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Maine Association of Nonprofits

To: Joint Standing Committee on Taxation
From: Brenda Peluso, Director of Public Policy
Date: January 22, 2014
RE: Testimony In Favor of LD 1664, An Act to Encourage Charitable Contributions to Nonprofit Organizations

Senator Haskell, Representative Goode, and members of the Taxation Committee: I am Brenda Peluso, the Director of Public Policy for the Maine Association of Nonprofits, a membership organization representing almost 800 501(c)(3) & (c)(4) organizations from all regions of the state, representing all mission areas. Our mission is to strengthen the leadership, voice and management effectiveness of Maine's nonprofits. We help nonprofits help Maine.

We are here today to thank Senator Boyle for sponsoring this important piece of legislation and to emphasize the importance of protecting the charitable deduction in Maine. We urge the committee to make a unanimous recommendation of Ought to Pass on LD 1664, An Act to Encourage Charitable Contributions to Nonprofit Organizations.

LD 1664 carves the charitable giving deduction out of the recently passed, retroactive $27,500 cap on itemized deductions, and reverses the harm this cap will cause Maine's charitable organizations. You've heard from several of nonprofits about how the benefits they provide to our state will be diminished should charitable giving decrease; my testimony today will join others in showing why we believe this harm will be real.

Unique Tax Incentive:
As you consider this legislation, please consider this. The charitable deduction is different from all other tax deductions in that it is the only provision that encourages taxpayers to give away a portion of their income to benefit others. The true beneficiaries of charitable deductions are the individuals and communities relying on nonprofit programs, services, and innovations.

$20 Million Loss in Charitable Giving Should LD 1664 Fail:
Our conservative estimates, based on the IRS Statistics of Income Data, the US Trust information, and the PEW Charitable Trust report, show that **Maine nonprofits could see a decline in charitable giving of almost $20,000,000 annually** at a time when the demand for their services is increasing and their ability to meet those demands is strained. This $20 million represents about 5% of all charitable giving in Maine.

- In 2012, the last year for which the data is available, tax-payers who itemize gave $433 million in charitable donations.
- The $27,500 cap, retroactive to January 1, 2013, would eliminate the charitable giving incentive for all Maine itemizers with income over $200,000 because their average deductions for mortgage & taxes alone exceed $54,000.
- Taxpayers with income over $200,000 account for 36% of $433 million in reported contributions, or $156 million.
- If this cap causes an 8% reduction in giving by this group of people (the top income tax rate) and a 2% reduction from the rest of the itemizers (the shadow effect), the sector **could lose approximately $20 million annually in charitable giving**.

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Loss to the Sector Will Be Real:
And while there are many reasons people give, the charitable deduction is an important one. A recent report issued by the US Trust revealed that **45% of high net-worth donors would give less without the charitable deduction**. Please see attached chart excerpted from the full report.

While it is true, that the federal charitable deduction is still in place and is an incentive for giving, a recent report released by the PEW Charitable Trust chronicles the harm done to the nonprofit sector in other states where charitable giving incentives were removed at the state level. PEW's findings include:

- Michigan's elimination of 3 tax credits in 2011 resulted in sharp decreases in the types of giving incentivized by the credits.
- For every dollar Hawaii was bringing in in tax revenue, it was losing five in charitable donations with their 2011 itemized deduction cap. Incidentally, Hawaii's tax cap was much more generous than the one recently passed here in Maine. Hawaii remedied this situation by passing legislation in 2013 much like LD 1664.

Please see the attached full report.

Charitable Giving in Maine is Already One of the Lowest in the Country:
Maine is already very close to the bottom of the county in charitable giving per capita. Additionally, it is in the bottom 10 states in foundation giving. Should LD 1664 fail and the itemized deduction cap stand as is, Maine nonprofits will be further constrained.

- According a 2012 Chronicle of Philanthropy Article, Maine ranked 49th in per capita giving (http://philanthropy.com/article/Sharing-the-Wealth-How-the/133605/)
- According the Big Sky Institute, while Maine has temporarily fallen out of the bottom 10 states for foundation assets, it is considered to be below the "Philanthropic Divide" (http://www.bigskyinstitute.org/janda/files/home/1317846925_PhilanthropicDivide2007_updated.pdf)

Over Half of Nonprofits Report Not Being Able to Meet the Increasing Demands for their Services:
While no time is a good time to reduce the resources nonprofits have to serve their communities, now is a terrible time. The most recent report by the Nonprofit Finance Fund, paints a gloomy picture for nonprofits even amid signs of economic recovery. The key findings of the report include:

- More than half said they were unable to meet demands for assistance last year, and even more groups expect to struggle to do so this year.
- One in four groups are running so close to the bone that they had less than 30 days' cash in hand. 42% ended 2012 with a deficit.
- Thirty-nine percent of the charities said their financial situation is so challenging they plan to change the principle ways they raise and spend money.

