Talking Points on the Charitable Deduction

- Charitable donations help colleges, universities and independent schools achieve their teaching, research and public service missions. For the past 100 years, the charitable deduction has encouraged individuals to make significant gifts to educational institutions.

- As federal and state governments continue to cut funding for higher education, raising private support from individuals has become even more crucial for colleges and universities.

- According to the Council for Aid to Education's Voluntary Support of Education (VSE) Survey, donors contributed $40 billion to higher education in 2015, an increase of 7.6 percent over the previous year.

- According to the Giving USA 2016, high net worth households account for an estimated $132 billion of the $264 billion given to charitable organizations in 2015 (high net worth households are households with income greater than $200,000 and/or net worth of at least $1 million). These are the taxpayers who have the resources to give to charitable causes consistently, and U.S. tax policy should encourage them to continue to give generously.

- Proposals that would limit the value of the charitable deduction are bad policy. As colleges, universities and independent schools struggle to meet increased demands for their services with shrinking resources, we need to encourage all individuals, regardless of income and wealth, to give to educational institutions and other charities.

- The charitable deduction is unlike other itemized deductions because it encourages people to voluntarily give away their money for the benefit of others. If anything, incentives for this type of behavior should be enhanced, not limited.

- While we appreciate President Trump’s Tax Plan and the House Republican Blueprint preserves a tax incentive for charitable giving, the proposal to double the current standard deduction will significantly reduce the number of taxpayers who itemize (from roughly 30 percent to 5 percent), effectively eliminating the charitable deduction for 95 percent of Americans.

- Additionally, President Trump’s plan includes a $100,000 hard dollar cap ($200,000 for couples/families filing jointly) that would eliminate the charitable deduction for many of the remaining taxpayers who itemize. The nonpartisan Tax Policy Center estimates that President Trump’s tax plan would reduce giving by 4.5 to 9 percent.1

- Caps, such as the one proposed by President Trump, discourage giving at the margin. Instead of encouraging taxpayers to give more to charity, caps eliminate the incentive to give additional dollars above the cap.

- We also have concerns about other proposals that would limit the charitable deduction, such as the two-percent adjusted gross income floor included in former House Ways and Means
Chairman Dave Camp’s tax reform discussion draft. Floor proposals send a signal that gifts below the floor, including those made by middle to lower income donors, are less important and would act as additional hurdle for the remaining five percent of itemizing taxpayers. And such a floor would decrease overall charitable giving. One survey indicated that the charitable sector would lose $3 billion per year in charitable contributions if a two percent adjusted gross income (AGI) floor were imposed.\(^\text{i}\)

- Donors would likely adjust their giving levels if a cap, floor or other limit is enacted, leading to lower levels of giving. Ultimately, those served by charitable organizations, including students at educational institutions, would feel the brunt of this policy change.

- Instead of enacting changes that would curtail the charitable deduction, lawmakers should strive to enhance and expand it. An above-the-line, or universal, charitable deduction would expand the deduction to all taxpayers and exclude all charitable gifts from taxation. Such a proposal would increase giving in both dollars and number of new donors, increase fairness by treating all taxpayers’ charitable contributions equally under the tax code and provide modest tax relief for low- and middle-income taxpayers.

- We urge you to preserve and protect the full value of the current charitable deduction.
