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A very unhappy 100th birthday for the charitable deduction

By: Tim Delaney

This month marks the 100th birthday of the federal tax deduction for charitable giving. That anniversary should be a day of celebration for all that this incentive to give has done for the American people. The underlying policy – Congress shouldn’t tax money that people give away to help communities – remains as valid now as it was in 1917 shortly after Congress began taxing income. But this celebration is marred by the damage proposed in the tax reform framework that the White House and congressional leaders released last month.

Like a magician at a birthday party, their tax reform framework uses distraction to achieve a sleight of hand trick. The magician’s left hand swirls a colorful scarf to misdirect attention to the framework’s boast that it “retains” the tax incentive for charitable deductions. Meanwhile, the magician’s right hand stealthily makes billions of dollars in charitable donations disappear by effectively eliminating the charitable giving incentive for all but the wealthiest.

Right now, about 30 percent of taxpayers itemize their deductions and thus can apply the charitable deduction incentive. But in the name of simplification, the framework calls for doubling the standard deduction, which experts estimate would radically shrink the percentage of taxpayers who itemize down to only 5 percent.

Ninety-five percent of us would have no tax incentive for donating to the good works we support; the vast majority of us would be taxed on the money we give away – for everything from arts to zoos, including houses of worship, disaster relief, human services, education, health care, veterans and more.

Certainly, many people will continue to support the missions of nonprofits they care about. But there is substantial evidence that the charitable deduction tax incentive provides a key motivation for giving more. Just look at the percentage of charitable donations that occur each year on Dec. 30 and 31. According to Network for Good, 9 percent of giving for the entire year happens on those two days. Further, the Lilly Family School of Philanthropy at Indiana University conducted a study calculating that a proposal like the one found in the tax reform framework would result in a reduction in giving to work in communities of more than \$13 billion annually. Other experts peg the loss of giving to good works to be even higher.

Without a robust charitable giving tax incentive, many people in communities across America will suffer because nonprofits will not have the resources necessary to serve them. That statement is neither conjecture nor hyperbole. Recent tax policy experiments in the states demonstrate that giving back to communities is highly responsive to changes in tax incentives. In 2011, Michigan repealed state tax credits for charitable purposes to pay for business tax cuts and charitable giving dropped disproportionately. That same year, Hawai'i capped itemized deductions, including charitable donations, and giving declined by an estimated \$60 million per year until the cap on charitable donations was lifted two years later.

The charitable deduction has served our nation extremely well for a full century. Rather than covertly converting a proper birthday celebration into an involuntary retirement party, Congress should reject the notion of restricting the charitable giving incentive to just the few remaining itemizers. Instead, Congress needs to make it universally available to all Americans through a non-itemizer deduction for charitable contributions. There are several ways that such a deduction could be crafted, including one proposed in H.R. 3988, the Universal Charitable Giving Act of 2017, introduced recently by Rep. Mark Walker (R-N.C.). However crafted, extending the charitable deduction to all taxpayers — regardless of whether they itemize or take the standard deduction — would help overcome the significant decrease in charitable giving and community resources that most economists predict will otherwise occur.

In addition to rewarding charitable spirit with a universal deduction that treats everyone fairly and equally, an All-American charitable deduction would do what the tax reform framework claims to seek: accomplishing “important goals that strengthen civil society, as opposed to dependence on government.”

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