

The Nonprofit Property Tax Exemption: Who Benefits, Who Pays, and by How Much?

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Outline

- The nonprofit property tax exemption
- Policy rationale
- Benefit Incidence
 - Who benefits?
 - How much?
- Fiscal cost
- Policy Implications

Nonprofit Property Tax Exemption

- Fifty states plus the District of Columbia exempt certain types of property owned by nonprofits from taxation.
- Having federal 501(c)(3) status is important criterion, but not necessarily a guarantee.
- Activities also matter
 - Provide “community benefit”
 - Promote “social welfare”
 - Engage in specifically identified activities
 - Educational institutions, libraries, hospitals, and certain membership organizations

Rationales for Exemption

- Sovereignty and/or Base-Defining
- Quid-pro-quo/Subsidy
 - Non-Profits provide goods/services that substitute for or complement those of local and state governments
 - Non-profit sector as part of civil society

Incidence of the Exemption

- Who benefits?
 - How many profits?
 - Which nonprofits?
 - How much?
- Who pays?
 - Fiscal effects
 - Fiscal adjustments
 - Shifting and incidence of fiscal adjustments

Who Benefits?

- Ownership of real property by nonprofit organizations
 - Overall
 - By organization attribute(s)
 - Size
 - Age
 - Type of Activity
- Financial value of the exemption

