

Tax Reform

Background:

The last significant overhaul of the tax code was achieved in 1986. While there is broad agreement that the current tax system is broken, there are dramatic differences about what a simpler, fairer tax code should look like.

If the plan is to lower marginal tax rates for individuals and corporations, those rate cuts could require significant revenues from somewhere else in the code to avoid raising the deficit. What that means for associations is that some of the tax preferences our organizations enjoy could be targeted either as a revenue offset or simply as a way of creating a simpler code. The tax code contains a number of exclusions and exceptions to the unrelated business income tax (UBIT) statute. Those UBIT exceptions exist because there is a nexus between the furtherance of an organization's tax-exempt purpose and the business activity in question. Any expansion of the UBIT statute to include activities currently excluded from the computation of taxable income could significantly impact any association's bottom line, directly affecting its ability to carry out its mission.

Of course, associations that choose to expand into more entrepreneurial business endeavors should pay taxes on those activities like any other business. That is why the UBIT statute exists in the first place. But there are fundamental reasons why associations are granted a general exemption from federal income taxes, and while their business models and activities may be substantially more complex in the modern era, they remain undeniably enmeshed in the daily patterns of American life and community. In simple terms, associations earn their tax-exempt status by satisfying many of the needs of various industries, professions and the general public that the government would otherwise have to address.

Talking Points:

- As Congress works this year to produce specific recommendations to achieve the overall goal of a simpler, fairer tax code, we are asking lawmakers to consider how potential changes to the tax treatment of associations' revenue-generating activities would affect their ability to carry out their core purposes.
- The most recent comprehensive discussion draft on tax reform (authored by former Ways and Means Chair Dave Camp) included provisions to change the tax treatment of royalty income and certain qualified sponsorship payments, which many associations rely upon to carry out their tax-exempt purpose.
- Royalties closely resemble other "passive" income for tax-exempt organizations – such as rent, interest and dividends – which have always been tax-exempt. Qualified sponsorship payments should not be treated as advertising income either, especially in cases where there is no more than a "thank you" provided by the tax-exempt organization to the sponsor of a program or event.