COUNCIL on FOUNDATIONS

CHARITABLE DEDUCTION

Issue Paper

We Urge You to Demonstrate Your Support for Philanthropy by:

- Supporting the inclusion of a universal charitable deduction in any tax reform package that is proposed.

ISSUE

The charitable deduction is tax provision which allows individuals to 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 gift (cash, stocks, and real property, for example) and the type of organization receiving the gift.

There have been a handful of proposals in recent years—most recently, President Donald Trump's proposed tax plan, Speaker Ryan's Tax Reform Blueprint—which would alter the charitable deduction and related provisions in ways that could have a significant impact on charitable giving and activity.

POSITION

The Council strongly supports enacting a universal charitable deduction to mitigate the unintended negative consequences of tax reform.

RATIONALE

This year (2017) marks the 100th anniversary of the charitable deduction. This tax provision recognizes the time-honored American tradition of contributing personal wealth to strengthen communities and support those in need.

A calculation of the deduction suggests that for every $1 subject to the charitable deduction, communities receive nearly three times as much in public benefit. Research shows that some of the proposed tax code changes would have unintended negative consequences on the scope and value charitable deduction. Such changes, therefore, would trigger a decrease in charitable giving.

Some of the provisions that could have an impact on the valuation of the charitable deduction, if altered, include:

- The federal income tax rate structure;
- The standard deduction;
- The estate tax; and
- The charitable deduction, itself.

The impact of a change to the tax rate on the charitable deduction would depend on how the structure changes. The primary impact would come from changes to the highest federal income tax rates—since those filers are the most likely to claim the charitable deduction with their itemizations.

Similarly, an increase to the value of the standard deduction would likely increase the number of individuals who claim that deduction versus itemize. Subsequently, those individuals who would have otherwise itemized and claimed the charitable deduction, no longer have a need to do so.

Research shows that the combined effects of increasing the standard deduction and decreasing marginal tax rates would decrease giving by an estimated $13.1 billion. However, enacting a universal deduction in conjunction with those two provisions would not only mitigate the decrease in giving, it would actually increase charitable contributions to communities by $4.8 billion.

Eliminating the estate tax could also have a chilling effect on charitable giving—particularly with regard to use of the charitable deduction with bequests. In 2015, bequests made up 9% (or $28.72 billion) of total charitable giving in the United States. Estimates suggest that an absence of the estate tax could reduce charitable giving through bequests by anywhere between 12 – 37%.

Lastly, any changes made directly to the charitable deduction or how it is claimed could impact the valuation of this provision—such as a floor, limits to adjusted gross income (AGI) for certain types of contributions, caps or restrictions to itemized deductions, or adjustments to the Pease limitation.

RELEVANT POLICY & LEGISLATION

War Income Tax Revenue Act of 1917. This piece of legislation—passed by the 65th Congress and signed into law by President Woodrow Wilson—established the charitable deduction.

H.R. 1, Tax Reform Act of 2014. This bill, introduced in December of 2014 by then Chairman of the House Ways & Means Committee Dave Camp (R-MI-4), was the culmination of tax reform discussions during Camp's tenure as Chairman and was intended for use as a discussion draft for sparking momentum toward comprehensive tax reform.

With regard to the charitable deduction, this bill proposed a 2% floor on the charitable deduction; a change to the AGI limitations for certain types of contributions; a repeal of the Pease limitation that reduced certain itemized deductions for high-income tax payers; a phase-out of itemized deductions by increasing the standard deduction; limits to the amount individuals can claim for gifts of property; and an extension of the deadline to claim the charitable deduction to April 15th.

S. 2750, CHARiTY Act (Charities Helping Americans Regularly Throughout the Year). This bill, introduced by Senators John Thune (R-SD) and Ron Wyden (D-OR) in April of 2016, contained a provision to express the Sense of the Senate that encouraging charitable giving should be a goal of tax reform, and that Congress should preserve the full scope and value of the charitable deduction.

This bill became null when the 114th Congressional session ended in December 2016.

RESOURCES

Indiana University, Independent Sector Research on Tax Policy and Charitable Giving: *https://www.independentsector.org/wp-content/uploads/2017/05/tax-policy-charitable-giving-finalmay2017-1.pdf*

Council on Foundations Summary of Tax Reform Act of 2014: http://www.cof.org/sites/default/files/documents/files/Tax%20Reform%20Act%20of%202014--Public%20Summary_0.pdf

Tax Policy Center Estimates on Charitable Provisions: http://www.urban.org/research/publication/preliminary-estimates-impact-camp-tax-reform-plan-charitable-giving/view/full_report

Charitable Giving Coalition: http://protectgiving.org/

For more information, contact the Council's Government Relations team at **govt@cof.org**

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