

# The Tax Expenditure for Tax Exempt Organizations

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# Tax Exemption and Tax Expenditures

- Tax Expenditures are large indirect subsidies
  - Exclusions of income, deductions, special treatment etc.
- Tax exempt status under 501(c) provides preferential exclusion in tax law
- Value not currently published by OTA or JCT
- Value of exclusion is unclear

# Research Question

- What is the value of tax exempt status?
- Which organizations benefit the most from tax exempt status and why?
- We quantify the cost of the exclusion of positive net income of tax exempt organizations
- **Not** a proposal to include exclusion as a tax expenditure

# Overview

- Estimation of the tax expenditure for tax exempt organizations
  - Income exclusion
  - Charitable deduction
- Conceptual issues and ongoing research

# Methodology – Exclusion of Income

- Income = Form 990 Microdata Positive Net Income less:
  - [Unrelated Business Income](#)
  - Carryforward/carryback net operating losses
- Tax Expenditure =  $\text{Max} \{ \text{Taxable Income} * \text{Graduated Corporate Rate}, 0 \}$

# Illustrative Example

- Hospital X

Income = 1,000,000

– Expenses = 750,000

– Unrelated Business Income = 20,000

– Imputed NOLs Carried Over = 10,000

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Imputed Taxable Income = 220,000

Imputed Tax liability = approx. 77,000

# Methodology – Individual Deductions

- Deductions claimed on Form 1040
  - Cash, non-cash, carryover deductions
  - Short/long term gains on donations of financial assets using cost basis and market value data from Form 8283
- Treasury's Individual Tax Model used to calculate value from Individual Donations

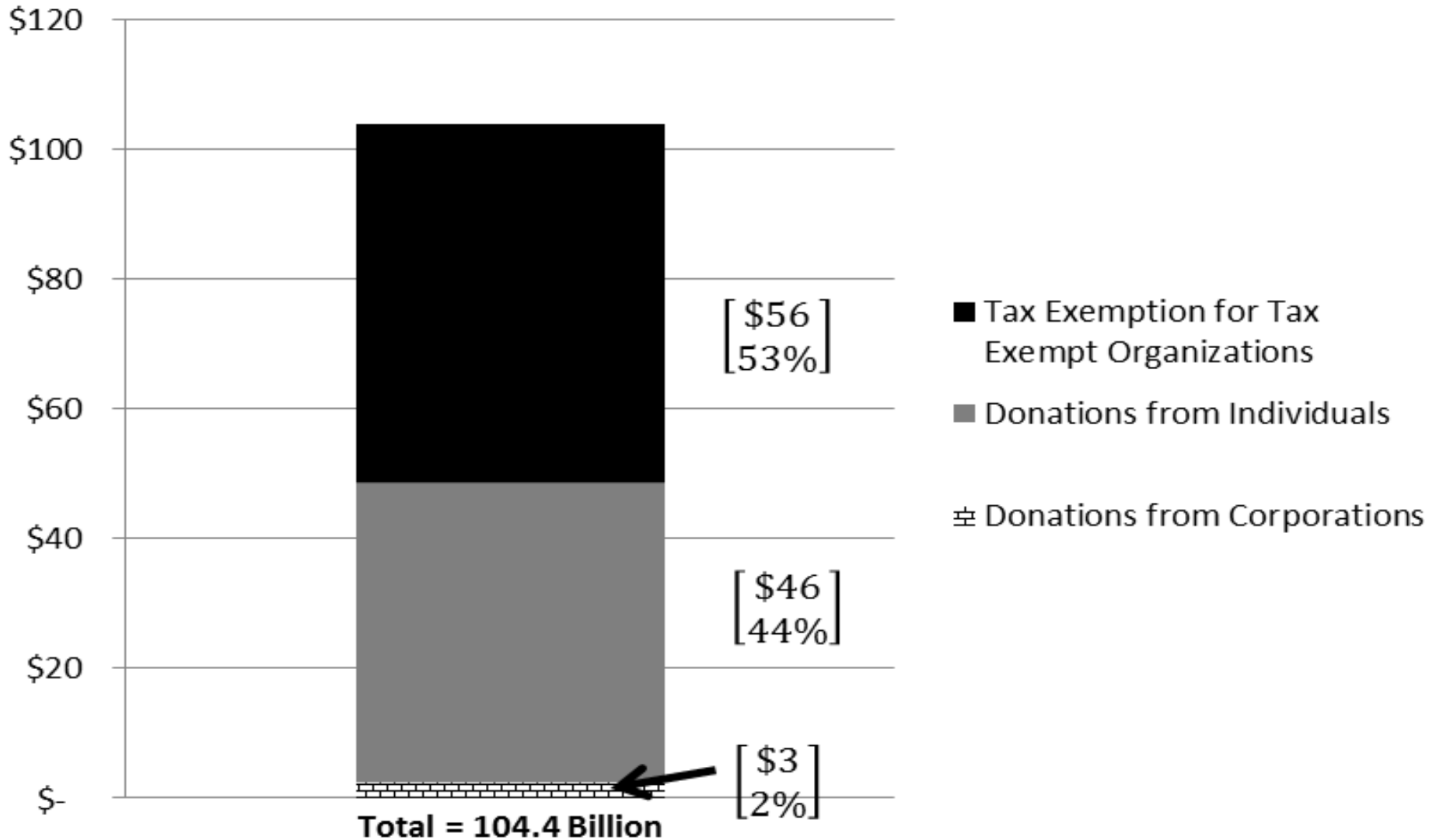
# Illustrative Example

	<b>Current Law</b>	<b>Without Tax Subsidies</b>
<b>Charitable Deduction</b>		
Deductions of cash contributions	500	0
Deductions of non-cash contributions	<u>200</u>	<u>0</u>
Charitable Deduction	700	0
<b>For Donations of Appreciated Assets</b>		
Market Value	200	200
Basis	<u>150</u>	<u>150</u>
Capital Gains (Schedule D)	0	50



