National Council of Nonprofits

Champions for the public good

Charitable Giving and Trends in the Nonprofit Sector

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Charitable nonprofits improve our lives, add vitality to our communities, contribute to our local and national economies, and enhance the health of our democracy. But too often, nonprofits are taken for granted and under-resourced, limiting their ability to advance their missions.

The National Council of Nonprofits is the largest network of nonprofits in North America. We focus on the 97% of charitable nonprofits with budgets under $5 million – food banks, neighborhood health clinics, community theatres, domestic violence shelters, senior centers, and more – the organizations whose absence would leave huge voids in their communities. Working with our core network and other collaborative partners, we champion, inform, and connect organizations across the country to get things done for nonprofits and the people and communities they serve.

Overview

Your constituents and our nation benefit from and depend on local charitable nonprofits. Those organizations are still struggling under severe strains as they help our communities through and out of the worst public-health and economic crises of our lifetimes. Congress initially enacted tax policies and programs to build a bridge to get our country, including nonprofits, safely to the other side of the COVID-19 pandemic. But most of those policies and programs expired before safety could be reached, in part because surges of the Delta and Omicron variants prolonged the pandemic, further disrupting lives and nonprofit operations. The continuing difficulties have made the unprecedented – and accelerating – nonprofit workforce shortage even more complex. It is imperative that Congress swiftly restore and revise tax policies and programs that will enable charitable organizations to advance their missions on which so many rely.

Multiple Forces Have Put Charitable Nonprofits Under Severe Strains, Placing Your Constituents at Risk

The public is at risk because nonprofits do not have the resources and support they need to meet the soaring demands for their services. This condition predates the pandemic; the country's dual health and economic crises have severely exacerbated the problem. Too many nonprofits are still struggling to meet increased demands for their services, confronting a combination of both decreased revenues and higher expenses than pre-pandemic levels. Consequently, extreme burnout of paid and volunteer staff has created a dangerous nonprofit workforce shortage. The public cannot afford for Congress to ignore this growing crisis.

The Public's Needs Exceed Nonprofit Capacity

We urge you to consider these alarming trends:

- More than 75 percent of the 2,237 charitable nonprofits responding to an August 2021 nationwide survey by the Federal Reserve reported that **demand for their services had increased** over pre-pandemic levels. See Perspectives from Main Street: The impact of COVID-19 on communities and the entities serving them, Federal Reserve Community Development Staff, Oct. 12, 2021 (separate run of charitable nonprofit responses).
- Almost half (45 percent) noted a **decrease in their ability to meet those needs**.
- A quarter (26 percent) of the more than a thousand charitable nonprofits from all 50 states responding to a late 2021 nationwide survey by the National Council of Nonprofits reported that **demand for their services had so exceeded their capacity that they had to create a waiting list that is more than a month long**, with some organizations highlighting that some clients have had to wait years to receive services. Another 21 percent said they do not have a wait list – because, without adequate resources, **they are no longer accepting new clients or referrals and have had to turn people away**. (Combined, that is 46 percent unable to meet demands.) See The Scope and Impact of Nonprofit Workforce Shortages, National Council of Nonprofits, Dec. 2021.

- These results are consistent with what state associations of nonprofits across the country have documented through their own statewide surveys of the pandemic's impact on nonprofits. .

The Federal Reserve survey also documented significant financial strains on charitable nonprofits:

- **Expenses had increased** for nearly three-quarters of the responding organizations – *and that was before inflation shot up to the current rate of 7.9 percent.*
- **Individual donations and corporate donations were each down** for nearly half of the nonprofits – and *significantly* down for nearly a fourth.

