

Fighting the Nonprofit Tax

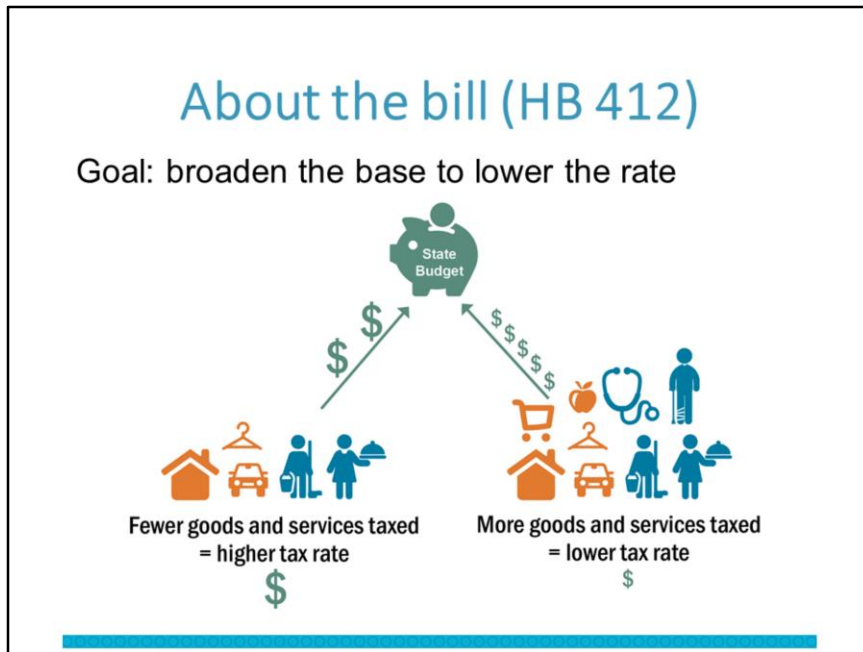
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Governor Martinez has called the Legislature into a special session to fund the two areas of the state budget that she vetoed—higher education and the legislative branch. She announced recently that she also wants the Legislature to enact a comprehensive tax reform bill. The bill she has championed was heard during the regular session earlier this year (HB 412). It was passed by the House but died in the Senate.

About the bill (HB 412)

Goal: broaden the base to lower the rate



The idea behind this tax reform bill is to broaden the base in order to lower the tax rate. The base is the array of things that are taxed—such as the purchases of goods and services. The rate is a percentage of the value of the property, good or service that is collected by the state.

New Mexico's tax code includes many exemptions, credits and deductions. Each of these decreases the amount of tax revenue the state takes in. Every time we narrow the tax base by enacting an exemption, deduction for a special interest group others bear a larger burden for funding our schools, colleges, etc. HB 412 would get rid of all exemptions to the state's gross receipts tax—the "sales" tax we pay on goods and services. Some of these exemptions include groceries, prescription medications, health care, and nonprofits.

About the bill (HB 412)

Why tax nonprofits?



Why do some lawmakers want to tax nonprofits? They have said publicly that they want to capture the large amount of revenue that is currently being lost to two main entities: Los Alamos National Labs (which is managed by a not-for-profit group) and the nonprofit Presbyterian Hospitals. But, in going after these two big fish, they will end up netting all of the little nonprofit fish such as food banks, child car providers, and health clinics, to name but a few.

About the bill (HB 412)

Problems



Taxes essentials like groceries, health care & prescriptions



Taxes the nonprofits that provide essentials



Raises income tax—especially for the lowest incomes

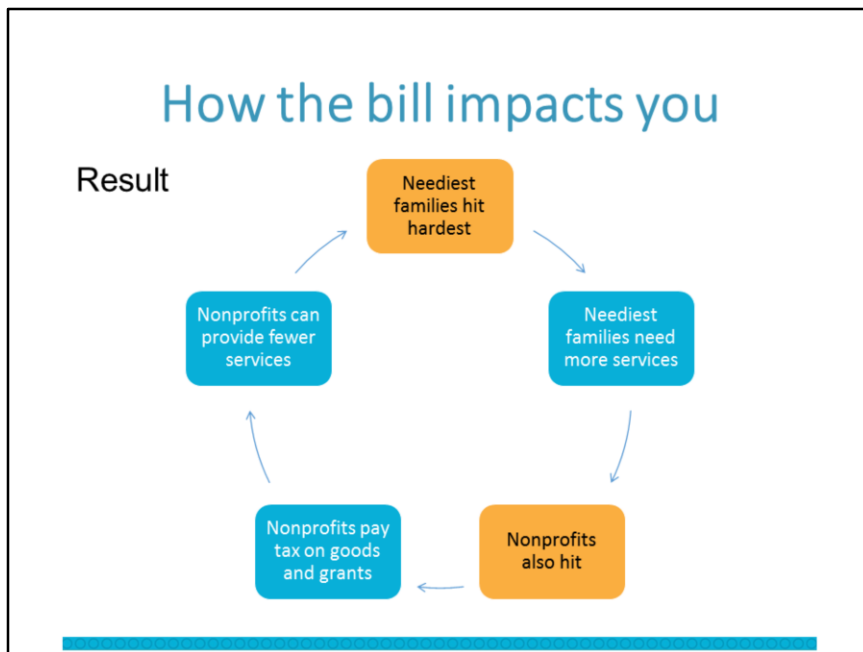


Impact on state budget unknown

There are numerous problems with HB 412. First, it taxes essentials like groceries, prescription medications, and health care. This will hit low- and moderate-income families the hardest because these necessities eat up a larger share of their earnings than they do for those with high incomes. HB 412 also taxes nonprofits, which help low-income families when they can't afford enough food and other necessities.

