Nonprofit Observer

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Brave new world

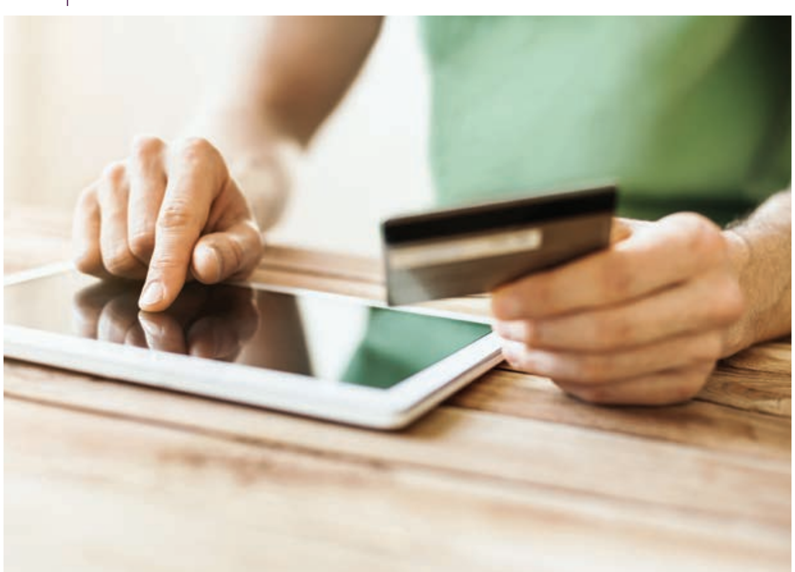
Microdonations matter now more than ever

At 80 million strong, Millennials now make up the largest chunk of the U.S. population. But because they're often still in school or just beginning careers, they generally don't have the financial resources to make large charitable gifts. Another fact about Millennials: They use their mobile devices to do *everything*. What logically follows is that nonprofits hoping to harness the giving potential of this demographic must make it easy for supporters to text microdonations — as small as $1 a pop.

But it's not just about engaging young people. Traditional fundraising strategies that exclusively target well-heeled donors via phone calls and letters need to evolve to accommodate all kinds of supporters and communication methods. Accepting microdonations ensures that anyone who wants to give to your nonprofit probably can.

What are they, exactly?

There's a saying about microdonations. They're the amounts you don't think twice about giving. Whether it's $5 to a text-to-give campaign or $15-a-month automatic checking account withdrawals, microdonations typically won't break the average donor's budget.



Microgiving is likely contributing to a shift in the charitable giving landscape. A Chronicle of Philanthropy survey found that people earning less than $100,000 gave 4.5% more of their income in 2012 than they did in 2006. And the 2017 Giving USA survey reports that donations from individuals rose 7% last year. Patrick M. Rooney of Indiana University's Lilly Family School of Philanthropy says that recent trends represent "something of a democratization" where growth can be attributed to "donors among the general population," as opposed to the wealthy.

High net worth donors are still responsible for most charitable dollars spent. But even these prized supporters — solicited by dozens, if not hundreds, of charities every year — welcome opportunities to give small. If you encourage microdonations, your nonprofit is more likely to receive *something* from big donors. Once you have their support and they get a chance to learn more about your organization, big donors making small gifts could become big donors making major gifts.

What app?

The microgiving concept is an old one. Consider the "spare change" collection boxes that have graced supermarket checkouts for decades. Those boxes probably aren't going anywhere anytime soon, but consider: Online giving increased almost 8% in 2016 over 2015, and 17% of online donations in 2016 were made on a mobile device, according to Blackbaud Institute's fifth annual *Charitable Giving Report*. Think of apps such as Spotfund and Google's One Today, which enable $1 to $3 gifts, as 21st century collection boxes.

HOW TO BUILD COMMUNITIES

Technology and microgiving go hand-in-hand, but that doesn't mean you should just automate your fundraising. "Giving communities" is a current buzzphrase that captures the desire of both budding and established philanthropists to make connections and build networks of like-minded peers. It encompasses everything from identity-based donor funds — where people who share a racial, religious or other identity combine resources to make grants — to virtual events like Giving Tuesday.

Held on the first Tuesday after Thanksgiving (November 28 in 2017), Giving Tuesday leverages the power of social media to raise awareness and funds for nonprofits over a 24-hour span. Although the global event is online, many nonprofits have found creative ways to encourage their local communities to come together on that day. For example, Better Future Facilitators of Akron, Ohio, partnered with a local gym to host a 20-hour bike-a-thon and Twist Out Cancer of Philadelphia teamed up with a local company for a sock hop.

