

Division of Government & Public Affairs

## **Charitable Giving and the Federal Charitable Income Tax Deduction**

*Proposals to cap and reduce the value of the federal income tax deduction for charitable contributions have been offered as a means of increasing tax revenues to help reduce federal budget deficits. While we recognize the need to reduce deficits and address the rising national debt, policy makers should seek, as much as possible, to preserve the value of the federal charitable income tax deduction, which helps generate needed private support for colleges and universities.*

- **The federal income tax deduction encourages charitable giving that benefits higher education and society in general.** While donors make charitable gifts for many reasons, it is well established that the charitable tax deduction is an effective incentive that helps generate and sustain charitable donations. The charitable deduction is a unique tax policy that encourages and rewards private behavior that supports the common good. The basic principle underlying the charitable deduction is that taxpayers should not be taxed on income that does not benefit them directly because they give that income away to support the public good. The benefit to society of a charitable donation far exceeds the financial benefit received by a donor. For every dollar a typical donor receives in tax relief for his or her gift, the public gains approximately three dollars of benefit.
- **In this challenging economic climate, charitable gifts are an increasingly critical source of support for colleges and universities.** The economic crisis has exacerbated a 20-year trend of declining state support for public higher education. Public and private institutions have also experienced historic declines in the value of their endowments. At the same time, many families are under financial stress, creating greater demand for student financial aid. Without significant charitable contributions, many colleges and universities cannot accomplish their missions, restrain tuition increases, and maintain student financial aid.
- **The teaching, research, and public service missions of colleges and universities are supported by charitable giving.** As nonprofit charitable tax-exempt entities, public and private colleges, universities, and the foundations that support them are among the beneficiaries of charitable giving. According to the Council on Aid to Education, colleges and universities in 2010 received \$28 billion in charitable gifts to support their educational missions of teaching, research, and public service.
- **Private charitable donations work in concert with federal investments to ensure access to higher education through student aid and support groundbreaking research and technological innovations.** This partnership has delivered enormous economic benefits to our society. To ensure the United States' long-term economic growth, we need to expand access to education and continue to invest in critical academic research and innovation. Therefore, we should continue to encourage all individuals, regardless of income and wealth, to make charitable donations. Preserving the value of the charitable donation is a very effective way to do so.

October 2011