

A Bridge to Sustainability & Recovery for Kentucky Nonprofits

Enhance Tax Incentives to Increase Charitable Giving

CHARITABLE GIVING MATTERS IN KENTUCKY.

Charitable donations are essential sources of revenue for a large number of nonprofits – some relying on donations for most or all of their revenue, while charitable donations allow other nonprofits flexibility in their general operations to meet unexpected challenges, like a pandemic. Donations are investments in food security, stable housing, job training, childcare, elder care, mental health services, substance use treatment, health care, education, and more for Kentuckians. Donations are also investments in the arts, cultural, and environmental organizations that make our old Kentucky home unique – a place where people want to work, live, and raise a family.

Charitable donations serve as an important driver and measurement of community engagement. Data shows that people who donate to charity are more likely to volunteer and engage in advocacy around community issues.

While not the reason people donate to charity, charitable giving tax incentives encourage more and larger gifts. In fact, the extra federal tax incentives for less wealthy households during pandemic relief worked – small donations of up to \$250 increased more than 15%, outpacing growth of larger donations. And donations totaling \$300 (the exact amount of the federal above-the-line deduction allowed for 2020) shot up by 28%.

THE OPPORTUNITY

- With tax modernization, Kentucky has an opportunity to expand our state-level charitable giving tax incentive to benefit nonprofits and the Kentuckians they serve.
- Charitable giving incentives should not exist only for wealthy itemizers. An above the line incentive or tax credit for ALL Kentuckians who choose to support charities, not just those who itemize, is fair and equitable.

THE PROPOSAL:

An above-the-line charitable giving tax incentive or tax credit will encourage private philanthropic dollars to invest in:

- Kentuckians and Kentucky communities;
- the quality of life that attracts and retains businesses;
- and services that ensure active workforce participation.

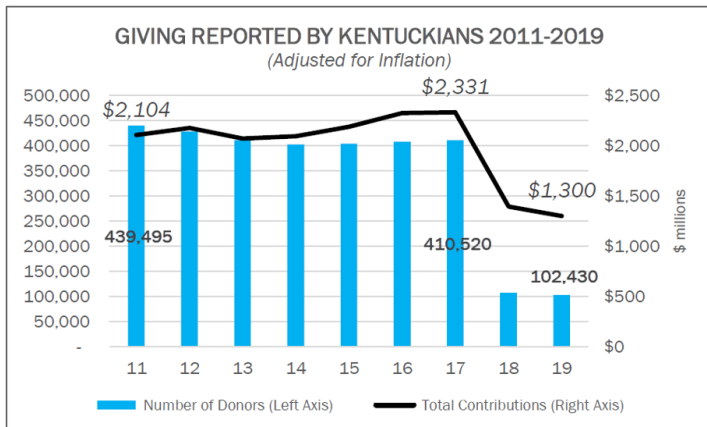
KENTUCKY NONPROFITS HIT HARD BY THE TAX CUTS & JOBS ACT OF 2017

As a result of doubling the standard deduction via the Tax Cuts and Jobs Act of 2017, the number of Kentuckians itemizing their tax deductions decreased from 513,000 Kentuckians in 2017 to only 122,140 in 2019 - a 76% decrease in the number of Kentuckians itemizing their deductions.

- Good for simplification of tax filing
- **Not so good for incentivizing charitable giving/investments in nonprofits and communities**

Kentucky had the third greatest decline in charitable giving in the nation – behind Wisconsin & Iowa.

Contributions in Kentucky dropped by 44% – the second largest drop in the nation, behind only West Virginia.



CHARITABLE GIVING TRENDS = TROUBLE FOR KY NONPROFITS

While some data show the total dollar amount of charitable giving has increased over time, **the number of donors has consistently decreased.**

The average annual gift to charity has increased, but this is skewed by “megagifts” made by itemizers to hospitals, colleges/universities, etc.

The majority of charitable nonprofits are smaller, with annual budgets of less than \$500,000 – they rely on the generosity of \$25, \$50, \$100, \$500 donors.

Data from two significant Kentucky-based charitable giving events, Kentucky Gives Day and Give Local Louisville, show similar and troubling trends of an eroding middle-income donor base.

IN KENTUCKY (2019)

\$1.3 billion total charitable giving
 - a 44% decrease from 2017
 - a 75% drop in reporting donors

INCENTIVIZING CHARITABLE GIVING IS GOOD FOR KENTUCKY

- Kentucky is a state of modest wealth, and the pool of folks with considerable wealth is small. But within that pool, 84% who itemize their deductions also claim a charitable giving tax deduction. There is an active and generous culture of giving - let's incentivize these investments in KY!
- Kentucky households with lower adjusted gross incomes (AGI) donate a larger percentage of their income to charity than their higher AGI neighbors - let's incentive giving by all Kentuckians who are able!
- The commonwealth has an opportunity to encourage growth in charitable giving that benefit Kentuckians and communities - let's make charitable giving tax incentivizes more fair and accessible for all Kentuckians to invest in the work of charitable nonprofits!

