NATIONAL COUNCIL OF NONPROFITS

National voice. State focus. Local impact.

Tax Reform and the Charitable Giving Incentive

Enabling Charitable Nonprofit to Meet Community Needs

The work of charitable nonprofits throughout the United States improves lives, strengthens the economy and wellbeing of our communities, and lightens the burdens of government, taxpayers, and society as a whole. Through the giving of their time and money, Americans support the ability of nonprofits to deliver essential services in local communities across the country. Nonprofits must be able to count on the current tax incentives for charitable giving in order to continue to meet existing and growing demand.

A Lifeline for Individuals and Communities

The accumulation of local, state, and federal funding cuts together with historically low giving levels[1] have made it increasingly difficult for nonprofits to respond to growing community need, with more than half of the organizations surveyed reporting that they were unable to meet demand in the last year.[2] 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.

A Community-Building Incentive: 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 wellbeing; and to solve problems that they are best suited to address.

A Unique Incentive: The charitable giving incentive is different from other itemized deductions in that donors receive no personal benefit other than the deduction itself. And the community benefit is far greater than the value of the deduction to the individual: for every federal dollar in tax reduction a person gets, the public receives three dollars or more in impact through the work of nonprofit organizations.

> "The full deduction for charitable contributions should be retained, because the money that taxpayers give to charity benefits those organizations rather than the individual taxpayer."
> ***Martin Feldstein***, former Chair of President Reagan's Council of Economic Advisors

Lessons from the States

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. Many have rejected changing current incentives and others have actually repealed the limits that have been shown to hurt communities in their states. Consider the following:

Hawai'i: In 2011, policymakers capped the state's charitable giving incentive and all other itemized deductions to limit the benefit for upper-income taxpayers. However, the adverse impact on communities prompted the Governor himself to champion the bill that restored the full giving incentive this year.

> "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."
> *Office of **Hawai'i Governor Neil Abercrombie***

Kansas: The Legislature approved a compromise tax package that carves out for the charitable giving incentive from reductions imposed on all other itemized deductions.

Michigan: Homeless shelters, food banks, community foundations, and many other Michigan nonprofits have reported a significant drop off in donations since the Legislature in 2011 eliminated three tax credits that promoted giving to charities in Michigan.

Minnesota: The Legislature considered but ultimately rejected a proposal that would have eliminated the state's charitable deductions for itemizers and for non-itemizers and replaced it with an eight-percent, nonrefundable tax credit.

Missouri: In response to concerns from communities, State leaders this spring restored a series of charitable tax credits for food pantries, pregnancy resource centers, and the Children in Crisis program that had been allowed to expire in recent years.

Montana: Citing the importance of giving to nonprofits serving Montana communities, the Legislature this spring renewed the state's charitable endowment tax credit for another six years.

North Carolina: The House amended its tax plan by removing a cap originally placed on the charitable deduction. However, the Senate proposal retains the cap and limits many nonprofits' sales tax exemptions.

Oregon: The House passed a tax reform proposal earlier this year that limits itemized deductions but expressly exempts charitable giving from the caps.

How You Can Help

The National Council of Nonprofits and its State Association Members ask Senators and Representatives to preserve the ability of charitable nonprofit organizations to serve your constituents and our communities by making a clear statement in support of the charitable deduction and in opposition to proposals that would reduce or cap the value of itemized deductions for charitable contributions.

For more information, contact David L. Thompson at 202-962-0322 or dthompson@councilofnonprofits.org

[1] Urban Institute National Center for Charitable Statistics, The Nonprofit Sector in Brief 2012.

[2] "2013 State of the Sector Survey," Nonprofit Finance Fund, April 2013.