

## Friday, December 3, 2010

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The latest edition of the ACR newsletter is available below.

## Washington Roundup

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The lame duck session of Congress returned from Thanksgiving recess on Monday, November 29 to a full agenda with a just a few short weeks until the targeted December 17 adjournment. However, if progress is not made within that time Congress could be wrapping up as late as Christmas Eve. Here are updates from the capital:

### Taxes

Earlier this week, the Senate passed The FDA Food Safety Modernization Act (S. 510) and swore in Republican Senator Mark Kirk, who was elected to serve in President Obama's unexpired seat. An agreement on what to do about the expiring Bush tax rates is unlikely in the next two weeks, but may occur before this Congress adjourns for the year.

Republicans insist on a permanent extension of the Bush tax cuts with no income limits, which is difficult in this Congress. On Thursday, December 2<sup>nd</sup>, the House of Representatives [passed](#) a bill that would extend tax cuts to families with incomes below \$250,000. The bill passed by a vote of 234-188, with 3 Republicans voting in favor of the bill and 20 Democrats voting against it. In the Senate, we expect two tax cut votes on Saturday, December 4<sup>th</sup>, and expect neither to reach the 60 vote threshold needed for consideration. The first vote will be on the House-passed bill plus the business tax extenders (which includes extending the IRA charitable rollover provision through 2011), and the second vote will be on a proposal by Senator Chuck Schumer (D-NY) to extend the Bush tax cuts to households earning \$1 million or less.

In addition, at a meeting with House and Senate leaders on Tuesday the President called for a Tax Summit to try and break the stalemate before year end on the expired and expiring rates, deductions and credits. On Wednesday a bipartisan group comprised of Treasury Secretary Tim Geithner, Office of Management and Budget Director Jacob Lew, Senators Max Baucus (D-MT) and Jon Kyl (R-AZ), and Representatives Chris Van Hollen (D-MD) and Dave Camp (R-MI) began negotiating. The President and other attendees said that the meeting marked the first in a series of meetings to address the expiring tax rates, deductions and credits before the end of this year.

### Deficit Commission

On Wednesday, the President's National Commission on Fiscal Responsibility and Reform issued their [report](#) of proposed recommendations to reduce the deficit. All of the proposed recommendations call for massive discretionary spending cuts and eliminating much-loved tax incentives, including the charitable deduction. In exchange for eliminating the \$1.1 trillion of expenditures in the code (that are used to lower taxable income), the report includes various options to lower individual and

corporate income tax rates including one that would create three marginal tax brackets of 12 percent, 22 percent, and 28 percent for individuals. The full Commission is scheduled to vote on the proposed recommendations today. Reports suggest that they will not be able to achieve the requisite number of votes (14 of 18) to advance any of the recommendations. Nonetheless, the value of this report is the precedence it sets and the conversations that it will prompt in the next Congress. Indeed, when policymakers get truly serious about tackling the deficit and we believe they will, the recommendations of the Commission will be one of the first places they look to for ideas.

### Former House Ways and Means Chairman Censured

The House of Representatives voted 333-79 on December 2<sup>nd</sup> to censure former Ways and Means Chairman Charles Rangel (D-NY) for a variety of ethical violations. While censure is just one step below expulsion, it does not result in any loss of title, stature or power to vote in the House of Representatives. In essence, it is a public reprimand.

## In the States

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State legislatures are gearing up to open for business early next year, many with new parties in power and/or new executives at the helm. It's [reported](#) that the shifts toward Republican leadership are making nonprofits anxious about what kinds of spending cuts new GOP governors and legislators will make. For example, in Wisconsin, governor-elect Scott Walker [noted](#) that he is open to privatizing all state operations but the prisons.

What has not changed are the rising budget gaps and painful spending decisions states and municipalities face. Many states which accepted federal stimulus money to help bridge revenue shortfalls last year, have the added challenge of replacing that one-time federal cash infusion.

[Previously](#), we reported that in an effort to close budget shortfalls localities have been devising ways to obtain revenue from tax-exempt organizations. Along that line, a new [report](#) released this week by the Lincoln Institute of Land Policy indicates that interest in collecting payments in lieu of taxes (PILOTS) from charitable nonprofit organizations is likely to grow as cash-strapped municipalities look for additional revenue. PILOTS are currently in use in 117 municipalities across 18 states including Baltimore, Boston, Philadelphia, and Pittsburgh. The report highlights that the way PILOTS are administered may lead to unintended consequences.