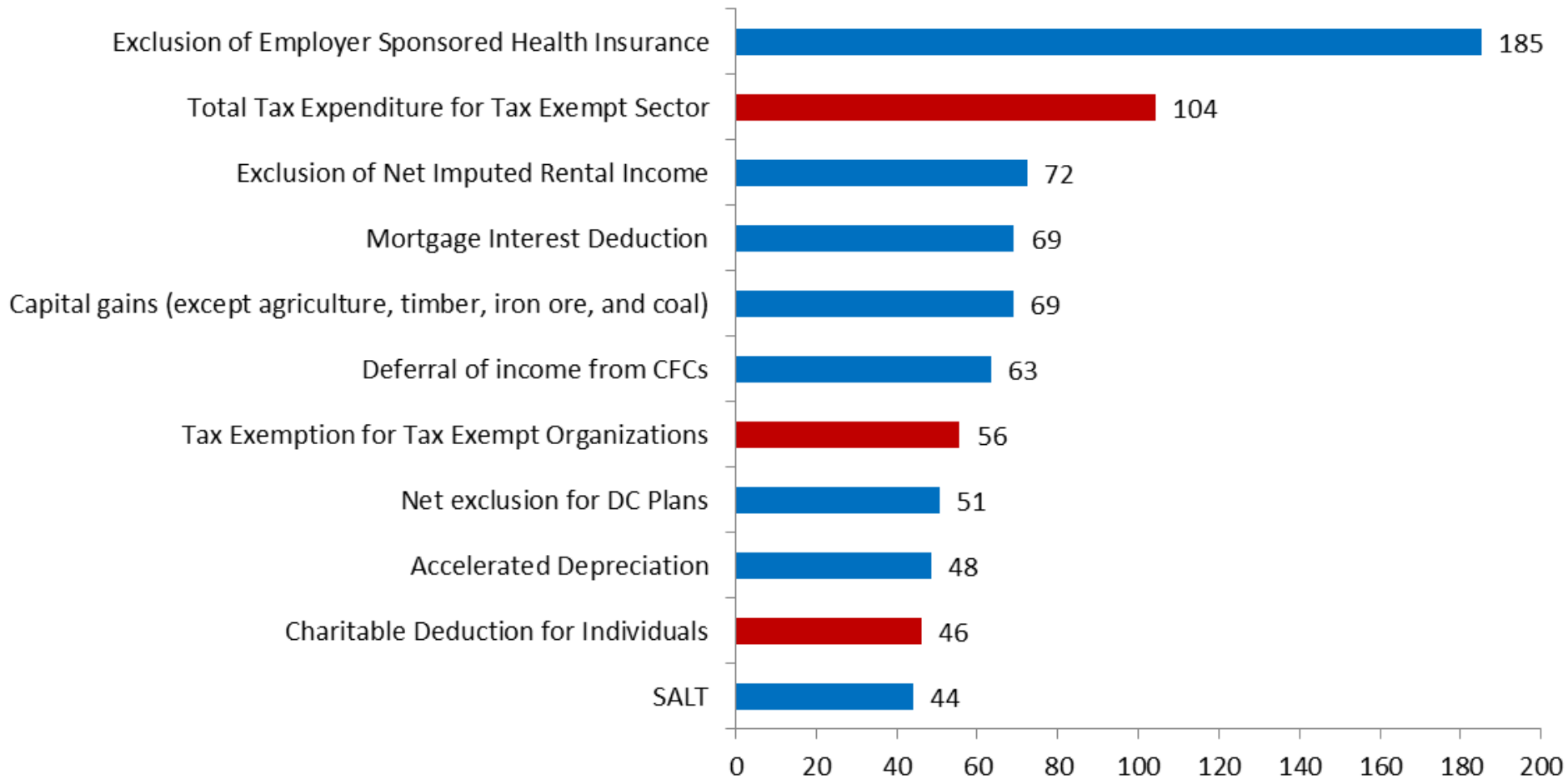
# Tax Expenditure for the Tax Exempt Sector

