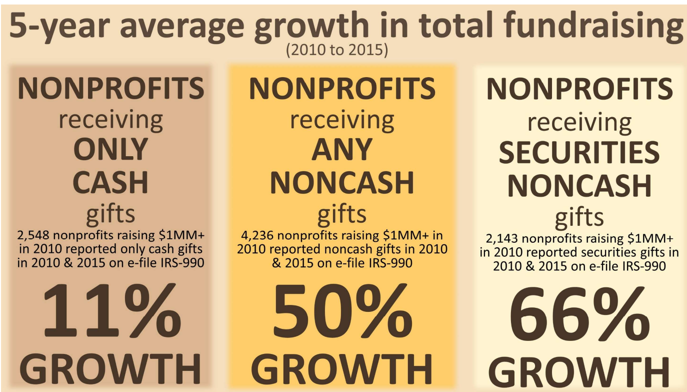
Cash is Not King in Fundraising:
Results from 1 Million Nonprofit Tax Returns

Professor Russell James III, J.D., Ph.D., CFP®
Director of Graduate Studies in Charitable Financial Planning
Texas Tech University

Source: 1,055,917 nonprofit tax returns (IRS Form 990) filed electronically for the tax years 2010-2015 and part of 2016 with statistical analysis of the 761,876 forms from 205,696 nonprofit organizations reporting positive contributions.



Noncash gifts predict long-term fundraising growth

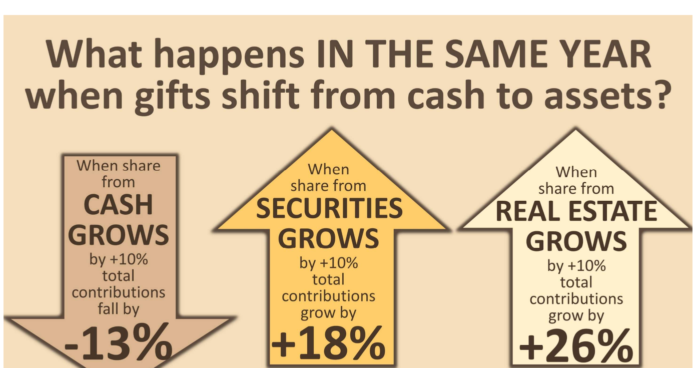
Nonprofits that effectively grow contributions income can differ in many ways, but simply knowing what type of gifts an organization raises is a surprisingly powerful indicator. For example, nonprofits raising over $1 million in 2010 that reported only cash gifts on e-filed nonprofit tax returns in 2010 and 2015 experienced an average total growth in contributions of 11% over these five years, barely keeping up with total inflation of 8%. In contrast, those reporting any noncash gifts in 2010 and 2015 grew their total contributions, on average, 50% over the same five-year period. Those specifically reporting noncash gifts of securities grew 66%. Thus, nonprofit organizations consistently receiving gifts of stocks or bonds grew their contributions six times faster than did those receiving only cash. Although 2010-2015 is the longest period with complete data, the results are not specific to just those years. For example, the 3-year rolling average total contributions growth ending in ’13, ’14, ’15, and ’16 was 5%, 1%, 2% & 0%, respectively, for nonprofits raising only cash gifts, but 34%, 30%, 30% & 25% for nonprofits raising any noncash gifts, and 44%, 42%, 39% & 33% for nonprofits raising noncash gifts of securities.

5-year average total fundraising growth by initial total fundraising size

	$100K to <$500K	$500K to <$1MM	$1MM to <$2MM	$2MM to <$3MM	$3MM to <$5MM	$5MM to <$10MM	$10MM+
Nonprofits reporting **only cash** contributions in 2010 & 2015 on e-IRS 990s	56% [n=9168]	25% [n=2397]	14% [n=1343]	18% [n=478]	0% [n=358]	0% [n=223]	26% [n=146]
Nonprofits reporting **any noncash** contributions in 2010 & 2015 on e-IRS 990s	137% [n=2278]	71% [n=1373]	60% [n=1215]	58% [n=652]	48% [n=728]	36% [n=679]	35% [n=962]
Nonprofits reporting **securities** noncash contributions in 2010 & 2015 on e-IRS 990s	400% [n=114]	176% [n=187]	103% [n=340]	94% [n=284]	68% [n=385]	50% [n=427]	43% [n=707]

This applies to nonprofits at all fundraising levels

These results show a dramatic difference overall, but how does this apply to organizations starting at different initial fundraising levels? The second figure shows that, regardless of an organization’s starting contributions level, those nonprofits consistently raising gifts of noncash assets – and particularly gifts of securities – grew total contributions much faster than did those raising only gifts of cash. Thus, the power of noncash gifts to predict long-term fundraising growth applies to nonprofit organizations at every fundraising level.