## Consider This...

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### Looking into the Crystal Ball: The Future of the Charitable Deduction

As the 111th Congress winds down –most likely with a whimper not a bang– it is worth looking ahead to the next Congress to see what's on their agenda for the issues important to the charitable community. Let's start with the charitable deduction.

Here is what we already know:

- President Obama's last [budget](#) contained a 28 percent cap on itemized deductions, including the charitable deduction.
- The Senate Finance Committee toyed with yet another [iteration](#) of this proposal in the context of health care reform.
- Prior to the release of their deficit commission [report](#), former Senator Al Simpson (R-WY) and

former White House Chief of Staff Erskine Bowles posed three options that would, among other things, affect the charitable deduction. Option 1 would set a floor for the charitable deduction based on a taxpayer's income (any amounts below the floor wouldn't be deductible). Option 2 would eliminate the deduction altogether in exchange for lower tax rates. The third option would limit the deduction, absent a plan to overhaul the tax system by 2012.

- Earlier this week, Our Fiscal Security, a group of progressive institutions, released "Investing in America's Economy." Among other considerations their [proposal](#) would convert the charitable deduction into a 25 percent flat tax credit available to every taxpayer (non-itemizers as well as those with no tax liability).
- Recently, the Bipartisan Policy Center, a group chaired by former Senator Pete Domenici (R-NM) and former White House Budget Chair Alice Rivlin, went even further by [proposing](#) to convert the charitable deduction into a 15 percent credit as part of their tax reform plan. Read more about it [here](#).
- Finally, on Monday of this week, writing in the New York Times, conservative economist Martin Feldstein [called](#) for an overall cap on tax deductions for individual taxpayers, saying that "individuals subject to the cap would not have any tax-driven incentives to do more of the capped activities."

How worried should we be about this wave of proposals to cap or eliminate the charitable deduction? In the short term, not so much. But going forward, as the pressure to get control of an out-of-control budget deficit mounts, very much. When policymakers get serious about closing the budget gap, the proposals outlined above will be seen as road maps toward that end.

## Making Headlines

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Here are recent headlines you may find interesting:

### Federal

Additional reporting on the deficit commission report released this week and other debt reduction proposals:

- 12/1 Deficit Panel's Painful Budget Draws Challenges, Fox News  
<http://www.foxnews.com/us/2010/12/01/deficit-panel-split-painful-package-doubt/#ixzz16xeFdGLz>
- 12/1 Key Panel Seeks to Revamp Charity Tax Breaks, Chronicle of Philanthropy  
<http://philanthropy.com/article/Key-Panel-Seeks-to-Revamp/125583/>
- 11/29 Deficit Reduction from the Left, Wall Street Journal  
<http://blogs.wsj.com/economics/2010/11/29/deficit-reduction-from-the-left/>
- 11/29 Liberal Deficit-Cutting Plan Proposes New Charitable Tax Credit, Chronicle of Philanthropy  
[http://philanthropy.com/blogs/government-and-politics/liberal-deficit-cutting-plan-proposes-new-charitable-tax-credit/27670?sid=&utm\\_source=&utm\\_medium=en](http://philanthropy.com/blogs/government-and-politics/liberal-deficit-cutting-plan-proposes-new-charitable-tax-credit/27670?sid=&utm_source=&utm_medium=en)
- 11/28 New Deficit-Cutting Plans to Come from Liberal Groups, New York Times  
[http://www.nytimes.com/2010/11/29/us/politics/29fiscal.html?\\_r=1](http://www.nytimes.com/2010/11/29/us/politics/29fiscal.html?_r=1)
- 11/28 Charitable Deduction Under Scrutiny, Chronicle of Philanthropy  
<http://philanthropy.com/article/Charitable-Deduction-Under/125495/>

12/1 Election Means Challenges for Nonprofit Community, Nonprofit Times  
<http://www.nptimes.com/10Dec/12012010cover1.html>

The Nonprofit Times predicts challenges for the nonprofit community with the new Congress and calls for education of new policymakers on the many benefits of the foundation community.

