

AHP Talking Points on Proposals to Limit the Value of Itemized Deductions

1.) General Points

- Proposals that would reduce the value of charitable deductions for certain donors represent a step in the wrong direction, especially during these economic times. As charities 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 charity.
- According to a 2008 Bank of America Study on High Net-Worth Philanthropy, high net-worth households (household income greater than \$200,000 and/or net worth of at least \$1 million) give between 65 and 70 percent of all individual giving in America. 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.
- Charities often step in to fill the gap when government and the private sector are unable to provide adequate services or support. After natural disasters such as Hurricane Katrina and the recent Midwest floods, Congress provided additional incentives for individuals to make charitable donations. Limiting the value of itemized deductions would do the exact opposite – it would increase the cost of giving during a challenging fundraising climate. States facing budget crunches have recognized the value of charitable incentives. For example, New York has exempted charitable contributions from its limits on itemized deductions for taxpayers earning more than \$1 million annually.
- The downturn in the economy is causing significant problems for many nonprofits. The Giving USA Foundation recently reported that in 2008, the decline in total charitable giving was the greatest since the organization began tracking U.S. charitable donations in 1956. Charities are already reporting that donations will likely be down further in 2009.
- The decline in charitable giving also has been further undermined by a significant delay in nonprofits receiving government payments in the form of scheduled payments for services or contract revenues. According to one recent survey, over one-half of nonprofits reported an increased delay in excess of 60 days in government payments, with almost one-third reporting a delay of over 90 days in such receipts. Given these circumstances, any reduction in charitable giving incentives from private sources would only serve to exponentially worsen the financial viability of most nonprofits.
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- Although high income taxpayers probably would continue to give if a limitation is enacted, it will likely affect the timing and size of their gifts. Even though the proposals would not take effect until 2011, we are already hearing from our members that donors are delaying gifts and multi-

year pledges.

- The charitable deduction is unlike other itemized deductions whereby 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.

2.) Health Care Specific Points

- Research published by the Congressional Budget Office from 1997, the Urban Institute from 2001, the Association for Healthcare Philanthropy from 2008 and the Center on Philanthropy at Indiana University from 2009 all state that giving is sensitive to price incentives provided by after-tax costs. The question that remains is: by how much? A report by Indiana University “suggests that had these proposals been in place in 2006, total itemized charitable giving by households would have dropped by 2.1 percent.” And that number fails to take into account the current large decline in America’s personal wealth. Americans’ generosity in support of nonprofit hospitals and health care systems is substantial, totaling \$8.35 billion last year according to AHP’s Report on Giving 2007. This report reveals an important insight concerning the importance of public backing for the nonprofit health care community: Almost 83 percent of all donors last year were individuals. Individuals provided 61 percent of all donations. Can American hospitals afford to lose 2.1 percent or more in contributions from these families?
- Charitable giving is and will remain vital to the hospitals and systems to which it flows. According to the American Hospital Association (AHA) November 2008 Report on the Economic Crisis, the capital crunch is making it difficult and expensive for hospitals to finance facility and technology needs. The AHP Report on Giving indicates that more than 45 percent of charitable giving was put to use to upgrade infrastructure, including often long-overdue construction and renovation projects and equipment purchases. An additional 25 percent supported important functions such as community benefit programs, charitable care, research and teaching, and hospice, long-term and nursing care. About 14 percent went to general operations. These accomplishments were achieved through fundraising and its outreach efforts to grateful families. While the Nation’s health care needs are increasing, we must avoid creating obstacles that will diminish and discourage philanthropy.
- According to AHP research, more than 80 percent of health care development professionals believe that the proposed tax code change, if enacted, will reduce overall giving to their organization. While 58 percent indicate that the proposed tax change will cause a *significant* reduction in major gifts to their organizations. Of health care fundraisers who anticipate a reduction in giving if the proposed tax change is implemented:
 - 81 percent believe that the decrease in gifts will affect their community.
 - 39 percent anticipate a reduction in front-line community services, such as free clinics.
 - 67 percent anticipate an inability or delay in the purchase of equipment.



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- 64 percent anticipate an inability or delay in hospital renovations or expansions.
- AHP resources:
 - AHP Survey Results:
http://www.ahp.org/Resource/advocacy/us/giftstaxesIRS/taxdeductibilitycharitablegiving/Documents/AHP_tax_deductability_charitable_gifts_survey_April2009.pdf
 - AHP Statement to the Senate Finance Committee:
<http://www.ahp.org/Resource/advocacy/us/fedbudget/Documents/obamabudget.pdf>
 - AHP Coalition letters:
<http://www.ahp.org/Resource/advocacy/us/giftstaxesIRS/taxdeductibilitycharitablegiving/Documents/AHPCoalitionLetterTaxDedCharGiving063009.pdf>

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