

Philanthropy Northwest's Position

We support a universal charitable incentive that enhances giving more effectively across a wider, diverse base of donors covering the income spectrum. This can provide more charitable resources to communities.

Background

The rate of charitable donations is flattening, but the needs and cost of delivering services is rising.¹ Part of the problem is that the charitable deduction is not increasing giving effectively, despite costing the federal government over \$50 billion per year.² The deduction lets high-income households deduct giving from their taxes but leaves out the rest of the country, including most lower- and middle-income givers and donors of color.³ Even if a donor who is not high-income takes the deduction, due to their tax rate they would get a much smaller tax incentive, or none at all.⁴ However, simply expanding the deduction to be available to more taxpayers – a “universal” charitable deduction – would greatly increase the cost of the incentive and only provide a relatively small increase in charity.⁵ A different approach is needed.

If charitable giving is to be incentivized in the tax code, **Philanthropy Northwest urges policymakers to replace the charitable deduction with an incentive that is more cost-effective and accessible to donors.** Tax policy analyses recommend several adjustments that could be used in tandem, including but not limited to:

- A universal charitable **credit** that can provide a flat discount on every dollar someone donates, making it the same for all income levels. For example, a 25% credit gives people of all incomes 25 cents back per dollar donated.⁶ The credit could also offer some refundability for donors with no federal income taxes, reaching lower-income donors.⁷
- A small income-based **floor** that would act as a minimum threshold before the incentive takes effect, saving billions of dollars in revenue while rewarding higher levels of giving. For example, a 2% floor requires a donor to give over 2% of their income to start receiving the incentive.⁸

Philanthropy Northwest represents funders and nonprofit associations across the region. Our organization can be a partner in continuing conversations as policymakers consider changes to the charitable deduction and other charitable tax incentives.



¹ Ivana Saric, "Americans are giving to charity at lowest level in nearly 3 decades," *Axios*, June 22, 2023, <https://www.axios.com/2023/06/22/charitable-giving-donations-income>; [https://give.org/docs/default-source/donor-trust-library/2023-dtr-report_final\(d\)_06272023.pdf](https://give.org/docs/default-source/donor-trust-library/2023-dtr-report_final(d)_06272023.pdf); Elivia Castro et al., Donor Participation (Arlington: BBB Wise Giving Alliance, 2023), 9, <https://www.axios.com/2023/06/22/charitable-giving-donations-income>; [https://give.org/docs/default-source/donor-trust-library/2023-dtr-report_final\(d\)_06272023.pdf](https://give.org/docs/default-source/donor-trust-library/2023-dtr-report_final(d)_06272023.pdf); *Quarterly Fundraising Report* (Arlington: Association of Fundraising Professionals, 2023), 3-6, https://afpglobal.org/sites/default/files/attachments/resource/FEP%202023%20Q3%20Report_Updated.pdf; "2024 State of the Nonprofit Sector Report," Forvis, "2024 State of the Nonprofit Sector Report," Forvis, February 21, 2024, <https://www.forvis.com/forsights/2024/02/2024-state-of-the-nonprofit-sector-report>; "Survey," Nonprofit Finance Fund, accessed April 19, 2024, <https://nff.org/learn/survey>.

² Nikhita Airi et al., "How large are individual income tax incentives for charitable giving?" Tax Policy Center, updated January n.d., 2024, <https://www.taxpolicycenter.org/briefing-book/how-large-are-individual-income-tax-incentives-charitable-giving>.

³ C. Eugene Steuerle, Robert McClelland, Nikhita Airi, Chenxi Lu, Aravind Boddupalli, *Designing an Effective and More Universal Charitable Deduction* (Washington, D.C.: Urban Institute, 2021), 4-7, <https://www.urban.org/research/publication/designing-effective-and-more-universal-charitable-deduction>; Office of Tax Analysis, U.S. Department of the Treasury, *Tax Expenditures by Race and Hispanic Ethnicity: An Application of the U.S. Treasury Department's Race and Hispanic Ethnicity Imputation* by Julie-Anne Cronin, Portia DeFilippes, and Robin Fisher, OTA Working Paper Series 122, Washington, D.C.: U.S. Department of the Treasury, 2023, 29, 38-39, <https://home.treasury.gov/system/files/131/WP-122.pdf> (accessed March 22, 2024).

⁴ Nikhita Airi et al., "How large are individual income tax incentives for charitable giving?" Tax Policy Center, updated January n.d., 2024, <https://www.taxpolicycenter.org/briefing-book/how-large-are-individual-income-tax-incentives-charitable-giving>.

