel Prize winning James Heckman was used to create the dollar values.*
- What organizations can use it? *In addition to the Low Income Investment Fund, other community finance organizations, impact investors, foundations, and banks that finance community.*
- Can the calculator be modified to better fit an organization? *Nancy Andrews, Chief Executive of the Low Income Fund indicates yes. The calculator is still a novelty. Any improvements, technical or with valuation methods, are welcomed.*
- Where can you access the calculator? Here**.**

Read the full article here.

Senate Panel Finds IRS Guilty of Inappropriate Search Methods

The Treasury Inspector General for Tax Administration conducted an audit last year that stated the Internal Revenue Service had treated conservative tax-exempt organizations less favorably than their liberal counterparts. A Senate investigative panel confirmed the findings of inappropriate scrutiny but concluded there was no evidence of political bias. It further implied that the audit findings were misrepresented and distorted.

Read the special report here.