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Tax Exemption Essay

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The Nonprofit Sector’s Debilitating Tax-Exempt Status on Society

United States citizens deserve better. You and I deserve an improved quality of life, but our progress towards an ever perfect system is being hindered. The United States and its government needs more money. Much of this great country thirsts for support from the federal, state, and local governments. The educational system suffers from massive budget deficits. Students are unjustly receiving a mediocre education at the hands of elected officials who have slashed educational funding. Healthcare has never been worse. The United States cannot provide socialized healthcare, a fundamental concept of what makes us human: having compassion for your fellow man. And even more so, the United States calls itself the home of the brave, but the bravest men and women of America are neglected each and every day. Veteran benefits were cut by more than $1.4 billion in April from president Obama’s requested budget for American Veterans (Leal). In the United States’ current standing, the government cannot support those who have given most, some their lives and limbs, with a suitable return. But this is not all; technological and medical advancements, public transportation, public pension, public lands, Social Security, Medicare, the penitentiary system, police forces, fire protection, foster care, and government medical facilities are all under stress from an overall lack of necessary funding. There is no exact solution to this crippling problem, but there is a compromise. To grow America’s economy and improve this nation as a whole, the government should not be looking to cut funding, but instead it should be looking at expanding taxation and committing these resources to its underfunded sectors. All American citizens contribute to the greater good of this country, alongside many corporations and businesses. But then why is it that some organizations are given exemptions from this commonplace social-duty? This is the problem that plagues modern society. The eligibility of nonprofit organizations to hold a tax-exempt status should be remodeled to allow for additional funding allocated towards all levels of government. Nonprofits should pay taxes on all extra income when financially feasible, illustrated by the nonprofit sector’s ability to continue thriving under minute taxation, the nonprofit sector’s would-be expansion of service to their community, and the United States’, along with its citizens, merit for generated revenue.

Nonprofit organizations can be a confusing term. They can in fact turn a profit from the sale of goods or provided service; however, they are confined to using their earnings for certain purposes under the dictation of federal law. Nonprofit organizations are an organized grouping of people utilizing surplus income, their profit, to further satisfy a social mission, as opposed to distributing the profits to a set of executives. The nonprofit organization’s board of directors is forbidden to receive this surplus income. Moreover, nonprofits do pay taxes, even with a tax-exempt status, because tax-exemption is not all-encompassing to each type of tax. The taxes nonprofits do pay are user fees, unrelated business income tax (UBIT), and payroll tax, all on the federal level. These taxes contribute in large to the soon to fail Social Security, and Medicare system, and on a smaller level, healthcare, national defense, job/family security, veterans’ benefits, immigration, international affairs, environmental protection agency, and NASA. On the contrary, nonprofit organizations are currently avoiding sales tax, property tax, and corporate income tax. These taxes contribute in large to healthcare, national defense, job/family security, veterans’ benefits, immigration affairs, international affairs, the environmental protection agency, NASA, public lands, road conditions, public transportation, police forces, public pensions, fire protection, the penitentiary system, foster care, and medical facilities. Much of the United States infrastructure relies on tax money and a large source of untapped revenue lies within each nonprofit organization.

The compromise to gather additional tax money calls for the profiting group of the nonprofit organizations to pay a portion of their surplus income to all levels of government. This course of action allows for all of the profiting group to still thrive under a new fiscal policy, but also allows those who lack profit to forgo additional costs. The long term plan is to grant nonprofit organizations, who aren’t yielding a profit, a temporary tax-exemption status to avoid corrupting their financial security. The plan is rather simple math. Those who have extra wealth, will still have extra wealth and enough to cover costs even after a portion of the surplus is taken away. The nonprofits who don’t have enough to cover costs and have wealth taken away will eventually secure debt and bankruptcy if a buffer in not established to protect them. Taxing those who don’t have the financially stability cannot be the course of action because these organizations will not survive under such harsh conditions. The plan is not about driving away jobs and increasing this nation’s debt, but to excite this nation’s economy and create prosperity for its citizens.

