Whether the economy is soft or strong, one sure way to raise less money is to stop asking for it. The best way to recession-proof fundraising is to keep doing the things that raise money and to do them in ways that strengthen relationships with donors, helping them become evangelists for your cause.

The three antidotes

1. Keep on making wise investments in fundraising efforts.
2. Stay upbeat and focused.
3. Ask with confidence.

Combine these ingredients and you have an excellent recipe for strengthening your nonprofit in good economies and bad. ■

Resources

- **Recession-Ready Fundraising** (Vol. 26, No. 6)
- **What's the Key to Raising Money in a Tough Economy?** (Vol. 26, No. 4)
- **Fundraising with Your Board** (Vol. 13, No. 5)
- **Deeper Donor Relationships = Increased Contributions** (Vol. 26, No. 4)
- **Fear of Fundraising** (Vol. 20, No. 5)

These *Nonprofit World* articles are available at www.snpo.org. Also see Learning Institute programs on-line: Resource Development and O for Opportunity: Exploring New Revenue Opportunities for Nonprofits (http://www.snpo.org/lino).

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Five Strategies to Enhance Your Fundraising

Here are ways to use the slow economy to your advantage.

By Sarah H. B. Kahl & Ann Thomas

Despite the challenges of today's economy, there's a spectrum of ways to enrich your fundraising efforts. Use the following tips to raise funds during an economic downturn:

Encourage Donors to Take Advantage of Low Interest Rates

Certain planned-giving methods take advantage of low interest rates. Each month, the IRS publishes an interest rate (known as the Section 7520 rate), which is the rate used for a number of planned-giving techniques.

One technique that's more attractive to donors when interest rates are low is the charitable lead trust (CLT). The mechanics of a CLT provide that a charity receives an interest for a period of years. The interest can be expressed either as a dollar amount or percentage of the assets in the trust. At the end of the term, whatever amount is left in the trust passes to the specified beneficiaries. Depending on the CLT's structure, the donor may receive an income tax deduction. The individual donees receive the remainder interest at little or no gift tax cost to the donor.

Consider a hypothetical donor who might contemplate this technique, particularly when interest rates are low. Mother wants to set up a trust fund for her children. Her stock portfolio is down, but she believes it will grow over time. She also wants to benefit her favorite charity. Mother could transfer $1 million of her stock to a CLT that would pay her favorite charity $111,326 each year for 10 years. If the transaction occurred in February of 2009, there would be no gift tax cost to Mother. Even if the stocks grew as little as 5% a year, there would still be $228,644 left at the end of the term for her children. An 8% return would provide $546,189 for her children.

If Mother had made the same transfer in November of 2007 when interest rates were higher, the amount that would be required for the charity would be $130,765, and 5% growth would leave nothing for her children. From the perspective of a donor like Mother, a low Section 7520 rate makes a CLT appealing.

It's true that low interest rates will decrease the amount the charity receives each year. The decrease is relative small, however, and the CLT's attractiveness to donors means that you may be able to encourage more people to take advantage of it.

Draw on Demand for Fixed Income by Offering Charitable Gift Annuities

In difficult economic times, the idea of receiving a fixed income for life is especially attractive. Donors seeking such security and wanting to benefit a favorite charity may find the answer in charitable gift annuities.

With a charitable gift annuity, a donor contributes property (typically appreciated property) to a charity in exchange for an annuity payment for the rest of the donor's life. The annuity would be lower than fair market value. The difference between fair market value and the donor's annuity payment is the amount that is treated as passing to the designated charity.

To avoid unrelated business income tax (UBIT), be sure the amount treated as passing to charity is at least 10% of the property's value. This is harder to achieve when interest rates are low. But with careful planning, you may find that a charitable gift annuity is a valuable tool for attracting donors.

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Stay Ahead of the Charitable Rollover Rules

The Tax Extenders and Alternative Minimum Tax Relief Act of 2008 extended the time available for making a tax-free contribution to a charity from an IRA. Until the end of 2009, anyone over age 70½ can exclude from gross income a donation up to $100,000 made directly from an IRA to a qualified charity.

