



Protecting America's Strong Tradition of Giving

May 13, 2013

The Honorable Dave Camp
Chair

The Honorable Sandy Levin
Ranking Member

Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Re: Report to the House Ways and Means Committee on Present Law and Suggestions for Reform

Dear Chairman Camp and Ranking Member Levin:

As the House Committee on Ways and Means continues to contemplate tax reform and consider various proposals that impact the charitable sector, we urge you to protect the charitable tax deduction as it currently stands.

We are particularly concerned about options on the table that would unravel the charitable deduction and hurt our communities. As a Coalition of more than 60 diverse nonprofits, foundations and other charitable organizations, we are committed to ensuring lawmakers in Washington, D.C. clearly understand the impact on millions of people in need should Congress tamper with this powerful 100-year-old incentive that encourages giving.

Tax Reform Options Would Significantly Reduce Charitable Giving

As detailed in numerous submissions to the Ways and Means Tax Reform Working Group on Charitable/Exempt Organizations, certain tax reform proposals would be exceptionally harmful to the charitable sector, in particular, the Administration's 28 percent cap on itemized deductions, hard dollar caps, converting the charitable deduction into a tax credit, and imposing a floor threshold for charitable contributions.

28 Percent Cap – Billions in Donations Lost

Giving will decrease if the charitable deduction is capped, limited or replaced by other provisions. For example, if the Administration's proposed 28 percent cap were imposed, the sector could lose upwards of \$5.6 billion per year, according to one study.¹ Additionally, according to the Urban-Brookings Tax Policy Center, the Administration's 28 percent cap proposal would reduce individual charitable giving by an estimated 2.2 to 4.1 percent, which would result in a loss of up to \$9.1 billion annually in charitable donations.²

Dollar Cap – Devastating to Charitable Giving

The effect of an actual dollar cap on the charitable deduction 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.³ Tax policy experts have noted 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.

Replacing the Deduction with a Credit or Imposing a Deduction Floor – A Massive Decline in Giving

Other changes to the charitable deduction would have equally disastrous effects on charitable contributions—a loss of \$9.17 billion per year if the charitable deduction were replaced with a 12 percent tax credit and a loss of \$3 billion per year if a two percent adjusted gross income (AGI) floor were imposed.⁴

The Charitable Deduction is Unique – and It Works

The communities we serve and the individuals we help would be devastated by the decline in giving which would result from reducing the value of the charitable deduction. The charitable deduction strengthens communities and serves as a model for the other countries. It is different than other itemized deductions because it rewards a selfless act, allowing individuals to give away a portion of their income to those in need – often more than they would have otherwise given. A calculation of the charitable deduction indicates that for every \$1 a donor can deduct for their donation, the public receives approximately \$3 of benefit. It is unlikely that any other tax provision generates that kind of positive public return on investment.

¹ Joseph J. Cordes, "Re-Thinking the Deduction for Charitable Contributions: Evaluating the Effects of Deficit-Reduction Proposals," *National Tax Journal*, Dec. 2011.

² Joseph J. Cordes, "Effects of Limiting Charitable Deductions on Nonprofit Finances," Feb. 28, 2013.

³ Rob Dietz, Ph.D. and Natalia Siniavskaia, Ph.D., "A Tax Profile of a Typical Mortgage Interest Deduction Beneficiary," Sept. 4, 2012.

⁴ Joseph J. Cordes, "Re-Thinking the Deduction for Charitable Contributions: Evaluating the Effects of Deficit-Reduction Proposals," *National Tax Journal*, Dec. 2011; 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.

With the reinstatement of the Pease limitation, we simply cannot afford to further reduce the value of the deduction for charitable contributions. Such a move would severely disrupt the crucial work nonprofits carry out in building better communities, including basic human services for the disadvantaged; protecting the environment; improving education and health through direct delivery and research; empowering cultural institutions to enhance people's lives; strengthening the economy; creating jobs; and much more.

We urge you to maintain the current charitable deduction and support a vibrant charitable sector and thriving communities. We look forward to working with you and your colleagues on the House Ways and Means Committee to identify the best ways to protect the unique value of the charitable deduction.

Sincerely,

Association of Fundraising Professionals, Chair
Agudath Israel of America
Alliance for Charitable Reform
Alliance for Children and Families
AJC
American Institute for Cancer Research
American Red Cross
American Society of Association Executives
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
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
ECFA
Educational Media Foundation
The Field Museum
The Forum of Regional Associations of Grantmakers
Fraternal Government Relations Coalition
The Giving Institute
Giving USA Foundation
The Jewish Federations of North America
Leadership 18
League of American Orchestras
Minnesota Council on Foundations
National Association of Independent Schools

The National Catholic Development Conference
National Council for Community Behavioral Healthcare
National Panhellenic Conference
North American Interfraternity Conference
OPERA America
Philanthropy Ohio
The Philanthropy Roundtable
St. Baldrick's Foundation
Theatre Communications Group
United Neighborhood Centers of America
United Way Worldwide
Volunteers of America