NATIONAL COUNCIL OF NONPROFITS
National voice. State focus. Local impact.

To: Joint Standing Committee on Taxation
From: David Thompson, Vice President 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 Joint Standing Committee on Taxation:

On behalf of the National Council of Nonprofits, I submit this written testimony in strong support of LD 1664 to share recent experiences of other state legislatures in addressing how caps on charitable giving incentives adversely affect constituents and the work of charitable nonprofits in their communities. The National Council of Nonprofits has a unique perspective as the nation's largest network of charitable nonprofits that tracks nonprofit trends from coast to coast through its state association members, including the Maine Association of Nonprofits.

The State of Maine is not unique in its experience of financial shortfalls throughout the Great Recession. Since 2008, state governments have reduced spending by more than $500 billion.[1] Likewise, charitable nonprofits in Maine have experienced significant challenges similar to those of their colleague organizations across the country. The accumulation of funding cuts by federal, state, and local governments, together with historically low giving levels,[2] have made it increasingly difficult for nonprofits to respond to growing community need. Last year, more than half of the charitable nonprofits surveyed reported that they were unable to meet demands for their services.[3]

It is within this context that we offer a national perspective on how state legislatures removing or limiting the incentives for charitable giving harms the work of charitable nonprofits in communities and the people they serve.

Understanding the Charitable Deduction

I will briefly summarize two points abut charitable giving incentives that are common across the states before addressing the experience of other legislatures in recent years.

A Unique Incentive: The charitable giving incentive is different from other itemized deductions in that donors receive no personal benefit other than the deduction itself. And the community benefit is far greater than the value of the deduction to the individual: at the federal level, for every dollar in tax reduction a person gets, the public receives three dollars or more in impact through the work of charitable nonprofits. Martin Feldstein, former Chair of President Reagan's Council of Economic Advisors and the person who first proposed capping itemized deductions, has recognized that the incentive for giving back to

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[1] "States Continue to Feel Recession's Impact," Center on Budget and Policy Priorities, June 2012.
[2] "The Nonprofit Sector in Brief 2012," Urban Institute National Center for Charitable Statistics.
[3] "2013 State of the Sector Survey," Nonprofit Finance Fund, April 2013.

communities is different from other itemized deductions: "The full deduction for charitable contributions should be retained, because the money that taxpayers give to charity benefits those organizations rather than the individual taxpayer."[4]

A Nonpartisan Community-Building Incentive: As legislatures in red and blue states discovered in 2013, the true beneficiaries of charitable donations are the individuals and communities relying on nonprofit programs, services, and innovations. Nonprofits of all sizes and missions depend on the current charitable giving incentive to feed, house, and clothe individuals in need; to promote economic and social well-being, including arts that inspire innovation in businesses, and child care to allow parents to contribute their skills in the workforce; and to solve problems that the charitable nonprofits are best suited to address.

State Consideration of Charitable Giving Incentives

Last year, several state legislatures across the country looked at their tax codes with an eye toward raising revenues, lowering rates, streamlining their tax codes, or some/all of the above. With the notable exception of Maine, virtually every state concluded that the support that charitable nonprofits provide to their communities, made possible by charitable donations, is too important to risk limiting the tax incentives.

The consensus is profound because it ignored any hints of partisanship. Over the course of 2013, legislators in red states like Kansas[5] and North Carolina[6] expressly preserved their charitable giving incentive, even while capping all other itemized deductions. Blue states like Oregon[7] and Minnesota[8] thought about capping charitable deductions, and then rejected the idea. The Oregon House voted to cap itemized deductions, but expressly refused to apply the limit to charitable deductions. The Minnesota Legislature considered switching to an eight-percent, nonrefundable tax credit for charitable giving, but ultimately rejected the proposal and retained the state's charitable deductions for both itemizers and non-itemizers.