Conclusion – Preserve the Vital Partnership Between Nonprofits and Government:
This issue has been looked at across the country and the same conclusion has been reached no matter the political philosophy of the reviewing body – the work of charitable nonprofits in our communities is too important to undermine by discouraging giving back.

Maine nonprofits are critical partners with state and local governments. They supplement government funding with charitable giving, volunteerism, and in-kind donations to have greater impact on the important issues of our times. Please preserve this long-time, effective incentive for charitable giving and vote Ought to Pass on LD 1664.

Thank you for your time and I am happy to answer any questions you may have.

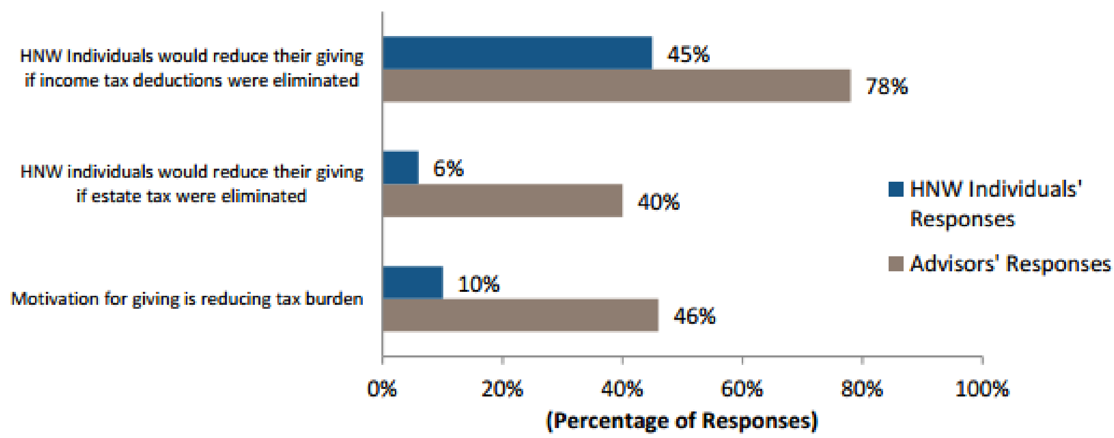
THE U.S. TRUST STUDY OF THE PHILANTHROPIC CONVERSATION:
Understanding advisor approaches and client expectations
OCTOBER 2013

http://newsroom.bankofamerica.com/sites/bankofamerica.newshq.businesswire.com/files/press_kit/additional/US_Trust_Study_of_the_Philanthropic_Conversation_2013.pdf

The following is a chart from page 3 of the US Trust Study. The Blue bar shows the response of High Net Worth (HNW) Individuals. The gray bar shows what their financial advisors believe HNW Individuals would say.

Clearly, the income tax deduction is much less important than the advisors believe, but it is not unimportant.

Chart 3: Tax Benefits as a Motivation for Giving: Less Important than Advisors Think



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Provided by the Maine Association of Nonprofits with LD 1664 Testimony.
January 22, 2014

THE PEW CHARITABLE TRUSTS

State and Consumer Initiatives

September 24, 2013

Charitable Giving Tied to State Tax Deduction Decisions

By Elaine S. Povich, Staff Writer

States that have tinkered with one of the most sacrosanct of all tax write-offs – state income tax deductions and credits for charitable contributions – have seen their local charities suffer the backlash. Their decisions offer insight for other states and for federal officials who are contemplating reducing or eliminating tax incentives for charitable giving.

Young children in St. Joseph, Mich., help load donated food supplies into a van last November for delivery to Feeding America West Michigan Food Bank. A Michigan tax reform law in 2011 eliminated a special tax credit for these kinds of donations to food banks. (AP)

Tax incentives for charitable giving directly affect donations, particularly from high-income donors, according to Jon Bakija, an economics professor at Williams College. "Tax incentives for charitable donations in the U.S. succeed in causing donations to increase, probably by about as much or more than they cost in terms of reduced tax revenue," he wrote in a paper published recently by the journal Social Research.

"This strengthens the case for the tax subsidies for donations," he wrote.

But states and the federal government covet the revenue.

President Barack Obama proposed in his fiscal 2014 budget capping federal tax deductions, including for charitable contributions, to 28 percent for the wealthiest taxpayers, those in the top 2 percent. This would raise $529 billion from 2014-2023, according to the nonpartisan Tax Policy Center, which used administration data. In general, taxpayers can now deduct up to 50 percent of adjusted gross income for cash donations, up to 30 percent for property and up to 20 percent for appreciated capital gains donations.