Other technological platforms allow supporters to contribute to your nonprofit simply by shopping. These include AmazonSmile, which donates a percentage of purchases to the shopper's charity of choice and Bstow, which rounds up purchase amounts to the next dollar and donates the "change." GiveCampus is tailored to the giving preferences of Millennials, with fundraising and volunteer management features. And Facebook allows users to build fundraising pages where their friends can donate directly to a charity without leaving the social media site.

What's your responsibility?

Although technology is changing how donors give, some things never change. That includes your nonprofit's responsibility to substantiate gifts for income tax purposes. If a microdonation, however small, is made in cash, make sure you provide the donor with a receipt.

You aren't required to substantiate gifts of less than $250 from donors paying by check, credit card or payroll deduction. But sending a letter of acknowledgment is a great way to show your appreciation, particularly if the volume of smaller donations you receive makes sending personalized thank-you notes difficult.

Even high net worth individuals — solicited by dozens, if not hundreds, of charities every year — welcome opportunities to give small.

Give them what they want

There are many different ways to encourage microgiving to your nonprofit. Although the current focus is largely on online and mobile donations, you should also offer such choices as automated monthly contribution plans. After all, many donors prefer to "gift it and forget it." To ensure you're offering supporters the options they want, conduct formal and informal surveys of your base. ●

Is it time to update your social media policy?

When was the last time you thought about your nonprofit's social media policy? Maybe you wrote one several years ago when your organization set up a Facebook page or a LinkedIn profile. Since then, not only has your nonprofit likely changed, but new social media platforms have emerged. At the very least, the established sites you use have probably revised their terms of service.

The basics

A social media policy helps ensure that staffers, board members and volunteers use your nonprofit's online accounts to promote and enhance — not damage — your nonprofit's reputation and fund-raising efforts. Without a policy, you risk confusing and offending stakeholders, inviting lawsuits and even incurring financial costs, such as the loss of your exempt status.

To prevent such negative outcomes, your policy should address several topics, including:

- Which sites you'll use,
- Who in your organization has access to them,
- What subjects they're allowed (and not allowed) to discuss, and
- Whom they can "friend."

Also specify whether staffers and board members can discuss their work on their personal social media accounts. If so, require them to post a disclaimer saying that their opinions about your organization are their own.

Evaluate site use

As you revisit your social media policy, consider the sites your nonprofit currently uses and whether they still enable you to reach your target audience. Do your staffers post frequently enough to be effective?

Is your follower base actually growing? If not, you may want to shift resources elsewhere — for example, to one of the newer social media platforms.

Twitter may have been on everyone's lips five years ago, but today's hottest social media platforms are photo-sharing apps like Snapchat and Instagram, whose users are primarily under 25. Nonprofits such as the Ocean Conservancy and Los Angeles County Museum of Art have used Snapchat effectively. However, such sites may not make sense if your organization primarily communicates its message with words or is trying to extend its outreach to older donors.

Another consideration is whether the social media outlets you use have changed their terms of service. In the past couple of years, many sites have expanded their rights to share user account information with third parties. Such changes may raise privacy concerns within your organization.

Other updates

Also review who has social media account access and whether you want to restrict or increase it. As a general rule, the fewer people with access, the less likely someone will post something damaging.

But, if your nonprofit is struggling to maintain a regular posting schedule, it might benefit from adding new, enthusiastic staffers or volunteers to the account.

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Just make sure that, whenever you remove a user from an account, you change the password. Social media sites increasingly are being hacked, so it's a good idea to mandate longer, more difficult passwords that, for example, employ a mix of letters, numbers and symbols.

Another policy that you may not have originally addressed, but can't afford to ignore now, is intellectual property (IP) rights. Contrary to what some believe, nonprofits aren't immune from IP infringement lawsuits. Make sure that, before your nonprofit posts third-party images, videos, music and text, you have permission from IP holders and properly credit them.

Fast-moving target

These are only some of the many issues that may require you to revisit your social media policy. Social media is a fast-moving target and, to use it effectively, your nonprofit must pay attention to evolving developments. ●

Using planned gifts to help secure your nonprofit's future

Planned (also known as deferred) gifts come as close to a sure thing as your nonprofit will ever likely encounter. They're often more substantial than other types of donations and, because they specify an amount and date (or event, such as the death of the donor), they can help you secure your organization's future with guaranteed revenue. Donors also benefit from the tax breaks and estate planning tools associated with planned gifts.

Menu of options

Here's a summary of major types of planned gifts, their benefits and how they should be handled.

Direct gifts and bequests. This form of giving goes directly from a donor (or a donor's estate, in the case of a bequest) to your organization. Generally, the bigger the donation, the bigger the tax benefit. Lifetime gifts of cash, property or other assets are usually fully deductible for income tax purposes as long as donors' itemized deductions exceed the standard deduction and their donations don't exceed adjusted gross income (AGI) limits. Direct bequests generally are 100% deductible for estate tax purposes.