Billions USD, 2013



# Largest Tax Expenditures

Billions USD, 2013

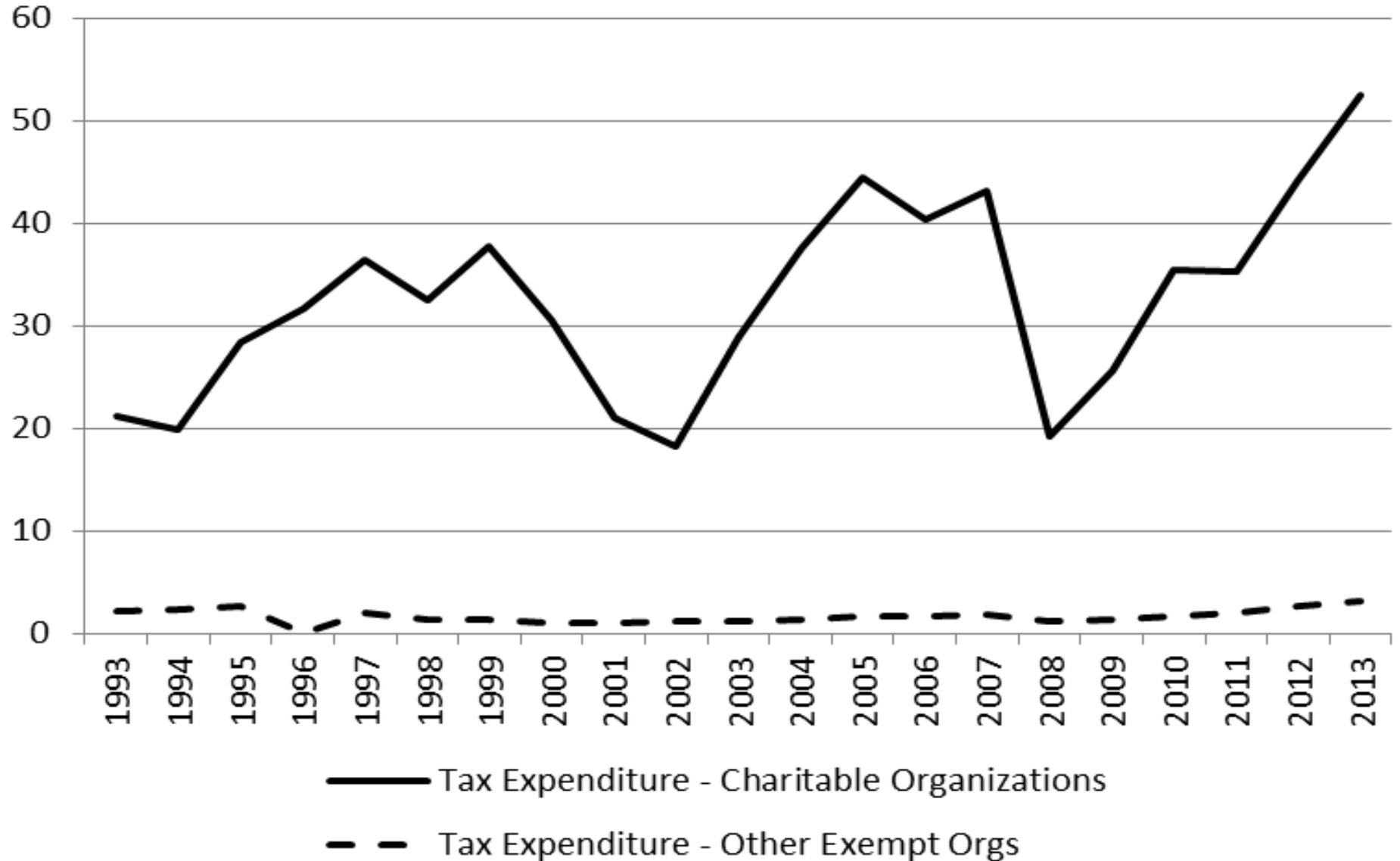


# Tax Expenditure: Exclusion of Net Income

[Income/Expenses](#)

USD Billions, 2013 Constant Dollars

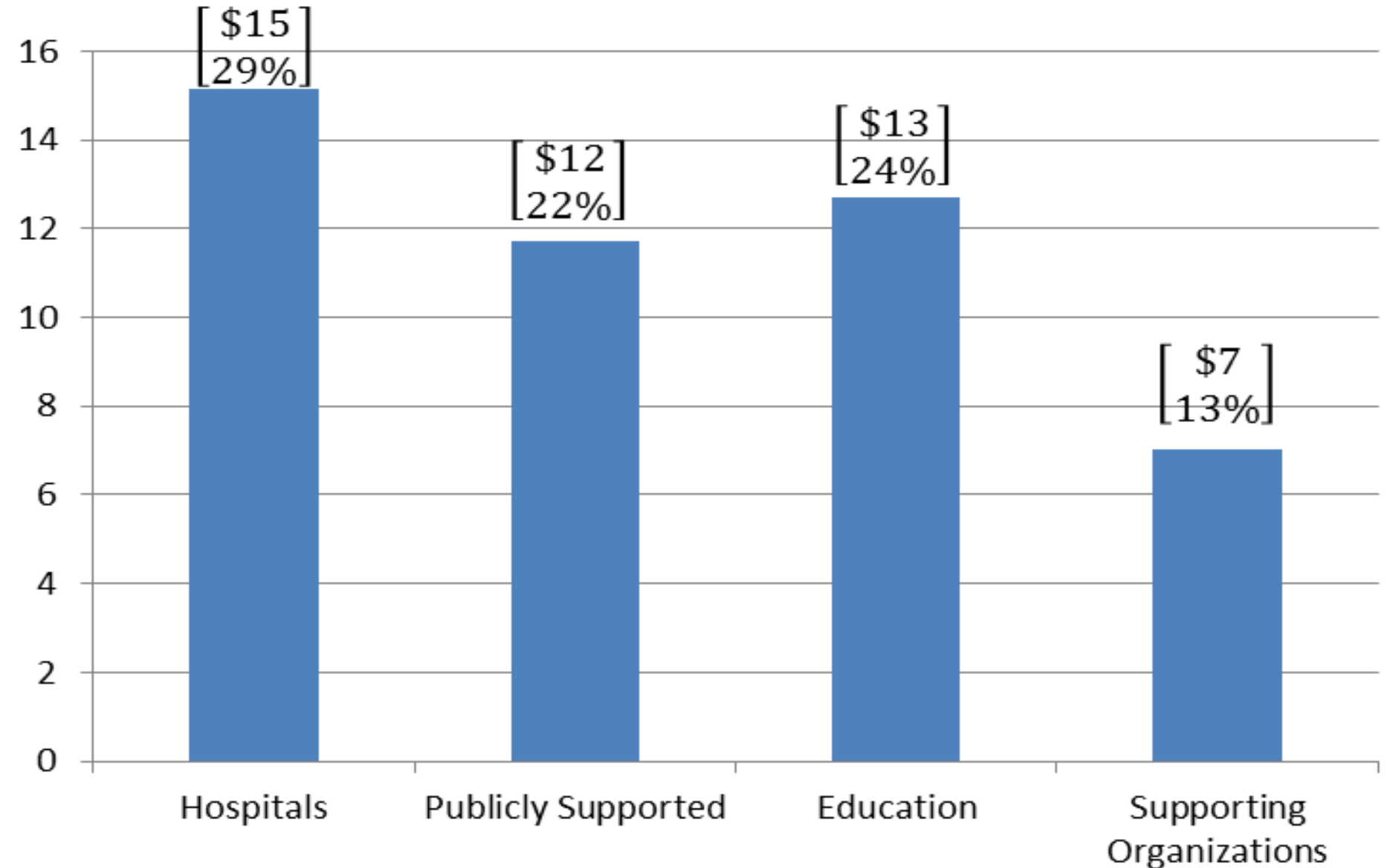
[No Gifts](#)



