**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.

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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:
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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 generate over $27 Billion in annual revenue

--pumping this money back into Kentucky’s economy

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

Charitable Giving Deductions Matter to Kentuckians

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

www.kynonprofits.org