

Tax exemption of athletic associations and universities



Should Professional Athletic Associations and Private Universities be Tax-Exempt?

Introduction/Historical Background

In the United States, the origins of the tax-exempt sector long predate the republic (Arnsberger, Ludlum, Riley 125.) Without an established framework of government, the early colonist formed many charitable and other voluntary organizations to confront a variety of issues (Arnsberger, Ludlum, Riley 125.) Now, almost three centuries after the formulation of the republic, the tax-exempt sector still plays a major role within public administration, especially in the fulfillment of public services.

However, in regards to some organizations within the tax-exempt sector, it is becoming seemingly more difficult to understand what public purpose it serves. While many nonprofit organizations are performing acts that are beneficial to the general public, others are not. According to Edward T. Pound, a *U. S. News* reporter, “ the PGA Tour Inc. grosses nearly \$180 million a year from their sponsorship of the men’s pro golf tour” (Pound.) Yet, due to the PGA Tour Inc.’s nonprofit status, the corporation does not pay any federal tax on tour operations (Pound.) The National Center for Charitable Statistics reports that there is nearly 1. 5 million nonprofit organizations registered within the United States as of 2013(nccs. urban. org.) The rapid growth within the nonprofit sector does not come without its consequences. The Internal Revenue Service has conducted numerous investigations on groups like the National Football League and Children’s Television Workshop for violations such as, “ excessive compensation of Congressmen” (Pound.)

Actions like these are leading many to question why some organizations are considered for considered to be a tax-exempt organization. By examining the nonprofit sector from a historical perspective and possessing a basic understanding of 501 (c) organizations, one can better determine for oneself whether or not certain organizations should be tax-exempt.

For one to truly understand today's current nonprofit sector, it is important to know a brief history of the role of the tax-exempt sector within American history. First, there are two main types of voluntary organizations: public serving and member serving. While these two voluntary organizations found great success in early colonial settlements, with hospitals and education, the tax code for these voluntary organizations was not developed until 1894. Furthermore, before the 1950s, " tax-exempt organizations could earn tax-free income from both mission-related activities and commercial business activities..."(Arnsberger, Ludlum, Riley 127.) It was not until the Revenue Act of 1954 that the modern tax code for voluntary organizations was established, " including section 501(c) for tax exempt organizations" (Arnsberger, Ludlum, Riley 127.)

In order for an organization to qualify for tax-exempt status, the organization must display that " its purpose serves the public good as opposed to private interest" (Arnsberger, Ludlum, Riley 129.) Figures show that between the 1985 and 2004 Tax Years, the private foundation segment of the tax-exempt sector experienced significant growth (Arnsberger, Ludlum, Riley 131.) From 1985 to 2004, the number of 501(c) 3 public charities in the United States nearly tripled (Arnsberger, Ludlum, Riley 130.) Now, even today, the tax-

exempt sector continues to grow in size and activities, while new tax-exempt organizations continue to emerge (Arnsberger, Ludlum, Riley 135.)

Argument Against Tax-Exemption for Athletic Associations and some Universities

The tax-exempt sector has drastically changed throughout the past three decades. The rapid increase in number of tax-exempt organizations, along with an evolving tax code, has caused for a lack in governmental transparency in regards to organizations. For example, the National Football League grosses over \$9.5 billion dollars per year, but was exempt from federal taxes until 2015 when the NFL voluntarily gave away its tax-exempt status (Isidore 2015). During its time as a nonprofit, the NFL earned more than the Y, the Red Cross, the Salvation Army or Catholic Charities- yet it was able to stand as one of the greatest profit-generating...media enterprises ever created (Watson.) In a survey conducted by Fairleigh Dickinson University, only 13 percent of people could identify the NFL as a nonprofit (Jenkins.) While the NFL has since forfeited its tax-exempt status, there are other athletic organization who is nonprofit status is still under question. Other athletic groups like the National Hockey League, National College Athletic Association, Professional Golfers Association Tour, and the Professional Rodeo Cowboys Association are also under fire. Senator Tom Coburn is calling for legislation that would eliminate any athletic league that grosses more than \$10 million to no longer be tax-exempt under 501(c) 6. The Senator wrote, " Americans are paying artificially high rates in order to subsidize special breaks for sports leagues (Coburn.)

