



ISSUE PAPER

Maintain Current Law on Charitable Deduction Rates

Position: The Council strongly supports maintaining the current law, which permits full deductibility of itemized charitable deductions.

For more information, contact the Council's Government Relations Department at: (703) 879-0600- or Govt@cof.org

Background

Current Law: Individuals can reduce their taxable income by the amount of the charitable contributions they make if they itemize their deductions. As a result, taxpayers generally are not subject to federal income taxes on money they give away to charities. Some limits may apply depending on the type of the gift (cash, stocks, real property, for example) and the type of the organization the gift is given to.

Proposals

FY2013 Budget: The Obama Administration released its fiscal year 2013 budget proposal on February 13. This budget would reduce the value of the charitable deduction for certain individuals, effectively subjecting them to pay taxes on money that they give to charity instead of using it to benefit themselves. Specifically, the administration has proposed capping the value of the amount of the charitable deduction at 28 percent. Individuals subject to the two highest tax rates—currently 33 percent and 35 percent, would see the tax benefit of their charitable deductions reduced. This proposal would be effective beginning in 2013.

Rationale for Opposition to Proposals to Cap Charitable Deductions

Threat to Charitable Giving: The Council on Foundations is concerned that proposals to cap deductions would adversely affect charitable giving by reducing donors' current incentive to give. This likely result would be a decrease in the amount of money available to support worthy nonprofits across the country. According to a 2011 study by the Center on Philanthropy at the University of Indiana, "Impact of the Obama Administration's Proposed Tax Policy Changes on Itemized Charitable Giving," giving by households with \$200,000 or more in income would have decreased by \$820 million in 2009 and by \$2.43 billion in 2010 had the administration's proposal been in effect. Such taxpayers constitute just 3 percent of taxpayers but provide 36 percent of all charitable contributions. Combined with the slow recovery from the recession and government funding cuts, even modest changes to the tax deduction could negatively affect charities.

Unlike mortgage deductions or incentives that encourage retirement savings, the charitable deduction rewards voluntary gifts that benefit their communities and society as a whole. Given the current economic climate, now is not the time to undermine charitable giving. Doing so will place additional strain on the nonprofit sector and inhibit its service to the public good.

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Tax Policy—Decoupling: For nearly 100 years, the value of the charitable deduction has been tied to an individual's tax rate, ensuring that taxpayers do not pay tax on income that they contribute to charity. By decoupling the deduction rate from the tax rate, the proposals establish a precedent of taxing individuals on income that they redirect to charity. While the current gap between the two rates is fairly narrow, the risk is that, once decoupled, future adjustments to tax rates or the cap could widen the gap and further erode the value of the charitable deduction.

Rationale for Support of Proposals to Cap Charitable Deductions

Limited Impact on Giving: A 2008 study of high-net-worth individuals conducted by Bank of America suggests that the charitable giving by households with income greater than \$200,000 or net worth greater than \$1 million is not highly sensitive to changes in the tax rate. Because such giving represents 65 percent to 75 percent of individual giving, a significant reduction in giving is unlikely.

Response: Though charitable giving would continue even with a cap on deductions, every independent study, most notably the University of Indiana's, has estimated that a cap would result in a loss of billions to the philanthropic sector and the communities it serves.

Tax Policy—Equity: Individuals with lower incomes receive less of a tax benefit than high-income taxpayers for the same amount given to charity. Thus, a middle-class taxpayer with a marginal tax rate of 24 percent who gives \$100 to charity receives a tax benefit of \$24. A wealthy taxpayer subject to a marginal rate of 35 percent would receive a tax benefit of \$35 (or \$11 more for the same gift).

Response: Each taxpayer receives the same benefit from charitable deductions—itemized deductions are not included in taxable income. The fact that some taxpayers pay taxes at a higher rate is a burden, not a benefit, even if there is a corresponding effect on their tax liabilities if taxable income is reduced. Also, high-income taxpayers already are subject to phased-out reductions in the value of their itemized deductions. However, because those phase-outs do not generally reduce the value of marginal dollars donated to charities, they have less effect on donations than a cap would have.

Status of Legislation

None of the president's previous budget proposals approved by Congress capped the charitable deductions rate. Although Congress previously rejected this proposal, the estimated \$584 billion it would raise over ten years may make it palatable to lawmakers, in light of massive budget deficits, high unemployment rates, and the potential for comprehensive tax reform.

How You Can Support Philanthropy:

Ask Congress to protect the full value of the charitable deduction and not cap it at a reduced rate. Doing so could have significant consequences in this economic downturn and in future years.