

TAX REFORM

ENCOURAGING CHARITABLE GIFTS TO SUPPORT THE ARTS IN OUR COMMUNITIES

ACTION NEEDED

We urge Congress to:

- **Preserve incentives for charitable giving, including tax deductibility.**
- **Reinstate the IRA Rollover; and**
- **Reject any attempts to create a hierarchy of deductions to nonprofits, potentially reducing incentives for charitable gifts to arts and culture organizations compared to other partners with the nonprofit community.**

TALKING POINTS

- **Nonprofit arts organizations attract donations from people across the economic spectrum, and they serve people and organizations across their communities, including underserved populations.** The arts communicate across religious, ethnic, and political divides, both at home and abroad; explore civic issues, both current and past; create human and social services programs focusing on healthcare, addiction, senior services, and many other areas; provide in-school and afterschool programs for children and teachers, as well as lifelong learning for all; preserve our heritage and making it accessible to all who wish to participate; create jobs and economic growth; and add immeasurably to the quality of life in our communities through vibrant artistry.
- **Unlike other tax deductions, charitable giving incentives do not enrich individual donors: they are an investment in the public good.** Preserving tax incentives for charitable giving will expand nonprofit services and provide a net benefit to the public. As all charities struggle to meet increased demands for their services, we need to encourage all individuals—regardless of income and wealth—to give more to nonprofit organizations.
- **Diminishing charitable giving incentives in the interest of short-term revenue gain will have lasting unintended consequences for nonprofit services and jobs.** Charitable giving is a significant revenue source for a broad range of nonprofit organizations, which cannot withstand even slight declines in contributions given the fragility of all revenue sources. Ticket sales and admission fees alone do not come close to subsidizing the artistic presentations, educational offerings, and community-based programming of nonprofit arts organizations. For example, approximately 40 percent of financial support for nonprofit performing arts organizations is derived from charitable giving. Without this support, public access to the arts would be greatly diminished.
- **Proposed changes to the charitable tax deduction will reduce giving.** While the initial charitable impulse to give often comes “from the heart,” history has shown that donors do respond to tax law changes by altering what, when, and how much they give. Limiting the value of the charitable deduction would fundamentally change a tax structure that has contributed to a cherished tradition of charitable giving that is unmatched in the world.
- **The public supports the charitable deduction.** An April 2011 Gallup poll found that seven in 10 Americans oppose eliminating the charitable deduction, regardless of whether the savings would be used to lower their taxes or reduce the deficit. Even among those Americans who do not claim the deduction, 62 percent are opposed to its elimination.
- **A Senate Finance Committee hearing on October 18, 2011, included a highly supportive discussion of the value of the arts as part of the nonprofit community.** Sen. Orrin Hatch (R-UT) initiated the dialogue with witnesses by asking them to comment on the benefits of contributions to nonprofit arts organizations. The dean of the Southern Baptist Theological Seminary made a particularly compelling statement: “This isn't simply about economic impact. It has to do with what it means to form a citizenry that understands what persons are for, that we're not simply economic units. Giving to the arts, giving to religious organizations, giving to charitable organizations really can serve as a workshop of compassion in demonstrating to our fellow citizens that this is not simply a matter of raw power; that we have obligations to one another, not simply at the bureaucratic level of government, but as members of civil society.”

BACKGROUND

There are approximately 1.4 million nonprofit 501(c)(3) organizations, including arts organizations, hospitals, private schools, religious congregations, public television and radio stations, soup kitchens, and foundations. These types of nonprofit organizations must benefit the broad public interest. In recognition of this service, Congress has provided that contributions made to 501(c)(3) nonprofits are tax-deductible.

As the momentum for tax reform increases and the federal deficit mounts, there have been proposals to curtail or eliminate the income tax deduction for gifts to 501(c)(3) organizations, including the nonprofit arts, in order to increase revenue for the federal government. Such proposals are short-sighted and are often made on the basis of false assumptions. Congress should fully understand the impact of proposed tax reform on incentives for charitable giving and should protect giving incentives that support the valuable community services provided by the nonprofit arts sector.

RECENT PROPOSALS TO REDUCE TAX DEDUCTIBILITY OF CHARITABLE GIFTS:

- President Obama's FY 2013 budget proposal would decouple the value of tax deductions from income tax rates, capping deductions at 28 percent for individual taxpayers earning more than \$200,000 and couples earning more than \$250,000. Congress has previously rejected identical proposals from the administration in the past two years, and key tax policymakers have objected to the negative impact the proposal would have on charitable contributions. The President's State of the Union Address included a proposal to enact what is known as the "Buffett Rule," which would apply a minimum 30 percent tax rate for those with adjusted gross incomes above \$1 million, while protecting charitable giving. Related bills introduced in the House and Senate would also specifically maintain charitable giving incentives, providing a credit equal to the value of a tax deduction. While the arts community has not taken a position on the broader "Buffett Rule," we support the recognition of the unique value of the charitable deduction.
- The Senate Finance Committee and House Ways and Means Committees will likely continue consideration of a wide range of possible changes to the tax structure in the months to come. In 2011, more than 12 potential changes to deductibility of giving remained on the table. The co-chairs of the Presidential Advisory Commission on the Deficit suggested either eliminating the charitable deduction or imposing a floor of two percent of adjusted gross income. Another plan would limit the amount taxes could be reduced by all deductions to 2 percent of adjusted gross income. Any of these changes to the charitable deduction would lead to decreased giving.
- Some have suggested that gifts to education, research, cause-related organizations, (e.g., the environment, animal welfare, etc.), and the arts ought to be less deductible than gifts to human services. Setting a hierarchy of charitable causes is detrimental and discriminatory to the arts and many others in the nonprofit sector. "The current tax deduction for charitable giving should either be preserved or modified only in ways that will: strengthen incentives to give; respect the freedom of individuals to determine the causes and organizations they participate in and support, and treat those choices equitably; and encourage all individuals to give more to communities and causes through charitable organizations." *Independent Sector, 2012.*

IRA CHARITABLE ROLLOVER PROVISION:

The IRA Charitable Rollover provision, enacted as part of the Pension Reform Act of 2006 and extended through the Emergency Economic Stabilization Act of 2008, permits donors age 70 ½ and older to make tax-free charitable gifts directly from their IRAs, up to an annual ceiling of \$100,000. Since its enactment, the IRA Rollover has spurred millions of dollars in new charitable gifts before expiring again in December 2011. President Obama's FY 2013 budget proposal supports reinstatement of the IRA Charitable Rollover. Without the IRA Rollover provision, individuals who make charitable gifts from their retirement accounts must withdraw funds and treat them as taxable income, reducing the amount available for donation to charity. In the relatively short amount of time that the IRA Rollover has been in place, it has resulted in new and increased giving to nonprofit arts organizations.