Enduring a course of action for new fiscal policy, much of the nonprofit sector would still thrive. When analyzing data comparing the relationship of nonprofits’ total cost and nonprofits’ total revenue, there is an obvious difference in size between the two amounts. According to Urban Institute, in 2002, nonprofit organizations secured a profit of $20 billion, of which at the United States’ current 35% federal income tax rate could have generated $7 billion for the public. But the number grows in more recent years. In 2007, all nonprofit organizations acquired $230 billion profit, of which at the 35% federal income tax rate would have generated $80.5 billion dollars of revenue. This amount of tax revenue is projected to be enough to fund NASA four and a half times in 2016. (NASA BUD-1). The year 2012 would have produced $45.5 billion under the same circumstances (McKeever and Pettijohn 3). With this staggering amount of new revenue each and every year, the nation would be able to improve on all aspects of what is starting to become its flaws due to budget cuts: education, healthcare, veteran benefits, technological and medical advancements, public transportation, public pension, public lands, Social Security, Medicare, the penitentiary system, police forces, fire protection, foster care, and government medical facilities all would greatly improve with well appropriated funds while the nonprofit sector continues to flourish. The federal corporate income tax rate leaves 65% of revenue generated for the organization. This is 65% of profit, according to the plan of action. This is money that the business does not need to cover expenses and to retain balanced financial-security. As long as a business can cover all expenses, then the business should be able to continue to provide its goods and services. Moreover, an analysis of real capita GDP growth and top marginal tax rates from the Bureau of Economic Analysis, in conjunction with Ethan Kaplan, an economics professor of the University of Maryland, provides further insight. The data provides direct correlation of increasing per capita GDP growth when marginal taxes are higher: “A rise in the top marginal tax rate from 0 to 100 percent is correlated with a rise in per capita growth of 5.85 percentage points per year” (Kaplan). The trend establishes the United States’ gross domestic product increases with more taxes. As the country’s GDP rose, so must have the total dollar value of all goods and services produced in the same year. Hence, businesses were conducting more transactions, and they were surviving, according to the trending growth. Businesses survive and actually expand, or thrive under greater taxation, according to the trend since 1940. As long as there exists profit for nonprofit organizations and they continue to thrive, then these organizations should cease total corporate income tax exemption and contribute funds that could provide for society.

Additionally, nonprofit organizations serve a purpose to the community. Each individual nonprofit organization attempts a social mission and, thereby, service a set group of people. They are not established to gain, but instead to give fairly. It is this concept of wanting to give and aid the community that would have one believe many nonprofit organizations are in favor of taxation as taxes accomplish the same general goal. According to *Geoba*, a website dedicated to supplying geographical information, there is an astounding seven billion people currently inhabiting Earth and 322 million live in the United States. In one way or another, the absolute maximum amount of people possibly reached in the United States by any nonprofit organization is equal to the country’s population. This is at the largest end of the spectrum, and is in no way representing the average number of people a nonprofit organization serves. This average is realistically much smaller. For each and every nonprofit organization to serve the totality of the United States population, the amount of resources and man-power necessary could not be supplied by many nonprofits: “The top 2.5 percent of [nonprofit] organizations that report data to the Internal Revenue Service have over 50 percent of the wealth and bring in over 60 percent of charities’ annual revenues” (Rosenman). Much of the wealth in the nonprofit sector is unevenly distributed in favor of the larger corporations. Because the average nonprofit does not reach every person in the United States with their service due to a lack of wealth, they could be expanding community aid by relinquishing their tax exempt status. Taxes are distributed throughout the United States to every member of society, citizen or not. If nonprofits began to pay taxes on their income, many of them would indirectly expand service from their chosen communities to those excluded from their focus. Nonprofits would be committing themselves to an even greater cause by contributing taxes to each level of government. Each nonprofit that pays taxes when financially feasible would expand their support to its largest extent possible in the United States, furthering its social mission.

