



# HOW NEW MEXICO BENEFITS FROM *NOT* TAXING NONPROFITS

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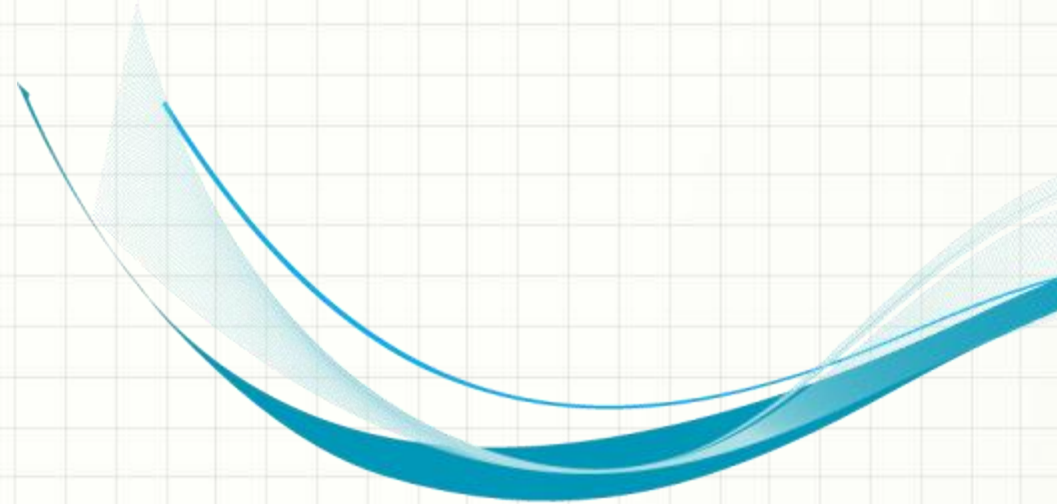
Revenue Stabilization & Tax Policy  
Committee October 29, 2018

# Nonprofits

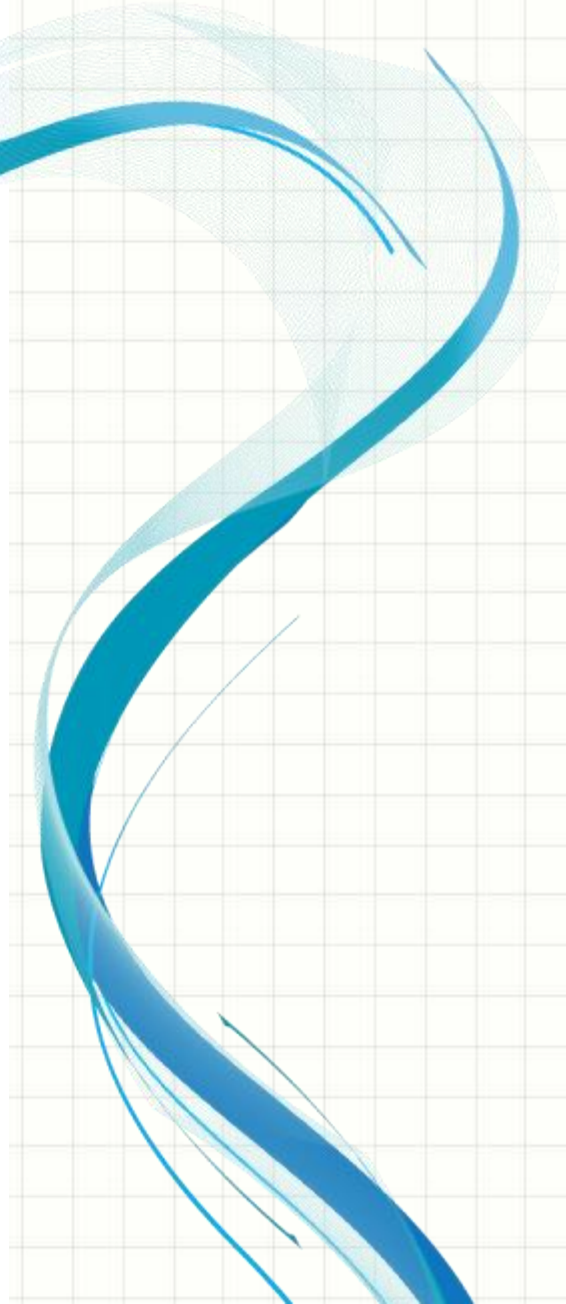
- For the purpose of this discussion, “nonprofit” will refer to 501(c)(3) organizations.
- This presentation excludes any discussion of taxation with respect to national laboratories.

