CASE COUNCIL FOR ADVANCEMENT AND SUPPORT OF EDUCATION®

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Council for Advancement and Support of Education
Written Comments
Submitted to
U.S. Senate Committee on Finance

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The Council for Advancement and Support of Education thanks Chairman Hatch, Ranking Member Wyden and committee members for this opportunity to share our feedback on how enactment of a universal charitable deduction will improve the American tax system and encourage all Americans, regardless of income, to make charitable gifts to colleges, universities, independent schools and other charitable organizations.

Headquartered in Washington, D.C., with offices in London, Singapore and Mexico City, CASE is the professional organization for advancement professionals at all levels who work in alumni relations, communications, fundraising, marketing and other areas. Today, CASE's membership includes more than 3,600 colleges, universities, independent elementary and secondary schools, and educational associates in 82 countries around the world. CASE helps its members build stronger relationships with their alumni and donors, raise funds for campus projects, produce recruitment materials, market their institutions to prospective students, diversify the profession, and foster public support of education.

This year we celebrate the centenary of the federal charitable tax deduction. For the past 100 years, U.S. tax policy, through the charitable deduction, has encouraged individuals to make philanthropic gifts to colleges, universities and independent schools. Private support raised from individuals is an essential funding source for both private and public colleges and universities and private independent schools. According to the Council for Aid to Education, donors contributed $41 billion to U.S. colleges and universities in 2016.[i] Charitable gifts help educational institutions fund scholarships for low-income students, recruit top-notch faculty, support ground-breaking research and strengthen academic programs.

In the aftermath of the recent recession, colleges and universities continue to face challenges. Endowment investment returns continue to be volatile, with the most recent data showing that institutions had an average endowment return of -1.9 percent in 2016 and only 5.0 percent over the last decade.[ii] At the same time, colleges and universities are also seeing more and more cuts to their state and federal funding – while trying to meet demands for increased services and resources. Many students and their families are struggling to afford higher education tuition costs. Unless institutions can convince donors to provide additional aid for deserving students, educational opportunity will shrink even as the need for education grows.

Donors make charitable gifts to educational institutions in a variety of ways, often restricting how their gifts are used. Some make gifts to support an institution's current operations through the annual fund. Other donors make planned gifts – gifts that allow an individual to make a larger gift from their lifetime income or estate that benefits the institution. And still other donors, typically major donors, make gifts to create endowed funds for a particular purpose. Institutional endowments are collections of hundreds or thousands of these individual funds managed and invested by institutions to serve current and future needs. Endowments are not savings accounts or rainy day funds but instead provide a steady and reliable long-term funding source in support of students, teaching, research and other programs that would otherwise have to be paid for by tuition or other funding. All of these gifts – current, planned and endowed - are critical in helping colleges, universities and independent schools achieve their missions to the benefit of society.

Tax Reform and Charitable Giving

CASE strongly urges the committee to preserve the value of and expand the federal tax deduction for charitable gifts, a policy that incentivizes giving to educational institutions and other charitable organizations. While charitable giving is a voluntary act, driven by a desire to do good, to have impact, and to give back, tax incentives do play a role in encouraging donors to accelerate giving. Donors to our institutions often base the size, timing and form of their gifts, at least in part, on tax considerations.

The tax reform proposals currently being discussed, all of which include a lowering of individual tax rates and doubling of the standard deduction threshold, would unintentionally result in a decline in charitable giving. Currently, the charitable deduction is only available to the roughly 30 percent of U.S. taxpayers who itemize their tax returns. Though the tax reform plans being discussed on Capitol Hill, including President Donald Trump's tax plan, call for preserving the charitable deduction, the doubling of the standard deduction in the plans would result in only 5 percent of U.S. taxpayers choosing to itemize their tax returns*. The result would be the effective elimination of the charitable deduction for a significant portion of American taxpayers and a decline in charitable giving to educational institutions and other charitable organizations.*

A recent study commissioned by Independent Sector and conducted by Indiana University's Lilly Family School of Philanthropy found that current tax reform proposals would result in a $13.1 billion decline in giving.[iii] Another study conducted by the Tax Policy Center found that former House Ways and Means Committee Chairman Dave Camp's 2014 tax reform discussion draft, a plan similar to the tax reform proposals being discussed today, would result in a 7 to 14 percent decline in charitable giving.[iv] Educational institutions and the students they serve will feel the brunt of these declines if lawmakers fail to preserve the full value of the charitable deduction.