# Charity Type: Tax Expenditure for Exclusion

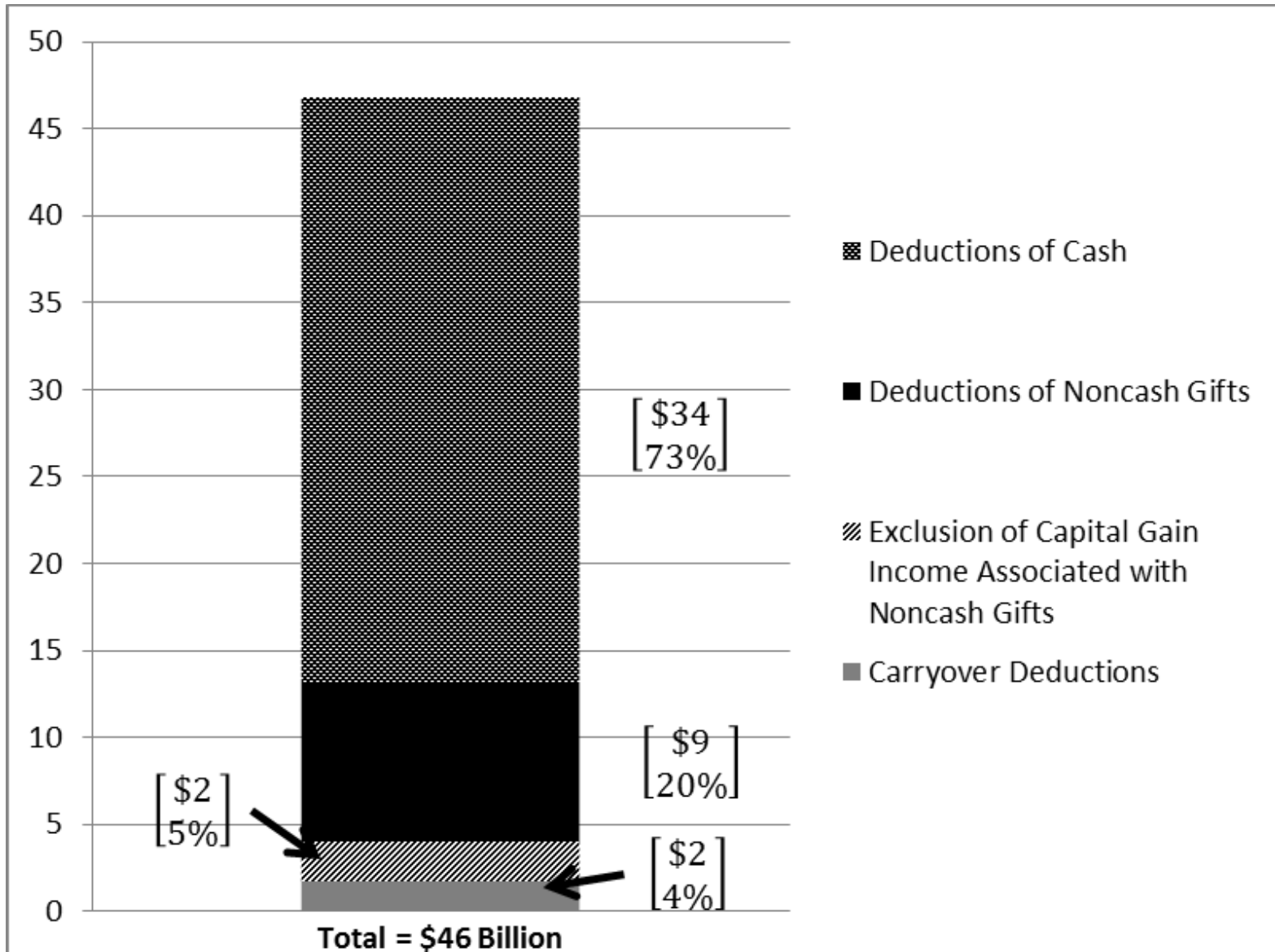
Billions USD, 2013

[Rev. Source](#)