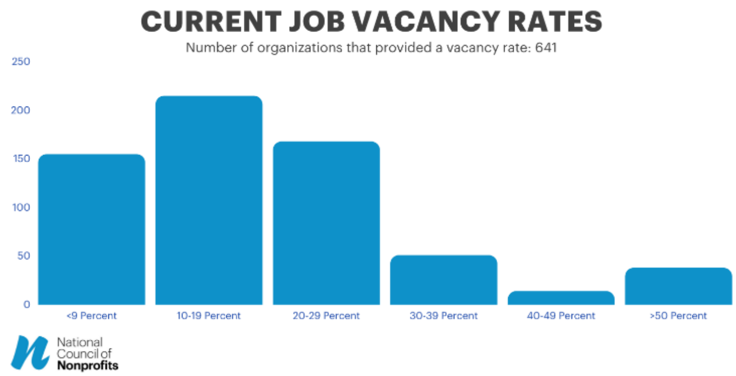
Those results are consistent with other recent reports. The Nonprofit Trends and Impacts 2021 Research Report from the Urban Institute found that 40 percent of organizations reported losses in total revenue for 2020. Smaller nonprofits were under heightened stress. "Forty-two percent of organizations with budgets under $500,000 experienced decreased donations in 2020, compared with 29 percent of organizations with budgets of $500,000 or more." **Nonprofits that said donations were essential to their revenue stream were also more likely to have experienced decreased donations in 2020.**[1]

Unprecedented – and Dangerous – Nonprofit Workforce Shortages

One of the greatest challenges that nonprofits of every type of mission are experiencing across the country is the inability to hire and retain qualified workers. The Federal Reserve survey, referenced above, found that **staffing levels were down for more than 40 percent** of the nonprofits surveyed. Indeed, as recently as December the nonprofit sector was still more than 450,000 jobs short of pre-pandemic levels, according to the COVID-19 Jobs Update, December 2021 from the Center for Civil Society Studies at Johns Hopkins University. The report found, "as of the end of 2021, nonprofits have [only] recovered approximately 72.1% of the jobs estimated to have been lost as of May 2020."

[1] At first glance, two reports suggest that giving increased in 2020 compared with 2019. But when removing MacKenzie Scott's outsized contributions ($6 billion) to 460 organizations from the data in the 2021 Giving USA report, individual giving decreased by nearly 0.8 percent. The Fundraising Effectiveness Project (FEP) report suggests that the numbers of donations and donors rose in 2020. However, Ben Miller, Chief Analytic Officer of Donor Trends and Vice Chair of the FEP, explained when interviewed, "An important nuance to the Fundraising Effectiveness Project's reports is that we are measuring the *average* increase in donors and dollars. For 2020, this could be misleading because, while in total there were more donors and dollars as compared to 2019, **the majority of organizations actually saw decreases in both.** While donations increased by 10.6 percent on average, **the *median* result was actually a 6.6 percent decrease in donations**. Donors increased by 7.3 percent on average, but **the median was down by 7.6 percent**. This means that **the majority of nonprofits saw declines in both donations and donors in 2020**, even though more people donated more money." See The Data Show What We Know: Nonprofit Helpers Need Help, Amy Silver O'Leary, National Council of Nonprofits, Nov. 23, 2021 (emphasis added).

Yet what was initially considered to be a challenge for nonprofits has become a crisis due to burdens of the pandemic era. The crisis needs rapid remedy. To better understand the extent and causes for nonprofits confronting difficulties in retaining staff and filling vacancies, the National Council of Nonprofits conducted a survey late last year. A third of nonprofits (34%) reported job vacancy rates of between 10% and 19%, and a troubling 26% responded that they had job openings for 20% to 29% of their positions. Another 16% percent reported vacancies greater than 30 percent. See [The Scope and Impact of Nonprofit Workforce Shortages](), Dec. 2021.



Although nonprofits nationwide reported various factors creating the difficulties, they identified two predominant causes:

1. **<u>Salary competition</u> – four out of five nonprofits (79%) identified it as a factor**
   Even those startling numbers do not tell the full story. Frontline practitioners from across the country shared their observations about the reasons behind the growing nonprofit workforce shortages, why they matter in the real world, and how it affects their communities.

