

THE CHARITABLE GIVING COALITION

Protecting America's Strong Tradition of Giving

March 14, 2013

The Honorable Patty Murray
Chair
Senate Budget Committee
U.S. Senate
624 Dirksen Senate Office Building
Washington, D.C. 20510

Re: FY 2014 Senate Budget Resolution

Dear Chairman Murray:

The Charitable Giving Coalition, representing a broad cross-section of nonprofit organizations across the country, urges you and the Senate Budget Committee to reconsider implementing the proposals included in the FY 2014 Senate Budget Resolution that would limit the value of itemized deductions for charitable contributions. The charitable deduction is a unique and powerful American tradition that encourages giving, strengthens communities and serves as a model for the world.

The charitable deduction is different than other itemized deductions in that it encourages individuals to give away a portion of their income to those in need. It is not a tax cut for the wealthy. Instead, it rewards a selfless act and it encourages taxpayers to give more to charities than they would otherwise have given. In 2011, Americans gave nearly \$300 billion to support charitable causes according to Giving USA, much of which is claimed as a charitable tax deduction.¹ A calculation of the charitable deduction indicates that for every \$1 a donor can deduct for their donation, the public receives approximately \$3 of benefit. It is unlikely that any other tax provision generates that kind of positive public impact.

From healing and educating to enriching lives through the arts to feeding the hungry and providing relief in times of crisis, the charitable sector is inextricably linked to our communities. We simply cannot afford to experiment further with the charitable deduction. The recently reinstated Pease limitation contained in the American Taxpayer Relief Act of 2012 already has reduced the value of itemized deductions for certain taxpayers. It is imperative that Congress not enact any additional caps or limitations on the charitable deduction.

Such a move would dismantle incentives that support the crucial work of nonprofits in our communities - developing medications, improving education and health, protecting the environment, creating jobs, enhancing arts and culture and much more.

¹ Giving USA Foundation 2012, Giving USA 2011 The Annual Report on Philanthropy for the year 2011.

Charitable Giving Will Decrease

Several studies indicate giving will decrease if the charitable deduction is capped, limited or replaced by other provisions. For example, if the Administration's proposed 28 percent cap were imposed, the sector could lose anywhere between \$1.7 billion² to \$5.6 billion³ per year. These estimates are based upon the previous top marginal tax rate of 35 percent. The actual loss in charitable contributions could be worse in light of the new 39.6 percent tax rate.

The effect of an actual dollar cap on the charitable deduction, as mentioned in your budget proposal, could be even more devastating. Many taxpayers would exceed a hard dollar cap before ever claiming a charitable deduction, according to analysis by the National Association of Home Builders.⁴ Tax policy experts have noted that charitable giving is more sensitive to tax changes compared to other deductible payments, such as local taxes and mortgage interest. That is because taxpayers generally cannot adjust or modify their local taxes or mortgage payments. However, taxpayers can adjust their levels of charitable contributions quite easily in response to tax code changes.

Other changes to the charitable deduction would have equally disastrous effects on charitable contributions—a loss of \$3 billion per year if a two percent adjusted gross income (AGI) floor were imposed⁵ and a loss of \$9.17 billion per year if the charitable deduction were replaced with a 12 percent tax credit.⁶

According to a survey from the United Way, of those Americans who say they would reduce charitable giving if the deduction is capped or limited, the majority (62 percent) would curtail their giving significantly—26 percent would reduce their contributions by 50 percent or more and 36 percent would reduce their charitable giving between 25 percent and 50 percent.⁷

Communities Need the Support of Nonprofits and Charities Now More Than Ever

People are continuing to feel the effects of the recession. Governments and private sector organizations are strapped. The charitable sector not only fills the gap by providing philanthropic services to those individuals and communities in need, but it also bolsters the economy and provides much-needed jobs. Nonprofits generate \$1.1 trillion every year in the form of jobs and services.⁸ One in 10 U.S. workers are employed by the nonprofit sector, which provides 13.7

² C. Eugene Steurle, "The Tax Treatment of Charities & Major Budget Reform," Testimony before the Senate Committee on Finance, Hearing on Tax Reform Options: Incentives for Charitable Giving, Oct. 18, 2011.