# Traditional & Fundamental Reasons Nonprofits are Tax Exempt

- Nonprofits reduce the workload of government.
- Nonprofits do things that we don't want government doing.



# What Nonprofits Do



Nonprofits are  
an expression  
of our  
humanity

# Nonprofits provide direct services

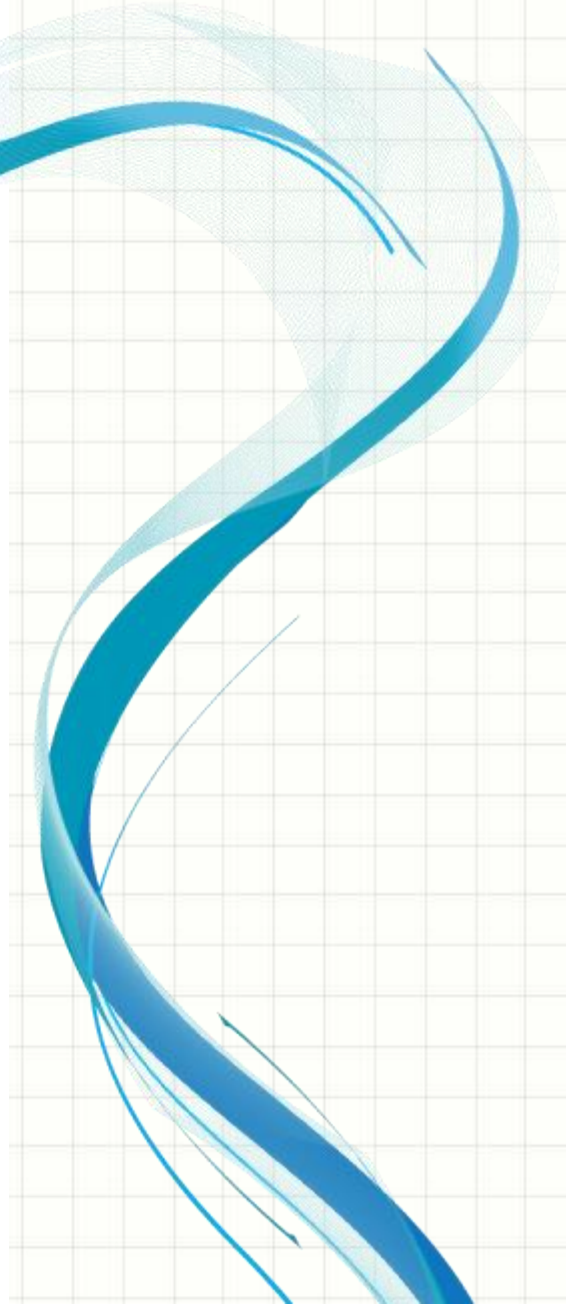
- Food for people experiencing food insecurity
- Shelter, food and medical services for people experiencing homelessness.
- Shelter, counseling, and legal services for victims of domestic violence, child or elder abuse, sexual assault.
- Group homes, day services, job training and support for people with disabilities.
- Shelter and counseling for people struggling with addiction.

*New Mexico's people, governments, and businesses all rely on the state's nonprofits to address their most critical needs*

# Nonprofits are proactive

- CPR and safety training.
- Home visiting and early childhood programs.
- Activities, mentoring, and leadership training for youth.
- Crisis hotlines and programs for suicide prevention.

