TAX REFORM
ENCOURAGING CHARITABLE GIFTS TO SUPPORT COMMUNITY ACCESS TO THE ARTS

ACTION NEEDED

We urge Congress to:

- Preserve incentives for charitable giving by protecting the full scope and value of the charitable tax deduction in all forms of charitable gifts.
- Reject any attempts to divide the charitable sector by favoring certain types of charities over others.
- Reinstate and make permanent the IRA Charitable Rollover.

TALKING POINTS

- **Nonprofit arts organizations respond to the needs of people and community partners through education, artistry, economic development, and social service programs serving the public.** Support from donors across the economic spectrum is essential to making this work possible. 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 make 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 support nonprofit services and provide a net benefit to the public. For every $1 in deductions claimed, charities use $3 of donated funds to provide necessary services. 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 will have lasting, harmful consequences for nonprofit services and U.S. jobs.** The nonprofit sector supports local economies and employs roughly 10 percent of America’s workforce, generating hundreds of billions of dollars in economic activity. Further, 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 high quality arts programming would be greatly diminished.
- **Proposed changes to the charitable tax deduction will reduce giving, limiting core services and public access.** 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. A 2013 study by the American Enterprise Institute found that the proposed 28 percent cap on the charitable deduction could cause giving to decline by nearly $10 billion in the first year. More than a dozen other changes to giving incentives have been proposed during debate of tax reform. Limiting the value of the charitable deduction would fundamentally change a tax structure that has established a tradition of charitable giving unmatched in the world.
- **The public consistently supports the charitable deduction.** A 2013 national study by Dunham+Company showed that 75 percent of Americans say they value the charitable deduction as it currently stands, with steady results across geography, gender, age, and race. Moreover, a public opinion poll commissioned by the United Way found that most Americans (79 percent) believe reducing or eliminating the charitable tax deduction would have a negative impact on charities and the people they serve. Of those who indicate they would reduce charitable giving, the majority (62 percent) indicate they would have to reduce their contributions by a significant amount—by 25 percent or more.
- **Charitable giving—including giving to the arts—builds civil society.** A recent Senate hearing on tax reform included a highly supportive discussion of the economic and human value of the arts as part of the nonprofit community. Sen. Orrin Hatch (R-UT) initiated the dialogue by asking for comments on the public 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...
compensation 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.”

- **Donated works of art are critical to building and maintaining collections at our nation’s art institutions.** Proposals to limit incentives to donate works—including paintings, sculptures, manuscripts, and supporting material—would dramatically reduce gifts and deprive citizens of access to their artistic heritage.

**BACKGROUND**

There are approximately 1.4 million nonprofit 501(c)(3) organizations, including arts organizations, hospitals, private schools and institutions of higher education, religious congregations, public television and radio stations, soup kitchens, and foundations. They also contribute $1.1 trillion in human services every year and support 13.5 million jobs. In recognition of their benefit to the public good, contributions made to 501(c)(3) nonprofits have been tax-deductible since 1917.

**Preserving the Charitable Deduction:** 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. President Obama’s budget proposals have sought to decouple the value of tax deductions from income tax rates—capping all deductions, including the charitable deduction, 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, and key tax policymakers have objected to the negative impact the proposal would have on charitable contributions. The co-chairs of the Presidential Advisory Commission on the Deficit suggested either eliminating the charitable deduction or imposing a floor of 2 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 would lead to decreased giving. Although the prospects for comprehensive tax reform in 2014 are uncertain, charitable giving incentives remain a key topic in policy discussions, especially in light of ongoing budgetary challenges. The arts have joined the full array of the nonprofit and philanthropic communities in urging Congress to protect tax incentives for charitable giving. On January 23, 2014, Sens. John Thune (R-SD) and Ron Wyden (D-OR) and 31 other Senators sent a bipartisan letter to the Senate Finance Committee, calling for preservation of the full value and scope of the charitable tax deduction.

**Protecting the Public Value of the Arts:** Some have suggested that gifts to education, research, cause-related organizations, (e.g., the environment, animal welfare, etc.) and the arts should receive different treatment than do gifts to human services. Setting a hierarchy of charitable causes is detrimental and discriminatory to the arts, and is not supported by the broader 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.) The nonprofit arts have always been eligible for the charitable deduction in keeping with this nation’s strong tradition of incentivizing taxpayers to give to causes that they most believe will benefit the public good.

**Reinstating the IRA Charitable Rollover:** The IRA Charitable Rollover provision has permitted donors age 70 ½ and older to make tax-free charitable gifts directly from their IRAs, up to an annual ceiling of $100,000. 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. Since its enactment in 2006, it has spurred millions of dollars in new and increased charitable gifts to support needed community-based services. The first two years the IRA Charitable Rollover option was available, it prompted more than $140 million in charitable donations to social service programs, religious organizations, arts and culture institutions, schools, and healthcare providers—all of which benefit Americans every day. The public is still just beginning to make the most of this important giving incentive. The IRA Rollover has expired and been reinstated multiple times, most recently expired on December 31, 2013. Nonprofits report that the cycle of expiration and reinstatement of the IRA Rollover provision has left many donors unable to maximize their support for charitable work. Congress is considering short-term proposals to reinstate and extend the IRA Rollover provision. Proposed bill H.R. 3944, introduced by Rep. Alan Grayson (D-FL), would retroactively reinstate the provision through the end of 2014. Additionally, Sen. Charles Schumer (D-NY) has introduced the Public Good IRA Rollover Act (S.1772), a bill to make the provision permanent and lift the $100,000 limit.