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Punitive Taxation of Science and Engineering

The Subcommittee on Oversight of the House Committee on Ways and Means has proposed legislation that would diminish the ability of science and engineering to serve this country. This appears to be an unintended consequence of a major effort to curb some abuses by tax-exempt organizations, which include churches, hospitals, universities, trade associations, and scientific and engineering societies.

Excluding 340,000 churches, there are in this country some 866,000 exempt organizations with total annual revenues exceeding \$300 billion. In order to provide financial resources to achieve their purposes, some of them have engaged in commercial activities unrelated to their tax exemption. By so doing they compete with tax-paying companies including small business. Although nonprofits do pay taxes, Congress has been subjected to highly organized lobbying by these companies that claim the taxes are too low. Congress is being called on to take drastic action to tax more of the profits derived from unrelated business income, or "UBIT." Obviously, when a million organizations are involved, each differing somewhat, a detailed judicious approach is difficult. A sweeping broad approach is tempting.

An example of the negative effect of such an approach is the proposed accounting treatment of advertising revenues of *Science* and other scholarly journals. In comparison with profit-making magazines, scientific and engineering journals containing advertising would be subjected to a punitive tax.

When commercial magazines are published, the total cost of editorial matter, printing and mailing, and other expenses is subtracted from net advertising revenues before levying a tax. In contrast, the proposed legislation calls for a 34% tax on net advertising revenue of scholarly journals published by tax-exempt scientific and engineering societies, with no offset allowed for costs of writing, editing, assembling, and printing the scholarly material, as is the case today.

The proposed tax would deleteriously affect the financial capacity of many scholarly societies to carry out their tax-exempt purpose to disseminate research results. For example, it would seriously injure the capabilities of the American Association for the Advancement of Science to the tune of about \$1 million a year. To meet such a blow, the Association would be forced to curtail its activities. The scholarly scientific content of *Science* would necessarily be reduced and its illustrious global reputation injured. In addition, public service activities of AAAS such as improvement of secondary education and efforts to help women, minorities, and the handicapped toward greater representation in science and engineering would be reduced. Other major scientific and engineering societies would to varying degrees be affected. In their scholarly journals, they are facing increasing and tremendous competition from large-scale foreign-owned profit-making publishing houses that have already captured a majority of the scientific scholarly market and are charging huge prices to libraries for their low-circulation journals.

Why is the subcommittee even considering such a harmful proviso of its legislation? It appears that some exempt organizations include automobile and other consumer advertisements in their magazines. To curtail such practices, the subcommittee has proposed the tax-accounting change mentioned above. What it should do now is give proper weight to the nature of the advertising appearing in the scholarly scientific and engineering journals. Those that contain no consumer advertising but rather advertisements highly related to scholarly endeavors should be treated differently from those that contain liquor, cigarette, or other consumer advertisements.

The Subcommittee on Oversight has labored for about 2 years to develop legislation to curb abuses by some tax-exempt organizations. It is now under pressure to submit legislation to the Committee on Ways and Means. The subcommittee has an opportunity to act constructively in this arcane and complex area of tax law. If it does not, more than the scientific and engineering societies will suffer. The whole nation will be the loser.

—PHILIP H. ABELSON