While the NFL has now voluntarily forfeited its tax-exemption, it is still important to question why the organization was ever tax-exempt to begin with and apply the same thoughts to other groups that are still tax-exempt. Tax-exemption for multi-million dollar athletic association seems obscene, especially with some groups approach towards social issues. Before voluntarily giving up their tax-exempt status, U. S. Sen. Maria Cantwell proposed legislation calling to revoke the NFL's nonprofit status after " the league's failure to properly address issues of domestic violence...and the response to the Washington team's refusal to change its nickname" (Mandell, Scott.) Cantwell stated, " American taxpayers should not be forced to subsidize a \$9 billion league that promotes a dictionary-defined racial slur" (Mandell, Scott.) Many wonder how these athletic associations even fit into the tax code to begin with. According to USA TODAY Sport's Brent Schrotenboer, the NFL has been tax-exempt since the 1940's. In 1966, Congress amended the law to list professional football leagues as a 501 (c) 6 organization in exchange for monetary pledges and the promise to build a New Orleans franchise (Mandell, Scott). While the NFL is an easy organization to examine, the same thought can be applied to most other professional athletic associations that are also exempt from taxes.

Yet, athletic associations are not the only group in question for its tax-exempt status. It has long been an understanding that educational institutions are exempt of federal income tax, but some are beginning to question if that should always be the case. In the summer of 2013, residents of Princeton came together to sue the prestigious university that resides in their town (Pierson, Riley). The town residents argued that the school,

Princeton University, should no longer be entitled to its tax-exempt status due to its endowment, scientific patents, events, and more (Pierson, Riley). “The Ivy League school is operating like a business, the plaintiffs say, so the tax code should treat it like one” (Pierson, Riley). The lawsuit claims that in 2011, the university took in over \$115 million from scientific patents, which it then put \$35 million in the hands of varying faculty members. The resident’s lawyer said, “People in Princeton pay at least one-third more in taxes because the university has been exempt all these years” (Pierson, Riley). Princeton is not the only university experiencing backlash from its local community. The mayor of Providence, Rhode Island, home to Brown University, also wants to increase the university’s tax payments. At a press conference, Mayor Angel Tarveras said, “It takes the revenue collected from 19, 00 taxpayers” to account” for the \$38 million in property taxes not paid by Brown University” (Pierson, Riley.)

Yet, as communities continue to struggle to fund public services, some find it difficult to understand why well-off schools and universities are tax-exempt. In 2004 alone, educational institutions held six of the top ten positions for public charities within the United States (Arnsberger, Ludlum, Riley 131.) Yet, many of these well-off educational institutions do little to financially support the local community, even though the schools benefit from many of its local public services (Pierson, Riley.) Some universities like John Hopkins, Yale, and Duke have worked out pilot deals in lieu of paying taxes (Pierson, Riley.) But even these donations fall well below what the school would owe in taxes (Pierson, Riley.)

Counter Argument for Athletic Assoc. and Universities and their Tax-Exemption

According to Judith Long, professor of sports management at the University of Michigan, the tax-exempt status of athletic associations is irrelevant (Long 2014). The government does not stand to gain significant financial revenue by revoking the tax-exempt status of athletic associations. “ Much of the furor in the current debate over the nonprofit status of professional sports is driven by misplaced perceptions that the revenues earned by these organizations are not taxed” (Long 2014). The large salaries of associate executives are still taxed later through individual taxes, as well as many of the major league teams who are apart of the association (Long 2014). In addition, Long notes that, “ many nonprofit sports leagues and associations operate either at a deficit or just about break-even, leaving little or no income tax”(2014). Thus, revoking the tax-exempt status of professional athletic associations would not yield as much revenue as one would think. Focusing on the tax-exempt status of professional athletic associations masks many of the real burdens these groups place on the American taxpayer. “ For example, we continue to permit the use of federal tax-exempt bonds to fund new stadiums and arenas, and cities across America routinely grant relief from property taxes for pro-facilities” (Long 2014). Where the revenue the government stands to gain from revoking the tax-exempt status of professional associations stands to be around \$110 million within the first decade, these grants relief from property taxes has cost to be in the billions over the last decade (Long 2014). Therefore, the tax-exempt

status of professional athletic associations is not the biggest way in which the government is losing revenue from these groups.