Charitable gift annuities. These vehicles, available in most states, can be a good fit for people who want to donate substantial assets, minimize taxes

and retain a consistent income flow during their lifetimes. Your nonprofit receives money, securities or real estate and in return agrees to pay the donor a fixed income for life. Contributors can defer any capital gains on appreciated property given to you, recognizing gains only as they receive annual payments. Meanwhile, a portion of each payment is defined as a tax-free return on principal. Also, donors can claim an income tax deduction equal to the present value of the charitable interest the year the annuity is set up.

Charitable lead trusts. With a charitable lead trust (CLT), the contributor donates assets to a trust, which pays income to the charity for a number of years. Then the property reverts to the donor or a beneficiary. The donor receives a gift or estate tax deduction (depending on whether the trust is funded during life or at death) equal to the present value of the charitable interest when the CLT is set up. Depending on the CLT's structure, the donor also may receive an income tax deduction.

Charitable remainder trusts (CRTs). Here the donor receives income from the donated assets for a specified period, or for the life of the beneficiary, and the remainder goes to the charity. As with a charitable annuity, donors can defer capital gains on certain long-term appreciated property given to the CRT, recognizing gains only as they receive annual payments. They receive a gift or estate tax deduction equal to the present value of the charitable interest when the CRT is set up and, if it's set up during life, also receive an income tax deduction.

Donor advised funds (DAFs). These funds enable donors to make charitable gifts when they choose and to participate in directing the funds. Contributors can create a DAF in their name, held by a nonprofit organization that administers the funds and makes grants. DAFs are designed to broadly benefit a variety of charities and are less costly to set up than a private foundation.

Supporting organizations. Some donors who want more, but not necessarily direct, control over how funds are used create supporting organizations. The chosen charities typically handle the organizations' tax-filing and administration costs. Donors can deduct contributions up to a higher percentage of AGI than allowed for private foundation contributions.

Private foundations. Foundations typically are the vehicle of choice for donors who want to make contributions of $1 million or more annually, or who want full control over how funds are used. Foundations must file income tax returns each year and pay a 1% or 2% excise tax on net investment income. They also must bear administrative costs and make required minimum payouts annually.

Put your program in place

If your nonprofit hasn't yet established a planned giving program, consider doing so. It costs virtually nothing to set up and requires no formal legal paperwork. However, staffers will need to be knowledgeable about planned giving so they can work effectively with donors and their advisors. Make sure donors work with financial and tax professionals when using planned giving vehicles. ●

Make a licensing agreement work for your organization

Licensing your nonprofit's name to a for-profit company can provide a valuable new revenue source — but it can also be risky. If you're considering a licensing arrangement, ensure that the partnership really will generate funds and, possibly more important, a positive impression of your brand.

Success ... and controversy

When licensing arrangements work, both charities and companies can experience significant benefits. AARP and UnitedHealthcare, the ASPCA, Crum & Forster Pet Insurance Group, Share Our Strength and American Express have all successfully executed profitable licensing arrangements.

But such arrangements can also cause controversy. In the 1990s, the Arthritis Foundation licensed its name to a line of Johnson & Johnson analgesics called Arthritis Foundation Pain Relievers in return for at least $1 million per year. But many groups complained that the arrangement compromised the charity's objectivity. More recently, the American Cancer Society has come under fire for licensing its name to SmithKline Beecham's NicoDerm CQ® nicotine patch.

Preventing unwelcome surprises

To ensure a license arrangement doesn't become a public relations problem, thoroughly research any potential partner's business and products and the backgrounds of its principals. Also confirm that your mission and values align. When in doubt, pass over a potential licensee — no matter how high the promised royalties — if you determine that its products have the potential to undermine your brand.

Work with your attorney to include certain provisions in any license agreement. Specify how the licensee can use your name and brand, mandate quality control standards and detail termination rights. And realize that signing the agreement doesn't end your responsibility — you'll need to actively monitor the licensee's use of your name and intellectual property throughout the agreement period. If it sounds like all this will require additional staff time, you're right.

In fact, the resource-intensive nature of licensing leads some nonprofits to outsource the work. Outsourcing allows your organization to focus on its mission, but you'll probably pay upfront fees, a monthly retainer and a percentage of the royalties your consultant secures. So it's important to crunch the numbers and make sure your license arrangement is worth this expense and effort.

Compliance matters

Nonprofits enjoy a royalty exclusion that generally exempts licensing revenues from unrelated business income taxes (UBIT). But certain arrangements can jeopardize this. You *can't* receive compensation based on your licensee's net sales — only on gross sales. And you must play a passive role, meaning you don't actively provide services to the licensee. Talk to your legal and financial advisors for more information. ●