*Nonprofits intervene before people need more costly services*



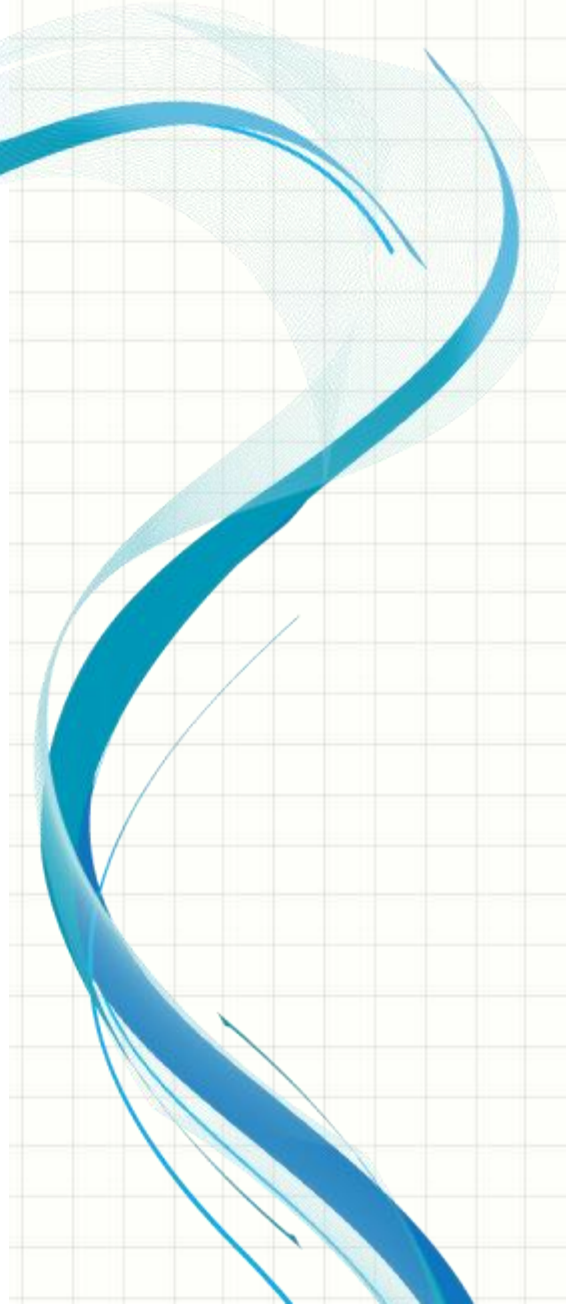
**Nonprofits  
contribute to  
economic  
development**




# Nonprofits provide job training and entrepreneurial support

- Job training and placement for those who have difficulty entering or re-entering the workforce.
- Jobs and support for those who cannot work independently.
- Literacy training.
- Training and loans for new entrepreneurs.

*Nonprofits expand the workforce, enabling more people to help themselves*

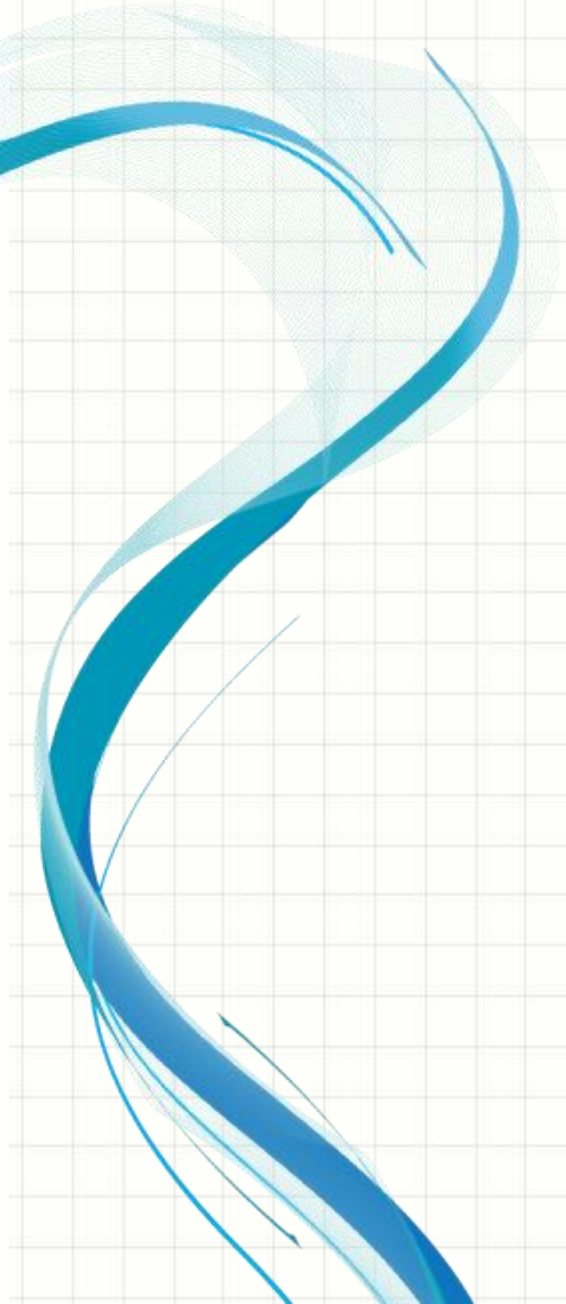


**Nonprofits  
work to break  
the cycle of  
poverty**



# Nonprofits help people create opportunities and possibilities for themselves

- Support and resources to help people set their own path out of poverty.
- Working with credit unions and banks, create programs for people to save for post secondary education, emergencies, or aspirational goals.

