Promoting Charitable Giving in Tax Reform

Support a Non-Itemizer Deduction

As Congress considers comprehensive tax reform, it must secure adequate resources to fund essential and effective programs and obligations, promote economic growth, and ensure that the net effect of tax-law changes strengthen, and do not undermine, the ability of charitable nonprofits to serve their communities. Promoting giving to the work of charitable nonprofits is a bipartisan commitment to communities and constituents.[1]

- All Americans rely on charitable nonprofits ***every day***.
- Nonprofits of ***all sizes*** and in ***all subsectors*** rely on the current charitable giving incentive to help pay for delivering existing services and programs.

Nonprofits use private charitable contributions to provide essential services such as food, education, health care, spiritual development, job training, youth programs, arts and culture, child care, services for seniors, affordable housing, and assistance for victims of domestic violence.

The Challenge

Currently, 30 percent of Americans itemize their tax deductions.[2] Leading tax reform plans call for reducing tax rates and significantly increasing the standard deduction. While based in policy goals, these changes could add up to reduced individual support for the work of charitable nonprofits in communities. Studies estimate that only about 5 percent of taxpayers would itemize their deductions when these two changes in tax law are factored in. This would mean that 95% of Americans would have no tax incentive to make charitable contributions.

Further, researchers estimate that **these reforms would lead to significantly less charitable giving than our current tax system.** The projections for reductions in charitable contributions range from $13.1 per year (Indiana University) to a range of $13.5 billion to $26.1 billion per year (Tax Policy Center).[3]

Changing Incentives, Changing Giving

The experience with tax policy experiments in the states demonstrates that giving back to communities is highly responsive to changes in tax incentives. In 2011, Michigan repealed targeted tax credits and charitable giving dropped disproportionately.[4] That same year, Hawai'i capped itemized deductions, including charitable donations, and giving declined by an estimated $50 million per year until the cap on charitable donations was lifted two years later.[5] Several other states have considered and rejected negative changes to giving incentives because legislatures have reached a common understanding: **Communities rely on charitable giving to solve local problems.**

A Solution – Non-Itemizer Deduction

As part of tax reform, Congress should enhance – rather than reduce – incentives for charitable giving. Congress can expand the incentive for giving back to communities by making deductions universally available to all Americans through a non-itemizer deduction for charitable contributions. The addition of a non-itemizer deduction would help overcome the significant decrease in charitable giving that most economists predict will otherwise occur as the number of itemizers decreases.

Extending the charitable deduction to all taxpayers — regardless of whether they itemize or take the standard deduction — would not only cancel out the negative effects on giving, but it would **increase charitable dollars going to strengthen and build communities by $4.8 billion.**[6]

* * *

For more information, contact Danielle Clore, danielle@kynonprofits.org.

---

1. See the Charities Helping Americans Regularly Throughout the Year (CHARITY) Act S. 1343, introduced June 13, 2017, which among other things expresses the Sense of the Senate that "encouraging charitable giving should be a goal of tax reform" and that "Congress should ensure that the value and scope of the deduction for charitable contributions is not diminished during a comprehensive reform of the tax code."
2. Analysis of SOI Tax Stats – Historic Table 2 for 2014.
3. *Tax Policy and Charitable Giving Results*, Study by Lilly Family School of Philanthropy at Indiana University (May 2017); *Both Clinton and Trump would reduce tax incentives for charitable giving*, Tax Policy Center (November 4, 2016).
4. *Impact of Tax Credit Repeal*, Johnson Center at Grant Valley State University, June 2014.
5. "The lab results are in on tax reform," Tim Delaney & Lisa Maruyama, *The Hill*, July 23, 2013.
6. Indiana University study.

Proud member

NATIONAL COUNCIL OF NONPROFITS

National voice. State focus. Local impact.