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Nonprofit Tax Quiz

By Kim Klein & Jan Masaoka

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Everyone talks about the weather, but how many of us actually know what a lenticular cloud or what the dew point means? In the nonprofit sector we throw around tax opinions, but here's a chance to learn something (uh oh).

We advise you take the quiz with your friends or co-workers BEFORE looking at the answer sheet. The answers and scoring sheet follow the quiz.



1. If you give a nonprofit 501(c)(3) \$10,000, how much less will you pay in federal taxes (assuming you itemize and are in the highest tax bracket?)
 - a. \$10,000
 - b. \$3,500
 - c. \$1,500
 - d. \$10,000, but only if you get a receipt within 60 days of the donation
2. In a group of ten people, seven of them filed the short tax form, and three filed the long form. All ten of them gave to a nonprofit. How many of them will reduce their taxes as a result of their donations?
 - a. Five. The other five gave their money to churches or religious institutions, and giving to religion is not deductible because of separation of church and state.
 - b. All ten -- that's only fair.
 - c. Only the group of three. The other 7 are part of the 70% of Americans who file a short form, so they receive no tax benefit for their giving.
 - d. Eleven of them. One is filing two tax returns under different names.
3. Which of the following paid the *least* in U.S. taxes for 2010?
 - a. You
 - b. Sierra Club

- c. General Electric (net profit \$14.2 billion)
- d. Willie Nelson

4. If you die and leave your son an estate of \$3 million, how much in estate taxes (also called inheritance taxes) will be owed on the \$3 million in income he is given?

- a. \$0.
- b. 15% which calculates to \$450,000
- c. 35% which calculates to \$1.05 million
- d. 15% on real estate inherited and 35% on non-real estate inheritance assets

5. Who said the following: "The estate tax -- our nation's only levy on accumulated wealth -- is the fairest and most important tax we have"?



- a. Karl Marx
- b. Theodore Roosevelt
- c. Bill Gates, Sr.
- d. Pope Paul VI
- e. Thomas Jefferson

6. A "progressive tax structure" means:

- a. It is supported by "progressive" people
- b. It is part of Obamacare
- c. People with higher incomes pay a higher percentage in taxes than people with lower incomes
- d. Taxes increase with inflation.

7. In the United States, if you live in a household with a total gross household income of \$250,000 or more, what percentage of U.S. households have less income than yours?

- a) 98%
- b) 70%
- c) 40%
- d) 32%

8. If Michael, an attorney whose billing rate is \$300 per hour, donates 3 hours of legal counseling to a nonprofit, how much can he deduct from his taxable income?

- a. \$0.

- b. 15% = \$126 ($\$300 * 3 = 900$, then 14% of 900 is \$126)
- c. \$900 if she itemizes
- d. Three hours at the average attorney billing rate in his state.

9. Which of the following is legally a restriction on 501(c)(3) nonprofits:
- a. Nonprofit staff cannot donate blood.
 - b. Nonprofits cannot borrow money, except from board members and staff.
 - c. Nonprofit board meetings must be open to the public.
 - d. Nonprofits cannot divvy up the surplus at year-end and distribute it to staff.
 - e. b and c

10. If you buy \$20 worth of raffle tickets (for a new car) from a nonprofit as a fundraiser, you can:

- a. Deduct \$20 from your taxable income.
- b. Deduct between 15% and 35% of the \$20 from your taxable income depending on your tax bracket.
- c. You can deduct only if the ticket says, "Donation requested" and indicates how you can get the tickets for free.
- d. \$20, but only if you win the car.



11. True/False: Thank-you notes to donors are required by law.

- a. True
- b. False, but you must send a receipt (acknowledgment letter) to a donor for any donation of \$75 or more.
- c. False, but you must send a receipt (acknowledgment letter) to a donor for any donation of \$250 or more
- d. Thank-you notes are only required for donors who are intending to list the donation on their tax returns.



12. To be officially poor according to the federal government, a family of four can have a total annual income of no higher than:

- a. \$22,350
- b. \$31,700
- c. \$42,000
- d. the salary of the governor of Wyoming.

