

TAX REFORM AND HIGHER EDUCATION

What Students, Families, and Institutions Need to Know

Talking Points: Charitable Deduction

Charitable Giving is Critical to Educational Institutions

- Charitable donations help colleges, universities, and independent schools achieve their teaching, research, and public service missions. For the past 100 years, the charitable deduction has encouraged individuals to make significant, transformational gifts to educational institutions.
- As federal and state governments continue to cut funding for higher education, raising private support from individuals has become even more crucial for colleges and universities.
- According to the Council for Aid to Education's Voluntary Support of Education Survey, donors contributed \$41 billion to higher education in 2016, an increase of 1.7 percent over the previous year.

The Tax Cuts and Jobs Act Would Lead to a Decline in Charitable Giving

- While the Republican tax reform plan preserves a charitable giving incentive, its value would be significantly curtailed and charitable giving would decline. A study commissioned by Independent Sector finds that the Republican tax reform plan could lead to a \$13.1 billion decline in giving.ⁱ
- Since the value of the charitable deduction is tied to a taxpayer's marginal tax rate, tax rate cuts would automatically increase a donor's cost of giving.
- Additionally, doubling the current standard deduction threshold, would significantly reduce the number of taxpayers who itemize their tax returns (from roughly 30 percent of taxpayers to 5 percent), effectively eliminating the charitable deduction for 95 percent of Americans.
- A Nov. 7 memorandum from the Joint Committee on Taxation (JCT) found that 41 million donors would give around \$241.1 billion in 2018 under current law, as opposed to 9 million donors giving approximately \$146.3 billion under the House plan. That would be a \$95 billion drop—or 40 percent—in the use of the charitable deduction under H.R. 1.

Lawmakers Should Include a Universal Charitable Deduction in Tax Reform

- The charitable deduction is unlike other itemized deductions because it encourages people to voluntarily give away their money to improve their communities, shape the public good, and help others. If anything, incentives for this type of behavior should be enhanced, not limited.
- Instead of enacting changes that would curtail the charitable deduction, lawmakers should strive to enhance and expand it. A universal, or above-the-line, charitable deduction would expand the deduction to all taxpayers and exclude all charitable gifts from taxation. Such a proposal would increase giving in both dollars and the number of

new donors, increase fairness by treating all taxpayers' charitable contributions equally under the tax code, and provide modest tax relief for low- and middle-income taxpayers.

- The Independent Sector study found that a universal charitable deduction would generate \$4.8 billion in additional giving if such a proposal was included in the Republican tax reform plan.

¹ Independent Sector Study <http://www.independentsector.org/wp-content/uploads/2017/05/tax-policy-charitable-giving-finalmay2017-1.pdf>