   - **North Carolina** human service professional: "Pay is the biggest challenge, as many organizations (for profit and nonprofit) are competing for the same groups of people," and "we can't always compete with salary, benefits, and hours."
   - **Texas** human service provider: other employers "are basically poaching from nonprofits that cannot offer the higher pay."

   Survey participants noticed a distinct change in who is luring nonprofit employees away:

   - **Massachusetts** nonprofit: direct "competition from retail sector."
   - **New York City** early childhood center: the City's Department of Education has its own shortages, and "as a result, they are poaching our staff to fill their vacancies."
   - **Rhode Island** family services provider: "The inability to compensate staff adequately, based on their education and experience, often leads to high staff turnover rates, low workplace morale, and high levels of burnout among providers."
   - **Maryland** nonprofit about government contract/grant problems: "we cannot provide the same level of service, let alone meet current increased demands due to COVID, without an increase that allows us to cover increased costs, the need to raise salaries and bring on new staff." Consequently, "our ability to meet the demand for our services continues to decrease every year."

The result is that nonprofits are suffering a brain and experience drain as longtime professionals leave the sector – and the missions they support – because the under-resourced nonprofits cannot compete. That drain, and the inability of nonprofit to replace staff, results too often in the public facing delayed or complete loss of services.

2. **<u>Inability to find child care</u> – a quarter (23%) identified it as a factor**
   Nonprofit and other employers also face a significant challenge in attracting and retaining job candidates due to the lack of availability of high-quality, affordable, and available child care. Because women comprise 66 percent of the nonprofit workforce, they are disproportionately impacted by the lack of child care, in part due to the outsized caregiving burden they carry for their households and communities. As employers and, in many cases, child care providers, charitable nonprofits are deeply concerned that the lack of child care and equitable wages are impediments to all; as one expert said on a recent Federal Reserve webinar, "There is no recovery of the economy without child care." Maintaining quality, safety, and enriching environments that nurture children is costly. Yet, nonprofit child care providers are reluctant to pass on higher costs to families because the price of child care already makes this critical service out of reach for too many families. Therefore, we urge Congress to provide robust funding to expand access to high quality child care that is affordable, dependable, and accessible, and supports livable wages and skill-based training for nonprofit child care professionals.

A Precipitous Decline in Volunteerism

The brewing crisis of the nonprofit workforce shortage is not just with paid nonprofit employees. The shortage extends to nonprofits' volunteer workforce.

Many types of nonprofits rely on volunteers, such as drivers delivering meals to homebound individuals. Yet volunteerism has fallen dramatically since the pandemic hit, thus limiting the ability of organizations to continue providing pandemic relief and recovery. The pandemic kept, and is keeping, many long-term volunteers away as they stopped donating their time and talent out of concern for public health (their own, and to avoid becoming a carrier who could unknowingly transmit COVID-19).

For a variety of reasons, volunteers have not been returning. Parents have additional family demands, older individuals and others from vulnerable populations have safety concerns with returning to in-person volunteering, and in general people are stressed and have reduced time and energy to volunteer.

An old tax policy is also prohibiting volunteers from returning and new volunteers from stepping forward. Nonprofits have begun hearing from more people who used to donate their time that they cannot afford to volunteer because of the high cost of gas. This week, the average price of a gallon of gasoline is $4.43, following Russia's invasion of Ukraine, according to USA Today. When Congress established the statutory 14 cents per mile as the Volunteer Mileage Rate in 1997, the average cost of gasoline was $1.23, according to the U.S. Department of Energy. Yet for a quarter century, Congress has never gone back to increase that mileage rate. See generally Charitable Volunteers Mileage Reimbursement, Congressional Research Service, RS20296, May 30, 2008.

When volunteers are no longer available, the only choices for charitable nonprofits are to stop providing the services or try to hire people to fill cover those shifts. As a **North Carolina** human services nonprofit reported, “We are finding that volunteers are not returning, resulting in a need to hire for positions previously filled by volunteers.” But that returns to the challenge of raising adequate funds. As, a **Minnesota** arts organization wrote, “Because history museums grew out of volunteer-only organizations (and many still are volunteer-only), we have had difficulty as a field finding sufficient funding streams to hire the staff we truly need to operate.”

