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Vol. 1 May 2010

## Nonprofits Count!

A monthly update on the latest nonprofit news and FMA events.

**Welcome to the FMA Institute's premier e-alert.** As an FMA Institute member and client of FMA, you will receive e-alerts addressing hot topics and general FMA Institute news – all designed to keep you on top of nonprofit finance related issues.

If you haven't heard already, Deputy Mayor Linda Gibbs will offer the keynote address at this year's FMA Institute update event on May 13th at Baruch College.

The title for the morning is **Leadership Through Innovation: Business Solutions that Strengthen Nonprofits.**

A great panel of innovators will follow the Deputy Mayor. Please go [here](#) to learn more about the morning and to register.

Stu Cohen  
Senior Manager, Development  
Fiscal Management Associates, LLC

### Upcoming FMA & FMA Institute Events

CNAP:  
May 10 - NYC in person

Fiscal Staffing and Core Competencies:  
May 18 - online

Strategic Budgeting:  
June 29 - online

Close the Books:  
June 16 - online

Interpreting Financial Statements:  
June 22 - online

Controls, Efficiencies, and Transparencies:  
June 15 - online

Leadership Through Innovation:  
May 13

## May 13th Complimentary Event for Nonprofits

### Leadership Through Innovation: Business Solutions that Strengthen Nonprofits

Deputy Mayor [Linda Gibbs](#), will offer the keynote address sharing with her the city's view of innovation and its potential impact on the nonprofit sector. A question and answer period will follow.

Following Deputy Mayor Gibbs, a distinguished panel of experts will be facilitated by Gretchen Dykstra, the former Commissioner of Consumer Affairs and the very successful innovative leader over the Times Square redevelopment project.

The panel, representing a diverse perspective on innovative leadership, from a successful Executive Director who

continues to innovative and build a nonprofit to an author who has written books on what works and doesn't when it comes to innovation, will offer their unique perspective and candid input in a lively discussion.

Date: Tuesday, May 13, 2010

Place: Room 14-220, Baruch College, Vertical Campus, Lexington Avenue @ 24<sup>th</sup> Street

Time: 8:30 am – 12:00 noon

Food: Continental breakfast will be served between 8:30 am – 9:00 am

This special event is only available to FMA and ERE past and present clients and close associates as well as FMA Institute members. Again we anticipate high interest and strongly recommend registering now as seating is limited.

*To ensure your seat, please register by May 6. To register, click here.*

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## Double Bottom Line

### Outsourcing the Strategic Financial Function

By Russell Pomeranz, Manager of Financial Advisory Services, FMA

In an increasingly competitive nonprofit world vying for fewer resources, an organization's survival and sustainability is largely dependent on its capacity for short and long-term strategic financial decision making.

<http://www.nonprofitaccountingbasics.org/internal-reporting-good-management/financial-management/outsourcing-strategic-financial-function/out>

### One-Fourth of Nonprofits Are to Lose Tax Breaks

New York Times

Published: April 22, 2010

By [STEPHANIE STROM](#)

As many as 400,000 nonprofit organizations are weeks away from a doomsday.

At midnight on May 15, an estimated one-fifth to one-quarter of some 1.6 million charities, trade associations and membership groups will lose their tax exemptions, thanks to a provision buried in a 2006 federal bill aimed at pension reform.

<http://www.nytimes.com/2010/04/23/us/23exempt.html>

### Nonprofit adoption agencies often profit someone other than children, families

*AJC investigation: Big portions of agency budgets go to top executives*

By [Alan Judd](#)

The Atlanta Journal-Constitution

By law, private adoption agencies in Georgia are supposed to operate as nonprofit organizations.

<http://www.ajc.com/news/nonprofit-adoption-agencies-often-493623.html>

## Collaboration aids nonprofits

By Don Morgan

Posted: 04/24/2010 08:53:12 PM PDT

We have recently seen the nonprofit sector position itself as a significant player in our current economic recovery efforts.

Not only are nonprofit organizations some of the primary recipients of public dollars being pumped into communities, they are also key providers of services no longer offered by the public sector, and one of the few sectors currently providing employment opportunities.

[http://www.sgvtribune.com/business/ci\\_14954183](http://www.sgvtribune.com/business/ci_14954183)

## Financial Tuneup: Treat Giving Like Saving

It's easy to put off giving to charity until the end of the year and then scramble to give when the spirit of the holiday season hits you (or [it hits you that you need to make a donation](#) by New Year's to get a tax deduction).

<http://bucks.blogs.nytimes.com/2010/04/23/financial-tuneup-treat-giving-like-saving/?src=busin>

## Patient Protection and Affordable Care Act of 2010 – UPDATE FROM ERE

The new *Patient Protection and Affordable Care Act of 2010*, and its accompanying reconciliation law, provide broad-based changes for employers as well as many individuals. In addition to virtually mandating health insurance coverage for all U.S. citizens, this massive health care reform legislation includes several other far-reaching tax provisions.

The changes generally take effect over time -- in some cases, you won't see them for two to four years. But advance planning can maximize tax advantages for some and minimize tax disadvantages for others.

[Download a PDF summary of the Individual provisions.](#)

[Download a PDF summary of the Business provisions.](#)

Here's a brief summary of some of the provisions.

