

LEGISLATIVE ISSUE BRIEF: **The Charitable Deduction**

“America has long been defined by an endearing and powerful characteristic – its charitable spirit. Alexis de Tocqueville, the 19th-century French philosopher, described America as unique among nations for its care and compassion – part of the very fabric of our society.” Brian Gallagher, President and CEO, United Way Worldwide, *Roll Call*, October 20, 2009.

Issue:

The White House and various commissions contemplating federal tax reform have proposed limiting federal income tax deductions for charitable contributions. The recently formed Congressional “Super Committee” charged with addressing the federal deficit will also consider changes to the charitable deduction. Most recently, the White House has proposed capping the deduction to pay for its “Job’s bill”.

Current Law:

The federal tax code permits an individual who itemizes his or her taxes to deduct charitable gifts at a percentage that is equal to the individual’s tax rate. This principle applies regardless of the individual’s tax bracket. While individuals gain no economic benefit from the donation, the effect of the deduction allows them to make the contribution without paying taxes on any income that they are giving to charity. As a result, communities and charities benefit from the entire donation, without reduction by a federal tax withholding.

Impact of Limitations to the Deduction:

Any limitation or reduction in federal tax incentives for charitable donations would result in a reduction in charitable giving. Such a reduction in giving would limit the capacity of charities to provide assistance to the families and individuals at the bottom of the economic spectrum. These reductions in charitable services would come just as federal and state governments are cutting funding for social programs, which are designed to help these same families and individuals.

- On April 15, 2011, Gallup published a poll that shows broad public support for the charitable deduction. About 70% of respondents opposed elimination of the charitable deduction. The support is bi-partisan and is strong even among individuals who don’t itemize their taxes (62% of people who don’t claim the charitable deduction still support it), showing that Americans intuitively recognize the value of this deduction.
- According to a November 2010 study by the Center on Philanthropy at Indiana University (sponsored by Bank of America Merrill Lynch) a combined 67 percent of wealthy households would somewhat or dramatically decrease their charitable contributions if income tax deductions for their donations were eliminated.
- In February 2009, the Center on Philanthropy calculated that the White House’s proposal to cap itemized deductions at 28% would cause a 4.6% reduction in giving by individuals in the top tax brackets (those who would be subject to the cap). This translates to a nearly \$3.9 billion reduction in giving per year overall and a probable reduction of over \$100 million per year to United Way.

United Way’s Advocacy in support of Federal Tax Incentives for Charitable Giving:

For more than two years, through direct lobbying, grassroots advocacy, coalitions, and in the media, United Way has worked to inform Congress, the Administration, and the public about the value of the charitable deduction to families and individuals who benefit from services United Way provides and funds.

Please contact your federal representatives and urge them to preserve the charitable deduction. Watch for upcoming opportunities from United Way Worldwide to help protect the deduction. It is critical to enable charities to help families in need, and it is a fundamental tax policy that reflects who we are as a nation.