



## Charitable Giving

### Request

- Along with the broader charitable community—including Independent Sector and the Charitable Giving Coalition—we oppose proposals that would hurt museums and other charities by limiting the scope or value of the tax deduction for charitable donations.
- We urge Congress to ensure any comprehensive tax reform legislation encourages more giving by more Americans.
- We oppose proposals that would restrict the deductibility of gifts of property, which are critical to museums' ability to develop their collections.
- We support allowing artists to deduct the fair market value of donated works (as specified in the Artist-Museum Partnership Act).

### Introduction

Charitable giving is the lifeblood of museums of all sizes and disciplines; it accounts for more than one-third of their operating funds. With spending constraints at all levels of government, reduced donations of either property or funds could significantly damage many museums' budgets.

Nonprofit museums are an essential part of the broader community of nonprofit organizations, working alongside hospitals, educational institutions, food assistance and housing programs, foundations, and other charities. In recognition of their benefit to the public good, contributions made to 501(c)(3) nonprofits have been tax-deductible for 100 years. This tax structure has helped establish a tradition of charitable giving unmatched in the world.

### Deductibility of Charitable Gifts

- Limiting the charitable deduction would hurt museums and other charities by reducing the incentive to give for the most generous taxpayers.
- Studies indicate that many factors influence giving—incentives such as tax deductions among them. While Americans do not make charitable gifts only for tax reasons, tax incentives encourage and enable greater generosity.
- Even if the charitable deduction is preserved in its current form, other changes that dramatically reduce the number of taxpayers who itemize would also have a negative impact on charitable giving. While simplification of the tax code is a worthy goal, its impact on giving should be mitigated.
- A 2016 study by Independent Sector found that 88 percent of voters believe we should make it easier for people to deduct charitable contributions from their taxes. A public opinion poll commissioned by the United Way found that most Americans (79 percent) believe reducing or eliminating the charitable tax deduction would have a negative impact on charities and the people they serve.



- Weakening charitable giving incentives will have lasting, harmful consequences for nonprofit services and U.S. jobs. With essential support from charitable donations, the nonprofit sector boosts local economies, employing roughly 10 percent of America's workforce.
- Deductions for gifts of property worth over \$5,000 require an independent appraisal to ensure proper valuation. The House Ways and Means Committee in the 113<sup>th</sup> Congress looked extensively at gifts of art and did not propose any changes to the existing deduction or the model enforcement system administered by the IRS.

**STATUS:** The Trump Administration's tax reform outline and the House Ways and Means Committee's "Better Way" blueprint both seek to significantly scale back itemized deductions and increase the standard deduction. These changes would dramatically reduce the number of taxpayers who are eligible to claim the charitable deduction, even if it were maintained in its current form. In 2017, research from the Indiana University Lilly School of Philanthropy found that these proposals could eliminate at least \$13 billion in annual giving. Other proposals would also impact charitable giving: then-President Obama proposed a 28% limit on the value of all itemized deductions, while a tax reform draft circulated by the House Ways and Means Committee Chairman in 2014 would only have allowed deductions for charitable contributions exceeding 2 percent of adjusted gross income. All of these proposals would have the effect of taxing some portion of donated income, thus reducing charitable giving.

### **Artist-Museum Partnership Act**

- Artists, writers, scholars, choreographers, and composers—many of whom earn very little—have almost no financial incentive to donate their works, because they cannot claim a tax deduction for the works' fair market value. Rather, they can deduct only the value of materials like paper, ink, paint, and canvas. As a result, works of great significance are sold into private hands and may never come into the public domain.
- Small and mid-sized museums—which often do not have the same financial resources and support as larger institutions—especially rely upon donations from creators to build and enhance their collections.
- Collectors have the right to deduct the fair market value of gifts that they donate. It is only fair that the creators of those works should have the same right when they donate their own works.
- For many years, creators were allowed to take a fair market value deduction for donated works. When Congress changed the law in 1969, the effect was immediate and drastic: donations of self-created works to some museums declined by more than 90 percent.

**STATUS:** The Senate has passed artist deduction legislation five times in previous years, but the bills have not been reviewed by the House of Representatives. The Artist-Museum Partnership Act—introduced in the House (H.R. 1830) by Rep. John Lewis (D-GA) and in the Senate (S. 1174) by Sen. Patrick Leahy (D-VT)—would provide a deduction equal to appraised fair market value for charitable contributions of literary, musical, artistic, or scholarly compositions created by the donor, provided that the recipient organization uses the work in a manner related to its charitable mission.