CommonGood VERMONT

THE BASICS OF TAX REFORM AND CHARITABLE GIVING INCENTIVE

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Common Good Vermont (VT)
*From the **National Council of Nonprofits***

The work of charitable nonprofits throughout the United States improves lives, strengthens the economy and wellbeing of our communities, and lightens the burdens of government, taxpayers, and society as a whole. Through the giving of their time and money, Americans support the ability of nonprofits to deliver essential services in local communities across the country. Nonprofits must be able to count on the current tax incentives for charitable giving in order to continue to meet existing and growing demand.

A Lifeline for Individuals and Communities

The accumulation of local, state, and federal funding cuts together with historically low giving levels have made it increasingly difficult for nonprofits to respond to growing community need, with more than half of the organizations surveyed reporting that they were unable to meet demand in the last year. As Congress considers tax reform, it is more important than ever to understand the role of the charitable giving incentive as a lifeline for communities.

A Community-Building Incentive: The true beneficiaries of charitable donations are the individuals and communities relying on nonprofit programs, services, and innovations. Nonprofits of all sizes and missions depend on the current charitable giving incentive to feed, house, and clothe individuals in need; to promote economic and social wellbeing; and to solve problems that they are best suited to address.

A Unique Incentive: The charitable giving incentive is different from other itemized deductions in that donors
receive no personal benefit other than the deduction itself. And the community benefit is far greater than the value of the deduction to the individual: for every federal dollar in tax reduction a person gets, the public receives three dollars or more in impact through the work of nonprofit organizations.

"The full deduction for charitable contributions should be retained, because the money that taxpayers give to charity benefits those organizations rather than the individual taxpayer." **Martin Feldstein, former Chair of President Reagan's Council**

Lessons from the States

Federal policymakers can learn a great deal from the experimentation by state legislatures in the area of revising charitable and other deductions. The states are finding that capping or eliminating charitable giving incentives significantly undermines financial support for the work of nonprofits. Many have rejected changing current incentives and others have actually repealed the limits that have been shown to hurt communities in their states. Consider the following:

- **Hawai'i:** Hawai'i Governor Abercrombie signed into law on July 2 a bill that exempts the State's charitable giving incentive from the 2011 cap placed on all itemized deductions to limit the benefit for upper-income taxpayers. The Governor championed the bill following reports on the adverse effects the loss of the full giving incentive had on communities. *"After having taken a close look at the impact this particular section of the law is having on charitable donations made to*

Hawaii's nonprofit organizations, we support carving out this portion of the law." **Office of Hawai'i Governor Neil Abercrombie**

- **Kansas:** The Legislature approved a compromise tax package that carves out the charitable giving incentive from reductions imposed on all other itemized deductions.
- **Michigan:** Homeless shelters, food banks, community foundations, and many other Michigan nonprofits have reported a significant drop off in donations since the Legislature in 2011 eliminated three tax credits that promoted giving to charities in Michigan.
- **Minnesota:** The Legislature considered but ultimately rejected a proposal that would have eliminated the state's charitable deductions for itemizers and for non-itemizers and replaced it with an eight-percent, nonrefundable tax credit.
- **Missouri:** In response to concerns from communities, State leaders this spring restored a series of charitable tax credits for food pantries, pregnancy resource centers, and the Children in Crisis program that had been allowed to expire in recent years.
- **Montana:** Citing the importance of giving to nonprofits serving Montana communities, the Legislature this spring renewed the state's charitable endowment tax credit for another six years.
- **North Carolina**: The Legislature agreed on a final tax reform plan that carves out the charitable giving incentive from a $20,000 cap on all other itemized deductions.
- **Oregon:** The Oregon Legislature failed to pass a budget and tax reform bill, an earlier version of which would have exempted the giving incentive from a cap on itemized deductions.

How You Can Help

The National Council of Nonprofits and its State Association Members ask Senators and Representatives to preserve the ability of charitable nonprofit organizations to serve your constituents and our communities by making a clear statement in support of the charitable deduction and in opposition to proposals that would reduce or cap the value of itemized deductions for charitable contributions.

