August 2, 2012

The Honorable Harry Reid
Office of the Majority Leader
The Capitol S-221
Washington, D.C. 20510

Dear Majority Leader Reid:

On Wednesday, July 25, 2012, the Senate narrowly passed a bill to extend current tax policy for families with adjusted gross incomes below $250,000, but allow the current tax structure to expire for families who earn more than that amount. This bill would reinstate the personal exemption phase-out (PEP) and the overall limitation on all itemized deductions, also known as the “Pease rule,” for those with adjusted gross income above the statutory limit. As a coalition representing a broad cross-section of nonprofit organizations across the country, we urge you to preserve the full value of the charitable deduction, which is a powerful incentive for giving that encourages the donations that allow our organizations to serve those in need and profoundly improve the quality of life for many people. This could be done by either adding the deduction for charitable contributions to the list of itemized deductions that are exempt from application of the Pease rule, or by allowing the continued termination of the Pease rule.

The reinstatement of this Pease rule will limit itemized deductions, including the charitable deduction that provides a strong incentive for charitable giving. This, in turn, will result in fewer contributions flowing to America’s charities which are now being asked to provide even more services to the most vulnerable among us. It is worth remembering that the charitable deduction is different than other itemized deductions in that it encourages individuals to give away a portion of their income to those in need. It rewards a selfless act, and it encourages taxpayers to give more of their income to charities than they would otherwise have given. Data suggests that those in need receive $3 of benefit for every $1 of tax benefit going to the donor.

Furthermore, the higher income taxpayers affected by the application of the Pease rule are those who donate the majority of dollars to charities. Based on recent IRS and census data, tax filers who reported an AGI of at least $200,000 represent about 3 percent of the population, but they also make up almost half – $78 billion – of the $164 billion claimed as charitable deductions. And while people give to worthwhile causes for many reasons— incentives such as tax deductions being among them—tax incentives make more and larger gifts possible.

Charities bridge the gap by serving those in need as budgetary constraints hinder state and federal governments from providing services. These charity-provided services are critical. If giving decreases, the nonprofit sector is harmed as well as those in the lowest income brackets who rely heavily upon charitable services. During this current economic climate, we cannot afford to signal to Americans that private giving is not important because these charities provide critical support to local communities.

As charities struggle to meet increased demands for their services and raise additional funds, we should encourage Americans to be more generous, not signal that giving is less important. Therefore, we urge you to maintain the full value of the charitable deduction for all income brackets.
We look forward to working with you and your staff on this issue as comprehensive tax reform takes shape, and we offer our services and expertise in whatever way may be helpful.

Sincerely,

Association of Fundraising Professionals, Chair
Alliance for Charitable Reform
Alliance of Nonprofit Mailers
American Association of Museums
American Institute for Cancer Research
The American Red Cross
Association for Healthcare Philanthropy
Association of Art Museum Directors
Association of Direct Response Fundraising Counsel
Blackbaud
Council for Advancement and Support of Education
Council on Foundations
Dance/USA
DMA Nonprofit Federation
DMW Direct
Dunham+Company
Educational Media Foundation
Independent Sector
Jewish Federations of North America
League of American Orchestras
National Association of Independent Schools
National Catholic Development Conference
National Human Services Assembly
OPERA America
The Philanthropy Roundtable
Theatre Communications Group
United Way Worldwide
Volunteers of America Inc.