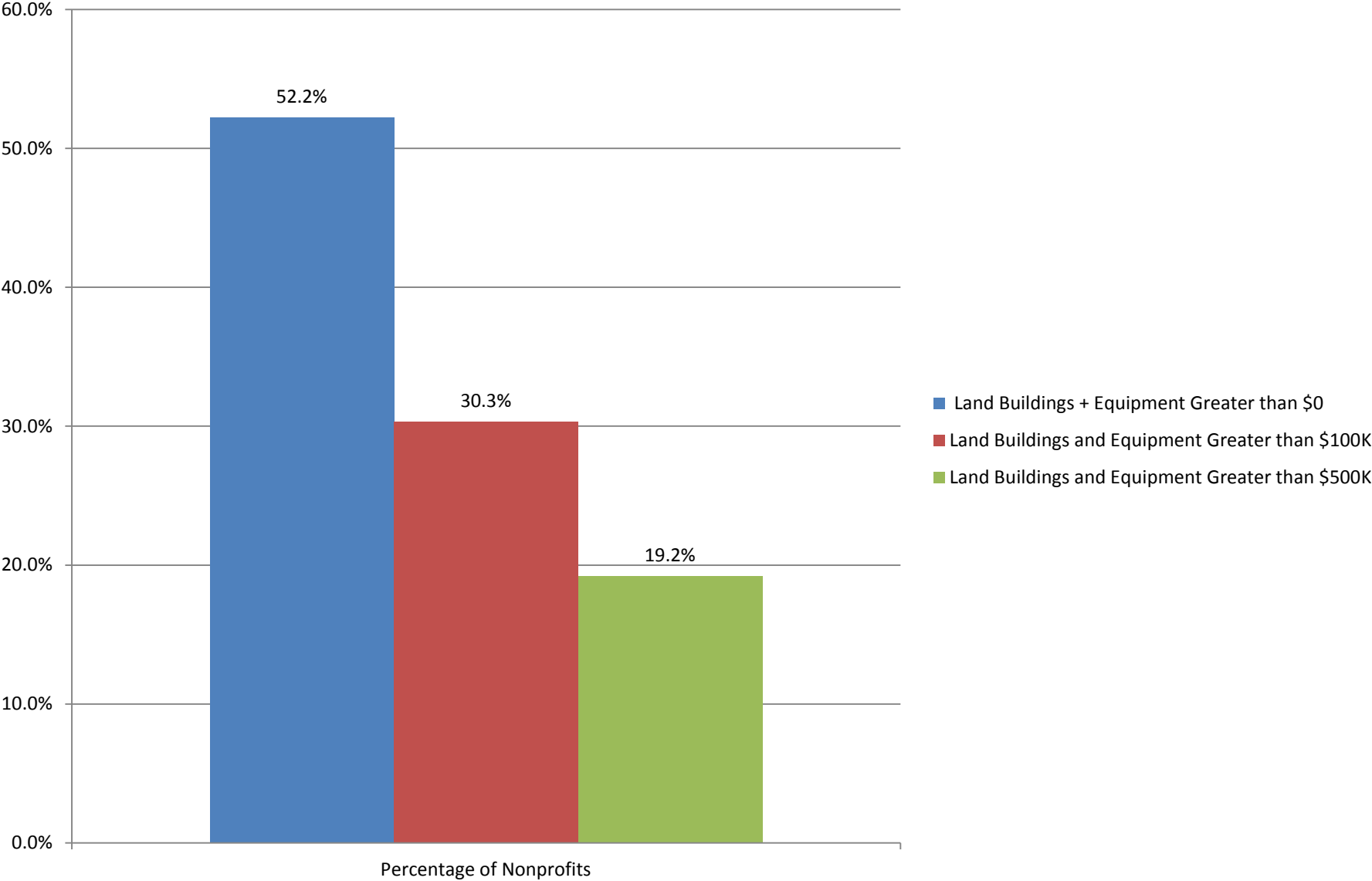
Issues in Estimating Benefit Incidence

- Some states and localities have information on the value of tax-exempt property owned by non-profit organizations, but not at the individual organization level.
- Basic strategy
 - Digitized IRS 990 returns maintained by the National Center on Charitable Statistics has data at the individual organization level
 - 990 return asks individual nonprofits to report the value of land buildings and equipment
 - Use response as a rough gauge of whether a nonprofit owns property likely to benefit from the nonprofit property tax exemption.
 - Impute tax savings from the nonprofit exemption using data from the digitized IRS 990 's and data on urban property tax rates compiled by the Minnesota Taxpayers Association (MTA).

Which Organizations Benefit?

- Just under half of nonprofits do not report owning any real property
- Nonprofits most likely to own real property :
 - Large
 - Well-established
 - Provide goods and service that are land + building intensive
 - Hospitals
 - Education, esp. higher education
 - Housing-related nonprofits

Reported Amount of Land, Buildings, and Equipment on (Circa) 2009 IRS 990 Returns (Source NCCS Digitized 990 Data)



Predicted Probability of Property Ownership by Size, Type, and Age

Predicted Prob. of Reporting Land Bldgs & Equip of \geq \$100K by Size, Activity, Age						
Size (Revenue)	> 10 M	\$1M-\$10M	\$500K-\$1M	\$100K-\$500K	\$25K-\$100K	< \$25K
IRS Primary Activity						
Housing	0.97	0.91	0.81	0.64	0.35	0.28
Private Schools ¹	0.91	0.74	0.54	0.34	0.13	0.10
Hospitals	0.91	0.72	0.52	0.32	0.12	0.09
Higher Ed	0.89	0.69	0.49	0.29	0.11	0.09
Youth	0.86	0.62	0.42	0.23	0.08	0.06
Social Service	0.84	0.58	0.37	0.20	0.07	0.05
Education Misc.	0.81	0.52	0.32	0.17	0.06	0.04
Age						
< 5 Years	0.71	0.38	0.22	0.12	0.05	0.04
5 to 10 Years	0.76	0.45	0.27	0.16	0.07	0.05
10 to 20 Years	0.82	0.54	0.34	0.21	0.09	0.07
More than 20 Years	0.86	0.62	0.42	0.27	0.13	0.10
¹ Includes some colleges and universities						

How Much is the Exemption Worth?

- Varies with the value of property owned and local (state) property tax rate
- Largest in absolute terms for larger nonprofits
- For larger organizations equivalent to a “few” percentage points of extra revenue
- For smaller organizations that own property relative importance of the exemption may be greater.

Tax Savings from Exemption as a % of Nonprofit Revenue (Data: Boston PILOT Taskforce and NCCS Digitized Data)

- Boston Pilot Taskforce
 - Colleges and Universities
 - Average: 3.7%
 - Range: 2.5% to 5.7%
 - Hospitals
 - Average: 2.9%
 - Range: 0.7% to 11.7%
 - Cultural Institutions
 - Average: 1.9%
 - Range: 0.5% to 4.4%
- NCCS Digitized Data
 - Average: 5.7%
 - Range: 1.2% (Revenue > \$10M) to 24% (Revenue \$25K-\$100K)

Who Pays for the Exemption I

- Fiscal impact of the nonprofit property tax exemption:
 - Initial revenue impact equals tax savings (taxes not paid)
 - Affects the property tax rate that is applied to non-exempt property if (when) jurisdiction sets the rate on taxable property to achieve a given revenue target

Who Pays for the Exemption II

- Initial Revenue Impact

Revenue Impact = Value of Exempt Property X Property Tax Rate

- Effect on the property tax rate applied to property that is taxed

$$\tau^{Full} = \tau^{Exempt} X \left[\frac{Nonexempt\ Property}{Nonexempt + Exempt\ Property} \right]$$

$$\tau^{Exempt} = \tau^{Full} X \left[\frac{Nonexempt + Exempt\ Property}{Nonexempt} \right]$$

