Tax Policy Matters: Now is the time to enhance philanthropy’s impact in communities throughout the country—not diminish it.

As Congress contemplates comprehensive tax reform and individual changes to the tax code, it is important to acknowledge that tax provisions matter to philanthropy. Changes to the code can enhance and expand philanthropy’s impact. Or, they can constrain or diminish the ability of philanthropic organizations to conduct our work, ultimately hurting the communities they serve.

Charitable Deduction: Congress should advance proposals that increase giving, not diminish it.
- The efforts of philanthropy and nonprofit organizations are supported through charitable giving. Any caps or limits on charitable giving will have a negative impact.
- If donors have less incentive to give, donations could decline by billions, obstructing the critical work of philanthropy and nonprofits.

Charitable “Tax Extenders”: Congress should permanently extend the charitable “tax extenders”.
- The charitable “tax extenders”—the IRA rollover and the enhanced deductions for food inventory donations and land conservation—tax extenders are valuable giving incentives.
- The need for an annual extension of the tax extenders and the lapse of provisions in 2013 create great uncertainty, ultimately reducing charitable giving.

Private Foundation Excise Tax: Congress should simplify the excise tax to a single, flat rate of 1 percent.
- The current private foundation excise tax has a complicated, two-tier structure which can create disincentives for unanticipated grants such as disaster aid that foundations make in times of emergency or dire need. The tax is also complicated and unpredictable for foundation staff and hinders flexibility in grantmaking.
- The current tax requires constant monitoring of investments and spending – time that would be better spent serving communities.

Donor Advised Funds: Congress should encourage the IRS to provide clarity on donor advised funds.
- Donor advised funds (DAFs) allow donors to channel philanthropic giving directly to their communities, enabling people to "give where they live". Community foundations provide meaningful guidance for donors to increase their resources and make more effective and lasting investments in their communities.
- The Pension Protection Act of 2006 created a federal tax law definition for DAFs and made other changes to the tax treatment of these funds that the IRS has yet to publish.

Rules on Investments and Business Holdings: Congress should amend the tax code to create an exception to the debt-finance income rules to allow all tax-exempt entities to invest in hedge funds and similar investment partnerships without being subject to UBIT.
- An unrelated business income tax (UBIT) is imposed on the profits that a nonprofit organization receives from any of its business or trade activities.
- Foundations that invest in partnerships like hedge funds and similar entities are often subject to UBIT if these partnerships incur debt. The debt is then passed through to the foundation as an investor, triggering the application of UBIT.