Thirdly, Americans tend to be patriotic and greatly uphold the United States as the best country on Earth. Statistics from *Ranking America* label the United States as 141st in government spending on health, 5th in disability benefits, 134th in government commitment to education, 7th in literacy, 27th in math, 22nd in science, 18th in public pensions, 14th in government debt, and 31st in quality of living. So much of our country needs improvement, but it all requires additional tax money. Quality requires the driving force of money. In some cases of underfunded government agencies, the government is putting its citizens at risk. The FDA suffers from severe budget cuts; it has been conducting inadequate inspections of manufacturers, less frequent inspections of foreign imports, use of a lacking and an unexperienced workforce, and an archaic information-technology system (Schmitt). The group that regulates 80% of America’s food only receives 33% of the food budget, but this is because other food-related organizations need money to continue operating. The budget is strictly locked in with its current conditions. There is no money to reallocate to the FDA, so it will continue to be underfunded and put all United States citizens at risk. Public and governmental refusal to increase taxes is killing citizens. Not only would additional tax-related revenue be positively affecting the population’s health, but it would be positively affecting the economy. The money generated form taxing the profiting group of the nonprofit sector could be put towards work that would support the economy, and spur humanitarian praise. For instance, additional funding could be used to create an organization that focuses on the homeless. The government’s tax dollars could be responsible for getting the homeless of the streets in return for menial work. In this situation, homelessness has been addressed, and jobs have been created in the private and public sectors, surely a positive effect on the economy. The United States and its citizens have so much potential and security in taxing the country’s nonprofit organizations.

In opposition, a seemingly valid critique concerning the suggested course of action would be the necessity of the nonprofit organizations’ work. The work nonprofit organizations conduct serves a purpose to the greater good, and is therefore deserving of special treatment in the form of tax-exemptions. It is true that nonprofits live to serve a community, but they are not deserving of special treatment. The connection between doing good work and deserving special treatment is a logical inequality. For example, the average American citizen may be considered a good person. Does the average American citizen deserve tax breaks? No, because a good citizen performs their social duty and helps their fellow man by redistributing wealth that will be used for a common good. Otherwise, when providers of funding cease action, society falls with the lack of government funded infrastructure. The entire system would collapse and then America would become the next third world country. Many nonprofit organizations aren’t the provider of a necessary humanitarian service, anyways. Some are even worse and its commitment to the community is overall lacking: “The worst charity in America operates from a metal warehouse behind a gas station in Holiday, Florida. Every year, *Kids Wish Network* raises millions of dollars in donations in the name of dying children and their families. Every year, it spends less than three cents on the dollar helping kids” (Hundley and Taggart). The nonprofit sector has its bad partitions. Universally understood, a company who invests so little on its social mission is an immoral organization. However, there is no absolute way to determine who is bad or good. This measurement is non-quantifiable and then unfair to each nonprofit. If nonprofits deserve tax-exemptions, then all nonprofits deserve the same treatment because there is no way to justifiable label the morality of a nonprofit. And if all nonprofits are given the same treatment, then a contradiction arises with the aforementioned support of nonprofit tax-exemption; immoral nonprofits, like *Kids Wish Network*, would be receiving funding for doing “moral” work. The work nonprofits do is not deserving of any special tax-exempt status.

Finalizing the necessity of corporate income taxation from the nonprofit sector, nonprofit organizations should be taxed only when they produce surplus income. All of these nonprofits will survive under a plan of taxing only profits, the organizations will increase the range of their service, and this great country and its citizens will undoubtedly benefit from the additional revenue. The plan calls for nonprofit organizations that are only able to pay income taxes when they are able because many nonprofits would otherwise accumulate debt and fail. The nonprofit organizations would be expanding its social mission over the entirety of the United States and reaching every citizen with its support of the government. The American citizens deserve the living conditions billions of dollars of annual revenue would bring to the country’s government and then redistributed for the common good. America needs change now and needs it swiftly. It is up to the people, those who hold all of the power for revolution. Rise up and make known improvements can be made and many can achieve a higher quality of life, ending the tax exemption status of nonprofit organizations.

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