



*Protecting America's Strong Tradition of Giving*

April 10, 2013

The President  
The White House  
1600 Pennsylvania Avenue  
Washington, D.C. 20500

Dear Mr. President:

We strongly urge you to reconsider your Administration's FY 2014 Budget proposal (or any similar proposals) to limit the value of itemized deductions for charitable contributions.

Although strong and supportive statements from members of your Administration and lawmakers about the value and importance of charitable giving in our communities are encouraging, numerous budget and tax reform proposals calling for cuts, caps, floors or limits to itemized tax deductions—including the charitable deduction—indicate otherwise.

We appreciate that there are significant decisions ahead to address our fiscal challenges. But, tampering with the 100-year-old charitable deduction is not a viable solution. Such a move would spell disaster for the vital programs and services of thousands of charitable organizations and the millions of Americans who rely on them each day.

While no policymaker intends to undermine charities, we know major decisions about a range of issues may be made very quickly behind closed doors in the current legislative environment. Nonprofits and charitable organizations are unified like never before to make sure lawmakers clearly understand that giving will go down significantly if you unravel the existing policy that incentivizes people to support communities.

***The charitable deduction is different than other itemized deductions – and it works.***

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. The charitable deduction is different than other itemized deductions because it encourages individuals to give away a portion of their income to benefit others in need. It rewards a selfless act and it encourages donors to give more to charities than they otherwise would have given. According to Giving USA, in 2011 Americans gave nearly \$300 billion to support charitable

causes much of which is claimed as a charitable tax deduction.<sup>1</sup> A calculation of the charitable deduction indicates that for every \$1 a donor can claim 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.

***Tampering with the charitable deduction causes giving to decline and communities to lose.***

We simply cannot afford to experiment with the charitable deduction. It would unravel incentives that support the crucial work of nonprofits in our communities. Already, the recently reinstated Pease limitation contained in the American Taxpayer Relief Act of 2012 has reduced the value of itemized deductions for certain taxpayers. While it is too early to tell the full impact of this provision on charitable donations, we have already seen a disturbance in the timing of gifts on which charities rely. In 2003, 5.2 million taxpayers were affected by the Pease provision. Approximately 60,000 taxpayers with \$886 million in charitable deductions had more than half of their itemized deductions disallowed.<sup>2</sup>

Furthermore, the FY 2014 Senate Budget Resolution instructs the Senate Finance Committee to raise an additional \$1 trillion over ten years and the accompanying explanation notes that additional revenue could be generated through limiting or altering itemized deductions such as the charitable deduction.

If the tax-writing committees follow this direction and use the 28 percent cap included in your Administration's FY 2014 Budget, donations to the nonprofit sector could decline by more than \$5.6 billion<sup>3</sup> per year. That is more than the annual operating budgets of the American Red Cross; Goodwill Industries International, Inc.; Habitat for Humanity, the Boys & Girls Clubs of America; Catholic Charities USA; and the American Cancer Society combined. 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. Giving will decrease if the charitable deduction is capped or replaced by other provisions. The effect of an actual dollar cap on the charitable deduction, another possibility noted in the Senate Budget Resolution, 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.<sup>4</sup>

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 is imposed.<sup>5</sup> The impact of a floor will be felt across the nonprofit sector as millions of donors will reduce their gifts. While a floor would impact most taxpayers, the effects will be disproportionately felt by middle-class taxpayers and by the families who rely on services

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

<sup>2</sup> Ackerman and Auten, "Floors, Ceilings, and Opening the Door for a Non-Itemizer Deduction," *National Tax Journal*, Vol. LIX, No. 3, September 2006

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

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

<sup>5</sup> 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.

charities provide with those donations. Though donations of middle-class taxpayers may be smaller, their relative sacrifices in giving to charity are often greater. A floor sends a message to these donors that their sacrifices are somehow less valuable.

Additionally, a loss of \$9.17 billion per year is expected if the charitable deduction is replaced with a 12 percent tax credit.<sup>6</sup>

Tax policy experts agree 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.

According to a survey from United Way Worldwide, 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.<sup>7</sup>

It is clear that any move to tamper with the charitable deduction would have devastating consequences for our communities.

### ***Americans want to protect the charitable deduction.***

The United Way Worldwide survey mentioned above also 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.<sup>8</sup> Two out of every three Americans (67 percent) are opposed to reducing the charitable tax deduction.<sup>9</sup> According to a January 2013 national survey, 75 percent of Americans continue to say they value the deduction as it currently stands.<sup>10</sup> Sixty-one percent say that they feel strongly about maintaining the current deduction, up from 56 percent in January 2012.<sup>11</sup>

### ***Charities and nonprofits are vital employers***

While people throughout America continue to feel the effects of the recession, local governments and nonprofit organizations also continue to be strapped for resources. As it has done for generations, the charitable sector is helping address a growing demand for services in ways government cannot. This support is a vital part of strengthening our economy and providing much-needed jobs. Nonprofits generate \$1.1 trillion every year in the form of jobs and services.<sup>12</sup> One in 10 U.S. workers is employed by the nonprofit sector, which provides 13.7 million jobs.<sup>13</sup>

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

<sup>7</sup> United Way Worldwide, "The Charitable Deduction Poll," Nov. 2012.

<sup>8</sup> United Way Worldwide, "The Charitable Deduction Poll," Nov. 2012.

<sup>9</sup> Ibid

<sup>10</sup> Dunham+Company study (Wilson Perkins Allen Opinion Research's January 2013 Omnibus Study).

<sup>11</sup> Ibid

<sup>12</sup> Katie Roeger, Amy Blackwood and Sarah Pettijohn, *The Nonprofit Almanac 2012*, The Urban Institute 2012.

<sup>13</sup> Ibid

Nonprofit organizations pay roughly nine percent of all wages received in the U.S., offering \$587.7 billion in wages and benefits to their employees.<sup>14</sup>

As a broad and diverse coalition representing more than 60 nonprofit and charitable organizations throughout America, we urge you to maintain the current charitable deduction and reconsider your FY 2014 Budget proposal that would limit this powerful giving incentive.

We look forward to working with you and your Administration 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  
Americans for the Arts  
Art Museum Directors  
Association for Healthcare Philanthropy  
Association of Art Museum Directors  
Association of Christian Schools International  
Association of Direct Response Fundraising Counsel  
Association of Gospel Rescue Missions  
Catholic Charities USA  
Council for Advancement and Support of Education  
Council for American Private Education  
Council on Foundations  
Dance/USA  
Direct Marketing Association Nonprofit Federation  
Direct Marketing Association  
Dunham+Company  
Educational Media Foundation  
The Field Museum  
Forum of Regional Associations of Grantmakers  
Girl Scouts of the USA  
Giving Institute and Giving USA Foundation  
Jewish Federations of North America  
Leadership 18  
League of American Orchestras  
National Association of Independent Schools

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<sup>14</sup> Ibid

National Catholic Development Conference  
National Council of Nonprofits  
National Council on Aging  
OPERA America  
Partnership for Philanthropic Planning  
Philanthropy Ohio  
The Philanthropy Roundtable  
St. Baldrick's Foundation  
The Saint Louis Art Museum  
Theatre Communications Group  
United Neighborhood Centers of America  
United Cerebral Palsy  
United Way Worldwide  
Volunteers of America