Enact a Universal Charitable Deduction

Fortunately, there is a policy solution that both preserves the value of the charitable deduction and increases charitable giving. A universal, or above-the-line, charitable deduction would provide a charitable giving incentive to everyone by allowing all taxpayers to subtract their charitable gifts from their income before they determine whether to take the standard deduction or itemize their tax returns. A universal charitable deduction would send a message that charitable gifts from all Americans, regardless of income, are important and valued. The Independent Sector study found that the inclusion of a universal charitable deduction in tax reform would result in a $4.8 billion increase in charitable giving at a modest cost for the federal government.[v] We strongly urge the committee to include a universal charitable deduction in any tax reform package.

Avoid Caps, Floors and Other Proposals that Limit the Value of the Charitable Deduction

We also encourage the committee to avoid enacting other limitations on the charitable deduction that would discourage giving to educational institutions. Donors already face limits on the charitable contributions. A donor's deduction for charitable contributions cannot exceed more than 50 percent of the donor's Adjusted Gross Income (AGI). The limits are even more stringent – contributions cannot exceed more than 30 percent of a donor's AGI - for gifts made to private non-operating foundations and some gifts of capital gain property. Donors can carryover amounts in excess of the limits for up to five years, and many do carryover large gifts. According to the Internal Revenue Service, more than 490,000 taxpayers used carryovers in tax year 2014, with carryovers totaling nearly $33 billion.[vi]

Proposals that directly limit the value of the charitable deduction, such as a hard dollar cap proposed by President Trump during the 2016 presidential campaign, reduce the incentive for donors to give additional dollars to educational institutions and other charitable organizations. Donors who give little or nothing to charity would be unaffected by such a cap. Instead this proposal would target the most generous high-income donors, individuals and families who want to make large gifts to educational institutions or other charitable organizations. *Why would Congress want to penalize individuals who want to give more of their wealth away to benefit the public good?*

Unfortunately, some have described the charitable deduction as a tax break for the wealthy. Limiting the charitable deduction would not hurt high-income donors, many of whom would likely decide to give less if a cap or other limit was enacted. Students and others served by educational institutions and charitable organizations would ultimately be hurt by limits to the charitable deduction.

The committee should also avoid enacting other limits on the deduction, including floors. A floor on charitable donations, such as a percentage of AGI floor, could disproportionately impact giving by middle-class donors. Gifts by lower and middle-income donors make a tremendous difference for our institutions, particularly in supporting general operations. And many of these donors make larger gifts as they progress through their careers. *The overall goal of our tax policy should be to encourage all individuals and families, regardless of income, to give more to charitable organizations.* That is exactly what a universal charitable deduction would do if enacted as part of our tax code.

As we celebrate the 100th anniversary of the charitable deduction, we urge the committee to preserve and expand this important incentive by enacting a universal charitable deduction. On behalf of the 88,000 professionals we serve who work every day to advance education, we thank the committee for this opportunity to share our views and comments. As you proceed on efforts to reform the tax code, we look forward to working with you and your staff to identify additional ways to encourage increased charitable giving among all individuals.

Sincerely,

Sue Cunningham

Sue Cunningham
President and CEO

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[i] 2016 Council for Aid to Education Voluntary Support of Education Survey, http://cae.org/images/uploads/pdf/VSE-2016-Press-Release.pdf.

[ii] 2016 National Association of College and University Business Officers-Commonfund Institute Study of Endowments http://www.nacubo.org/Documents/about/pressreleases/2016%20NCSE%20Press%20Release%20FINAL.pdf.

[iii] *Tax Policy and Charitable Giving,* Independent Sector and Indiana University's Lilly Family School of Philanthropy, May 2017 http://www.independentsector.org/wp-content/uploads/2017/05/tax-policy-charitable-giving-finalmay2017-1.pdf

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[iv] *Preliminary Estimates of the Impact of the Camp Tax Reform Plan on Charitable Giving,* Tax Policy Center, August 2014 http://webarchive.urban.org/UploadedPDF/413228-Preliminary-Estimates-of-the-Impact-of-the-Camp-Tax-Reform-Plan-on-Charitable-Giving.pdf

[v] The Independent Sector study (referenced above) found that increased charitable giving would slightly exceed the cost to the government in tax revenue if taxpayer responsiveness to the incentive is high. If taxpayer responsiveness is moderate or low, the revenue cost would be $5.4 billion and $10.8 billion respectively.

[vi] 2014 Internal Revenue Service SOI Tax Stats Individual Income Tax Returns Publication 1304, Table 2.1 http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax-Returns-Publication-1304-(Complete-Report)#_pt2