



# ISSUE GUIDE

## *What's the Issue?*

FEDERAL

## Capping the Charitable Deduction

### *Background:*

The Obama Administration has proposed a percentage cap or maximum tax rate against which all itemized deductions may be deducted, folding charitable giving into the mix. While some tax experts and researchers report that a cap will have only a moderate effect on giving, many leaders in the non-profit sector insist that a cap will significantly diminish contributions. At a basic level, the debate over the charitable deduction can be boiled down to two questions:

**Is it fair** that a person in an upper income bracket (paying at a 39.6% rate) making a \$100 donation to charity could receive up to a \$39.60 income tax reduction for that donation when a middle income earner (paying at a 28% rate) would only see a \$28 reduction in taxes on that same \$100 donation?

If the rate of deduction were capped at 28% so that, for example, a donation of \$1 million would result in an income tax deduction of only \$280,000 instead of \$396,000, **would high-income earners reduce their charitable giving?**

Many nonprofit leaders have simultaneously voiced the need for adequate federal funding of a host of pressing societal needs, which require greater revenues than the federal government is currently taking in. Capping the charitable deduction at 28% is the most hotly debated potential reform in this area, but there are other reforms that policy makers are considering that could also raise revenue while leaving nonprofit donations unaffected, or even increasing them.

**Arguments FOR:**

**Arguments AGAINST:**

**ALTERNATE Position:**

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**Arguments FOR:**

**Arguments AGAINST:**

**ALTERNATE Position:**

<ul style="list-style-type: none"><li>● It is not fair that higher income earners get a greater tax benefit on contributions of the same dollar amount. Currently, without a cap, high-income donors deduct and earn back up to 39.6 cents per dollar donated, whereas a middle-income earner could receive only 28 cents per dollar donated.</li></ul>	<ul style="list-style-type: none"><li>● High-income earners are defined as single people earning \$200,000 and above, or families earning \$250,000 and above. Depending on the definition of high-income vs. middle-class, many families in this lower “high-income” bracket almost certainly will curb donations. Some estimate that giving would decrease by 25% or more in certain cases.</li></ul>	<ul style="list-style-type: none"><li>● Encouraging the government to look at reforming the charitable deduction in other ways—rather than capping it—could lead to reforms that would encourage more giving and a broader base of potential donors to give to charity.</li></ul>
<ul style="list-style-type: none"><li>● The wealthy should pay more taxes to help the economy and the federal budget.</li></ul>	<ul style="list-style-type: none"><li>● The losers may not be the wealthy but the eventual recipients of the charitable efforts. The social justice argument for the wealthier paying more doesn’t make sense if the result is that fewer dollars go to charitable organizations. And, more taxes going to the federal government wouldn’t necessarily result in more dollars going through to charitable organizations.</li></ul>	<ul style="list-style-type: none"><li>● The Congressional Budget Office and other tax experts have listed an alternative option of a standard “floor” for deductions for all taxpayers (regardless of income) or a tax credit for donors – so, rather than a cap, requiring a certain percentage (e.g. 1%) of adjusted gross income to be donated before a deduction can be claimed.</li></ul>
<ul style="list-style-type: none"><li>● By instituting a cap and encouraging high income earners to incur more of the actual costs of the donations they make, donors would be contributing more “real,” non-deductible money to charities and organizations—thus making the value of a donation more apparent and important to donors themselves, thus encouraging a habit of giving for altruism rather than for tax breaks.</li></ul>	<ul style="list-style-type: none"><li>● Charitable deductions should not be considered a tax cut for the wealthy: these deductions, unlike itemized deductions for household and work-related expenses, are made on behalf of third-parties in need. If donations were to decrease, jobs would be lost, educational efforts would need to be curbed, etc.</li></ul>	<ul style="list-style-type: none"><li>● If tax deductions were reformed to benefit all taxpayers, regardless of income, non-profit organizations could see a more diverse pool of donors. Thus, organizations would not have to be dependent on only a few donors—giving some organizations a chance to engage in activities that influential donors might other suppress.</li></ul>