Evaluating the tax-exempt status of private universities is different than examining that of professional athletic associations. "...Colleges and universities provide value to students and society. We generate direct economic activity from capital investments, ongoing operations, and student and visitor spending. We provide cultural opportunities to residents and support community initiatives and volunteer work" (Kaplan 2015). While universities may not pay property taxes, some of them participate in payment in lieu of taxes (PILOT) programs (Kaplan 2015). According to a study conducted by the Lincoln Institute of Land Policy in 2011, the PILOTs collectively across the United States were worth over \$92 million with most of the money coming from colleges and universities (Kaplan 2015). While universities may not be paying property tax, they are a mission-based organization that's purpose is to provide a great benefit to society.

Critique of Both Arguments

Like any good topic, there's always two ways to sides to the argument. Here, one is presented with the issue of whether or not professional athletic associations and private universities should be receiving tax-exempt status. To me, comparing the tax-exempt status of professional athletic associations to private universities is like comparing apples to oranges. I believe the argument for keeping private universities is far superior to counter argument. While private universities like Brown and Princeton have significant funds and endowments that could be taxed to benefit the local

community, universities provide so much value to a city. For example, communities benefit, some more than others, in tourism revenue just by default of having a college in their town. In addition, like previously said in the counter argument, universities benefit the community through volunteerism and threw many on-campus organizations. In addition, I believe that higher education being tax-exempt allows the government to take an important stance. The cost of education is too for most students and families, making many students take out loans just to pay for school. By having education be tax-exempt, I believe that the government is sending a message that education provides a great service and benefit to us all.

While I believe in private education's tax-exempt status and the message it sends, I do not believe that professional athletic associations like the NHL and PGA should be tax-exempt. While a strong counter can be found as the why the tax-exempt status of these organizations is irrelevant, I still feel that it sends the wrong message and is unfair to the American taxpayer. The PGA grosses nearly \$180 million a year in sponsorship, yet they are tax-exempt (Pound). To me, that is almost immoral of the government to do. Non-profits are meant to be mission-serving organizations that provide a beneficial service to their community; however, I see no benefit to the community by these organizations tax-exempt status. With the national debt continuing to rise, one would think the government would be taking any rightful cent they could get. Athletic leagues and some universities are just two examples of nonprofits that can be seen as questionable by the American people. In addition, I think it is important for the government to be transparent and really take into consideration the mission of the organization before verifying

a group as tax-exempt. Keeping valuable tax dollars from the government and the American people is unfair, especially when it comes to athletic organizations that earn billions of dollars a year. With people struggling to simply pay for daily necessities, it is time for the government to reevaluate the current tax codes, and allow for more government transparency

Conclusion

To conclude, after presenting a basic history of nonprofit organizations and its tax codes, one can better determine whether or not specific groups should be considered a tax-exempt organization in today's society. As history has progressed, it is becoming seemingly more difficult to see what public purpose certain groups are serving. The NHL and the PGA Tour Inc., for example, are making millions of dollars a year, yet they pay no federal income tax on its revenue. Congressmen see the fault in the tax-exempt status of these athletic organizations, but no progress is being made. Moreover, this shows a lack of transparency within in government, with a study finding of nearly 87% people being unaware of the NFL's tax-exempt status. Yet, athletic organizations are not the only group being scrutinized for its nonprofit status. Educational institutions are beginning to feel the backlash as well. Schools such as Princeton and Brown are coming under pressure by their communities to pay property tax. " The reason they don't dates back to 1917 when... educational institutions...operated on a far more modest scale (Piereson and Riley.)

Sometimes, it is difficult to see the public purpose of certain organizations within the tax-exempt sector. While there are countless nonprofits

performing beneficial public services, others can be harder to justify. In the future, I believe the government should not be allowing professional athletic associations to be tax-exempt. While the potential revenue increase is modest, it is still helping taxpayers. However, when it comes to the tax exemption of private universities, I am neutral or even in support of their status. Educational institutions bring great value to community, and I believe they provide a great service to the American people. Non-profits provide a great service to our country and in aiding public administrators. Thus, we should not take the status of the tax-exempt sector lightly.

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