

# Tax Policy

## Request

We urge members of the House and Senate to:

- expand and make permanent the universal charitable deduction, which was established on a limited and temporary basis in the CARES Act. It allows taxpayers to deduct charitable contributions regardless of whether they itemize.
- extend the CARES Act provision that allows individuals to deduct up to 100 percent of their Adjusted Gross Income through charitable gifts.
- support the Legacy IRA Act (S. 243), allowing seniors to make tax-free distributions to planned giving accounts as well as to charities.
- exclude the charitable deduction from any proposals to reduce the value of itemized deductions.
- support the Artist-Museum Partnership Act, allowing artists to get a tax deduction when they donate their own work to museums.

## Introduction

Contributions to 501(c)(3) charities such as museums, social service, education, faith-based, and many other organizations, are tax-deductible, incentivizing Americans to greater generosity. With the recent doubling of the standard deduction, however, only about ten percent of taxpayers now itemize deductions, and multiple measures show that both the amount given and the number of donors had declined prior to the pandemic. Giving appears to have increased during the pandemic, especially smaller gifts, due in part to the CARES Act provision that allows people to deduct up to \$300 of charitable gifts even if they do not itemize.

## Deductibility of Charitable Gifts

- Charitable giving accounts for more than one-third of museums' operating funds.
- The Giving USA 2019 report found that charitable giving by individuals dropped an inflation-adjusted 3.4 percent in 2018, despite a growing economy. According to the Fundraising Effectiveness Project, fundraising plunged further during 2019, with the amount given having decreased by 4.6 percent and the number of donors down 3.6 percent compared to 2018. It was unprecedented for such drops to occur during a time of economic growth.
- The CARES Act established a limited and temporary deduction for non-itemizers.
- The most recent report from the Fundraising Effectiveness Project shows overall charitable giving increased 7.6 percent during the first nine months of 2020 compared to 2019, and that the largest increase

in gifts came from donors giving \$250 or less, which grew by 17.1 percent. Although it's not uncommon to see an increase in giving during times of increased need, conventional wisdom suggests the economic challenges would have caused donors to pause their giving. However, we've seen just the opposite. People give for altruistic reasons, but tax policy affects the size and timing of their gifts.

- **A universal charitable deduction democratizes giving by incentivizing \*all\* taxpayers to contribute, regardless of income.**

## **IRA Charitable Rollover**

- Individuals aged 70.5 and above may contribute up to \$100,000 from their IRA accounts to charity, counting it toward their required distribution but not paying tax on it. The Legacy IRA Act would expand this provision by allowing gifts to planned giving accounts, raising the cap to \$400,000, and lowering the age to 65.

## **Protecting the full value of the charitable deduction**

- There have been numerous proposals in the past decade to raise revenue by limiting how much people can deduct. For example, the Obama administration proposed a maximum deduction rate of 28 percent, regardless of tax bracket. Under this regimen, people in the 35 percent bracket who donate \$1,000 would save \$280 on taxes, rather than \$350. Presidential candidate Mitt Romney proposed capping the amount that people could deduct. Because charity is discretionary, individuals could preserve their net income level by simply giving less. In effect, the government would take funds that would otherwise go to charity.
- We request that any such proposals in the future exclude charity from the deductions to be limited or capped.

## **Artist-Museum Partnership Act**

- Artists are currently not allowed to claim a tax deduction when they give their own work to a museum, whereas anybody who buys the work and donates gets to claim a deduction for its fair market value. The Artist-Museum Partnership Act would remedy this situation, correcting an inequity in the tax code while also stimulating gifts to our nation's museums.

## **Status**

- It is expected that there will be stand-alone, bipartisan legislation in both the House and the Senate to expand the universal charitable deduction and make it permanent.
- The House Ways and Means Committee is expected to incorporate a version of the Legacy IRA Act into a broader retirement package. In the Senate, Sens. Stabenow (D-MI) and Cramer (R-ND) introduced a stand-alone bill, S. 243.
- Given the nonpartisan nature of the issue, and given the explosion of the deficit, we expect new proposals to limit or reduce itemized deductions will be made, whether by the Biden-Harris administration, Congress, or both.
- Former Rep. John Lewis (D-GA) authored the Artist-Museum Partnership in the past Congress. We hope another member will reintroduce it going forward.