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Taxation

Change to Tax Exemption for Nonprofit Bonds Would Hurt the Economy

by Naomi Jagoda
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WASHINGTON — Federal proposals to curb or eliminate tax exemption for bonds used by nonprofits would result in losses in employment, gross domestic product and labor income, according to a report released Wednesday.

IHS Global Inc. prepared the report for the National Association of Health and Educational Facilities Finance Authorities.

The study analyzed the economic impacts of capping the value of the tax exemption for bonds used by nonprofits at 28%, as President Obama proposed in his fiscal year 2014 budget. It also looked at the impacts from completely eliminating the tax-exemption.

The reform proposals would increase borrowing costs, making it harder for nonprofits to fund capital projects. Most nonprofit bonds are used to finance health care and education projects, such as hospital, university and private-school facilities.

"Thousands of hospitals, clinics, colleges, job centers and boys and girls clubs throughout the United States depend on tax-exempt bonds to access capital. Often, particularly in smaller communities, these nonprofits are the largest employers in the area and engines for economic growth." Pamela Lenane, NAHEFFA president and the Illinois Finance Authority's vice president and acting general counsel, said in a release. "This study demonstrates in national terms the enormous economic burdens and job loss that will be suffered by charities and hundreds of thousands of others if the tax exemption is curtailed or eliminated."

The analysis assumes that the 28% cap would result in a decrease in capital spending by nonprofits of $5.8 billion per year. Eliminating tax-exemption would lead to a drop in capital spending of $16.6 billion per year.

These figures are average amounts based on data from the last 10 years.

Capping the value of tax exemption on nonprofit bonds at 28% would cut the GDP by about $8.3 billion, cost the United States about 105,000 jobs and cost the country about $5.5 million in labor income each year, the report found.

Eliminating tax-exemption for nonprofit, also called 501(c)(3), bonds would cut the GDP by about $23.6 billion, cost the country almost 300,000 jobs and cost the U.S. about $15.6 billion in labor income annually, the report said.

The report also looked at how changes to tax-exempt financing for nonprofits would impact employment across economic sectors.

Curbing or eliminating tax exemption would cost the construction sector the most number of jobs, followed by professional and business services, the trade, transportation and utilities sector and manufacturing, according to the paper.

Employment in the construction sector has the largest direct benefits from the current tax-exemption. The professional and business services and manufacturing sectors have the most jobs associated with indirect benefits of tax exemption. Indirect effects are generated when construction companies make purchases for bond-financed projects from suppliers.

The trade, transportation and utilities sector and the education and health services sector have the most number of jobs associated with the economic stimulus stemming from using the proceeds of tax-exempt bonds to construct facilities.