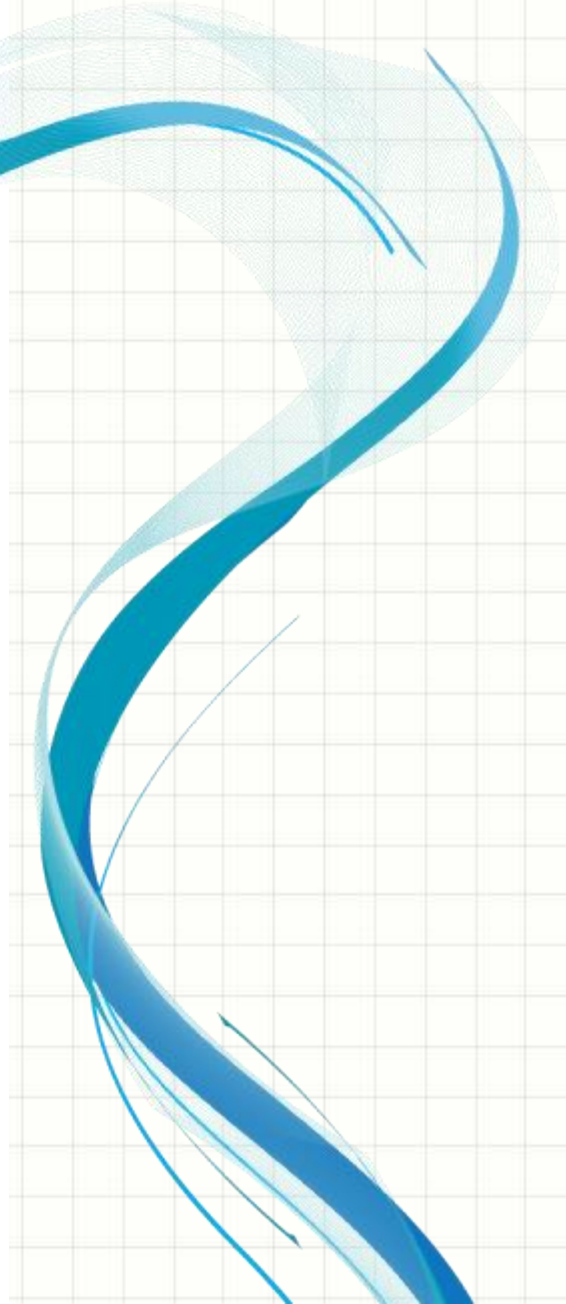


**Nonprofits  
contribute to  
educational  
outcomes**


# Nonprofits provide assistance in a variety of ways

- Early childhood education, after school programs, mentoring, GED preparation, child and adult literacy training.
- Support services:
  - counseling to abused, neglected, and/or grieving children.
  - adaptive equipment for children with disabilities.
  - Clothing and school supplies.

*Nonprofits help make it possible for all children to learn*



**Nonprofits  
contribute to  
quality of life**



Nonprofits provide opportunities for recreation, service, artistic expression, and religious observance

- Service clubs.
- Sports leagues; recreation clubs.
- Museums and art galleries.
- Performance arts.
- Religious communities are also nonprofits.

