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Proposed Changes to Michigan Tax Code, Effect on Michigan Nonprofits

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Proposed Changes to Michigan Tax Code

November 2011

Effect on Michigan Nonprofits

Introduction

This study was commissioned by the Michigan Nonprofit Association (MNA) and conducted by the Community Research Institute (CRI) at the Johnson Center for Philanthropy. The study examined how recent and proposed changes in the Michigan tax code may impact nonprofits.

The first change was the elimination of tax credits for individual donors to certain types of nonprofits. This bill has been enacted and will go into effect on January 1, 2012. A proposal currently under discussion among legislators would alter or eliminate the state tax on personal property, a significant source of revenue for local municipalities.

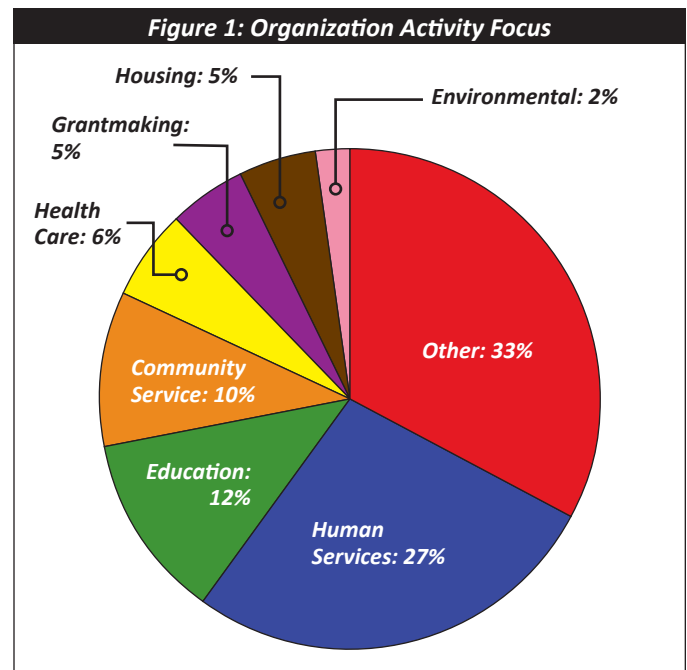
The data were collected via an electronic survey sent to 761 members of the Michigan Nonprofit Association for which there were valid email addresses. The survey was open from September 13-19, 2011. A total of 194 people responded for a response rate of 25%.

Getting to Know Respondents

The participants in the survey were asked background questions about the organizations they represent. Figure 1 compares the activity focus of nonprofits and reveals a wide variety of nonprofit types. The largest category is Other (33%^{*}). The respondents within the Other category mentioned a diverse range of activities, the most frequent being arts or culture (12 respondents), advocacy (five respondents), and youth development or mentoring (four respondents). Human Services is the second largest category (27.3%^{**}).

The majority of respondents (53%^{*}) represented nonprofits with budgets under \$500,000, and 34%^{**} have budgets between \$500,000 and \$5 million. The remaining 17%^{***} operated with budgets greater than \$5 million.

The respondents were asked to estimate the proportion of their budget from a variety of different sources. Figure 2 summarizes these responses in a variety of ways. The second column (green bars) shows a simple average of all the responses for this category. The third column (blue bars) displays the average of all responses greater than 0%. The fourth column (red bars) shows the number of responses greater than 0% for that category.