# Tax Expenditure for Individual Deductions

Billions USD, 2013



# Tax Expenditure for Non-Cash Contributions by Type of Donation

Billions USD, 2013

Donation Type	Donations	Tax Expenditure	Subsidy as % of Donation
Stock	\$19.7	\$6.9	35%
Mutual Funds	\$1.6	\$0.6	38%
Other Financial	\$2.2	\$0.9	40%
Land and Real Estate	\$2.0	\$0.7	34%
Easements	\$1.1	\$0.3	27%
Art/Collectibles	\$1.2	\$0.3	22%
Clothing	\$9.7	\$2.1	22%
Household	\$4.2	\$0.9	22%
Under \$500	\$5.2	\$1.0	20%
All Non-Cash Donations	\$52.0	\$9.1	17%

# Conclusion

- Tax Expenditure for Exclusion of net income from the tax base may be associated with a high cost (\$56B)
- Tax Expenditure for tax exempt organization benefits hospitals (\$15B) and education institutions (\$12B)
- The Exclusion of Capital Gains donations is a substantial subsidy to donations of financial assets and land/real estate

# Conceptual Issues and Ongoing Research

- Treatment of gifts to charitable organizations
- Charitable and tax exempt organizations would likely alter behavior in the event of being subject to taxation
  - Further research on behavior of tax exempts which switch to F1120 could offer insights on changes in behavior



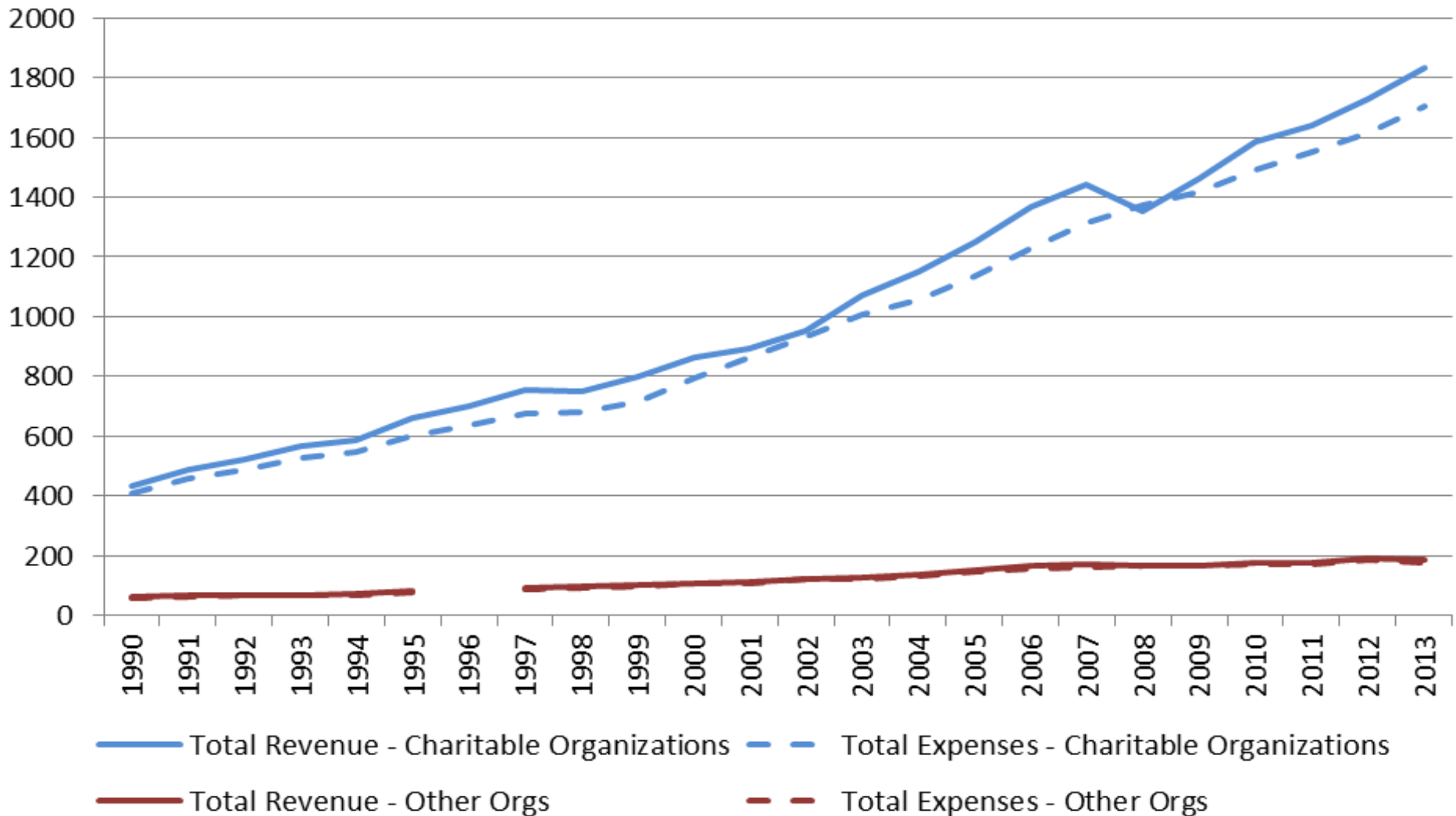
Thanks for listening!