Purple states concurred in 2013. Citing the importance of giving to nonprofits serving local communities, the Montana Legislature renewed the state's charitable endowment tax credit for another six years.[9] Missouri restored a series of charitable tax credits for giving to food pantries, pregnancy resource centers, and the Children in Crisis program that previously had been allowed to expire in recent years due to budget constraints.[10] The statement of Missouri State Senator Bob Dixon (R, Springfield) is particularly relevant to the debate in Maine: "Allowing them to expire [did] not save the state one dime in the end. The work they [nonprofits] accomplish – in terms of the lives saved or improved or the long-term impact on the state budget – has been worth far more than the amount of credits redeemed."[11]

Regardless of political ideology, one can learn from past mistakes when legislatures harmed communities by limiting charitable tax incentives. As noted above, Missouri restored numerous tax incentives for charitable giving when it saw the consequences.

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[4] "It's Time to Cap Tax Deductions," Martin Feldstein, *The Washington Post*, March 12, 2013.
[5] Kansas HB 2059, signed by Governor on June 13, 2013.
[6] North Carolina HB 998, signed by Governor on July 23, 2013.
[7] Oregon HB 2456; see testimony of James White, Nonprofit Association of Oregon, April 9, 2013.
[8] See "Preserving Charitable Giving Incentives," Minnesota Council of Nonprofits; see also, "Minnesota Tax Proposal Could Cut Charitable Giving," Jon Pratt and Sarah Caruso, *Minneapolis Star-Tribune*, May 13, 2013.
[9] Montana SB 108, signed by Governor on April 26, 2013.
[10] Missouri SB 20, signed by Governor on March 29, 2013.
[11] "Sen. Dixon Announces Child Tax Credit Bill," *Springfield News Leader*, December 3, 2012.

Most relevant to the debate in Maine, in 2011 the Hawaii Legislature capped all itemized deductions, including charitable donations.[12] Policymakers later found that the estimated $12 million in revenue to the state came at an unacceptable cost of at least $60 million per year in lost donations – a one-to-five ratio of loss of good works in the community. Hawaii's Governor Neil Abercrombie signed legislation in July 2013 removing the limit on charitable donations.[13] What he said in supporting the giving incentive is instructive and compelling: "After having taken a close look at the impact this particular section of the law is having on charitable donations made to Hawaii's nonprofit organizations, we support carving out this portion of the law" to protect full deduction of charitable contributions.

The resounding show of support for the work of charitable nonprofits in red, blue, and purple states has occurred because policymakers are all coming to the same conclusion: that nonprofit organizations, supported by charitable contributions, are touching the lives of constituents in meaningful ways. These community-based organizations are improving lives, strengthening the economy, advancing the well-being of their communities, and lightening the burdens of government, taxpayers, and society as a whole.

Legislators across the country are recognizing that the true beneficiaries of charitable donations are the individuals and communities relying on nonprofit programs, services, and innovations. Nonprofits of all sizes and missions depend on charitable giving incentives to continue to meet existing and growing demand.

The states that have considered, and re-considered, charitable deductions have found that capping or eliminating charitable giving incentives significantly undermines financial support for the work of nonprofits. Through the giving of their time and money, Americans support the ability of nonprofits to deliver essential services in local communities across the country.

As the Maine Legislature considers LD 1664, we believe it is more important than ever to understand the role of the charitable giving incentive as a lifeline for communities and remove the cap on the state's charitable deduction.

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The National Council of Nonprofits is a trusted resource and advocate for America's charitable nonprofits. Through our powerful network of State Associations and 25,000-plus members – the nation's largest network of nonprofits – we serve as a central coordinator and mobilizer to help nonprofits achieve greater collective impact in local communities across the country. We identify emerging trends, share proven practices, and promote solutions that benefit charitable nonprofits and the communities they serve.

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[12] Hawai`i Senate Bill 570 SD2, HD1, CD1, signed by Governor on June 9, 2011; codified as Act 97, Session Laws of Hawai`i 2011.
[13] Hawai`i HB 430, signed by Governor on July 9, 2013; see also, "Tax Reform Lessons Learned from State Experiments," Lisa Maruyama and Tim Delaney, *Huffington Post*, July 25, 2013.