The lab results are in on tax reform

By: Tim Delaney

If the states serve as our policy laboratories, then the lab results are demonstrating conclusively what's in the best interest of local communities. The results from red, blue and purple states are unmistakable: Charitable giving incentives deserve a permanent place in every reformed tax code. This year, state legislatures from across the country looked at their tax codes with an eye toward raising revenues, lowering rates, streamlining their tax codes, or some/all of the above. They have served as laboratories in the tax debate and, in the words of U.S. Supreme Court Justice Louis Brandeis, have tried "novel social and economic experiments without risk to the rest of the country." As with Congress, most have taken a "blank slate" approach to comprehensive tax reform and have considered eliminating, capping, or reducing incentives for charitable giving. Virtually every state has concluded that the support that charitable nonprofits provide to their communities, made possible by charitable donations, is too important to risk limiting the tax incentives.

The consensus is profound because it ignored any hints of partisanship. In recent months, legislators in red states like Kansas and North Carolina expressly preserved their charitable giving incentive, even while capping all other itemized deductions.

Blue states like Oregon and Minnesota thought about capping charitable deductions, and then rejected the idea. The Oregon House voted to cap itemized deductions, but expressly refused to apply the limit to charitable deductions. The Minnesota

Legislature considered switching to an eight-percent, nonrefundable tax credit for charitable giving, but ultimately rejected the proposal and retained the state’s charitable deductions for both itemizers and non-itemizers.

Purple states concurred. Citing the importance of giving to nonprofits serving local communities, the Montana Legislature this spring renewed the state’s charitable endowment tax credit for another six years. Missouri restored a series of charitable tax credits for giving to food pantries, pregnancy resource centers, and the Children in Crisis program that had been allowed to expire in recent years due to budget constraints.

Regardless of political ideology, one can learn from mistakes of the past that have created clear and unacceptable harm to communities. In 2011, Michigan repealed tax credits that promoted donations to the work of food banks, homeless shelters, state colleges, and community foundations. Recent analysis reveals that elimination of the credits cost far more in reduced giving to local communities than the amount the state gained.

Also in 2011, the Hawaii Legislature capped all itemized deductions, including charitable donations. Policymakers later found that the estimated $12 million in revenue to the state came at an unacceptable cost of at least $60 million per year in lost donations – a one-to-five ratio of loss of good works in the community. Hawaii's Governor, former Representative Neil Abercrombie, signed legislation this month [July 2013] removing the limit on charitable donations. What he said in supporting the giving incentive is instructive and compelling: “After having taken a close look at the impact this particular section of the law is having on charitable donations made to Hawaii's nonprofit organizations, we support carving out this portion of the law” to protect full deduction of charitable contributions.

The resounding show of support for the work of charitable nonprofits in red, blue, and purple states has occurred because policymakers are all coming to the same conclusion: that nonprofit organizations, supported by charitable contributions, are touching the lives of constituents in meaningful ways. These community-based organizations are improving lives, strengthening the economy, advancing the well-being of their communities, and lightening the burdens of government, taxpayers, and society as a whole.

Legislators are recognizing that the true beneficiaries of charitable donations are the individuals and communities relying on nonprofit programs, services, and innovations. Nonprofits of all sizes and missions depend on the current charitable giving incentive to feed, house, and clothe individuals in need; to promote economic and social well-being; and to solve problems that they are best suited to address. Nonprofits must be able to count on the current tax incentives for charitable giving in order to continue to meet existing and growing demand.

Federal policymakers can learn a great deal from the experimentation by state legislatures in the area of revising charitable and other deductions. The states are finding that capping or eliminating charitable giving incentives significantly undermines financial support for the work of nonprofits. Through the giving of their time and money, Americans support the ability of nonprofits to deliver essential services in local communities across the country. As Congress considers tax reform, it is more important than ever to understand the role of the charitable giving incentive as a lifeline for communities and maintain the incentives for giving that work.

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