With states and the federal government looking for revenue to plug budget gaps, several proposals have emerged to cap or eliminate tax deductions for charitable giving. Donations to religious institutions and other nonprofits that serve the poor and educational entities generally qualify.

In its massive tax overhaul in 2011, Michigan scrapped almost all tax credits, including those for charitable donations to food banks, homeless shelters and community foundations. Now, as the state tries to recover from the recession and unemployment is high, advocates say those charities which could help the poor and jobless are hurting as donations decreased.

Hawaii tried something similar in 2011, capping all itemized deductions at $25,000 for individuals and $37,500 for heads of households. These limits applied only to state tax returns for taxpayers with incomes above $100,000 for individuals and $150,000 for households. But the state reversed course and allowed deductions for charities this year after the charities screamed foul and produced data that showed revenue the state gained was offset by the cost to communities to do the work formerly done by charities.

Among other states that have addressed these deductions:

- New York enacted a 2013-2014 budget that extends a limit on tax deductions, including charitable contributions. State taxpayers with adjusted gross incomes of more than $10 million are limited to a 25 percent itemized deduction, and taxpayers with adjusted gross income of more than $1 million and less than $10 million are limited to a 50 percent state tax deduction. The state estimated that the tax change would pick up an extra $100 million annually.
- Vermont is expected to take up restrictions on the charitable deduction in its 2014 legislative session's discussion of overall tax reform. Proposals to cap itemized deductions (including charitable deductions) at 2.5 times the standard deduction, or $29,750 total for a married couple, were developed in the 2013 session.
- Missouri restored seven tax credits in 2013 for charitable contributions to food pantries, crisis nurseries, child advocacy centers and pregnancy resource centers among others, after letting them expire over several years as a cost-saving measure.
- Kansas reduced itemized deductions this year but made an exception for charities.
- North Carolina, in its 2013 tax reform plan, capped itemized deductions at $20,000 but made an exception for the charitable deduction. Tax reform sponsor Sen. Bob Rucho, a Republican, said his original idea was to cut all deductions and credits, including for donations to charities, to "make sure the government wasn't picking winners and losers in the tax code." He said that plan would have lowered people's taxes dramatically, which meant they could "choose a charitable contribution, save the money or buy something" with the extra money.

Michigan eliminated three tax credits in 2011: those for gifts to community foundation endowments, gifts to food banks and homeless shelters and donations to educational and library facilities. In announcing his budget that year, Gov. Rick Snyder said a "shared sacrifice" would help the state's economy and "ultimately will benefit citizens, families and communities through the economic growth and job creation that is generated."

A study by the Johnson Center at Grand Valley State University, however, found the number of $400 donations to Michigan community foundations fell 51 percent, the number of $200 donations dropped 28 percent and the number of all donations $400 and below decreased an average of 27 percent – a total loss of more than $1.15 million just for the foundations.

Rob Collier, executive director of the Council of Michigan Foundations, said elimination of the tax credit was devastating and cost all types of charities $50 million in 2012. "We had trained Michiganders to write a $400 check, knowing they would get a $200 credit," he said. "All of a sudden, it's like 'we're going to get rid of it.' We knew we were going to lose some giving here, and we did."

The move to limit the write-offs for charitable contributions does not appear to be linked to a political party. Michigan's tax credits were started under a Republican Gov. John Engler, and eliminated under Snyder, another GOP governor.

After Hawaii Gov. Neil Abercombie, a Democrat, saw the fallout from his state's deduction cap, he signed a bill passed this year by the Democratic-controlled legislature lifting the cap.

The cap was expected to bring in about $12 million to the Hawaii treasury, according to Mallory Fujitani, of the Hawaii Department of Taxation. But the provision cost charities $50 million to $60 million in lost donations, according to Tim Delaney, president and CEO of the National Council of Nonprofits. That forced the state or local communities to try to make up the difference, he said, which was often impossible due to lack of funds.

"For every dollar the state was bringing in, it was losing five dollars in donations," Delaney said. "It's very difficult for elected officials to say, 'oops I goofed.' They had the political courage to come out and say we really blew it."

Some argue that charitable giving is not necessarily tied to tax incentives.

Subsidyscope, a project of The Pew Charitable Trusts (the parent organization of *Stateline*), said in a 2009 study that while charitable deductions are an incentive "some of the giving would have taken place whether or not a tax subsidy was available to donors."

"What we learned in the states is that the charitable deduction is not just a nice thing for taxpayers, it's vital to the communities," said David L. Thompson, vice president of public policy at the National Council of Nonprofits. "All politicians from across the political spectrum have come to the same conclusion that we are hurting our communities by discouraging giving to charities."

Issues: Taxes

States: Hawaii, Michigan, New York, North Carolina, Vermont