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CANDIDATE BULLETIN: Protect Nonprofit Tax Exemptions

Community nonprofits have long been exempted from property taxes pursuant to CGS Section 12-81; Subsection (7), and for good reason: they provide services so that government doesn't have to. Tax exemptions are a way to compensate nonprofits for doing work on behalf of the community.

Despite statute and relevant caselaw, nonprofits report that **property tax exemptions are being denied or challenged in at least 40 municipalities in Connecticut**. 66% of respondents to a survey conducted by The Alliance stated that their property was recently assessed for taxes by a municipality after a history of it being exempt, yet 97% of those facilities had not undergone a change of use.

Denial of nonprofit property tax exemptions forces nonprofits, burdened by years of state budget cuts, to choose between costly litigation and paying taxes on property that is exempt by state law. Either of these options diverts critical funding away from the provision of essential community services.

Nonprofits are dependent on the State for funding and have limited options in the face of increasing costs. They can't raise taxes or most charges, forcing them to cut services, close programs or lay off employees. Almost all nonprofits stated that **having to pay property taxes would reduce the amount of funding available for community services**. Payments to municipalities would put nonprofits in a position of operating over budget, eventually making operations unsustainable. As a result, they would be forced to close programs or reduce services hours. One provider stated that:

- *"...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."*

All community services would be negatively impacted if funding were to be redirected away from mental health services for children, housing services designed to keep people off the street to supports for people with disabilities and programs that enrich and revitalize communities.

- *"Having to pay taxes could literally force the close down of our residential programs. There is no other source of revenue for taxes."*
- *"We had paid almost \$50,000 in taxes. \$50,000 is [the equivalent of] 25,000 meals or one case manager."*
- *"Of course, it will hurt. We have no dollars for anything but direct service. This will lead to more homeless men not getting housed - which will be a domino effect."*

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Taxing nonprofits diverts critical funding away from the provision of essential community services.

RECOMMENDATION:

Codify the ruling of the Connecticut Supreme Court in statute to clarify that nonprofit property used for charitable purposes is exempt from property tax in all municipalities.



Why Should Nonprofits Be Exempt from Taxes?

As discussed above, every dollar paid by a nonprofit to a state or local government is a dollar that is not going to the mission of an organization. There are several other reasons why exempting charitable nonprofits from property taxation is good public policy:

1. **Nonprofits provide services so that government doesn't have to.** Tax exemptions are a way to compensate nonprofits for doing work on behalf of the community.
2. Nonprofits contract with the state government to provide certain types of services. **Taxing those entities means money appropriated by the state would be paid to another level of government, rather than be used for its stated purpose.** It would make state budgets less transparent, as it would be difficult to track funding appropriated for nonprofit missions. And it would contravene the legislature's budget intentions; when legislators vote to fund a program, they expect the money to go to its operation, not to another part of government.
3. **It would have a chilling effect on the ability of nonprofits to raise their own funds.** Donors expect their contributions to go to the missions of the charities to which they donate. If donors believed their donations would be applied to taxes, they would almost certainly be less likely to contribute.
4. **Municipalities and nonprofits have the same basic purpose: to provide services that improve our communities and the quality of life in our state.** If towns levy taxes on nonprofits it's like they are saying "we both provide services but I want to provide more -- so you have to provide fewer".

Summary

The work of community nonprofits is critical to Connecticut's quality-of-life. Nonprofits provide a range of important, high-quality services more cost-effectively than does government. It is important that funds for the programs operated by nonprofits – whether for social services, arts and cultural organizations or others – go to the missions that work to make Connecticut the great place it is.

Please don't hesitate to contact us with questions or for more information

Gian-Carl Casa, President & CEO, gcasa@ctnonprofitalliance.org

Jeff Shaw, Director of Public Policy & Advocacy, jshaw@ctnonprofitalliance.org

Brunilda Ferraj, Director of Policy Research & Organizational Initiatives, bferraj@ctnonprofitalliance.org

Ben Shaiken, Manager of Advocacy & Public Policy, bshaiken@ctnonprofitalliance.org

Julia Wilcox, Manager of Advocacy & Public Policy, jwilcox@ctnonprofitalliance.org