

Partnership for Philanthropic Planning

Encouraging Charitable Giving is far from a “Tax Expenditure”

Charitable tax incentives that encourage and promote charitable giving strengthen the charitable sector and lessen the need for government support of private sector responsibilities. It is misleading to suggest that tax incentives for charitable giving are a benefit, or a reward, to the donor. Tax incentives for charitable giving are not loopholes to allow the wealthy to avoid taxation. Tax incentives for charitable giving are a way to encourage responsible and personal involvement in the future of our society.

The characterization of the charitable deduction as a “tax expenditure” reveals a deep misunderstanding of philanthropy and the purpose of tax incentives for charitable giving. The charitable deduction is unlike other deductions, in which the transaction results in some tangible benefit to the taxpayer. Tax incentives may encourage a donor to increase the size or accelerate the timing of a charitable gift, but donors cannot make money by giving it away. The true beneficiaries of the charitable deduction are the poor, the needy, and all of those who benefit from the services provided by charitable organizations that receive private donor support.

For this reason, the Partnership for Philanthropic Planning has long held that the charitable sector promotes and ensures the well being and vitality of the nation. Reduction in tax incentives will produce catastrophic consequences for the public by crippling the charitable sector. PPP supports tax reform that enhances tax incentives to encourage charitable giving.

The recommendation of the National Commission on Fiscal Responsibility and Reform to create a charitable tax credit would actually eliminate any tax incentive for charitable giving for most Americans. By first creating a 2% floor beneath which the donor would receive no tax incentive at all, the Commission’s proposal would exclude the vast majority of taxpayers who cannot afford to give more than 2% of adjusted gross income. (According to Giving USA, the annual study of philanthropy in America conducted by the Indiana University Center on Philanthropy, the average American household contributes between 2.0% and 2.5% of its income.) By capping the credit at 12% of the amount donated above the 2% floor, the NCFRR proposal seriously reduces an incentive for charitable giving by high net-worth Americans who historically contribute between 65 and 70% of all dollars given to charity by individuals, and at least 50% of all dollars contributed, regardless of the source (including gift and grants by corporations and foundations).

The National Commission on Fiscal Responsibility and Reform seeks “to enlist the ingenuity and determination of the American people in rising to the challenge” of resolving the debt crises in a way that creates a better future for all citizens. For many years, PPP has suggested a conceptual alternative to the charitable deduction. PPP’s plan addresses the current goal of simplifying the tax code, while supporting a robust nonprofit sector that can compensate for reduced government services. Rather than a deduction from income, we propose that charitable contributions be treated as an adjustment from gross income. Since the donor never receives the benefit of income which is contributed to charity, the amount contributed should be considered unavailable for taxation at all. Far from the “tax expenditure” that the Commission suggests, allowing charitable contributions as adjustments to income would provide a fair and accessible incentive for charitable giving to all Americans.

While donors ultimately make their charitable contributions with the best of philanthropic motivations, there are legitimate tax considerations involved in any significant charitable contribution. This is especially true for “planned” gifts, which can be increased by attention to the character, amount and timing of assets that are transferred to charity. The preservation and expansion of tax incentives for

charitable giving would send a strong message about the importance of such gifts, and the general importance of philanthropy in our society.