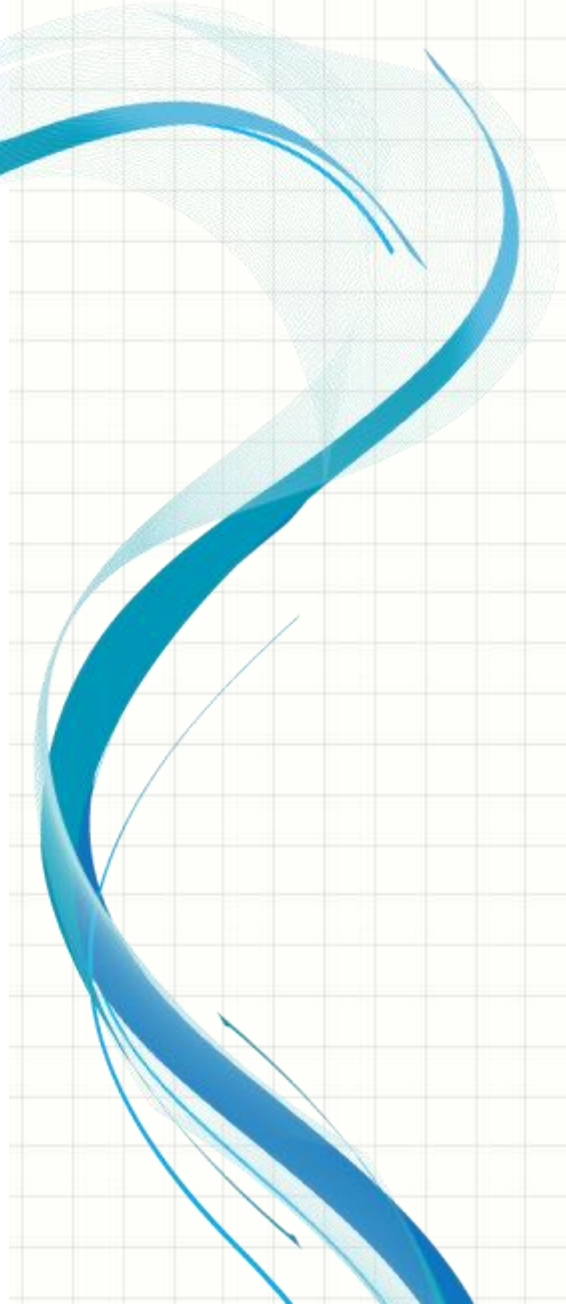
*Nonprofits express the unique culture of New Mexico*

# Nonprofits make significant contributions to culture, tourism and local economies

- Many cultural events draw tourists from across New Mexico, the U.S. and the world.
- The tourists spend money locally: hotels, car rentals, restaurants, stores, museums.

*The tourist dollars are taxed and generate revenue for the state*





Nonprofits  
remind us of  
our place in  
the world

# Nonprofits safeguard our health by protecting the environment

- Now and for the future.
- Protection of water, air, animals, wildlife, forests, natural habitats.

*People benefit from the crossover aspect of compassion for animals and compassion for people.*



# Addressing Assumptions


# Nonprofits & For-Profits

## Assumption

- Nonprofits do the same work as for-profits, but have an unfair tax advantage.

## Reality

- Nonprofits take on work that for-profits don't want, because there isn't enough profit in it.



In 2014, when several behavioral health organizations closed as a result of allegations of fraud, some for-profit organizations from Arizona moved into New Mexico. In 2018, only one of the Arizona organizations remain. The others left because the Medicaid reimbursement rates aren't sufficiently profitable.

# How New Mexico Benefits by Exempting Nonprofits from Taxation

- New Mexico nonprofits are integral to our communities and committed to serving our communities.
- Tax exempt status allows nonprofits to operate and make the most of their limited resources.

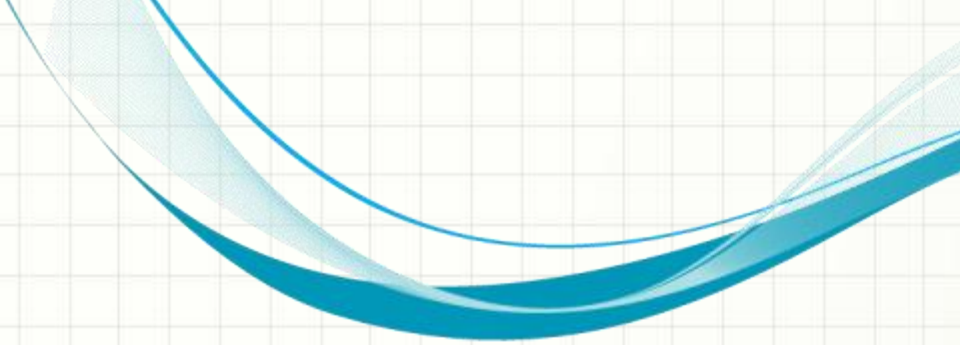
# Removing Tax Exemption on Goods

## Assumption

- Minimal impact on nonprofits because they only purchase a small quantity of office supplies.