Number of respondents = 194

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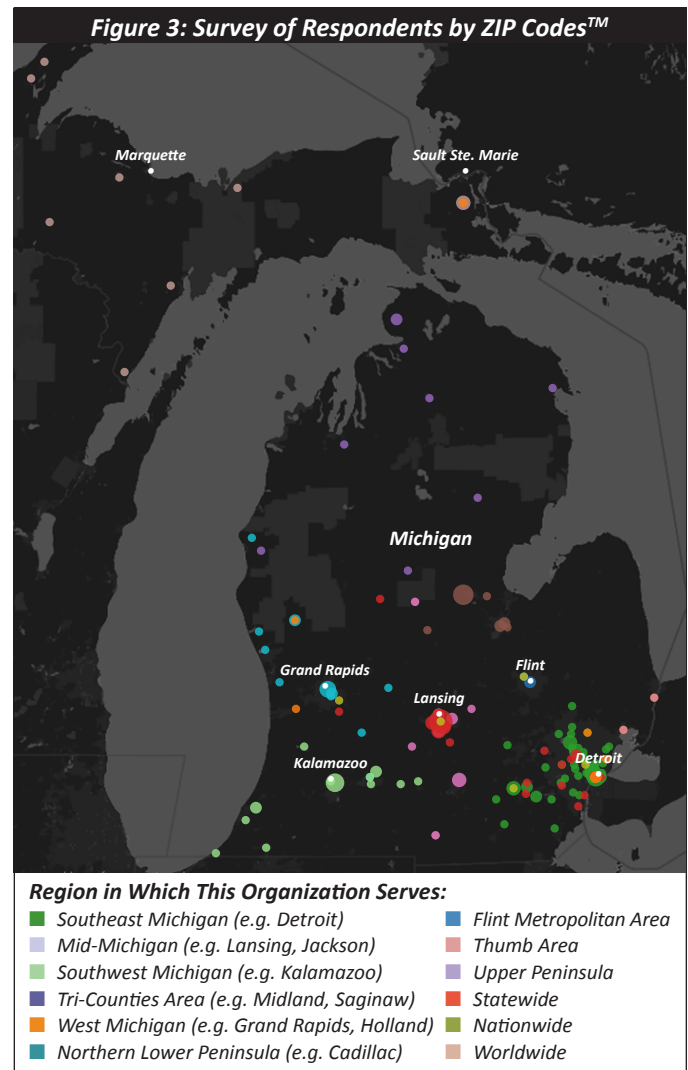
Figure 2: Budget Sources by Type

Budget Source	Average (%)	Average of responses >0 (%)	Number of responses >0
Private donors	25.1	30.8	150
Other foundation grants	14.1	28.8	90
Fundraising events	12.0	18.9	117
Fee-for-service revenue	11.7	28.7	75
Other	10.8	33.1	60
Grants from federal government	5.8	30.3	35
Grants from state government	4.7	18.7	46
Contracts with local government	4.5	37.6	22
Community foundation grants	3.8	9.7	73
Contracts with state government	3.6	26.3	25
Grants from local government	2.1	18.0	22
Contracts with federal government	1.8	30.3	11

Number of respondents = 194

The most frequent response for each category is zero, indicating the wide diversity of budget sources for nonprofits. Private Donors was the most cited revenue source, however, it by no means dominated. Each category of revenue is significant to at least a handful of respondents.

Figure 3 is a map of survey respondents by ZIP Code™. Each dot represents a ZIP Code™, which contains a respondent. Larger dots represent ZIP Codes™ with more respondents. The color indicates the general geographic region the nonprofit serves. As expected, the largest concentration of respondents is in the Detroit and Southeast Michigan area. The Lansing area includes a large number of nonprofits that work statewide.



Number of respondents = 194

Elimination of Tax Credits

The participants were first asked about the elimination of state-level tax credits. The tax credits were only available for donations to certain types of nonprofits: community foundations; qualifying food banks, food kitchens, and homeless shelters; Michigan colleges and universities; and public museums, libraries, and broadcasting stations. Most of the respondents are not qualified for the tax credits and will not be directly affected when they expire at the end of 2011. Thirty-four respondents (18%**) were eligible and will be affected.

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Nearly 50%* of respondents were previously aware of this legislation. A total of 31%** had heard about the legislation, but did not know all the details.

Those respondents who represented organizations that qualified for the credits were asked what percentage of their budget or endowment came from individual giving. The results are shown in Tables 1 and 2. Of these four categories of eligible nonprofits, community foundations received the largest proportion from donors. In fact, nine out of the 14 community foundations who responded received 90% or more of their endowed funds from private donors.

Table 1: Proportion of Endowed Funds Which is Donated by Individuals

	Number of Organizations	Average response(%)	Confidence Interval (+ or-)
Community Foundations	14	76.5	15
Michigan Colleges or Universities	4	71.2	18

Table 2: Proportion of Budget Which is Donated by Individuals

	Number of Organizations	Average response(%)	Confidence Interval (+ or-)
Food bank, food kitchen, or homeless shelters	10	50.1	13
Public museums, libraries or broadcasting stations	6	34.8	15

Those who will be directly affected by the new law were asked to estimate the percentage of donors who would cease giving, as well as the average decrease in individual gifts. Forty-one percent[†] of this subsample believed their donors will reduce the amount they give, and 38%^{††} believed some donors will cease giving altogether. The average estimated decrease in donation amount was 44%^{†††}, and the average estimate of the percentage that will stop giving completely was 36.3.^{††}

Six organizations noted that their local community foundation manages funds on their behalf. Unfortunately, the survey did not ask nonprofits directly whether they have endowed funds with their local community foundation. However, it is reasonable to assume that other nonprofits that did not add comments also will be directly affected as a result of this change in the tax code.

