

PILOTs in Perspective

Nonprofit organizations operated for charitable purposes in the United States are exempt from most taxes, including investment income, sales, and property taxes. They benefit from the tax deductions that donors receive for charitable contributions, and some nonprofits also benefit from financing raised through tax-exempt bonds. Data allows informed estimates of the size of these tax benefits for most types of charities. However, comprehensive data on religious organizations and governments, both of which are also largely exempt from taxes, are difficult to obtain.

A review of these tax benefits provides a useful perspective on efforts by state and local governments to collect PILOTs (payments in lieu of taxes), which generally focus on nonprofits other than religious organizations (see page 23).

Tax benefits for nonprofits, such as educational institutions, health and human service organizations, foundations, and the arts, were worth about \$140 billion in FY2009. About half (\$72 billion) was from forgone taxes on investment income, about a third (\$46 billion) was the tax benefit for charitable contributions, and about a tenth (\$15 billion) was from property tax exemptions. Sales tax exemptions (\$3 billion) and benefits from tax-exempt bonds (\$5 billion) round out the total.

In 2009, nonprofit property tax exemptions (excluding those for religious organizations) were slightly less than 4 percent of the \$400 billion total. Of course, the property tax exemption share varies widely across communities.

The distribution of five types of tax benefits are shown in the figure for six categories of nonreligious charitable nonprofits. They are listed in the order of their overall tax benefit, with educational institutions receiving the most benefits and arts organizations the



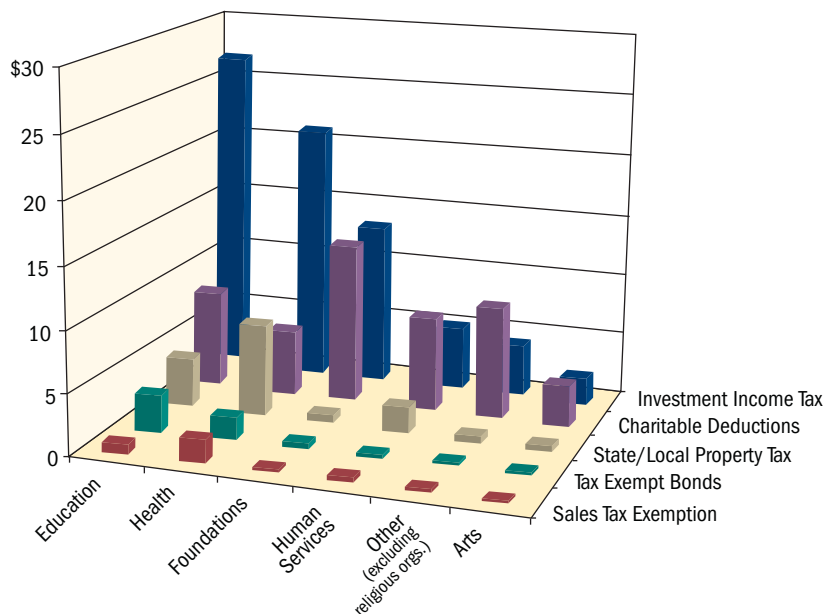
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least. The exemption for the tax on investment income has the same ranking as the overall tax benefit, but rankings of the other tax benefits vary widely.

The property tax exemption accrues to those sectors that use property and buildings most extensively, with health having the highest benefit followed by education. Foundations, which figure significantly in income and charitable contribution tax benefits, receive only modest property tax benefits. Sales tax exemptions, the smallest tax benefit in the aggregate, accrue mainly to the health sector.

This summary of the distribution of property taxes by charitable sector makes it clear why local governments have focused their efforts to collect property tax PILOTs on hospitals and universities—that's where the property tax money is—but most tax benefits for nonprofits come from other sources.

Tax Benefits for Charitable Nonprofits, FY2009 (\$ billions)



Sources: Totals from *An Overview of the Nonprofit and Charitable Sector*. 2009. Congressional Research Service (www.fas.org/sgp/crs/misc/R40919.pdf). Sector allocations based on data from National Center for Charitable Statistics (<http://nccs.urban.org>) and J. Cordes, M. Gantz, and T. Pollak. 2002. What is the property-tax exemption worth? In *Property-tax exemption for charities*, ed. E. Brody. Washington, DC: Urban Institute Press.