11/29 Return of Estate Tax Looms as Impediment to Extending Tax Cuts, Bloomberg  
<http://www.bloomberg.com/news/2010-11-29/return-of-estate-tax-looms-as-final-impediment-to-extending-bush-tax-cuts.html>

Bloomberg news highlights how the debate over the estate tax could potentially derail progress made on extending the Bush Tax Rates as the debate breaks down between several groups: the moral faction, the business groups, and those against the wealthy.

11/19 What's in Store for Philanthropy in the New Congress, Nonprofit Quarterly  
[http://www.nonprofitquarterly.org/index.php?option=com\\_content&view=article&id=7441:whats-in-store-for-philanthropy-in-the-new-congress&catid=149:rick-cohen&Itemid=991](http://www.nonprofitquarterly.org/index.php?option=com_content&view=article&id=7441:whats-in-store-for-philanthropy-in-the-new-congress&catid=149:rick-cohen&Itemid=991)

Remarks from Rick Cohen's speech at the South Eastern Council of Foundation's 2010 Annual Meeting highlight top trends with the new Congress and how they will impact philanthropy.

### State/Local

Reporting on the rise in PILOTs across municipalities:

- 11/29 Sounding City's Tax Alarm, Sun Chronicle  
<http://www.thesunchronicle.com/articles/2010/11/29/news/8454336.txt>
- 11/22 Debt Rising, a City Seeks Donations in Michigan, New York Times  
[http://www.nytimes.com/2010/11/20/us/20michigan.html?\\_r=1&emc=eta1](http://www.nytimes.com/2010/11/20/us/20michigan.html?_r=1&emc=eta1)

### Studies/Reports

11/22 How Would Expiration of Bush-Era Tax Cuts Affect State and Local Budgets?  
A Special Report by the Tax Foundation highlights the positive and negative effects of the expiring Bush tax cuts on state revenues whose income taxes "piggyback" off of federal income taxes.

- 11/22 Bush-Era Tax Cuts and States Revenues, Nonprofit Quarterly  
[http://www.nonprofitquarterly.org/index.php?option=com\\_content&view=article&id=7546:bush-era-tax-cuts-and-states-revenues&catid=155:nonprofit-newswire&Itemid=986](http://www.nonprofitquarterly.org/index.php?option=com_content&view=article&id=7546:bush-era-tax-cuts-and-states-revenues&catid=155:nonprofit-newswire&Itemid=986)

A Nonprofit Quarterly op-ed responds to this report.

### Social Media

11/30 A Facebook Founder Begins a Social Network Focused on Charities, New York Times  
[http://www.nytimes.com/2010/11/30/technology/30jumo.html?\\_r=1&emc=tnt&tntemail1=y](http://www.nytimes.com/2010/11/30/technology/30jumo.html?_r=1&emc=tnt&tntemail1=y)  
The Times reports on the newest social networking site to launch, Jumo, which works with Facebook to promote nonprofit organizations, help them raise money and recruit volunteers.

### Other

11/26 To Help Donors Choose, Web Site Alters How It Sizes Up Charities, New York Times  
[http://www.nytimes.com/2010/11/27/business/27charity.html?\\_r=1&scp=4&sq=foundation&st=cse](http://www.nytimes.com/2010/11/27/business/27charity.html?_r=1&scp=4&sq=foundation&st=cse)  
Stephanie Strom reports that Charity Navigator recently overhauled their ratings metrics to donors who are deciding which organizations they might help. Addressing critiques that ratings based on administrative-cost ratios and other financial metrics, they aim to offer a wider, more nuanced array of information about nonprofits and their impact.

Press release: 7/21 Country's Largest Charity Evaluator Expands Analysis, Charity Navigator website  
<http://www.charitynavigator.org/index.cfm?bay=content.view&cpid=1114>

## UPCOMING EVENT

### [Philanthropic Strategies for Helping America's Veterans](#)

The Philanthropy Roundtable and the Council on Foundations will host a conference to highlight ways that donors can help the veterans of America's current conflicts recover from the wounds of war, become leaders in a variety of endeavors, and continue to serve their country as private citizens.

December 7-8, 2010

Arlington, Virginia

For more information or to register visit: [www.philanthropyroundtable.org](http://www.philanthropyroundtable.org)

Alliance for Charitable Reform is a project of The Philanthropy Roundtable.  
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