# Total Expenses and Revenue for Charitable and Other Tax Exempt Orgs

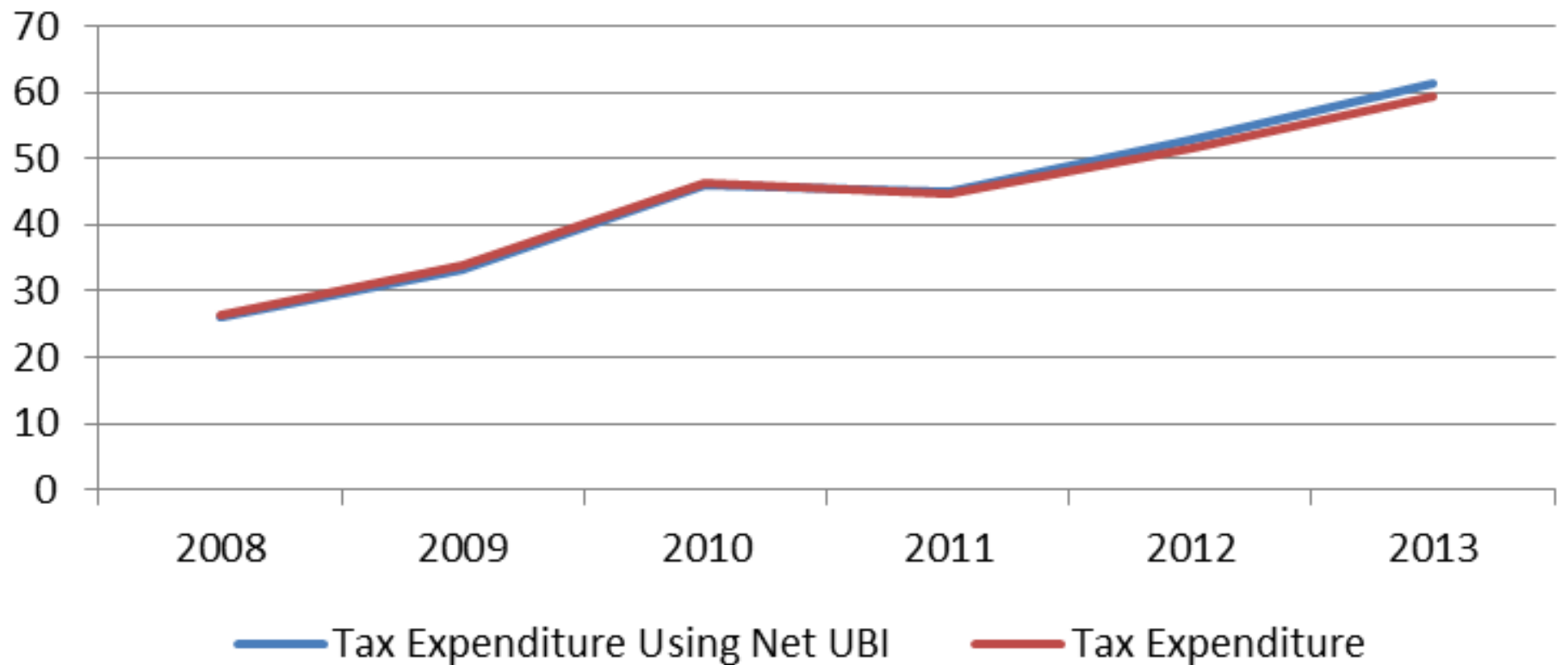
[Rev Sources](#)

USD Billions, 2013 Constant Dollars

[Return](#)

