

**Official Statement of Philanthropy New York on:**

## **Simplifying the Excise Tax on Private Foundations**

United States Senate and House legislative proposals have been introduced that would amend the IRS Code of 1986 to simplify the excise tax on the investment income that private foundations pay by removing the current two-tiered tax and replacing it with one flat tax rate. The most recent proposals set this flat rate at 1.39 percent, which was designed to be revenue neutral, but according to the Joint Committee on Taxation in the 112<sup>th</sup> Congress would slightly raise tax revenues by \$86 million over ten years.

**Philanthropy New York supports simplifying the excise tax on private foundations** because:

- The current two-tier system serves as a disincentive to increased giving, especially in times of crisis or economic turmoil. It creates a tax-induced incentive to reduce contributions in difficult times because high distribution makes it more difficult to qualify for the lower rate during the next 5 years. In the current scenario, when a foundation's assets are reduced, they subject themselves to higher tax rates in future years unless they also reduce the dollar amount of their giving.
- A flat excise tax will simplify tax planning, especially for smaller foundations that may lack resources for complex financial planning.
- Simplifying the rate will reduce monitoring and enforcement costs to the Treasury Department, increasing efficiency for foundations and government alike.

*Date of recommendation by the Public Policy Committee: July 23, 2012*

*Timeframe of open member commentary period: August 1-8, 2012*

*Date of official approval by Board of Directors: September 21, 2012*