



*Testimony of the*

**CT COMMUNITY NONPROFIT ALLIANCE**

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*concerning the*

**FEDERAL UBIT PARKING TAX**

June 17, 2019

The CT Community Nonprofit Alliance thanks you for the opportunity to submit our testimony.

The federal government's taxation of community nonprofits -- 21 percent for the transportation benefits provided to employees -- is one of many efforts, by all three levels of government, to tax nonprofit providers of services in Connecticut and other states.

These efforts combine to be an assault by government on its partners -- organizations that work to improve the quality-of-life of their communities. The attacks come in a context of rising demands, inadequate government funding and increasing fundraising challenges.

**Why Nonprofits Should Be Tax Exempt**

Community nonprofits have long been exempted from taxes for good reason: they provide essential services so that government doesn't have to. In Connecticut, nonprofits serve more than a half million individuals and families every year, making their communities better places to live and do business.

Among many other services nonprofit organizations support people with disabilities, feed the hungry, provide behavioral health care, substance abuse treatment, shelter the homeless and victims of domestic violence and help formerly incarcerated people make a transition back to the community. Nonprofits enrich society with art and culture, operating art galleries, giving public performances and more.

Community nonprofits are partners with the federal, state and municipal governments in serving the American people. Yet taxes take money away from their missions.

In addition to existing for public benefit and operating for specific charitable, educational, or religious purposes, nonprofits are different in several ways from for-profit businesses and it is

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only fair that they be treated differently for tax purposes. Their primary objective is public benefit. They reinvest net earnings back into their missions. The financial data they file on their IRS 990 forms is public information and they are prohibited from engaging in partisan politics.

Many community nonprofits have contracts with government to provide their services. Requiring them to pay taxes means a portion of the money appropriated by government would be paid back to government. The money legislators and members of Congress struggle to appropriate every year is used for another purpose.

Make no mistake, the extent of this tax assault on nonprofits could cause some to shut their doors, leaving the people they serve with nowhere to turn. Taxation erodes the social compact between community nonprofits, the people they serve and government.

### **Federal Tax Changes**

The UBIT parking tax is not the only aspect of the new federal tax law that could have negative impacts on nonprofits.

The new federal tax law increases the standard deduction to \$12,000 for single filers and \$24,000 for joint filers. It caps the state and local tax deduction at \$10,000 and increases the estate tax exemption to \$11 million for single filers and \$22 million for couples. This means many fewer filers will be itemizing and taking charitable deductions from their taxes.

The changes are already having an impact on nonprofits. The Alliance and the CT Council for Philanthropy last month issued survey results ("Response To Financial Challenges: Funder-Nonprofit Survey") that show, among other things:

- "Due to the 2018 implementation of the new federal tax law, 43% of nonprofits reported that they have seen or expect to see a decrease in donor support this year."
- "[More than] 63% of funders reported concern that the new federal tax law will result in decreased donations for nonprofit partners."

Taxation of nonprofits can be expected to exacerbate this trend. The extent to which donors feel their contributions wouldn't be going to their local cultural or human services agency but instead be paid in taxes will have a chilling effect on the ability of nonprofits to raise their own funds.

### **State Tax Proposals**

Over the past three years several proposals have been considered by the Connecticut General Assembly that would have taken funds from the services provided by nonprofits and given them to government.



In 2017, H.B. 7322 would have eliminated the state's nonprofit sales tax exemption. It was estimated that proposal would have cost nonprofits at least \$217 million.

In 2019, H.B. 7408, would have allowed municipalities to require community nonprofits to pay an annual "municipal service fee".

Also, this year, S.B. 1137 and S.B. 1138 would have required nonprofits with "significant" savings accounts, endowments or pension funds to pay into a state "community development account" the equivalent of 25% of the property tax the organization would pay if they were not exempt from property tax.

By any name these would be taxes – money taken from nonprofit missions and paid to governments.

### **Municipal Taxation**

In a survey done in May 2018, The Alliance found that at least 40 Connecticut cities and towns had recently issued tax bills to nonprofits. Two-thirds of nonprofits who responded said their property had been recently assessed for taxes after a history of being exempt - without undergoing a change of use.