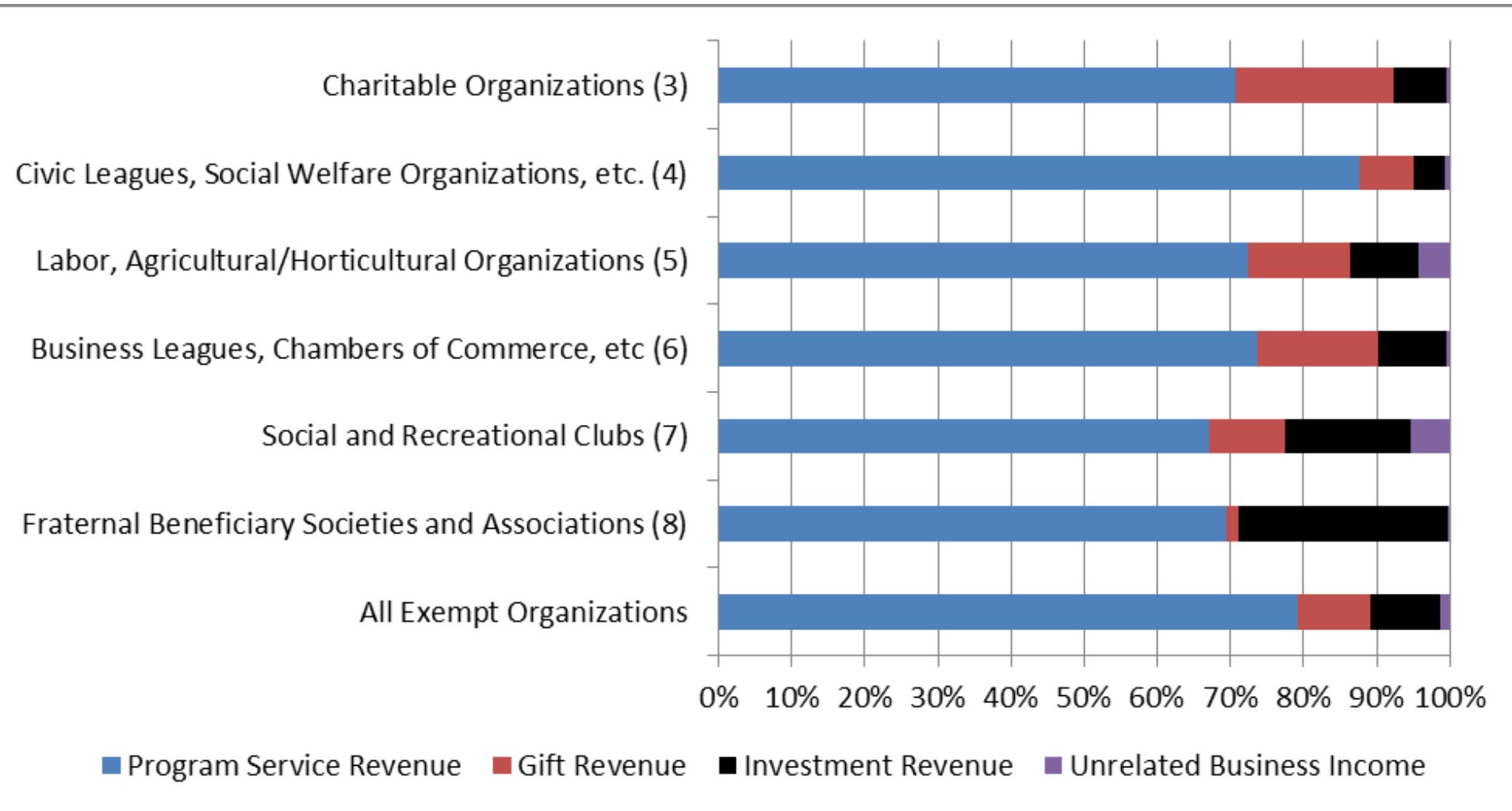


# Tax Expenditure Using Net UBI and UBI (\$B)



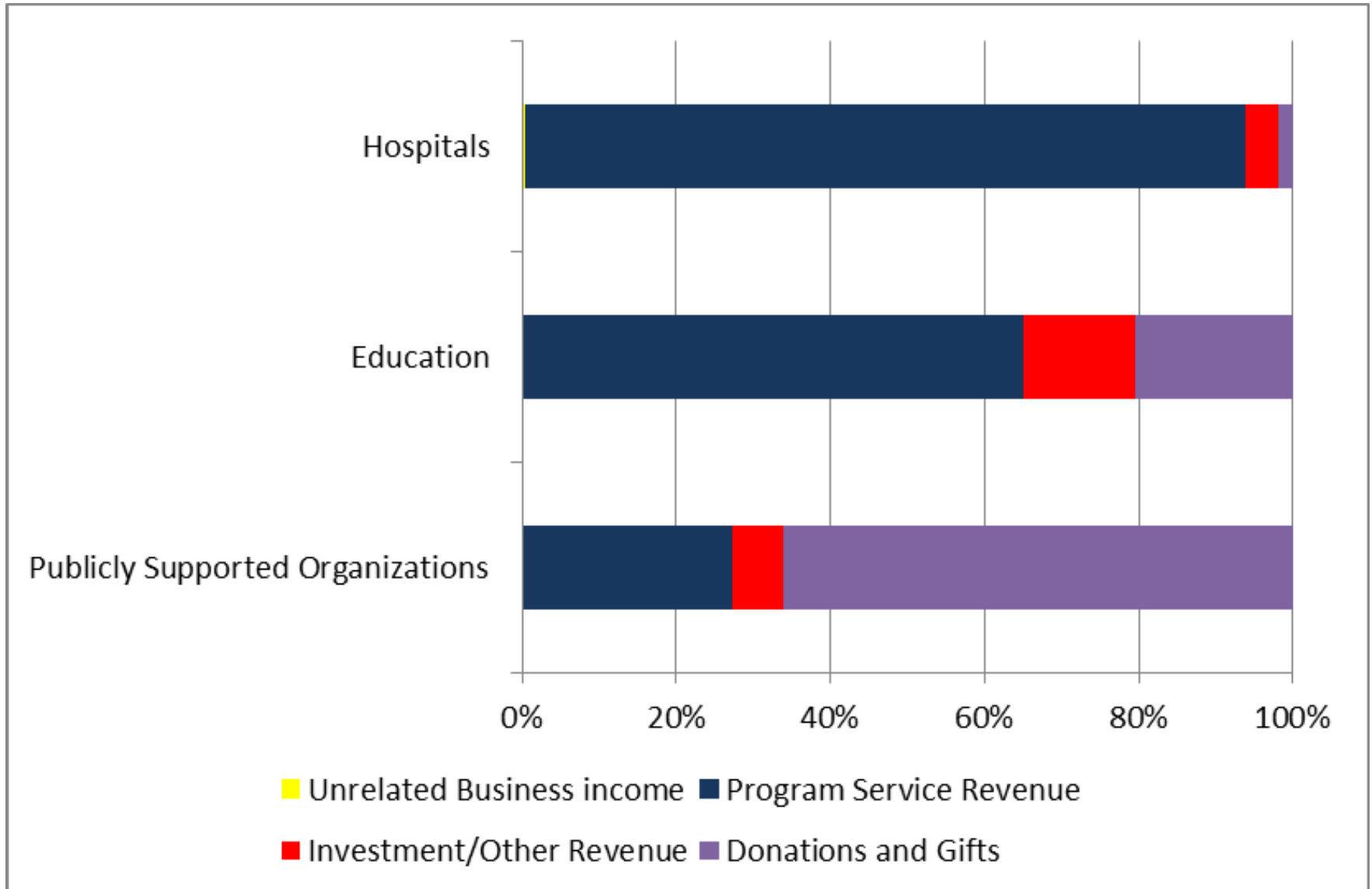
# Tax Exempt Orgs: Sources of Revenue, 2013

