



Michigan Nonprofit Association

Michigan Nonprofit Association testimony in support of Senate bill 960

Senate finance committee hearing

October 18, 2016

Good afternoon. My name is Donna Murray-Brown and I am president and CEO of the Michigan Nonprofit Association. Incorporated in 1990, MNA takes great pride in its 26-year history as a leader, an advocate and a support-system for nonprofit organizations throughout the state.

Thank you Chairman Brandenburg and members of the committee for this opportunity to speak to you today in support of Senate bill 960.

Over the past 2 years MNA has heard from many of our members whose tax exempt status has been challenged by local assessors. These are 501c3 charitable nonprofits. Most have annual operating budgets less than \$500,000. As you said, the organizations involved represent a wide variety of charitable missions and are located all over the state.

There are approximately 2,000 tax assessors in Michigan. There is a lack of consistency in the way the assessors are interpreting the law. There is no guidance on the process. Many municipalities aren't specific when denying an exemption making it difficult for a charity to make their case. There are examples of assessors in two different municipalities treating identical charitable nonprofits differently – one is granted an exemption, the other is not.

The result is that charities are being dragged into lengthy and expensive court cases.

This is important.

This is lost time and income that could be put back into serving the needs of the community. When a charity owns their property, they become part of the fabric of the community – better able to serve the needs of the citizens. Our charitable nonprofits provide direct services to Michigan residents. In communities throughout the state, nonprofits are providing food, childcare, healthcare, job training and other critical services—helping to close the gap between the needs of the community and what support is available through local and state government. Charities lessen the burden on taxpayers and government and are a good investment.

The Urban Institute, an independent research organization that provides nonpartisan analysis and expertise to policy issues, reports that investments in charitable nonprofits pay high

dividends for taxpayers and the economy as a whole. They report that there is a 3:1 return on investment for each dollar spent.

We are grateful that Sen Brandenburg has taken the first step to addressing this issue.

I'd like to introduce my colleagues Joan Bowman and Doug Mains. Joan is the External Affairs Officer at Michigan Nonprofit Association and Doug is our attorney with Dykema. They will discuss the bill in more detail.

At Senator Brandenburg's request, MNA and Rob Collier, the president and CEO of the Council of Michigan Foundations have had dozens of meetings with the Department of Treasury, the associations that represent local units of government, and the many stakeholders of the nonprofit community – which is very large and diverse sector of Michigan's economy. We have worked very hard to ensure the process is clear and consistent for everyone.

Since its introduction, Sen. Brandenburg's bill has changed significantly. As he stated, the crux of the bill was to codify the Wexford decision, Michigan's landmark Supreme Court decision that deals with these kinds of cases. In the Wexford decision, 6 factors were identified that must be considered when determining if an organization is a charitable organization that qualifies for tax exemption.

Wexford specifically states that these factors "come into play and must be considered." The 6 factors are not a checklist that must be met in order to qualify as a charity.

I'd like to direct your attention to page 8 of the bill. This is the section that defines a charitable institution using the Wexford factors. In Wexford, the first factor stated that a charitable institution must be a nonprofit organization. This is very broad term as the federal tax code specifies 29 different sets of nonprofit classifications.

In the Senator's bill, the first requirement to qualify for exemption was changed to specify that a nonprofit must be a 501c3. This ensures that organizations that are tax exempt are indeed charitable – public charities and private foundations.

In addition to being a 501c3, an organization then must meet at least 2 of the following 4 factors stated in Wexford.

This substitute language aims to tighten the qualification for exemption and to ensure that qualifying organizations are truly charitable. It lessens the fiscal impact from Treasury's original estimate to the current estimate.

I would like to point out that the current cost estimate includes sportsmen's clubs, Masons and other fraternal organizations. While some of these groups can be 501c3s, many are registered as 501c7s or 501c10s and would not qualify for exemption under this law, thereby decreasing the fiscal impact of Treasury's current estimate even more.

Thank you.