13. Median *household* (not individual) income: you live in a household that makes more money per year than 50% of American households. Your total household income is:

- a. \$31,000
- b. \$48,000
- c. \$94,000
- d. More than Scrooge McDuck makes in a year.

14. If you paid \$10,000 last year in federal income taxes, how many of your tax dollars went to conservation and the environment?

- a. \$100
- b. \$120
- c. \$370
- d) \$610



15. If you paid \$10,000 last year in federal income taxes, how many of your tax dollars went to military and defense?

- a) \$1,000
- b) \$2,000
- c) \$5,000
- d) \$6,100

16. Sally Stockowner received \$50,000 in income last year as profit from selling stock (that she owned for more than a year). Tanya Teacher is a school teacher with a salary of \$50,000. Assuming they have no other income and they both take the standard deduction, which of them paid more in federal taxes?

- a. Sally and Tanya both paid the same.
- b. Sally Stockowner paid more.
- c. Tanya Teacher paid more.
- d. I don't like word problems.

17. If you pay at the highest individual rate for federal income tax in your country, in which country would you pay the highest amount in taxes?

- a. Angola
- b. Sweden
- c. United States
- d. Cuba

End of Quiz. The Answer Sheet and Scoring Guide start on the next page.

ANSWER SHEET

Note: This Nonprofit Tax Quiz is not for use as tax advice.

1. If you give a nonprofit 501(c)(3) \$10,000, how much less will you pay in federal taxes (assuming you itemize and are in the highest tax bracket?)

- a. \$10,000
- b. \$3,500
- c. \$1,500
- d. \$10,000, but only if you get a receipt within 60 days of the donation

Answer: (b) \$3,500. If you are in the highest tax bracket and you itemize deductions on your tax return, you can deduct \$10,000 from your *taxable income*, which means your actual taxes would be reduced by about 35%, or \$3,500. (Note this is based on 2011 tax brackets and does not address state taxes.)

2. In a group of ten people, seven of them filed the short tax form, and three filed the long form. All ten of them gave to a nonprofit. How many of them will reduce their taxes as a result of their donations?

- a. Five. The other five gave their money to churches or religious institutions, and giving to religion is not deductible because of separation of church and state.
- b. All ten -- that's only fair.
- c. Only the group of three. The other 7 are part of the 70% of Americans who file a short form, so they receive no tax benefit for their giving.
- d. Eleven of them. One is filing two tax returns under different names.

Answer: (c). The 70% of people who file the short tax form take the "standard deduction" rather than a higher deduction available to people who can document more deductions than the standard. As a result, 70% of taxpayers do not benefit from giving to nonprofits.

3. Which of the following paid the *least* in U.S. taxes for 2010?

- a. You
- b. Sierra Club
- c. General Electric (net profit \$14.2 billion)
- d. Willie Nelson

Answer: (c). General Electric did not pay taxes for 2010. Reference: New York Times: http://www.nytimes.com/2011/03/25/business/economy/25tax.html?_r=2&hp

See also: "What the Top U.S. Companies Pay in Taxes" from Forbes
<http://www.forbes.com/2010/04/01/ge-exxon-walmart-business-washington-corporate-taxes.html>

4. If you die and leave your son an estate of \$3 million, how much in estate taxes (also called inheritance taxes) will be owed on the \$3 million in income he is given?

- a. \$0.
- b. 15% which calculates to \$450,000
- c. 35% which calculates to \$1.05 million
- d. 15% on real estate inherited and 35% on non-real estate inheritance assets

Answer: (a). Currently (September 2011) and through 2012 the estate tax is zero on estates of \$5 million or less. After that it may revert back to a ceiling of \$1 million, or, according to some experts, up to perhaps \$3 million. So if you're worth more than \$5 million and you love your children (or your cat), this is a good year to die.

Reference <http://www.irs.gov/businesses/small/article/0,,id=164871,00.html>

5. Who said the following: "The estate tax -- our nation's only levy on accumulated wealth -- is the fairest and most important tax we have"?