This is an ongoing battle being fought in state courts and before the General Assembly. It has a negative impact on the same communities that are assessing the taxes. One provider stated: "Funding for the program is already below program expenses and is subsidized by fundraising. A tax payment will further decrease [our] funding and make sustaining the current program model difficult going forward."

### **The State Fiscal Context**

Connecticut has been in a governmental fiscal crisis since the onset of the Great Recession ten years ago.

Years of tough budgets included many cuts to nonprofits even as demand increased. A 2015 study of rates for behavioral health services showed the annual loss for the top ten procedures (by volume) was more than \$27 million for approximately 250,000 service hours. State grants for mental health and substance abuse have been reduced by 17%. Before last year's wage legislation, nonprofits that provide services for people with intellectual and developmental disabilities hadn't had a rate increase since 2007.

Compare that with the devastating increases in deaths from opioid abuse and the 2,000-person waiting list for services from the state's Department of Developmental Services.

While 2019 gave nonprofits a welcome break from a decade of cuts, they still face future fiscal dangers. About half of the state budget comprises “fixed costs,” which are not subject to budget cuts. As that percentage grows each year, funding for nonprofits is in whatever remains. The combination of ongoing budget shortfalls and growing fixed costs mean community nonprofits are a shrinking piece of a diminishing pie.

The growth of fixed costs is happening at the same time as the demand for services is increasing. In a 2018 survey, over half of the 100+ respondents reported an increase of 15% in request for services compared to the past year.

The survey found that nonprofits have accessed cash reserves, took out lines of credit and merged to continue providing services. If those options were still not enough to make ends meet, many organizations had no other choice, but to freeze/reduce salaries (65%), with other organizations reporting having to lay-off staff (42%);

### **The Parking Tax**

The parking tax is costly and burdensome for many nonprofits – because it imposes both the direct cost of the tax and an administrative cost of compliance. Its financial impacts come in the context of tight state budgets, increasing demand for services and a growing drumbeat for taxation of government’s nonprofit partners. It is “piling on” the financial difficulties of a national network of service providers that are already operating on bare-bones budgets.

This provision is mis-identified as an Unrelated Business Income Tax -- it has nothing to do with an organization’s income. It is, rather, a tax on otherwise exempt nonprofits that will come at the expense of (i) the people who depend on nonprofit services and (ii) employees who are dedicated to their jobs and the people they serve.

Connecticut may seem to be a small state, but it is a place in which people depend on their cars. Nonprofits are not found just in cities, but also in suburban areas and more rural regions such as Eastern Connecticut, where public transportation is lacking.

Many nonprofit staff members need their cars to get to work and often use their own vehicles to do organizational business. It is a necessity. The tax punishes them and their employers for their dedication.

### **Repeal The Parking Tax**

There seems to be no discernable policy purpose in levying the parking tax on nonprofits. There are few, if any, members of Congress who say they support it – yet it remains in place and nonprofits must take precious funds from their missions to pay it.

It should be repealed.

It's been said that for many years community nonprofits have been on the receiving end of government cuts because they are run by dedicated people who will provide their services anyway.

While it's true that nonprofits do their best to raise funds from donations and diversify their offerings the days of "providing their services anyway" are ending. We hear frequently about programs that have been curtailed or closed – for example, the closing of group homes for people with intellectual/developmental disabilities or reduced hours for programs that help youth with trauma in their backgrounds.

Connecticut's caring network of nonprofits is approaching its breaking point even before taxes are levied.

Nonprofit leaders understand that municipal, state and federal governments have their own tight budgets. But taking money from one type of community service to give to another is counter-productive. If this trend to taxation succeeds the result will be communities that are less attractive to business investment or potential residents because they would lack the amenities provided by things like cultural organizations or important services such as behavioral health and services for children.

It is short-term gain at the expense of the long-term health of our communities – America has made enough trades like that over the past few decades.

We urge you to repeal the UBIT Parking Tax.

Thank you for your consideration.