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The Power to Tax; the Need to Provide

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The Margaret Chase Smith Essay: The Power to Tax; The Need to Provide

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On the eve of its adjournment, the Maine Legislature appropriately approved the tax abatement for the state's largest employer, Bath Iron Works. What makes this move so incongruous is that the same session had actively considered removing long-standing tax exemptions for most of Maine's nonprofit charities--a group employing one in five Maine workers.

We are exploring here the politics, emotion, and economics surrounding the perennial battle in the Legislature regarding the tax exemption of charitable organizations. Periodically, a bill appears granting municipalities the authority to levy "service fees" in lieu of property taxes to bona fide charities that the state and the federal governments have determined warrant special consideration. Given the historical definition of a tax, one can safely assume that "service fee" is a euphemism for a tax.

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We should pause here to examine the taxonomy of tax exemption. Consider the following:

- Not all nonprofits are absolved from all taxes; some pay real estate taxes but not income taxes (i.e. trade associations);
- State sales tax exemptions are granted to a wide variety of goods and services not related to nonprofits but politically popular (i.e. professional services and groceries); and
- There are no fewer than a baker's dozen of state-defined, nonprofit, tax-exempt organizations, each with separate regulations.

The picture being drawn is one of deep complexity at all levels of government--a situation that does not lend itself to simple legislative solutions. For nearly as long as Maine has been a state, its citizens have looked to nonprofit, charitable groups to sponsor a wide variety of vital functions the government was unwilling or unable to perform for its most vulnerable citizens--from prenatal screenings to hospice services for the dying. In recognition of the importance of these services to the citizenry, exemptions from taxes (federal, state, and local) were granted as long as the purpose of the organization was charitable and no financial inurement was gained by the managers of the programs. Without this volunteer sector stewardship, the effect on the welfare of Maine's communities would be catastrophic.

The sustained move away from federally mandated welfare programs in the 1980s toward increased volunteer-organized social services has fueled a huge expansion of nonprofits to the point that this sector of the economy is one of the fastest growing. For example, the much debated AMHI consent decree has pumped more than \$15 million into community agencies,

causing the creation of hundreds of new jobs. Further, Maine's community hospitals employ 20 percent of Maine workers--a pre-eminent economic force by any measure.

It is important to stress that municipalities have a tremendous problem. Cities and towns are left to manage the effects of the nonlocal government's tendency to overpromise and underdeliver in social policy areas. Certain communities act as magnets to programs and recipients because they are on transportation routes, contain the essentials of a safety net, and are large enough to assure anonymity. According to the State Planning Office, these hub cities and towns also are plagued by another problem: They have declining populations and outmigration of commerce to the suburbs--read declining real estate tax base. Consequently, the temptation to levy service fees on nonprofits is irresistible given the pressure to maintain infrastructure with fewer dollars.

So how can we attempt to rationalize this situation? A few suggestions follow:

- Convene a panel to examine the effect on communities (especially magnet towns) caused by mismatched social, educational, housing, and tax policies and develop strategies to align them;
- Create a method to inform communities about the yearly federal/state tax reporting requirements of nonprofits to reassure towns of the ongoing charitable mission of local nonprofits;
- Conduct an impartial economic analysis of the net impact of the presence of nonprofits in Maine to correct misconceptions and determine if the government should "make or buy" social services for citizens; and
- Lastly, if we are going to raise taxes, let's look at other sales tax exemptions first. Maybe it is time to make sales taxes uniform with a percentage of that to be allocated to communities that have the highest burden of tax-exempt property or who serve as host to the largest number of charities.

Clearly the time has come to take a broader, data-driven look at this situation from 20,000 feet up, evaluate the synergy between government and nonprofit charities, and take assertive action to reinforce this relationship for the benefit of Maine's neediest citizens.

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