³ Joseph J. Cordes, "Re-Thinking the Deduction for Charitable Contributions: Evaluating the Effects of Deficit-Reduction Proposals," *National Tax Journal*, Dec. 2011.

⁴ Rob Dietz, Ph.D. and Natalia Siniavskaia, Ph.D., "A Tax Profile of a Typical Mortgage Interest Deduction Beneficiary," Sept. 4, 2012.

⁵ Statement of Frank J. Sammartino, Assistant Director for Tax Analysis, "Options for Changing the Tax Treatment of Charitable Giving," Senate Committee on Finance, Oct. 18, 2011.

⁶ Joseph J. Cordes, "Re-Thinking the Deduction for Charitable Contributions: Evaluating the Effects of Deficit-Reduction Proposals," *National Tax Journal*, Dec. 2011.

⁷ United Way Worldwide, "The Charitable Deduction Poll," Nov. 2012.

⁸ Katie Roeger, Amy Blackwood and Sarah Pettijohn, *The Nonprofit Almanac 2012*, The Urban Institute 2012.

million jobs.⁹ Employees of nonprofit organizations received roughly nine percent of wages paid in the U.S., and the nonprofit sector paid \$587.7 billion in wages and benefits to its employees.¹⁰

The American Public Wants the Charitable Deduction Preserved

The United Way survey found that nearly 80 percent of Americans believe that reducing or eliminating the charitable tax deduction would have a negative impact on charities and the people they serve.¹¹ Two out of every three Americans (67 percent) are opposed to reducing the charitable tax deduction.¹²

The charitable deduction makes more and larger gifts possible, and it would have an impact on donors. According to a January 2013 national survey, 75 percent of Americans continue to say they value the deduction as it currently stands.¹³ Sixty-one percent say that they feel strongly about maintaining the current deduction, up from 56 percent in January 2012.¹⁴

We urge you to maintain the current charitable deduction and exempt this powerful giving incentive from any tax policy changes in the FY 2014 Senate Budget Resolution that would otherwise limit itemized deductions. We look forward to working with you and your colleagues to identify the best ways to protect the unique value of the charitable deduction in our communities.

Sincerely,

Association of Fundraising Professionals, Chair
Agudath Israel of America
Alliance for Charitable Reform
Alliance for Children and Families
Alliance of Nonprofit Mailers
American Alliance of Museums
American Institute for Cancer Research
American Red Cross
American Society of Association Executives
Association of Art Museum Directors
Association of Christian Schools International
Association of Direct Response Fundraising Counsel
Association for Healthcare Philanthropy
Council for Advancement and Support of Education
Council for American Private Education
Council on Foundations
Dance/USA

⁹ Ibid

¹⁰ Ibid

¹¹ United Way Worldwide, "The Charitable Deduction Poll," Nov. 2012.

¹² Ibid

¹³ Dunham+Company study (Wilson Perkins Allen Opinion Research's January 2013 Omnibus Study).

¹⁴ Ibid

Direct Marketing Association Nonprofit Federation
Direct Marketing Association
Dunham+Company
Educational Media Foundation
The Field Museum
The Forum of Regional Associations of Grantmakers
The Giving Institute
Giving USA Foundation
Independent Sector
The Jewish Federations of North America
Leadership 18
League of American Orchestras
National Association of Independent Schools
The National Catholic Development Conference
National Human Services Assembly
OPERA America
Partnership for Philanthropic Planning
Philanthropy Ohio
The Philanthropy Roundtable
Saint Louis Art Museum
Theatre Communications Group
United Neighborhood Centers of America
United Way Worldwide
Volunteers of America