⁵ C. Eugene Steuerle, Robert McClelland, Nikhita Airi, Chenxi Lu, Aravind Boddupalli, *Designing an Effective and More Universal Charitable Deduction* (Washington, D.C.: Urban Institute, 2021), 10-12, <https://www.urban.org/research/publication/designing-effective-and-more-universal-charitable-deduction>; John Ricco and Mariko Paulson, "Policy Options to Increase Charitable Giving Using Tax Incentives," University of Pennsylvania, June 24, 2019, <https://budgetmodel.wharton.upenn.edu/issues/2019/6/24/policy-options-to-increase-charitable-giving-using-tax-incentives>; *Charitable Giving and Tax Incentives: Estimating changes in charitable dollars and number of donors resulting from five policy proposals* (Indianapolis: Indiana University Lilly Family School of Philanthropy, 2019), 28-40, <https://scholarworks.iupui.edu/server/api/core/bitstreams/e9fc045a-e5fb-4104-842b-fde95e3d226c/content>; Alex Brill and Derrick Choe, *Charitable Giving and the Tax Cuts and Jobs Act* (Washington, D.C.: American Enterprise Institute, 2018): 7-8, <https://www.aei.org/research-products/report/charitable-giving-and-the-tax-cuts-and-jobs-act/>.

⁶ Roger Colinvaux and Ray Madoff, "Charitable Tax Reform For the 21st Century," *Tax Notes* 167, no. 12 (2019): 1869-1870, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3462163; Alex Brill and Derrick Choe, *Charitable Giving and the Tax Cuts and Jobs Act* (Washington, D.C.: American Enterprise Institute, 2018): 7-8, <https://www.aei.org/research-products/report/charitable-giving-and-the-tax-cuts-and-jobs-act/>; U.S. Congressional Budget Office, *Options for Changing the Tax Treatment of Charitable Giving*, by Athiphat Muthitacharoen and Seth H. Giertz, Washington, D.C.: Congressional Budget Office, 2011, Pub. No. 4030, VIII-IX, 10, 17-18, <https://www.cbo.gov/publication/41452>; John Ricco and Mariko Paulson, "Policy Options to Increase Charitable Giving Using Tax Incentives," University of Pennsylvania, June 24, 2019, <https://budgetmodel.wharton.upenn.edu/issues/2019/6/24/policy-options-to-increase-charitable-giving-using-tax-incentives>; *Charitable Giving and Tax Incentives: Estimating changes in charitable dollars and number of donors resulting from five policy proposals* (Indianapolis: Indiana University Lilly Family School of Philanthropy, 2019), 28-40, <https://scholarworks.iupui.edu/server/api/core/bitstreams/e9fc045a-e5fb-4104-842b-fde95e3d226c/content>; Nicolas Duquette, "A Two-Tiered Charitable Contribution Credit for All American Taxpayers," *Nonprofit Policy Forum* 11, no. 4 (2019): 3-4, 8-10, <https://www.degruyter.com/document/doi/10.1515/npf-2019-0063/html?lang=en>.

⁷ See Andrew Hayashi and Justin J. Hopkins, "The Charitable Tax Deduction and Civic Engagement," *University of Illinois Law Review* 2023, no. 4 (2023): 1179-1234, <https://illinoislawreview.org/print/vol-2023-no-4/the-charitable-tax-deduction-and-civic-engagement/> for reasoning behind making a credit refundable for low- and middle-income donors.

⁸ C. Eugene Steuerle, Robert McClelland, Nikhita Airi, Chenxi Lu, Aravind Boddupalli, *Designing an Effective and More Universal Charitable Deduction* (Washington, D.C.: Urban Institute, 2021), 10-12, <https://www.urban.org/research/publication/designing-effective-and-more-universal-charitable-deduction>; Alex Brill and Derrick Choe, *Charitable Giving and the Tax Cuts and Jobs Act* (Washington, D.C.: American Enterprise Institute, 2018): 7-8, <https://www.aei.org/research-products/report/charitable-giving-and-the-tax-cuts-and-jobs-act/>; Roger Colinvaux and Ray Madoff, "Charitable Tax Reform For the 21st Century," *Tax Notes* 167: 12 (2019): 1869-1870, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3462163; U.S. Congressional Budget Office, *Options for Changing the Tax Treatment of Charitable Giving*, by Athiphat Muthitacharoen and Seth H. Giertz, Washington, D.C.: Congressional Budget Office, 2011, Pub. No. 4030, VIII-IX, 10, 17-18, <https://www.cbo.gov/publication/41452>.