## Reality

- Some nonprofits purchase expensive equipment or large quantities of goods.
- Every dollar diverted from mission equals less impact.



Carrie Tingley Hospital  
Foundation purchases adaptive  
equipment for children with  
disabilities. One high tech glove  
with computer to retrain  
muscles & brain cost \$100,000;  
the tax would have been \$7,500.



# How New Mexico Benefits by Exempting Nonprofits from Taxation

- Tax exempt status allows nonprofits to make the most of limited resources and serve the maximum number of people.


# Imposing Tax on Fees for Service

## Assumption

- Nonprofits can pass the cost along to clients.

## Reality

- Some behavioral/health care nonprofit providers charge fees for service (copays).
- Fees are determined by the insurance companies' contracts with the patient.
- Nonprofit service providers cannot raise the fees.



All Faiths cannot arbitrarily raise the copay amount to pass along the cost of a tax imposed on fees for service. Many of their clients would not be able to afford a higher amount, even if raising the fees were possible. All Faiths would have to pay the tax out of their operating funds, which would reduce funding available to provide services.

# How New Mexico Benefits by Exempting Nonprofits from Taxation

- Tax exempt status allows nonprofits to keep fees for service affordable for clients without the additional financial and administrative burden for the nonprofit.

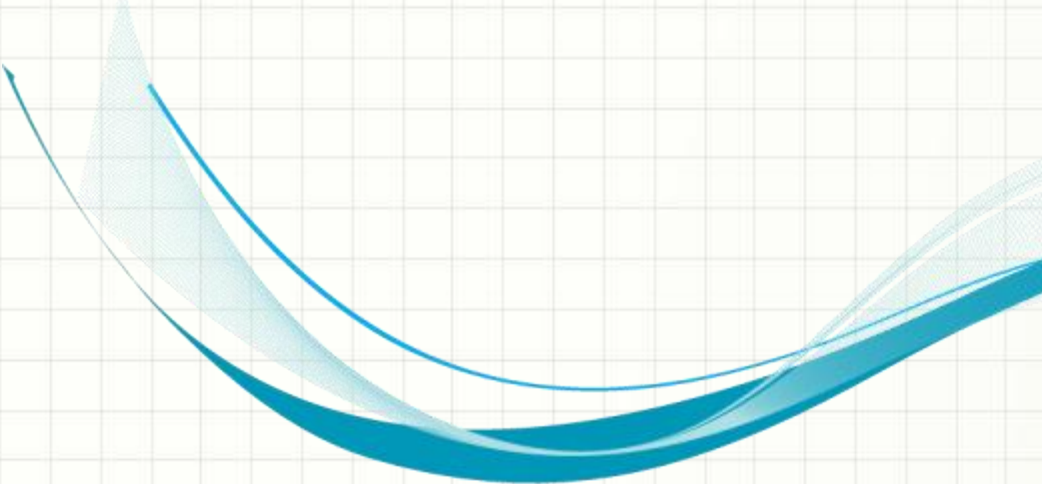
# Imposing Tax on Fundraising Events

## Assumption


- Nonprofits can ask for more donations.

## Reality

- The Tax Cuts and Jobs Act is likely to reduce donations to nonprofits.
- Fundraising events are part donation, part nondeductible “fee for service” (food, entertainment).
- Donations are tax exempt under federal law and in every other state.
- Donors rarely are willing to give more to subsidize government.

A decorative graphic consisting of several overlapping, curved blue lines that sweep across the top right of the page. The lines vary in opacity and thickness, creating a sense of motion and depth. The background is a light gray grid.

Nonprofits employ a variety of methods to raise funds to carry out their missions. Fundraising events build community awareness and donor loyalty, in addition to generating revenue. Not all “fundraising” events bring in cash.



In addition to the more typical fundraising events, Roadrunner Food Bank has food drives twice a year. Would that be considered a fundraising event? Roadrunner sends out donation letters, would that be considered a fundraising event and subject to taxation?