- a. Karl Marx
- b. Theodore Roosevelt
- c. Bill Gates, Sr.
- d. Pope Paul VI
- e. Thomas Jefferson

Answer: (c). Bill Gates, Sr. (father of Bill Gates founder of Microsoft). Reference: "Estate Tax is the Fairest Means of Building Revenue" by Bill Gates Sr. and Chuck Collins. This OpEd was written when the estate tax was still in effect for inheritances of \$2 million or more. <http://www.politico.com/news/stories/1107/6856.html>.

(Theodore Roosevelt said, "I believe in a graduated inheritance tax on big fortunes." Reference: <http://www.demos.org/inequality/quotes.cfm>)

6. A "progressive tax structure" means:

- a. It is supported by "progressive" people
- b. It is part of Obamacare
- c. People with higher incomes pay a higher percentage in taxes than people with lower incomes
- d. Taxes increase with inflation

Answer: (c). Reference: http://en.wikipedia.org/wiki/Progressive_tax

7. In the United States, if you live in a household with a total gross household income of \$250,000 or more, what percentage of U.S. households have less income than yours?

- a) 98%
- b) 70%
- c) 40%
- d) 32%

Answer: (a): 98% -- actually 98.1% -- of households have less money than yours. In other words, you are in the top 2% . (Note: this is based on census data, not tax reporting data.)

Reference: US Census: http://pubdb3.census.gov/macro/032007/hhinc/new06_000.htm

8. If Michael, an attorney whose billing rate is \$300 per hour, donates 3 hours of legal counseling to a nonprofit, how much can he deduct from his taxable income?

- a. \$0.
- b. 15% = \$126 ($\$300 * 3 = 900$, then 14% of 900 is \$126)
- c. \$900 if she itemizes
- d. Three hours at the average attorney billing rate in his state.

Answer: (a) \$0. Donated time (volunteer time) is not tax deductible to the volunteer (otherwise we would all be deducting millions of dollars!). Michael can deduct expenses that were related to his volunteering, such as parking expense, mileage, or the cost of a book he purchased to help him with his volunteer work.

9. Which of the following is legally a restriction on 501(c)(3) nonprofits:

- a. Nonprofit staff cannot donate blood.
- b. Nonprofits cannot borrow money, except from board members and staff.
- c. Nonprofit board meetings must be open to the public.
- d. Nonprofits cannot divvy up the surplus at year-end and distribute it to staff.
- e. b and c

Answer: (d): Nonprofits cannot split up the surplus at year-end and distribute it to staff. In contrast, this is exactly what a for-profit CAN do: take the surplus (net profit) at year-end and give it to the owner (small business) or to the shareholders (for-profit corporation). Nonprofits must use all of the surplus for the nonprofit corporation's future work. (Nonprofits can legally give bonuses to staff under specific conditions.)

10. If you buy \$20 worth of raffle tickets (for a new car) from a nonprofit as a fundraiser, you can:

- a. Deduct \$20 from your taxable income.
- b. Deduct between 15% and 35% of the \$20 from your taxable income depending on your tax bracket.
- c. You can deduct only if the ticket says, "Donation requested" and indicates how you can get the tickets for free.
- d. \$20, but only if you win the car.

Answer: (d) \$20, but only if you win the car. Buying a raffle ticket is not a donation; it is a purchase of a gambling ticket (regardless of what is printed on the ticket or where the money goes). Gambling expenses are not tax-deductible, except that they can reduce the gross winnings as taxable income.

Reference: IRS Publication 526 "Charitable Deductions" www.irs.gov/pub/irs-pdf/p526.pdf

11. True/False: Thank-you notes to donors are required by law.

- a. True
- b. False, but you must send a receipt (acknowledgment letter) to a donor for any donation of \$75 or more.
- c. False, but you must send a receipt (acknowledgment letter) to a donor for any donation of \$250 or more
- d. Thank-you notes are only required for donors who are intending to list the donation on their tax returns.

Answer: (c). A donor must be given a receipt for a donation of \$250.00 or more.