Table 14: Fiscal Impact of the Nonprofit Property Tax Exemption

	Total Amount of Taxes not paid due to nonprofit groups' exemption	City Budget	Unpaid taxes as a percentage of the city budget	Property Tax Rate Inflation Factor ¹
City of Boston				
Boston PILOT Task Force (2010) ²	\$345,000,000	\$2,394,000,000	14.4%	1.17
Boston (CP)	\$247,108,012	\$2,125,000,000	11.6%	1.09
Massachusetts (State 2003)³	\$159,728,216	\$1,807,000,000	8.8%	1.07
Washington DC				
Washington DC (2005) ⁴	\$241,000,000	\$6,258,000,000	3.9%	1.10
Washington DC (CP)	\$112,410,093	\$7,186,000,000	1.6%	1.03
New York City				
New York (2010) ⁵	\$879,825,000	\$39,901,000,000	2.2%	1.09
New York (CP)	\$605,038,694	\$36,885,000,000	1.6%	1.07
Maryland⁶				
Baltimore City (CP)	\$60,203,481	\$1,200,000,000	5.0%	1.08
Baltimore City 2008	\$50,213,938	\$2,177,660,000	2.3%	1.06
Prince George's County (2008)	\$9,837,709	\$2,642,654,400	0.0%	1.01
Baltimore County (2008)	\$18,612,323	\$1,499,399,000	1.2%	1.01
Montgomery County	\$4,906,931	\$4,162,500,000	0.0%	1.00

Denver (CP)	\$46,048,197	\$775,000,000	5.9%	1.07
Columbus, OH (CP)	\$22,604,611	\$599,000,000	3.8%	1.06
Fort Worth (CP)	\$13,897,006	\$838,599,259	1.7%	1.04
Charlotte, NC (CP)	\$30,807,358	\$1,420,000,000	2.2%	1.04
San Francisco (CP)	\$41,674,531	\$5,343,296,087	0.8%	1.04
Wisconsin⁷	N.A.	N.A.		1.04
Seattle (CP)	\$40,557,018	\$2,889,348,000	1.4%	1.04
Jacksonville, FL (CP)	\$33,055,759	\$1,280,000,000	2.6%	1.04
Houston (CP)	\$34,960,329	\$1,693,568,000	2.1%	1.03
San Jose, CA (CP)	\$7,136,200	\$2,590,504,780	0.3%	1.03
Los Angeles (CP)	\$80,537,056	\$6,672,047,645	1.2%	1.03
Dallas (CP)	\$19,342,612	\$2,300,000,000	0.8%	1.03
San Diego (CP)	\$42,756,189	\$864,919,912	4.9%	1.03
Nashville (CP)	\$20,152,227	\$1,506,054,500	1.3%	1.03
Phoenix (CP)	\$3,177,803	\$1,093,012,000	0.3%	1.03
Tucson (CP)	\$10,901,243	\$1,008,000,000	1.1%	1.02
Memphis (CP)	\$10,760,256	\$261,983,000	4.1%	1.02
El Paso (CP)	\$2,280,852	\$582,425,368	0.4%	1.02
¹ Author's calculations				
² City of Boston (2010)				
³ Massachusetts Department of Revenue				
⁴ Julia Friedman (2007)				
⁵ New York City Department of Finance				
⁶ State of Maryland (2011)				
⁷ Wisconsin Legislative Reference Bureau (CP): Lippman, Chronicle of Philanthropy				

Who Pays: III

- Those affected by spending cuts in programs prompted by revenue “shortfall” caused by exemption
- Those affected by higher tax rates on taxable property
 - Depends on shifting and incidence of (commercial) property tax
 - Landlords
 - Tenants (including nonprofit rental tenants)

Policy Options I

- If one set out to devise a local subsidy for nonprofits, would it have the incidence of the property tax exemption?
- Tax savings clustered among:
 - Large nonprofits
 - Engaged in activities that are land/buildings intensive
 - More established nonprofits

Policy Options II

- Retain exemption in its current form
- Retain exemption but tighten eligibility criteria
- Payments in Lieu of Tax (PILOTs)
 - Informal
 - Formal and structured (Boston plan)
- Services in Lieu of Tax (SILOTs)
- Replace tax exemption with a cost subsidy to nonprofits
 - Administration
 - Property tax credits plus grants
 - Eligibility
 - All nonprofits
 - Nonprofits providing specific goods and services
- Greater reliance on user fees for local public services