Profound Risks for the Public When Nonprofits Cannot Operate at Full Capacity

Participants in the National Council of Nonprofits workforce survey made clear their views that the toll on community members’ lives caused by workforce shortages is significant and regrettable. Among the nonprofits reporting at least a one-month waiting list for services is a domestic violence shelter in **Montana**. Another organization reported having as many as 1,500 children on their waiting list. "We are having difficulty filling child care positions - educators/teachers,” a **Vermont** human service provider shared. “This has caused us to close classrooms, consolidate and put burden and pressure on our existing staff,” they lamented, adding “the alternative is not serving families who need child care.”

Many organizations explained that, due to job vacancies, they had been forced to limit services and reduce the number of individuals they could assist. One stated, “We do not keep a wait list, but we serve less than 5% of those calling for shelter or rent and utility assistance.” Another acknowledged, “We have had to close for business several times during the past 9 months due to being at capacity.”

The human toll extends beyond people needing services; it often includes nonprofit employees and volunteers working beyond their sustainable capacities to ensure services continue to be provided to as many people as possible. As an **Illinois** nonprofit leader observed when completing the survey, “The stress of covering vacant positions on top of low pay is overwhelming,” with “some staff covering responsibilities for three other positions simultaneously.” So, being forced to cut back is not due to a lack of will or dedication. Rather, there are simply human limitations. A human services provider in **Oregon** shared, “Our frontline workers are exhausted and under stress.” Added another, “The nature of the work we do in providing support to trauma survivors and the hours we operate take a toll on staff during the best of times.” They continued with insights on the reality of our times: “During a pandemic, where staff have to juggle personal and professional challenges in new and wildly different ways, the rates of burnout are exponential.”

In summary, nonprofits facing job vacancies reported several coping techniques, ranging from “cutting programing to focus on client service delivery” to having to “turn people away many times in a month.” Some described how they adjusted days and times to continue providing at least some services. Still others have been forced to refuse added caseloads. Too many organizations in the nonprofit community maxed out on their capacity long ago. Something must be done, for nonprofits and for the public relying on those nonprofits.

The Context: How We Got Here

- Every one of your constituents benefits from the work of America's 1.3 million charitable nonprofits, whether directly or indirectly: nonprofits protect, feed, heal, shelter, educate, inspire, enlighten, nurture, and console.
- When the pandemic first struck, small and midsize nonprofits embedded in local communities mobilized to offer critical support. They were determined, innovative, and – ultimately – exhausted doing so much more, for so many more people, for much longer than anyone imagined.
- The pandemic initially wiped out more than 1.6 million nonprofit jobs. Simultaneously, the public's reliance on and demand for nonprofit services skyrocketed for hundreds of thousands of nonprofits while revenues plummeted for most, straining too many organizations past capacity and jeopardizing delivery of drastically needed services.
- In 2020, recognizing how heavily your constituents were and would be relying on charitable nonprofits to provide relief, Congress supported the work of nonprofits by making charitable nonprofits eligible for Paycheck Protection Program ("PPP") loans, including nonprofits in the Employee Retention Tax Credit ("ERTC"), providing (limited) unemployment insurance relief, and enacting enhanced charitable giving incentives.
- But then Congress closed the PPP program in May 2021, ended unemployment relief to workers and employers before Labor Day, retroactively stopped the ERTC program at the end of September, and let all the enhanced charitable giving incentives expire on December 31. In hindsight, Congress ended those programs prematurely, because the COVID-19 pandemic – fueled by the Delta and Omicron variants that surged after most of the relief programs ended – continues to ravage our nation's health, economy, and recovery.
- Consequently, the sudden removal of relief programs – while pandemic-related economic struggles continue – has hit nonprofits especially hard, once again threatening the ability of nonprofits to operate and deliver services on which your constituents and our nation rely.

