

Unintended Consequences - New Sales Tax on Nonprofits Puts Communities at Risk

Why Does This Matter to All Kentuckians?

Nonprofits are essential to healthy, vibrant Kentucky communities. Nonprofits are:

- major employers – 1 in 11 Kentuckians work at a nonprofit employer;
- critical to creating the kind of quality of life that makes businesses want to operate in Kentucky;
- vital partners contracting with the Commonwealth to deliver programs and services that the state is obligated to provide - without nonprofits, the burden of delivering services directly would fall to government; and
- on the front lines meeting unmet needs, collaborating to solve community problems and engaging Kentuckians in creating communities in the Commonwealth that we are proud to call home.

How'd We Get Here? The Cause...

- A March 2018 Kentucky Supreme Court decision on exemptions from the Commonwealth's sales and use tax is cited by the Kentucky Department of Revenue (DOR) as a case leaving them without the authority to continue to exempt nonprofits from the collection and remittance of sales tax.
- House Bill 487 is passed by the Kentucky General Assembly in April 2018 - making changes to Kentucky's sales tax statutes. One of these changes included an expanded definition of taxable "admissions."
- DOR has interpreted this language to require, among many other things, taxing admissions to nonprofit fundraising events and items sold to raise money via live or silent auction.

The Impact...

- As of July 1, 2018, DOR began requiring all Kentucky nonprofits to collect and remit sales tax on admissions, including everything from tickets to fundraising events to event sponsorships that include tickets.
- While some nonprofits had been collecting and remitting sales tax in certain situations under previous requirements, the vast majority had not and DOR enforcement was effectively absent.
- Nonprofits are scrambling to understand these new requirements, evaluate the impact these requirements will have organizationally, administratively and financially, and establish the DOR-compliant processes and procedures to collect and remit these taxes.
- This issue has caused a great anxiety, created a significant administrative burden and proved to be an enormous distraction nonprofits cannot afford.
- Passing the sales tax along to donors, combined with changes to federal charitable giving tax incentives, threaten nonprofits' ability to effectively raise the funds necessary to accomplish their mission.

What's at Risk?

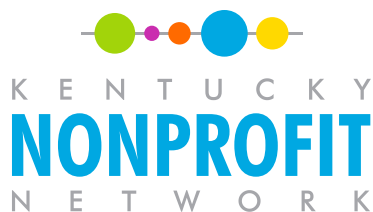
- Kentuckians are at risk. When nonprofits are forced to divert resources meant to provide warm meals to senior citizens; after school program for children at risk for abuse and neglect; treatment for addiction; job training; mental health services - Kentucky communities and our neighbors are at risk.

Where Do We Go from Here? The Solution...

Lifting these complex tax requirements from nonprofits allows these vital organizations serving you and your neighbors to focus on what they do best – enhancing the quality of life in our communities.

Kentucky Nonprofit Network, the unified voice of Kentucky's nonprofit organizations, supports:

- a statutory exemption for nonprofits from collecting and remitting sales tax on admissions
- a statutory exemption for nonprofits on any other related fundraising activities, including items sold or auctioned for fundraising purposes.



Kentucky Nonprofit Network is the state association of nonprofits. Over 700 members strong, KNN exists to strengthen and advance the nonprofit sector - essential to vibrant Kentucky communities.

For more information, contact:

Danielle Clore, CEO ♦ 859.963.3203 ♦ www.kynonprofits.org

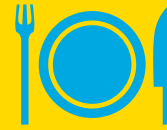


1 in 11
 Kentuckians work
 at a nonprofit

Nonprofits make up
9.1% of the state's
 workforce



Nonprofits provide **9%**
 of all Kentucky wages -
 totalling \$3.39 Billion



Nonprofits help ensure a

**QUALITY
 OF LIFE**



that helps attract
 businesses & jobs to
 Kentucky - and are vital
 partners in helping
 state government meet
 their obligations to
 serve the most
 vulnerable



Nonprofits generate
 over **\$27 Billion** in
 annual revenue



*--pumping this
 money back
 into Kentucky's
 economy*

**Charitable Giving
 Deductions
 Matter to
 Kentuckians**



-- **82%** of
 Kentucky
 itemizers claim
 the charitable
 giving tax
 deduction as an
**investment in
 nonprofit
 missions**