For more information, contact David L. Thompson at 202-962-0322 or dthompson@councilofnonprofits.org

http://blog.commongoodvt.org/2013/11/the-basics-of-tax-reform-and-charitable-giving-incentive/?utm_source=rss&utm_medium=rss&utm_campaign=the-basics-of-tax-reform-and-charitable-giving-incentive

Burlington Free Press

MY TURN: FOR A HUMANE TAX REFORM

August 15, 2013
By John R. Killacky

Vermont, like many states, is considering comprehensive tax reform. Committees in the Vermont Senate and House developed proposals last legislative session and systemic changes seem high on the agenda for the 2014 session. Key components focus on increasing the portion of personal income that is taxed by capping deductions, including charitable contributions.

If passed, this revision to the tax code would negatively affect the work of nonprofit organizations statewide.

Vermont's robust nonprofit sector comprises nearly 4,000 human, social service, educational, religious, and cultural organizations, ranking us No. 1 per capita in the nation. The Vermont Community Foundation reported in 2010 that these agencies generate $4.1 billion in annual revenue and represent 18.7 percent of our gross state product.

Nonprofits deliver critical services that government alone cannot provide: sheltering, caring for, and feeding those less fortunate; early childhood education; and cultural enrichment are just a few examples. Nonprofits include schools, hospitals, churches, libraries, community health clinics, workforce development centers, mentoring programs, homeless shelters, food banks, theaters, and galleries.

Some focus on specific populations: providing safe spaces for women, LGBT youth, refugees, the disabled, and migrant workers. They range from small, volunteer-run groups to huge universities. Although more than 80 percent of Vermont's nonprofits operate with budgets of less than $250,000 each year.

By delivering mission-related programs, nonprofits improve lives and transform communities. Investing in early intervention is more cost-effective than dealing with societal dysfunction later in life. Food and shelter vs. homelessness, after-school tutoring vs. illiteracy, involved children vs. disengaged teens, job skills training vs. unemployment, community vs. isolation — consider the alternatives.

The nonprofit sector depends on contributions to survive and the data in Vermont shows how complicated financial viability is for these organizations. There are few major foundations in the state, and the majority of national funders focus on large urban areas. In my experience, local corporations are supportive, but at present we have too few growing businesses.

Individuals have been extremely generous with leadership philanthropy, but of the 320,656 tax returns filed in Vermont for 2011, only 21.6 percent (69,193) claimed charitable deductions, ranking us 36th in the nation. The Vermont Community Foundation, using data from the IRS, shows Vermonters' monetary contributions are 27 percent below the national average and our average financial contribution among the bottom 10 states in the nation.

Given these fiscal realities, it is important for our legislature to carefully consider the ramifications of capping deductions that include charitable contributions. Other states debated and tried similar measures and are now reversing their decisions.

Hawaii limited charitable and other itemized deductions back in 2011. Earlier this year, the governor signed legislation removing restrictions on charitable donations, noting the additional $12 million in annual revenue to the state came at a cost of at least $60 million per year in lost donations to nonprofits.

Missouri recently restored charitable tax credits that lawmakers had let expire last year due to budget constraints. Montana extended its charitable endowment tax credits for another six years, calling it “good, stable tax policy” providing “a huge benefit to the people of Montana.”

Oregon and Minnesota considered capping charitable deductions, but decided against it. Kansas and North Carolina also preserved charitable giving incentives, while capping all other itemized deductions. Vermont can do the same.

As our legislators debate implications of a tax overhaul, I hope they remember that nonprofits serve a triple bottom line, all subsidized by donations: they deliver programs in a fiscally balanced, cost-effective manner, their double bottom line makes programs accessible to serve those less fortunate, and their triple bottom line is achieved when those they reach contribute to society.

Civil society depends upon healthy nonprofits and philanthropy is an essential ingredient. Charitable contributions, therefore, should be incentivized and encouraged for events like Spectrum’s Sleep Out, COTS Walk, and United Way fund drives. Otherwise, the fragile social safety net will further unravel and be more costly to state coffers long-term. I urge our representatives, senators, and governor to consider the marginalized and disenfranchised whose very lives are at stake in this fiscal debate.

John R. Killacky is executive director of Flynn Center for the Performing Arts and on the board of Vermont Community Foundation.

http://www.burlingtonfreepress.com/article/20130816/OPINION02/308160014/My-Turn-humane-tax-reform?gcheck=1