

GOVERNMENT RELATIONS UPDATE

- WHERE ARE WE?
- HOW DID WE GET HERE?
- WHERE MIGHT WE BE GOING?

St. Louis Planned Giving Council

Craig C. Wruck
February 11, 2010



"Charitable giving exceeded \$300 billion for the second year in a row ..."

"... a 2% drop over 2007 ..."

U.S. charitable giving estimated to be \$307.65 billion in 2008

Charity "the first decline in giving since 1987 ..."

Charity, III (June 10, 2009)—Charitable giving in the United States exceeded \$300

"... and the second since Giving USA began publishing in 1956 ..."

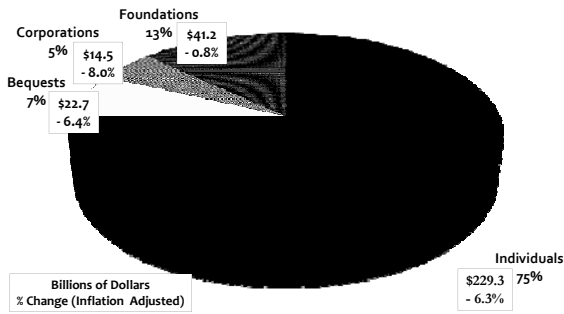
"... two-thirds of public charities saw decreases in 2008..."

on philanthropy, released today for the 54th year by Giving USA Foundation™

(www.givingusa.org) Revised estimated giving for 2007 was a record \$314.07 billion.

Two-thirds of public charities receiving donations saw decreases in 2008. The recession