A number of hidden rules in the tax code make this option more beneficial to donors than simply withdrawing money from an IRA, making a donation with those funds, and receiving a charitable deduction. For example, donors may be limited in the amount of deductions they can take. Also, increased gross income may result in other negative tax effects. Because this option is only available till the end of 2009, this is a good time to encourage donors to take advantage of it.

Team Up

One of the most effective ways to maximize your resources is to partner with other organizations. Partnering needn't be limited to like-minded organizations. For example, you could pool administrative resources with other nonprofits even if their missions are very different from yours. Or you could team up with a for-profit entity to engage in a commercial co-venture (an arrangement that promotes a product or service with part of the sale proceeds benefiting the charity) or a joint venture (a partnership that helps further your exempt purpose). Before partnering with another organization, consider the following:

• **Scope, duration, and termination:** Clearly define the scope of the relationship, including the resources that will be placed into the joint enterprise, the outcomes expected, and the anticipated length of the relationship. Equally important is planning for a sound exit strategy at every step of the joint enterprise. Although all parties hope for the best, it's important to anticipate and prepare for an earlier termination.

• **Intellectual property:** Preserve the integrity of your organization's name, logo, and other forms of intellectual property through one or more written agreements. These agreements should outline the basic terms for granting another entity the right to use your organization's intellectual property, such as the conditions under which the intellectual property may be used (and a provision outlining when further approval is needed), clear identification of ownership rights, and an ability to terminate use of the intellectual property at your discretion. In addition, there should be a clear agreement regarding the ownership and license rights of any intellectual property that is created through the joint enterprise (for example, will it be jointly owned by the parties, owned by the joint enterprise itself, or owned by one of the partnering entities?)

Many programs help nonprofits access the tax-exempt debt markets.

• **Tax considerations:** Take care that the joint enterprise furthers your tax-exempt purposes. Otherwise, it might risk your organization's tax-exempt status (through excessive private benefit) or result in unrelated business income tax (UBIT). Moreover, when engaging in a joint venture with a for-profit, be sure your organization, through voting or veto power, controls:

• the entire joint venture if your organization devotes all its assets to the venture, or

• the charitable aspects of the joint venture if your organization devotes only a portion of its assets to it.

• **State/local compliance:** Ensure that the joint enterprise complies with all state and local requirements. For example, make sure your activities adhere to the state charitable solicitation and commercial co-venture laws of each state in which you actively seek funds. In addition, if the joint enterprise results in a separate legal entity (a limited liability company, partnership, or joint venture), be sure the entity complies with all corporate formalities, including having separate organizing documents, board meetings, and finances. Use an affiliation agreement to further ensure that the joint enterprise will be considered a separate legal entity, responsible for its own tax and corporate liabilities.

Consider Tax-Exempt Bond Financing

You can take advantage of the potentially lower interest rates available to tax-exempt organizations to finance capital needs using tax-exempt borrowing. Such borrowing typically requires a government unit to act as the conduit. Many state and local governments have programs available to help nonprofits access the tax-exempt debt markets. Such financing includes capital-lease arrangements to buy equipment. It also includes long-term loans to acquire office facilities. For example, in some high-rent markets, even relatively small nonprofits have used tax-exempt financing to acquire condominium office facilities for their headquarters in lieu of paying rent.■

Resources

• **Planned Giving with Gift Annuities** (Vol. 14, No. 2)

• **Are Your Activities Safe from UBIT?** (Vol. 16, No. 5)

• **How to Market Planned Giving to Donors** (Vol. 22, No. 6)

• **Making the Business-Nonprofit Partnership a Win-Win** (Vol. 22, No. 1)

• **Tax Reporting for Gifts of Annuities** (Vol. 23, No. 6)

• **High-End Strategic Alliances as Fundraising Opportunities** (Vol. 19, No. 5)

• **How to Partner for Success** (Vol. 24, No. 6)

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