# How New Mexico Benefits by Exempting Nonprofits from Taxation

- Keeping fundraising events tax exempt:
  - Maximizes the amount of donation revenue generated for the work of the organizations.
  - Encourages the public to continue to support nonprofits with donations.
- Public support through fundraising and donations is essential for many nonprofits.




# Imposing Tax on State Grants or Contracts

## Assumption


- Nonprofits can ask for more funding when they apply for the grant or contract.

## Reality

- Rates for nonprofit service grants/contracts are set by the state.
- Imposing a tax will mean that fewer funds will be available for services.



A 2014 Urban Institute Study  
found that New Mexico  
governments impose arbitrary  
caps on reimbursement.<sup>3</sup>



Dream Tree Project has a state contract to provide emergency shelter for youth in the Taos area. The billable rate covers 60% of the cost. The rates are set by the state and are not negotiable.

# How New Mexico Benefits by Exempting Nonprofits from Taxation

- Tax exempt status allows nonprofits to utilize every dollar of government grants and contracts to serve the maximum number of New Mexico residents.

# Imposing Tax on Nonprofits' Gross Receipts

## Assumptions

- A 7% loss in revenues won't impact nonprofits' ability to operate.

## Reality

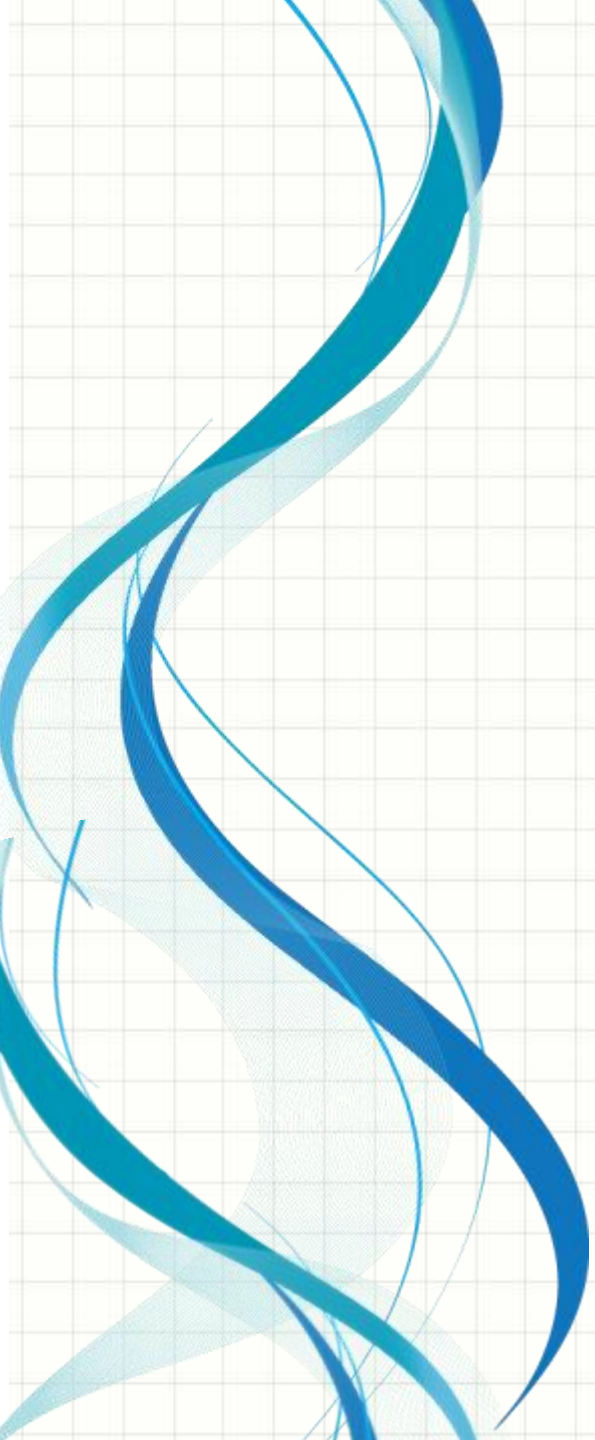
- 63% of nonprofits ended last fiscal year with breakeven financials or a deficit.<sup>1</sup>
- 38% do not anticipate being able to meet the demand for services in the current year.<sup>1</sup>
- A 7% reduction in revenue will likely stimulate a 10% contraction of nonprofits.<sup>1</sup>

# The Effects of Taxing Nonprofits will be Far Reaching

- Nonprofits will have to cut back on services.
- Nonprofits will have to cut back on staff.
- Some nonprofits will close, increasing unemployment.
- Less services will be available.
- Cultural events may cut back on the number of activities or days of activities.