2008 Giving: \$308 billion



THE CHRONICLE OF PHILANTHROPY

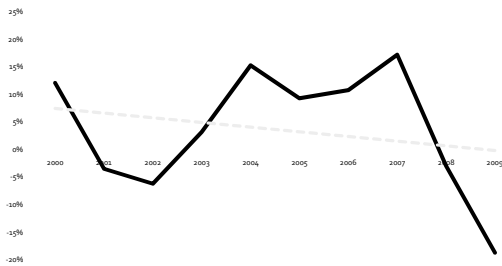
THE NEWSPAPER OF THE NONPROFIT WORLD

June 18, 2009

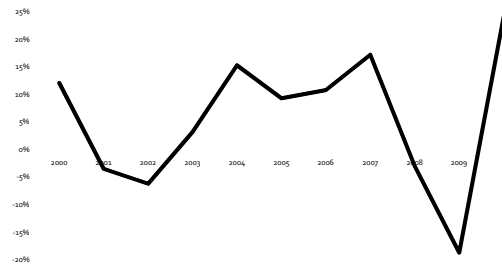
A Long Road to Recovery

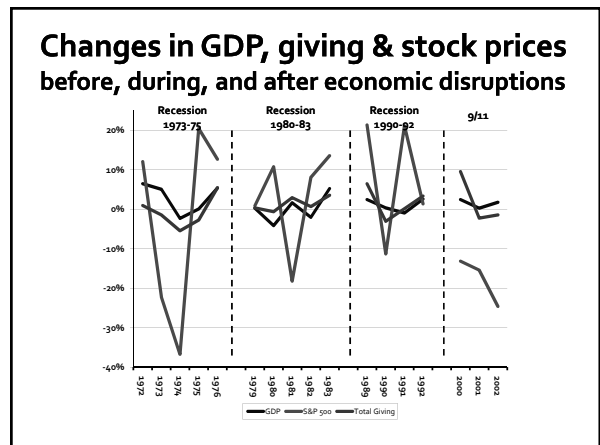
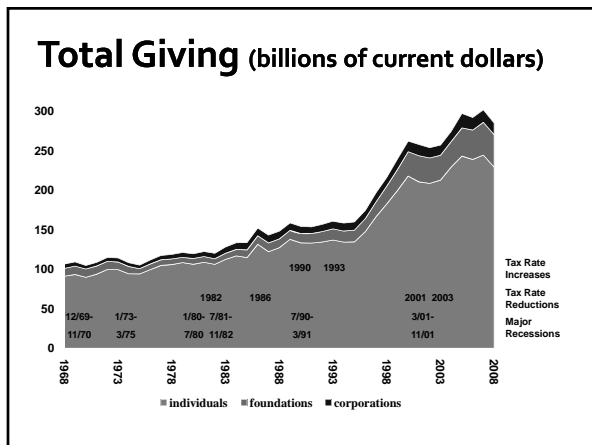
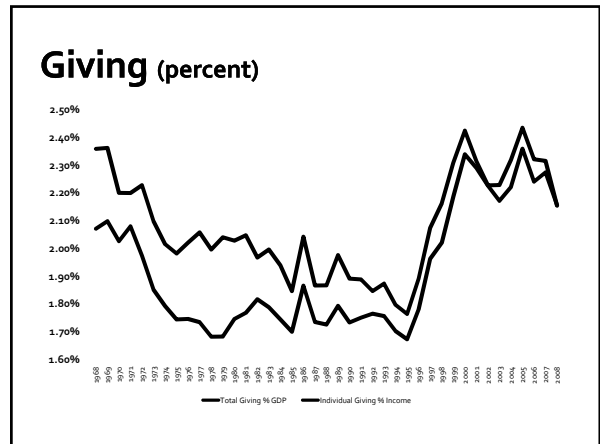
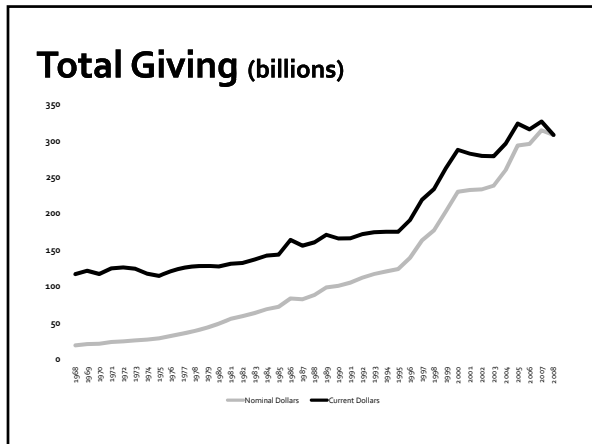
As giving dropped more than at any other time in half a century, signs suggest that this recession most resembles the one in the mid-1970s — and that means giving may not recover until at least 2012.

Endowment Total Return (Fiscal Years ending June 30)



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History of the Charitable Deduction

- ◆ **1913:** Federal Income Tax enacted
- ◆ **1917:** first charitable deduction – limited to 15% of taxable income
- ◆ **1924:** 100% deduction – for those who contribute 90% or more of taxable income
- ◆ **1969:** current 50% / 30% AGI limits replace the 15% / 100% limits
- ◆ **1981-85:** limited deductions temporarily allowed for non-itemizers

Charitable Deduction Effectiveness

- ◆ 27% of households itemize
- ◆ Itemizers make more than 68% of contributions
- ◆ Overall, those who claim a charitable deduction give nearly twice the percent of income as those who do not
- ◆ For incomes over \$100,000, itemizers give more than three times the percent of income as those who do not

Effect of Deduction Cap

Consider gift of \$10,000 FMV stock with \$2,000 basis from a donor in the highest tax bracket:

	2000	2009
Contribution	\$10,000	\$10,000
Income Tax saved	3,960	3,500
Cap Gains Tax avoided	1,600	1,200
After Tax Cost of Gift	\$4,400	\$5,300

The real after tax cost of this contribution has increased \$900, or 20%

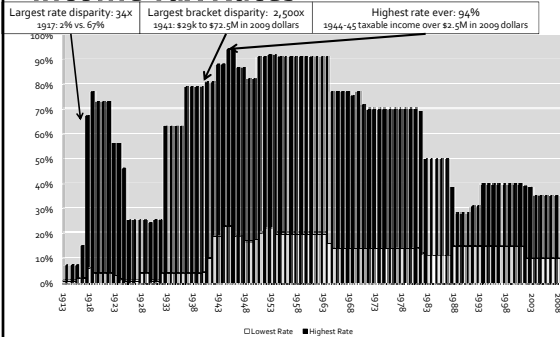
Effect of Deduction Cap

Consider gift of \$10,000 FMV stock with \$2,000 basis from a donor in the highest tax bracket:

	2000	2009	Proposed
Contribution	\$10,000	\$10,000	\$10,000
Income Tax saved	3,960	3,500	2,800
Cap Gains Tax avoided	1,600	1,200	1,200
After Tax Cost of Gift	\$4,400	\$5,300	\$6,000

The real after tax cost of this contribution has increased \$1,600, or 36%

Highest and Lowest Income Tax Rates



Political Realities

- ◆ Charitable Deduction:
 - 73% do not itemize
 - 94% with incomes over \$100,000 do itemize
 - 91% with incomes less than \$30,000 do not itemize
- ◆ Tax Exemption:
 - "good" versus "bad" charities
 - commercialism by charities
 - perceived abuses of the tax exemption

Political Realities

- ◆ The charitable deduction is politically difficult to defend: deductions primarily benefit the wealthy
- ◆ Taxpayers will react to changes in the law by adjusting their behavior to account for increased costs of giving
- ◆ The poor, the needy, and other beneficiaries of charitable organizations will be most directly affected by reductions in tax incentives for charitable giving

The 111th Congress

- ◆ Senate – 100 seats
 - ◆ Democrats have majority control – 59* to 41
 - *including two independents (Lieberman & Sanders)
- ◆ House of Representatives – 435 seats
 - ◆ Democrats significant majority – 256* to 178
 - *special election in Florida's 19th District, April 2010
- ◆ A "Congress" runs for two years
 - ◆ To become law legislation must be:
 - ◆ Introduced in each chamber
 - ◆ Referred to committee for study and action
 - ◆ Passed in identical form by a majority vote
 - ◆ Signed by the President
 - All within the two-year term of a Congress

Legislative Initiative

The Public Good IRA Rollover Act (S. 864, H.R. 1250)

- ◆ Permanent provision, no annual limit
- ◆ Outright contributions beginning at 70½
- ◆ Life income gifts at age 59½
- ◆ Bi-partisan support: 13 co-sponsors in the Senate and 68 in the House (Burton, Ellsworth, & Souder)

Temporary "Charitable Rollover" → expired 12/31/09 ←

- ◆ Donors aged 70½ or older can transfer up to \$100,000 per year to charity without paying income tax on the amount transferred
- ◆ The transfer must be from the qualified plan to directly the charity

Committees

Ways & Means Committee
Chair: Charles Rangel



Senate Finance Committee
Chair: Max Baucus



Public Policy Issues

- ◆ Tax reform – How extensive?
 - Most "Bush Tax Cuts" expire in 2011
 - Promise to reduce taxes for most
 - Need to pay for healthcare reform
- ◆ Continuing concern over abuses of tax exempt status
 - SFC Chair Baucus shares Senator Grassley's concerns over perceived abuses
- ◆ "Non-profit reform" could become a legislative trifecta

Senate Finance Committee

- ◆ 2004 & 2005: hearings examine abuses of charitable deduction, tax exempt status
- ◆ Proposed legislation increasing reporting & accountability requirements
 - aimed at perceived abuse of tax exempt status and the charitable deduction
 - already implemented changes to vehicle donation programs, donations of clothing
 - initially proposed an "omnibus bill," instead adopting reforms piecemeal

Joint Committee on Taxation

- ◆ 2006 report & recommendations for raising revenue includes items affecting charitable organizations and their donors
- ◆ Suggests tax incentives for charitable giving be viewed a "tax expenditure"

Public Trust

- ◆ Only 15% express a “great deal of confidence” in the ability charities to manage their contributions
 - Comparable to confidence level in HMOs, the media, and Congress
 - Prior to 9/11 more than 25% expressed a “great deal of confidence”
- ◆ National Heritage Foundation – bankruptcy January 2009
 - Promoter of donor advised funds and split-dollar insurance
 - \$15 million in gift annuities and 5,000 donor advised funds in jeopardy

Tax Incentives for Charitable Giving



The charitable sector promotes and ensures the well-being and vitality of the nation.

Reduction in tax incentives for charitable giving will produce catastrophic consequences for the public by crippling the charitable sector.

- NCPG Resolution, 1998

Reasons for optimism

- ◆ Donors are plentiful – even if they cannot give as often
- ◆ Americans are generous – especially at the lower end
- ◆ Donors are willing to consider unusual gifts
- ◆ Tax changes may provide new opportunities
- ◆ New attitude of community aligns with philanthropy