[Return](#)



# By Charity: Sources of Revenue, 2013

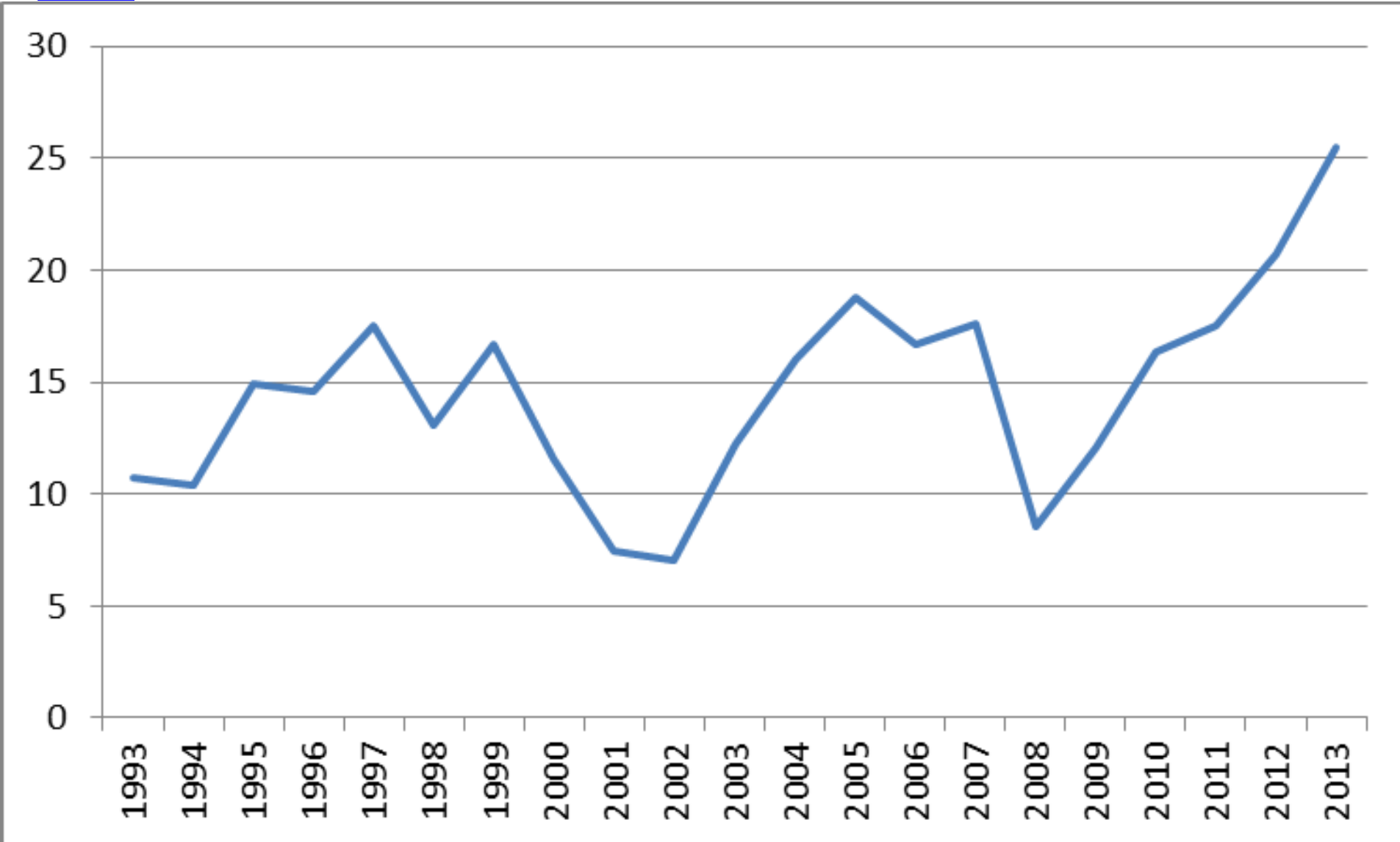
[Return](#)



# Imputed Tax Liability, Excluding Net Gift Income

USD Billions, 2013 Constant Dollars

[Return](#)



# Revenue and Expenses for Exempt Organizations

USD Billions, 2013 Constant Dollars

