



April 15, 2013

The Honorable David Reichert  
U.S. House of Representatives  
1127 Longworth House Office Building  
Washington, DC 20515

The Honorable John Lewis  
U.S. House of Representatives  
343 Cannon House Office Building  
Washington, DC 20515

Dear Reps. Reichert and Lewis,

Thank you for leading the Charitable/Exempt Organizations Tax Reform Working Group of the House Ways and Means Committee. ASAE is a Section 501(c)(6) association founded in 1920, based in Washington, DC, and representing 22,000 members. Among the services provided by ASAE to its members are education and knowledge resources, credentialing, industry research, and advocacy on issues that impact the association and nonprofit communities.

ASAE commends the Ways and Means Committee for its deliberate approach to tax reform and for its commitment to drafting legislation in an open and transparent fashion. Associations and other tax-exempt organizations are important stakeholders in tax reform and appreciate the opportunity to provide feedback that informs the committee's deliberations.

As the committee works toward a simpler, fairer tax code that benefits American families and encourages job creation and economic growth, ASAE respectfully asks that you keep in mind the implications of any changes to tax law for the nonprofit sector and protect the vital work that associations and other tax-exempt organizations perform across the nation and the world.

For example, potential changes to the charitable deduction in the tax code have been an ongoing part of recent deficit reduction and tax reform proposals. The charitable income tax deduction has been in place since 1917 and is an important incentive for charitable giving. According to the IRS, Americans deducted about \$170 billion in charitable contributions in 2010 resulting in about \$40 billion in reduced taxes. ASAE opposes proposals to reduce the value of the current charitable tax deduction, including those that target upper income taxpayers. A drop-off in donations could prevent nonprofit organizations and association foundations from filling important roles in society.

### **Background**

Trade and professional associations have deep roots in our nation's history, and while their business models and activities may be substantially more complex in the modern era, they remain undeniably enmeshed in the daily patterns of American life and community.

Although associations are formed for a wide range of purposes, the Internal Revenue Service (IRS) – the federal agency tasked with oversight and enforcement of the tax-exempt sector – broadly defines associations as “a group of persons banded together for a specific purpose.”

People voluntarily join associations because they want to work together on a common cause or interest. The first American settlers formed “guilds,” patterned after British traditions, to address common challenges and support each other’s work and lifestyle. The first American trade association, the Philadelphian House Carpenters, was formed in 1724. America’s first scientific society, the American Philosophical Society, was founded by Benjamin Franklin in 1743, and is still in existence today.

The distinctive pattern of coordinated activity evident in associations has shaped and advanced America since its birth and has historically set America apart from many other nations (although associations or “non-governmental organizations” are now growing in number internationally as well). By 1835, when noted French political thinker and historian Alexis de Tocqueville published *Democracy in America*, associations had become prevalent and effective contributors to the so-called “American way.”

“Americans of all ages, all conditions, and all dispositions constantly form associations,” de Tocqueville wrote. “Wherever at the head of some new undertaking you see the government in France, or a man of rank in England, in the United States you will be sure to find an association.”

The first integrated federal income tax statute enacted in 1913 provided exemptions for business leagues, as associations were known at that time. The 1913 Act also provided exemptions for charitable, scientific, and educational organizations. Subsequent revenue and tax reform acts in 1950 and 1969 created the contemporary structure under which associations operate today. There are currently nearly 30 different subsections of tax-exemption in the U.S. Tax Code.

Congress first gave associations favored tax treatment largely in recognition of the public benefits derived from their activities. In simple terms, associations earn their tax-exempt status by satisfying many of the needs of various industries, professions and the general public that the government would otherwise have to address.

Tax-exempt organizations are subject to a variety of rules to ensure compliance with Federal law and limit abuses, including rules that prevent private inurement and require most organizations to file an annual Form 990 return with the Internal Revenue Service (IRS) and make publicly available their exemption applications, determination letters and annual returns. The tax code also restricts Section 501(c)(3) tax-exempt organizations from intervening in political campaigns and requires tax-exempt organizations to pay taxes on the net gain from activities that are considered unrelated to their exempt purpose.

### **Associations as Job Creators**

Associations contribute in direct and significant ways to U.S. economic stability and growth. Government statistics show that associations are good employers, paying above average wages, and enabling the continuing education of many American workers.

In 2011, there were 70,330 trade and professional associations on record with the IRS. These organizations employ 1.2 million people and generate a payroll of nearly \$47 billion.

Despite their tax-exempt status, associations are by no means exempt from all taxes and, in fact, contribute substantially to national, state and local economies across the nation. Among the taxes associations pay are federal payroll (Social Security, Medicare, and unemployment) taxes, state and local unemployment taxes, real estate taxes, personal property taxes, sales and use taxes, franchise taxes, taxes on lobbying activities, and taxes on unrelated business income (UBIT).

Despite the lagging economy, it's clear from IRS data that the number of associations continues to climb as new industries and professions emerge. A look at some of the fastest-growing industries in the world today like alternative energy, biotechnology, electronic commerce, and Internet publishing provides strong clues about where we will see new trade and professional associations forming in the years ahead.

### **The Power of Associations**

Associations engage in a wide variety of activities that benefit industries and professions, enrich society and drive economic growth. These activities include:

- Associations are the primary source of post-college education and skills training for America's workforce.
- Associations create product and service standards for everything from children's toys to building construction.
- Associations define and advance standards for professional certification and performance and for ethical practices in a wide variety of fields.
- Associations foster volunteerism by sponsoring community programs and lending assistance in moments of great need, such as after natural disasters.
- Associations drive the meetings and conventions industry, which supports 1.7 million jobs and accounts for \$263 billion in spending.

Please consider ASAE as a resource if you have questions about how any proposed changes to the tax code might impact associations and other tax-exempt organizations. Thank you for your consideration and for soliciting feedback from stakeholders who could be affected by comprehensive tax reform legislation.

Sincerely,



John H. Graham IV  
President and CEO