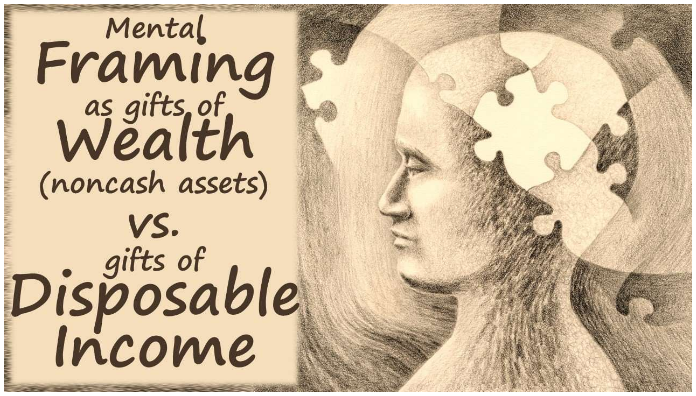


*Fixed effects regression analysis of the **761,876** e-filed IRS Form 990s reporting positive contribution amounts from **205,696 organizations** in 2010-2016.*

A smaller share from cash means growing contributions

Beyond receiving some noncash gifts, what happens when contributions shift towards a larger share of cash gifts or a larger share of noncash gifts? To answer that question, this analysis used all 761,876 of the 1,055,917 nonprofit tax returns that reported positive contributions, and compared organizations only with themselves at different points in time. Within the same organizations, when the share of total contributions coming from cash grew by 10%, total contributions in that same year, on average, fell by 13%. For example, if an organization raising $10 million with 80% of donations coming from cash experienced a shift to 90% cash donations in the following year, then it should also expect total contributions to fall 13% (to $8.7 million) in that same year. In contrast, if the organization experienced a 10%

increase in the share of gifts coming from securities or real estate, this would predict a simultaneous increase in total contributions of 18% or 26%, respectively.



Gifts of assets are psychologically different

Beyond simple opinions or war stories, the previous results conclusively demonstrate that organizations raising noncash gifts experience dramatically greater growth in total contributions, both contemporaneously and over the long term. Why? This is likely due in part to the effects of mental framing. First, it is important to understand that wealth is not held in cash. Census bureau estimates suggest that only about 3% of household wealth is held in cash and checking accounts. When fundraisers ask for cash, they are asking from the "small bucket." This makes a psychological difference because it changes the reference point for the gift. The same gift may seem ridiculously large when compared to other checkbook purchases (elective expenditures from spendable income), but quite small when compared with total wealth (other noncash assets). Donors who have never made a gift from assets may simply never have considered giving from wealth rather than giving from spare income. This is particularly important considering findings from experimental research demonstrating that people are much more willing to make charitable donations from irregular, unearned rewards (such as might occur with an appreciated asset) than from regular work earnings.

Gifts of appreciated assets are also cheaper than gifts of cash because the donor avoids capital gains taxes. This special benefit is particularly important under the new tax law, because it applies to all donors, even non-itemizers who can't use charitable deductions. Donors can benefit even when they don't want to change their investment portfolio. For example, instead of donating cash, a donor can give shares of appreciated stock and then use the cash to immediately purchase identical replacement shares, leaving the portfolio intact, but eliminating all capital gains.

Next steps for nonprofits

Comprehending the importance of gifts of noncash assets means understanding that current fundraiser crediting systems are misaligned. Gifts of noncash assets are more important for the nonprofit organization and more beneficial for the donor, but they also require more fundraiser effort. If fundraisers are not given additional recognition for the additional effort and expertise required for such gifts, they will be rewarded for hitting the "easy button" of asking only for cash, keeping the organization stuck in the slow-growth/no-growth category. In contrast, those nonprofits that intentionally pursue noncash gifts can generate both immediate tax benefits for donors and long-term fundraising growth benefits for the organization.

Raising gifts of noncash assets is not always as simple as asking for a check. The rules for documenting, valuing, and deducting such gifts are different, but fundraisers can receive free training (e.g., videos at https://goo.gl/cjXgsZ and textbook at https://goo.gl/B2yxen) and use the assistance of expert advisors and consultants. Accepting gifts of noncash assets is actually safer and easier today than in the past. Some donor advised funds now accept any type of property, transferring cash to the selected nonprofit after the sale. In addition, new legal instruments such as the single-asset LLC allow nonprofits to receiving property gifts without chain-of-title liability as in years past.

The full technical paper reporting detailed results is available at https://ssrn.com/abstract=3126983

About the author: Professor Russell James, J.D., Ph.D., CFP® has published peer-reviewed scholarly articles in more than forty different academic journals and has been cited in outlets such as *The Economist, The Wall Street Journal, The New York Times* and *The Chronicle of Philanthropy*. He is Director of Graduate Studies in Charitable Financial Planning at Texas Tech University in Lubbock, Texas where he holds the CH Foundation Chair in Personal Financial Planning.