Reference: IRS Publication 1771 "Charitable Contributions: Substantiation and Disclosure Requirements, <http://www.irs.gov/pub/irs-pdf/p1771.pdf>

12. To be officially poor according to the federal government, a family of four can have a total annual income of no higher than:

- a. \$22,350
- b. \$31,700
- c. \$42,000
- d. the salary of the governor of Wyoming.

Answer: (a). The federal poverty threshold for a family of four is currently \$22,350.

Reference: <http://aspe.hhs.gov/poverty/11fedreg.shtml>

Wyoming -- with a total state population of 533,000 -- pays its governor \$105,000.

Reference: http://sunshinereview.org/index.php/Wyoming_state_government_salary

13. Median *household* (not individual) income: you live in a household that makes more money per year than 50% of American households. Your total household income is:

- a. \$31,000
- b. \$48,000
- c. \$94,000
- d. More than Scrooge McDuck makes in a year.

Answer: (b) \$48,000.

Reference: http://en.wikipedia.org/wiki/Median_household_income

Scrooge McDuck's wealth is estimated in Time Magazine to be more than one multiplujillion. (Reference: http://en.wikipedia.org/wiki/scrooge_mcduck)

14. If you paid \$10,000 last year in federal income taxes, how many of your tax dollars went to conservation and the environment?

- a. \$100
- b. \$120
- c. \$370
- d) \$610

Answer: (b). About \$120 out of every \$10,000 in federal spending goes to the environment, or about 1%.

Reference: http://www.msnbc.msn.com/id/18098378/ns/business-answer_desk/t/where-do-my-income-tax-dollars-go/

15. If you paid \$10,000 last year in federal income taxes, how many of your tax dollars went to military and defense?

- a) \$1,000
- b) \$2,000
- c) \$5,000
- d) \$6,100

Answer: (b). About 19.7% of federal spending is in military and defense spending.

Reference: http://www.msnbc.msn.com/id/18098378/ns/business-answer_desk/t/where-do-my-income-tax-dollars-go/

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- a. Sally and Tanya both paid the same.
- b. Sally Stockowner paid more.
- c. Tanya Teacher paid more.
- d. I don't like word problems.

Answer: (c): Tanya Teacher paid more. Sally Stockowner's income was "capital gains" which is generally taxed at 15%, while salaried income is taxed at higher rates. (Can someone remind us why a person pays more in taxes when their income comes from hard-earned wages?)

17. If you pay at the highest individual rate for federal income tax in your country, in which country would you pay the highest amount in taxes?

- a. Angola
- b. Sweden
- c. United States
- d. Cuba

Answer: (a) Angola. Angola's highest tax rate is 60% for individuals; just a tiny bit above Sweden's at 59% (U.S. is at 46% combined federal and state, and Cuba is at 50%). Maybe you should consider moving to the Bahamas or Andorra where the tax rate is 0. Or you could be General Electric.
Reference: http://en.wikipedia.org/wiki/Tax_rates_around_the_world

SCORING

Some tests claim that the more you know, the smarter you are. We decided to take an unconventional approach, where the greater your knowledge about taxes, the dumber you may be:

* 12 or more correct: **KNOW IT ALL**. You know too much about taxes. You need to get a life.

* 8 - 11 correct: **REASONABLY WELL-INFORMED**. Not as bad as the Know It All people. You probably have a life outside of studying tax policy, but not much of one.

* 5 - 10 correct: **NORMAL**. Good to know at least someone has certified you as normal, isn't it?

* 4 or fewer correct: **BLISSFUL**. Your life is so full of fun and love that you haven't had a minute to spend learning about taxes. Congratulations.

Our thanks to tax accountant Hank Levy, CPA and to Paul Rosenstiel for assistance with this article.

Kim Klein is a legendary fundraising trainer, writer, and advocate for grassroots organizations. Among her five books is the classic *Fundraising for Social Change*, a must for nonprofit bookshelves. She is part of the "Talking About Taxes" work of the Building Movement Project, and she writes a blog on their site:
http://www.kleinandroth.com/kr_pages/ourconsultingteam.html

Jan Masaoka is editor of *Blue Avocado*.

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