It also changes the income tax rate to one rate that everyone would pay no matter how much money they earn. This would be a small income tax rate increase for most New Mexicans—but it would be a big tax rate increase for those at the bottom of the income scale.

Another major problem with the bill is that it is not possible for analysts to determine what impact it would have on the state budget. While the bill sponsors intend for it to be revenue-neutral, meaning it will bring in the same amount of money that the state brings in now, bill analysts don't really know if that will be the case. That's a dangerous thing to do at any time, but it's particularly dangerous now, when the state has been having a revenue crisis for the last several years. Such drastic reform could turn our revenue crisis into a budget disaster.



This bill will result in a vicious cycle: The taxes on food and prescriptions will hit the lowest-income families the hardest. With less money, these families will need more assistance, for which they'll turn to nonprofits. But nonprofits will also be hit. For example, a nonprofit that provides food assistance will pay tax on any food they purchase for their clients. They will also pay taxes on any office supplies and other goods they purchase and on any grants they receive. Because nonprofits will be paying taxes, they will have less funding for providing services—despite the fact that the demand has increased.

Nonprofits are crucial for filling gaps in the safety net that our state does not address.

How the bill impacts you

What nonprofits pay taxes on now:

- Services purchased (accounting, IT services)
- State contracts
- Income from fundraisers (after the first two)

What nonprofits **do not** pay taxes on now:

- Purchases of goods (supplies, food, etc.)
- Grants
- Donations, dues, registration fees
- Property taxes

Here is a look at which state taxes nonprofits already pay in New Mexico—and which they are exempt from paying.

How the bill impacts you

What nonprofits would pay taxes on:

- Services purchased (accounting, IT services)
- State contracts
- Income from fundraisers (after the first two)
- Purchases of goods (supplies, food, etc., or whatever TRD interprets as “tangibles”)
- Grants



Here is the same list with the addition of the new taxes nonprofits would pay under tax reform like HB 412. Another problem with this bill is that it gives the Taxation and Revenue Department a great deal of leeway on how to interpret various issues, such as what would constitute a “tangible” for the purpose of taxation.

How the bill impacts you

Before HB 412

\$2,500 for accounting

Tax = \$175

\$1,000 for supplies

Tax = \$0

\$15,000 grant awarded

Tax = \$0

Total tax = \$175

After HB 412

\$2,500 for accounting

Tax = \$175

\$1,000 for supplies

Tax = \$70

\$15,000 grant awarded

Tax = \$1,050

Total tax = \$1,295

Note: Taxes paid are based on GRT rate of 7%, which will likely be changed with this bill.

Here's a quick example of how HB 412 could impact a nonprofit's total budget.

How you can fight it

Tell us your stories:

- We need stories to tell legislators

Reach out to legislators:

- Call
- Email
- Meet in person at your nonprofit

Tell your legislator:

- Start with a story—how you have helped someone
- Follow with data—how many people you serve, how many people still can't get services
- Explain how many services you will be forced to cut



This legislation makes nonprofits vulnerable—which makes the New Mexicans that nonprofits serve, who already need a hand, even more vulnerable.

Nonprofits can—and should—fight this tax reform bill. The most important thing you can do is reach out to your legislators—both those in whose districts you live and those whose districts include your service areas. You can call or email them, but the best way to explain how this tax will impact the work you do would be to have them meet you at your nonprofit so they can get a first-hand look at the services you provide to their constituents.

When you talk to legislators you want to start with a story about someone who has been helped by your nonprofit. While data are important, they work best when they are preceded by a personal story. You'll want to be able to tell them how many people your nonprofits serve, how many people needs services that you are unable to reach, and how many services you will be forced to cut if you have to pay taxes.

How you can fight it

Reach out to your people: Have them tell their legislator:

- Donors
- Volunteers
- Clients
- What these services mean to them
- What cuts to these services will mean to them/their communities

Reach them through:

- Social media
- Existing networks



You can also reach out to your donors, volunteers, and clients and ask them to speak with their legislators. Put the call out on social media or use existing networks such as list serves. Ask them to tell their legislators what the services mean to them and how cuts would impact them and their communities.

How you can fight it

Use the media:

- Write letters to the editor
- Post on social media
- Pitch a news story

Arm yourself with talking points:

- Legislators should be solving problems for their constituents not exacerbating problems.
- New Mexico nonprofits provide services on behalf of government to fulfill their obligations to their constituents.
- Taxing nonprofits will result in fewer people served.

You can also take your case to the media. Write a letter to the editor, post a blog on the internet, or pitch a news story. Reporters are often looking for good stories and they gravitate toward stories that have a human element – so they will want to be able to interview someone who is helped by your nonprofit. Whether you're speaking with reporters or legislators, you want to arm yourself with some talking points so that you are sure to get your main point across.