**Arguments FOR:**

**Arguments AGAINST:**

**ALTERNATE Position:**

<ul style="list-style-type: none"> <li>• Capping the deduction rate is better than an overall dollar cap on total deductions (including mortgage interest and work-related expenses). For most filers, a dollar cap on all deductions would be reached with mortgage and work-related deductions, leaving no tax incentive for donors to contribute to charities.</li> </ul>	<ul style="list-style-type: none"> <li>• If a cap on deductions were to be established along with an overall tax hike, contributors would not only lose incentive to itemize charitable deductions, but would also have less overall income to spend on giving in the first place.</li> </ul>	<ul style="list-style-type: none"> <li>• Creating a “floor” for charitable deductions (discussed above) combined with an extension of a deduction to nonitemizers and allowing people to make contributions until the filing of their tax return on April 15 could result not only in greater revenue generation for the government but also higher contribution levels for nonprofits.</li> </ul>
<ul style="list-style-type: none"> <li>• The majority of donors will not be affected by a high-income deduction cap. Only about 36% of taxpayers itemize their taxes, and only those who itemize taxes would be affected by a cap on deductions. Taxpayers who do not itemize their taxes – the vast majority of Americans – and those itemizing and in a tax bracket of 28% or lower would not be affected by a cap.</li> </ul>		<ul style="list-style-type: none"> <li>• Some tax experts have proposed reforming the giving subsidies that tend to be highly ineffective and invite abuse, such as the some deductions for donations of household goods and clothing (where value attribution problems are most egregious).</li> </ul>
<ul style="list-style-type: none"> <li>• Many Americans donate to charity precisely to deduct from taxes, without necessarily identifying with the purpose of one or any of the charities that they donate to. Establishing a cap would help Americans better embody the act of charitable giving, removing some of the incentive to save on taxes.</li> </ul>		<ul style="list-style-type: none"> <li>• Another proposed reform to the charitable deduction that could bring in considerable revenue without negatively impacting donation levels would be to make it easier for people to donate from accumulated amounts, such as retirement accounts and lottery winnings.</li> </ul>
<ul style="list-style-type: none"> <li>• When states have capped deductions, charitable giving in those states has not significantly declined.</li> </ul>		

## ***Philanthropy New York's Position:***

### **Philanthropy New York supports maintaining full deductibility of itemized charitable deductions.**

Philanthropy New York's Public Policy Committee recommended this position on August 19, 2013, which was followed by an open comment period for members August 19-September 5, 2013 and the official approval by its Board of Directors on September 17, 2013. The Council on Foundations, the Forum of Regional Associations of Grantmakers and at least 16 other Regional Associations across the nation also support maintaining the full deductibility of itemized charitable deductions.

### ***Check out these additional information sources:***

[Stats on the Charitable Deduction in New York produced by Grantmakers Forum of New York](#)

[Forum of Regional Associations of Grantmakers](#) "Charitable Deduction Position Statement"

[Independent Sector](#) "The Charitable Deduction"

[Council on Foundations](#) "Issue Paper: Maintain Current Law on Charitable Deduction Rates"

[Charitable Giving Coalition](#), "Protecting America's Tradition of Giving"

[The Urban Institute's Tax Policy Center](#), "Tax Reform and Charitable Contributions"

[The Urban Institute's Tax Policy Center](#), "Limitation on Itemized Deductions (Pease)"

[Chronicle of Higher Education](#), "Obama Renews Effort to Limit Charitable Deduction," April 10, 2013

[Create Equity](#), "The Deduction for Charitable Deductions: The Sacred Cow of Giving?"

[Pacific Business News](#), "Report Shows Little Change in Charitable Giving, Despite Hawaii's Tax Deduction Cap"

[Forbes](#), "Impact of the 'Fiscal Cliff' Legislation on Charitable Giving in 2013," January 7, 2013

[Joint Committee on Taxation's "Present Law and Background Relating to the Federal Tax Treatment of Charitable Contributions," February 2013](#)

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