Natural disasters keep coming. So should disaster tax relief.

By: Tim Delaney

Natural disasters are striking communities across the country, seemingly daily. Always on the front lines of response and recovery from those disasters are the nonprofits in those communities. Right now, charitable nonprofits call on Congress to do what it always does in the aftermath of devastating storms and other acts of God — enact natural disaster tax relief so community-based organizations have the resources they need, including private donations and employment retention tax credits, to provide relief, recovery, and support.

Today, lava is flowing in Hawai`i. Last month, hurricanes devastated swaths of the South and freak blizzards shut down parts of the Northeast. Throughout the summer and fall, drought, fires, floods, and mudslides disrupted the lives and livelihoods of our fellow Americans. The National Oceanic and Atmospheric Administration reports there have been 15 weather disaster events this year generating losses exceeding $1 billion each and causing 342 deaths. As of this writing, the Federal Emergency Management Administration reports at least 20 declared disasters just since Labor Day.

These events exacerbate the already challenging reality for charitable organizations. The Federal Reserve’s latest survey of entities serving low- to moderate-income
communities revealed that 70 percent of responding nonprofits reported higher demands for their services and 43 percent reported significantly higher demands. Americans are relying on charitable nonprofits in increasing numbers and nonprofits are relying on Congress to deliver relief.

Pandemic fatigue has led many to question the need for restoring any of the support programs initially included in the CARES Act and similar laws. But many of the core tax provisions affecting the ability of charitable nonprofits to serve did not originate with COVID-19. They have been, and continue to be, essential bipartisan policy responses to natural disasters that have a real and meaningful impact on communities.

The clearest examples of these disaster relief tax provisions – dating back to Hurricane Katrina – are two charitable giving incentives that lift the tax-law caps on giving back to hurting communities. One measure permits individuals who itemize on their tax returns to deduct charitable donations up to 100% of their adjusted gross income, an improvement from the current AGI limit of 60 percent for cash donations. The other allows corporations to deduct charitable donations up to 25 percent of taxable income, a hike from the usual cap of 10 percent. This can enable and motivate people and businesses to increase the help they can provide.

A third incentive for giving during crises — the Universal Charitable Deduction (UCD), also called a nonitemizer deduction — reflects changed tax realities resulting from the 2017 tax law that increased the standard deduction and reduced the share of taxpayers who itemize to fewer than 12 percent. An American Enterprise Institute analysis found that the 2017 tax law did not generate greater charitable giving among upper-income taxpayers as predicted; in fact, charitable giving went down after its enactment. The UCD addresses that problem. Although a larger nonitemizer deduction has been sought on a bipartisan basis since the fall of 2017, Congress enacted a $300 charitable deduction for cash gifts from nonitemizers for that year as part of the CARES Act and extended the deduction through 2021 while increasing the cap to $600 for joint filers.

Data show that the UCD worked exactly as planned — providing a powerful incentive for individuals to support the work of charitable organizations in their communities. The IRS reported in June that 42.2 million households took advantage of the UCD in 2020, generating $10.9 billion in charitable giving that year. Nearly a quarter of those donations came from taxpayers with adjusted gross income of less than
$30,000. Further, data from the Fundraising Effectiveness Project (FEP) shows an increase of 7.5 percent in individual gifts of $300 in both 2020 and 2021, compared to 2019. Additionally, gifts of $600 increased 5 percent in 2021, compared to 2019.

Charitable nonprofits urge Congress to renew all three charitable giving incentives at least through 2022 and significantly increase the cap on the universal charitable deduction, as proposed in the bipartisan Universal Giving Pandemic Response and Recovery Act (S.618/H.R.1704).

Another important tax provision consistently incorporated in natural disaster relief since 2005 is the Employee Retention Tax Credit (ERTC). The latest iteration of the ERTC, a refundable payroll tax credit, is designed to help nonprofit and for-profit employers keep workers on the payroll during trying times and avoid layoffs. For charitable nonprofits, the times remain trying as more residents seek support while resources aren’t keeping up with demand and inflation, all of which compound the severe nonprofit workforce shortage crisis.

Regrettably, Congress retroactively repealed the ERTC for the fourth quarter of 2021, imposing tremendous costs and losses on thousands of employers. Without restoration of the promised relief, layoffs at community-based nonprofits have been necessary, deterring recovery and causing a reduction in the vital services on which our fellow residents and communities rely. Recognizing this challenge, representatives and senators from across the political spectrum have sponsored the ERTC Reinstatement Act (H.R. 6161/S. 3625) to restore what Congress originally promised. Going forward, the ERTC is as necessary now as during the pandemic to help alleviate the strain on employers caused by recent and future natural disasters.

Nearly three years into a global pandemic and after responding to repeated, devastating natural disasters, charitable nonprofits are experiencing increased demand for services that far outpace available funding and staffing. Our nation’s charities need greater incentives for charitable giving and employee retention aid more than ever. Natural disasters keep coming. It is long past time for Congress to restore natural disaster tax relief provisions that are proven to empower nonprofits to be the forces for good that our communities need.

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