July 14, 2011

The Honorable Max Baucus  
United States Senate  
511 Hart Senate Office Building  
Washington, DC 20510-2602

Dear Chairman Baucus:

As a coalition representing a broad cross-section of nonprofit organizations across the country, we urge you to protect the value of the charitable deduction by opposing efforts to reduce or cap the value of itemized deductions for charitable contributions. Proposals to cap itemized deductions at 28 percent would have long-lasting negative consequences for the charitable organizations that millions of Americans rely on for vital programs and services.

Times have been challenging for our nation’s charities. Charitable giving has only slightly recovered from the Great Recession. According to the Internal Revenue Service, charitable giving by American donors who itemize their tax returns dropped by about 20 percent from the beginning of 2008 through 2009. Last year, the Giving USA Foundation and its research partner, the Center on Philanthropy at Indiana University, found that “giving by individuals rose an estimated 2.7 percent in 2010 (1.1 percent adjusted for inflation).” Although this is good news, it is estimated that it will take five to six years for giving to return to its pre-recession levels.

In the face of such tough financial conditions, charities continue to do more with less. When the economy stagnates, charities bridge the gap by serving those in need and our communities as budgetary constraints hinder state and federal governments from providing similar services. These charity-provided services are critical, and reducing charitable giving does not just harm the nonprofit sector, it also hurts the lowest income brackets that rely heavily upon these services. Despite how the proposal looks on paper, wealthy Americans will not bear the brunt of a cap or reduction in the value of itemized deductions—America’s poor will.

Also, do not underestimate the positive impact that charities have on the economy. Before you vote to cap or reduce the value of the charitable deduction, remember that nonprofit and charitable organizations are small businesses that employ approximately 10 percent of your constituents and serve nearly all of the families and children who live in our communities. The Urban Institute found that “[i]n 2006, nonprofits contributed $666 billion to the economy and accounted for 5 percent of GDP, 8 percent of the economy's wages, and nearly 10 percent of jobs.” The fact remains that the charitable sector represents a significant cog that drives economic recovery. Nonprofits create jobs and leverage economic gains. To truly jumpstart the economy, the federal government should remove barriers that limit charitable giving, not construct more of them.
Unlike other tax incentives, the charitable deduction encourages behavior that enriches communities rather than individual taxpayers because it successfully encourages taxpayers to give more. This is most apparent for higher income earners. Experts testifying before the Senate Finance Committee this spring shared that higher income earners are more sensitive to changes in tax incentives. Given this sensitivity, reducing the charitable deduction for higher income earners will negatively impact the amount these donors give to charitable organizations. And higher income taxpayers account for the majority of individual giving. According to the recent CBO report on the tax treatment of charitable giving, tax filers who reported AGI of at least $100,000 in 2008 were responsible for well over half (about 58 percent) of all charitable giving by taxpayers.

Americans also strongly support the charitable deduction. In an April 15, 2011 Gallup poll, 71 percent opposed eliminating the charitable deduction to lower the overall income tax rate, and 68 percent opposed eliminating the charitable deduction to reduce the federal budget deficit. More Americans supported the charitable deduction than the home mortgage interest deduction or state and local tax deduction.

As charities struggle to meet increased demands for their services and raise additional funds, we need to encourage all individuals, regardless of income and wealth, to give more to charitable organizations. Reducing the value of the charitable deduction does the exact opposite and would fundamentally change a tax structure that has contributed to a cherished tradition of charitable giving that is unmatched in the world.

Again, we urge you to oppose efforts to reduce or cap the value of itemized deductions for charitable contributions. We look forward to working with you and your staff on this issue and on any other issues affecting the charitable sector.

Sincerely,

John H. Graham IV, CAE   Andrew Watt
President and CEO    President & CEO
American Society of Association Executives

John Lippincott   William C. McGinly, Ph.D., CAE
President    President, Chief Executive Officer
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Association of Fundraising Professionals
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