How to Move Forward: Bipartisan Policy Solutions Exist

The solutions identified below are neither novel nor entirely our own. Rather, more than 1,500 charitable nonprofits from all 50 states and the District of Columbia have signed the attached joint [Nonprofit Community Letter on the Pandemic and Workforce Shortage Relief for Charitable Nonprofits].

Those 1,500+ organizations call on Congress and the President to enact legislation that would help charitable nonprofits overcome three obstacles limiting their ability to advance their missions of helping people in local communities: lack of resources, lack of staff, and lack of volunteers. That letter identifies multiple policy solutions within each category. The Senate Finance Committee has direct jurisdiction on the seven enumerated solutions below.

Generate Resources to Meet the Needs of Relief and Recovery

Charitable giving is down, and giving incentives enacted by Congress have expired. For charitable nonprofits to have the resources they need to continue to operate and provide needed disaster relief and recovery in local communities, Congress needs to restore and improve tax incentives for charitable giving. We call on Congress to give priority to the three disaster-relief charitable giving incentives that expired at the end of 2021:

1. **Renew the universal charitable (non-itemizer) deduction** at least through 2022 and improve it by significantly increasing the cap on the deduction, as proposed in the **bipartisan Universal Giving Pandemic Response and Recovery Act (S.618/H.R.1704)**.

2. Reinstate the **100% AGI cap** on individual donations to permit individuals who itemize to deduct charitable donations up to 100% of their adjusted gross income.

3. Reinstate the **25% income tax cap** on corporate donations to allow corporations to deduct charitable donations up to 25% of their taxable income.

Address Critical Staffing Shortages

Charitable organizations need relief from the devastating and well-documented nonprofit workforce shortage. Specifically, we ask that Congress reinstate and improve the Employee Retention Tax Credit (ERTC) in these ways:

4. Retroactively restore the **ERTC**, as proposed in the **bipartisan ERTC Reinstatement Act (H.R. 6161/S. 3625)** and extend this refundable payroll tax credit through 2022.

5. Modify the ERTC eligibility for nonprofits beyond the current “gross receipts” test to ensure more nonprofits qualify as a way to address the impact of the unique impact of nonprofit workforce shortages on individuals and communities.

6. Revise the definition of eligible payroll expenses under the ERTC to include child care and education subsidies to reflect the increased costs charitable organizations experienced as they have struggled to maintain or expand services. We believe this improvement is justified because, unlike for-profit employers, tax-exempt nonprofits are not currently able to receive income-tax relief for providing those employee benefits. This proposed revision provides a level of tax fairness and parity that does not currently exist.

Promote the Return of Volunteers to Nonprofits

Congress has not adjusted the Volunteer Mileage Rate since setting it a quarter century ago. On behalf of volunteers, the people they serve, and charitable nonprofits who depend on volunteers willing to make a difference in the lives of others, we urge Congress:

7. Eliminate the unfair tax policy that for too long has effectively discouraged individuals from volunteering and replace the 14 cents/mile volunteer mileage rate by matching it to the business rate (currently 58.5 cents/mile). Also, eliminate the income tax on mileage reimbursements by nonprofits up to the business rate so individuals are not penalized for volunteering.

Conclusion

The charitable nonprofit sector is the backbone of our communities. We continue to face unprecedented challenges as we assist you and the American people in providing pandemic relief and economic recovery. We call on Congress to take action now to alleviate the many challenges addressed in this Statement. The tax policies proposed here, in the attached nonprofit community letter, and by charitable organizations throughout the country are sought for the benefit of the people we collectively serve. The networks of the National Council of Nonprofits stand ready to answer questions and work with you to advance solutions to our communities needs.

Attached: Nonprofit Community Letter on the Pandemic and Workforce Shortage Relief for Charitable Nonprofits (*signed by more than 1,500 nonprofits from all 50 states and D.C.*)