

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 tax deduction for all forms of charitable gifts.**
- **Reinstate and make permanent the IRA Charitable Rollover.**
- **Reject any attempts to divide the charitable sector by favoring certain types of charities over others.**

TALKING POINTS

- **Support from donors across the economic spectrum enables nonprofit arts organizations to respond to public needs and form community partnerships through education, artistry, economic development, and social service programs.** The arts communicate across religious, ethnic, and political divides, offer programs focusing on healthcare, senior services, and many other areas; support 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.
- **Charitable giving incentives do not enrich individual donors: they are an investment in the public good.** For every \$1 subject to the charitable deduction, communities see \$2.50 in benefits provided by nonprofit organizations. Charitable giving incentives encourage donors to give more, benefiting the millions of Americans who access services provided by nonprofit organizations.
- **Diminishing charitable giving incentives will have lasting, harmful consequences for nonprofit services and U.S. jobs.** With essential support from charitable donations, the nonprofit sector boosts local economies and employs roughly 10 percent of America's workforce. 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 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 comes "from the heart," history has shown that tax law alters what, when, and how much donors 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 more than \$9 billion in the first year. 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.
- **Charitable giving—including giving to the arts—builds civil society.** At a Senate Finance Committee hearing on tax reform, Sen. Orrin Hatch (R-UT) asked for comments on the public benefits of contributions to nonprofit arts organizations. The dean of the Southern Baptist Theological Seminary said, "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."
- **Donated works of art are critical to building and maintaining collections at our nation's art institutions.** The House Ways and Means Committee in the previous Congress looked extensively at gifts of art and did not propose any changes to the existing deduction or the model enforcement system administered by the IRS.

BACKGROUND

Nonprofit arts organizations are part of the broader community of approximately 1.4 million nonprofit 501(c)(3) organizations, working alongside hospitals, educational institutions, religious congregations, public television and radio stations, soup kitchens, foundations, and the full array of charitable organizations that contribute \$1.1 trillion in 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 debate surrounding comprehensive tax reform and deficit reduction continues, multiple proposals to curtail or eliminate the income tax deduction for gifts to 501(c)(3) organizations are under consideration. For the seventh consecutive year, President Obama's budget proposal seeks to decouple the value of tax deductions from income tax rates—capping all deductions, including the charitable deduction, at 28 percent for individual taxpayers in the top three tax brackets. Congress has previously rejected identical proposals from the administration, and key policymakers, including the new House Ways and Means Committee Chairman Paul Ryan (R-WI), have objected to the proposed cap on the charitable deduction. 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. Any of these changes would lead to decreased giving. The arts have joined the full array of the nonprofit and philanthropic communities in urging Congress to protect tax incentives for charitable giving. The President's FY 2016 budget proposal does acknowledge the unique value of the charitable deduction, retaining it as the only deduction that would be available to tax payers subject to the "Buffet Rule's" 30 percent tax rate on incomes greater than \$1 million. 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.

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 donations to charity. Since its enactment in 2006, it has spurred millions of dollars in new and increased charitable donations to social service programs, religious organizations, arts and culture institutions, schools, healthcare providers, and the full array of nonprofits that serve Americans every day. The IRA Rollover has expired and been reinstated multiple times, and most recently expired on December 31, 2014. The cycle of expiration and reinstatement of the IRA Rollover provision has left many donors unable to maximize their support for charitable work. Twice in 2014, the U.S. House of Representatives passed packages of charitable giving measures that would made the IRA Charitable Rollover permanent, but the second vote was just eight votes short of the two-thirds majority needed for passage, and to overcome a White House veto threat over how to pay for the provision. On February 12, 2015, the House again voted on legislation that included H.R. 637, introduced by Rep. Aaron Schock (R-IL) and Rep. Earl Blumenauer (D-OR), which would make the IRA Rollover permanent. The bill passed by a vote of 279 – 137.

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.