[Individual coverage](#)

[Premium assistance care](#)

[Employer responsibility](#)

[Small business credits](#)

[Medicare tax](#)

[New reporting requirements](#)

[Two new payroll taxes for high-income earners](#)

**Individual coverage** - This is one of the foundations of the health care legislation. For tax years beginning after 2013, any individual who is not eligible for Medicare or Medicaid must obtain "minimum essential coverage" through an employer-sponsored plan or one of the other options, such as a government-sponsored plan or a private plan. If you fail to do so, you will be assessed a nondeductible tax penalty based on the greater of a flat dollar amount (cut in half for children under age 18 or full-time students) or a percentage of household income (see chart below).

| If the year begins in: | The flat dollar penalty* is: | Or you must pay this % of household income, if greater than the flat penalty: |
|------------------------|------------------------------|---|
| 2014                   | \$95                         | 1%  |
| 2015                   | \$325                        | 2%  |

|      |       |      |
|------|-------|------|
| 2016 | \$695 | 2.5% |
|------|-------|------|

\*Total household penalty can't exceed 300% of the per-adult penalty

These figures will be phased in over three years and then adjusted for inflation for tax years beginning after 2016.

Premium assistance credits - For tax years beginning after 2013, the new law provides "premium assistance credits" that certain taxpayers can use to help purchase health insurance through a state-run exchange. Eligibility for this refundable tax credit will be based on household income in the tax year ending two years before the enrollment period.

The credit is generally available to taxpayers with a household income between 100 percent and 400 percent of the federal poverty level who aren't receiving health insurance through an employer (or spouse's employer). This credit is coordinated with reduced cost-sharing for qualified individuals.

Employer responsibilities - For tax years beginning after 2013, an employer may have to pay a tax penalty if it fails to offer minimum essential coverage to an eligible employee. The penalty for each month is equal to the number of full-time employees multiplied by one-twelfth of \$2,000.

This rule applies to any employer with at least 50 full-time employees during the prior calendar year. Note: The penalty is based on all full-time employees, not just employees who aren't receiving minimal essential coverage. But an employer can subtract the first 30 employees from the calculation. For instance, the penalty for an employer with 100 full-time employees is based on 70 employees.

Small business credits - The new requirements for employers may be costly, but qualified small business owners can benefit from a special tax credit.

For tax years beginning in 2010 through 2013, an eligible small business can receive a credit of up to 35 percent of the contribution for employee health insurance premiums. In 2014 and later years, an eligible business can receive an increased credit of 50 percent of the contribution for a two-year period. The credit is available for small employers with less than 25 full-time equivalent employees.

Medicare tax- The new law includes a fundamentally different tax treatment in the imposition of the 1.45 percent Medicare tax paid by individuals (2.9 percent for self-employed individuals). Previously, this payroll tax only applied to "earned income" such as wages and bonuses. No part of the Social Security tax, including the Medicare tax, was ever due on "unearned income" received from investments. For tax years beginning after 2012, certain high-income taxpayers may be assessed an additional tax on earned income and an unprecedented Medicare tax on unearned income.

New Reporting Requirements - For tax years beginning after 2011, the new law requires employers to report the value of the employer-sponsored health insurance coverage on employees' W-2 forms. It also requires businesses to file information returns for all payments totaling \$600 or more in a calendar year to a single recipient, including corporations (other than tax-exempt entities). Additional details on these requirements will be issued in the future by the IRS.

Two New "Payroll" Taxes for High-Income Earners - The Patient Protection Act imposes two new extra Medicare taxes on high-income individuals beginning in 2013:

1. You must pay an additional 0.9 percent Medicare tax on earned income if you're a single tax filer with earned income above \$200,000 or a joint filer with earned income above \$250,000.
2. You must pay an additional 3.8 percent Medicare tax on net investment income if you're a single tax filer with a

modified adjusted gross income (MAGI) above \$200,000 or a joint filer with a MAGI of more than \$250,000.

The second tax applies to "net investment income." For this purpose, net investment income includes interest, dividends, royalties, rents, gains from dispositions of property and passive activity income (from, for example, certain rentals). However, it does not include distributions from qualified retirement plans, such as 401(k), 403(b) and 467 plans, and IRAs.

The tax on net investment income is assessed on the lesser of the net investment income or the amount by which your net investment income exceeds the MAGI threshold.

**Example:** Let's say in 2013, you receive \$220,000 in wages, \$70,000 in capital gains and \$10,000 in IRA distributions, for an MAGI of \$300,000. Because you're a joint filer and your MAGI exceeds the threshold by \$50,000, you must pay the additional Medicare tax on \$50,000 of your capital gains, or an extra \$1,900 (\$50,000 times 3.8 percent). However, you don't owe the extra 0.9 percent tax because your earned income doesn't exceed the \$250,000 threshold.

There are numerous other tax provisions in the new health care law, including changes for cafeteria plans, flexible spending accounts and other tax-favored health care accounts; and fees on insurers for high-cost insurance plans. Other special rules and "grandfather" exceptions for health plans may apply.

Consult with your tax and employee benefits advisers for assistance relating to these issues for both the present and the foreseeable future.

To learn more, click here for individuals, here for businesses.

For more information, contact Steven Blumenthal, tax director, at 212.931.9254 or at [sblumenthal@ere-cpa.com](mailto:sblumenthal@ere-cpa.com) or your personal ERE tax advisor.

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