# How New Mexico Benefits by Exempting Nonprofits from Taxation

- Tax exempt status allows nonprofits to continue their work
  - Nonprofits leverage funding.
  - Nonprofits are cost effective.
  - Nonprofits contribute to the economy.



# Opportunities



# Incentivizing Through Tax Policy

## Opportunity

- Maintain nonprofits' tax exemption on goods.
- Expand nonprofits' tax exemption to include services.
- Improve tax incentives for individuals to donate to charities.

## Outcome

- Tax exemption allows nonprofits to do more with limited resources.
- Encourages nonprofits to hire more professional services.
- Offsets losses from the Tax Cuts & Jobs Act; increases donations to nonprofits.

# Resources

1. New Mexico Thrives Nonprofit Sector Financial Outlook Report 2018  
[www.nmthrives.org/financial-outlook-report](http://www.nmthrives.org/financial-outlook-report)
2. “Charitable Giving Gets Even Worse In Second Quarter,” by Paul Clolery, Nonprofit Times, September 18, 2018  
<http://www.thenonproffitimes.com/news-articles/charitable-giving-gets-even-worse-in-second-quarter/>
3. National Study of Nonprofit-Government Contracting, New Mexico by Urban Institute  
<https://www.councilofnonprofits.org/sites/default/files/documents/govt/New%20Mexico-Urban%20Data%202014.pdf>
4. National Council of Nonprofits  
[www.councilofnonprofits.org](http://www.councilofnonprofits.org)

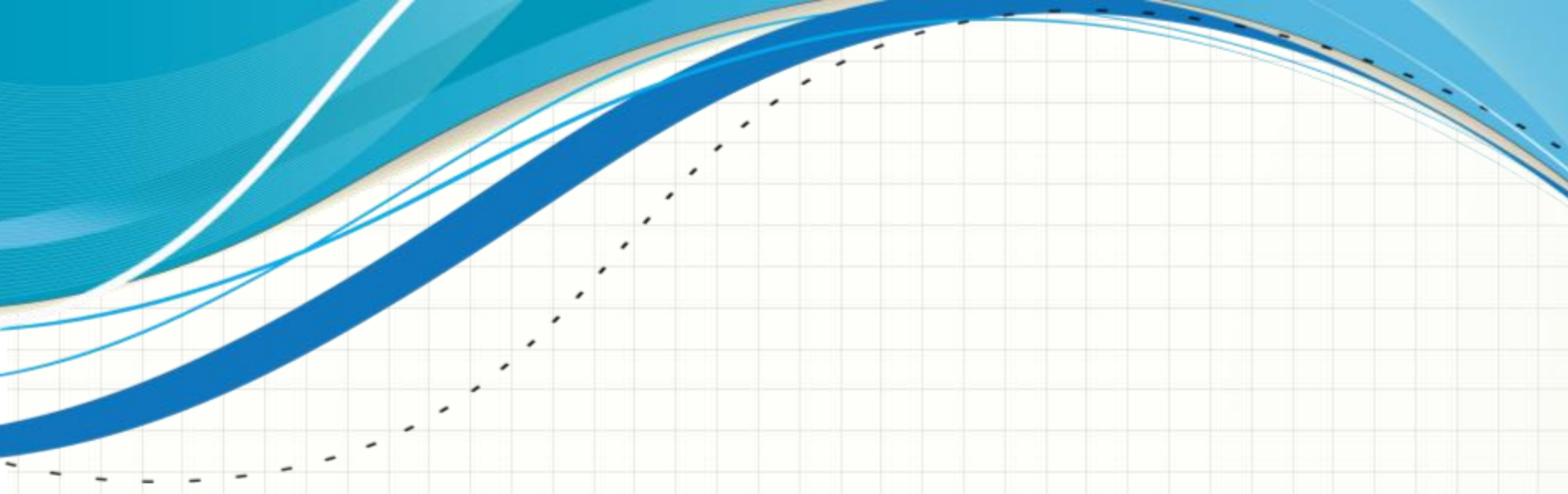
# Contact Information

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**THANK YOU**