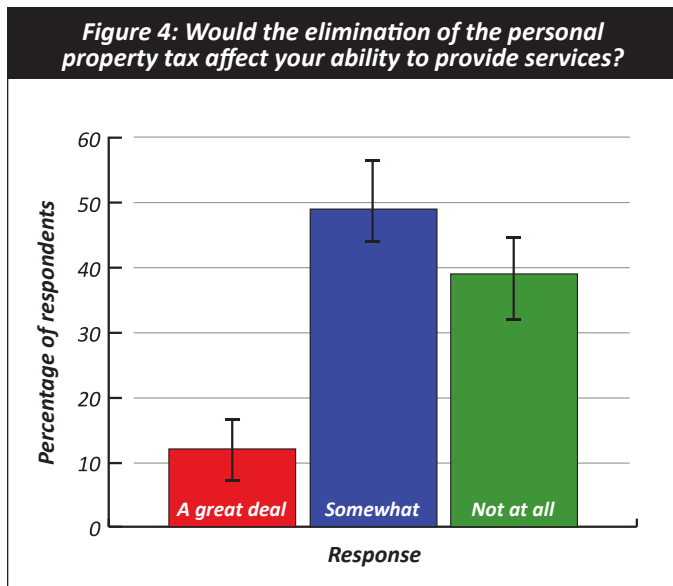
Finally, the respondents indicated how their organization planned to respond to budget changes in 2012 as a result of this law. The question was open-ended, and responses fall into the following general categories: altering current marketing and/or messaging strategy for reaching donors (seven responses), increasing current efforts (four responses), informing donors of the change (four responses). Six other organizations were unsure of their future strategy, while two believed their donors would not change their giving habits. One unique response indicated intentions to inform donors of other tax benefits available at the federal level.

Personal Property Tax

Some Michigan legislators are considering modification or elimination of the Michigan personal property tax, which generates significant revenue for local municipalities and the School Aid Fund. For nonprofits that contract with local governments, tighter budgets could mean fewer dollars spent on contracts with nonprofits.

Many respondents were aware of this hotly debated issue prior to the survey; 41%* were already aware, and 31%* had heard of the issue, but didn't know all the details.

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Number of respondents = 168

Figure 4 shows the respondents' estimation of how an elimination of the personal property tax would affect their ability to provide services. Most participants (61%) believe it will affect their organization.

A change in this tax law is likely to significantly affect state and local municipal budgets, which in turn may affect contracts and grants nonprofits receive from these government units. A total of 88 (45%*) respondents represented organizations that received some revenue from state or local governments in the way of grants or contracts, and 49 (25%**) received 20% of their budget or more from state or local governments.

Conclusion

It is difficult to estimate precisely the extent to which the tax credit elimination will affect nonprofits' ability to provide services. Many nonprofits expect individual giving to go down and are strategizing to reduce the impact by reaching out to donors early. In addition to the organizations that formerly qualified for tax credits, the organizations that have endowed funds at their local community foundation will also be impacted.

The possible effects of a change in the personal property tax are more difficult to discern. Though a large portion of nonprofits provides services through contracts with state and local governments, it is unclear how these municipalities will respond to an elimination of the property tax. Many may need to reduce or forgo some spending directed to basic needs assistance or emergency relief given the current financial state of most localities in Michigan. Others may cease contracts or grants with nonprofits altogether, focusing on more immediate services such as public safety. The spring 2011 survey on the state of the nonprofit sector[±] conducted by MNA and CRI showed a significant increase in demand for services in 2010. If this trend continued in 2011, the potential reduction in revenue resulting from these tax code changes will put additional strain on already stretched nonprofit budgets.

Confidence intervals (90%) were computed for each percentage reported. This means we can be 90% certain that the real percentage is within the indicated range. In figure 4, the confidence interval is displayed using a vertical black line.

* +/- 6%
 ** +/- 5%
 *** +/- 4%
 † +/- 14%
 †† +/- 11%
 ††† +/- 10%

[±]Report available at: http://www.mnaonline.org/CMDocs/MNA/Public%20Policy/2011%20MNA%20Report_Sustainability_8%203_%283%29.pdf