



ALLIANCE FOR
CHARITABLE REFORM

A Project of Philanthropy Roundtable

Friday, May 7, 2010

The latest edition of the ACR newsletter is available below or online.

Washington Roundup

Congress continues to focus on Financial Regulatory Reform, but there is also movement on other issues of importance to ACR:

- **Flat-Rate Excise Tax** – Senator Charles Schumer (D-NY) introduced legislation in March 2009 to simplify the current two-tiered private foundation excise tax system to a single rate (S. 676). A similar bill, H.R. 4090, was introduced by Congressman Danny Davis (IL-7-D) in November. The bills propose a “revenue-neutral” rate, i.e., a rate that would provide the same federal revenue as the two-tier system. The revenue neutral number is determined by the Joint Tax Committee (JTC), which recently announced that a rate of 1.39% would achieve that goal. ACR will monitor developments on this legislation and sector response to the announced rate.
- **Tax Extenders Legislation** – The House and Senate continue to resolve the differences in their tax extender bills, legislation that renews tax provisions scheduled to expire this year. Both bills include extension of the IRA Charitable Rollover provision which allows individuals over 70 ½ years old to transfer up to \$100,000 directly from an IRA account to a charity without first having to recognize the distribution as taxable income. ACR supports this provision. Congress aims to resolve this issue before Memorial Day recess.
- **Expiring Tax Cuts** – In 2011, tax cuts enacted in 2001 and 2003 for all income levels are set to expire. A majority of congressional Democrats and President Obama support reinstatement of higher rates for incomes over \$250,000 to rates of 36% and 39%. This rate increase could have a negative impact on charitable giving.
- **Estate Tax** – Senators Blanche Lincoln (D-AR) and Jon Kyl (R-AZ) continue to work on an estate tax package that would include a higher exemption and lower rate. This requires the senators to identify means of raising federal revenue to make up the revenue loss associated with this plan. As always, ACR remains concerned that foundations could be tapped as a source of revenue. It will continue to monitor developments on this issue.

In the States

For the past two years, the Obama Administration has proposed limiting the itemized deduction (which includes the charitable deduction) to raise revenues for specific policy priorities. Last year, this limitation or “cap” was proposed to help the Administration’s health care reform. Now, the itemized deduction is suggested as a revenue raiser for other Administration policy priorities.

Up to now, this idea has gained limited traction on Capitol Hill. But, some states have recognized that the deduction presents revenue opportunities.

The [Hawaii legislature](#) recently passed a measure (HB1907) that would cap itemized deductions at \$50,000 for couples with income over \$300,000 and at \$25,000 for individuals with incomes over

\$150,000. This measure is estimated to generate \$30 million a year. The measure has been sent to Governor Linda Lingle.

As states struggle with deficits, we anticipate that similar proposals could be introduced in other states.

Consider This...

Why are we still talking about Congressional proposals to limit the charitable deduction? Hasn't this issue been put to bed?

Washington is in an unprecedented revenue hunt. And from a policymakers' perspective, the revenue cupboard is empty. The House and Senate can't find \$30 billion to pay for a tax package that includes the IRA charitable rollover. They would like to pass a small business tax bill but they don't have the money for that either. And they really don't have the \$100 billion-plus they need to prevent the tax on dividends from jumping from 15 to over 40 percent.

Enter the charitable deduction. It is a tempting target. The Obama Administration is already on board with capping the deduction at 28 percent. Others want to keep the deduction at the current maximum of 35 percent, even AFTER the top rate is expected to float back up to 39.6 percent in 2011. These limits would raise billions. And billions is what Congress desperately needs. But at what cost? Both studies and anecdote suggest that a cap on the deduction could chill charitable giving.

So, that's why we're still meeting with Members of Congress. They are desperate and we are a tempting target.

What are your thoughts? Submit a comment to our staff at info@acreform.com. Your message will NOT be posted or distributed publicly without your permission

Making Headlines

Here are headlines you may find interesting.

Federal:

- 5/6 **John Thune begins to raise his national profile** - Washington Post highlights Senator John Thune, a champion of protecting the charitable deduction, as a potential front-runner for the 2012 Republican Presidential candidate.
- 5/3 **State Bill to Take on Public Corruption**, *New York Times* and (5/2) **Politicians Find Bipartisanship in Using Charities for Personal Gain**, *Chronicle of Philanthropy* examines political figures using non-profits for personal and political benefit.
- 4/29 **Senator Grassley Probes Ties Between Drug Companies, Mental-Illness Charity** - *Chronicle of Philanthropy* reports on Senator Charles Grassley's (R-IA) probe into corporate payments to health charities and other medical groups.
- 4/26 **Charities fear tax plan will stifle donations** - *Los Angeles Business Journal* reports on notable charities expressing concern over the President's proposal to cap the charitable deduction.
- 4/24 **69 Applicants Vie for Grants From Social Innovation Fund** - *Chronicle of Philanthropy* provides information about applicants for the federal Social Innovation Fund.
- 4/22 **IRS Continues Its Focus on Governance Matters, Official Says** - *Chronicle of Philanthropy* reports that the IRS intends continue efforts to promote good governance by charities.

State/Local:

- 5/4 **Hawaii Raises Taxes on the Rich — Again** - *Wall Street Journal* reports on passage of legislation to cap the charitable deduction to raise revenue in Hawaii.
- 4/30 **Promise Neighborhoods Program Is Officially Off the Ground** - *Chronicle of Philanthropy* reports announcement of a new federal public-private partnership program modeled after the Harlem Children's Zone.
- 4/27 **N.J. Gov. Chris Christie aims to cap salaries of nonprofit group executives to \$141K** - *New Jersey Star Ledger* reports that Governor will cap the state-funded portion of salaries for non-profit executives.
- 4/26 **Nonprofits Again Chopped from County Budgets** - *The Tennessean* reports on new revenue streams for local nonprofits impacted by government funding cuts.

Opinions:

- 4/30 **Needs Span Urban-Rural Divisions** - *Association of Baltimore Area Grantmakers* president suggests donors focus on outcomes as much as geographic reach.
- 4/30 **Philanthropy is My Co-Pilot** - *American Prospect* discusses foundations "influencing" public policy.
- 4/30 **The Fawning of the Foundations** - *Wall Street Journal* commentary on programming at the 2010 Council on Foundations Annual Meeting, including suggestions made to foundations to amplify advocacy efforts and to support the Obama Administration initiatives.

Reports/Studies:

- 4/29 **A Growing Tradition? Examining the African American Family Foundation** - A new report from the *Aspen Institute* examines characteristics and giving trends of African American family foundations.

Other Headlines:

- 5/4 **Tax Break for Erotica? A Museum Favors It** - *New York Times* explores challenges when tax-exempt organizations play a supporting role to for-profit corporations.
- 4/28 **Former Vice President Urges All Foundations to Contribute To Climate-Change Fight** - *Chronicle of Philanthropy* reports on Al Gore's speech at 2010 Council on Foundations Annual Meeting.

Save-the-Date

2010 Philanthropy Roundtable Annual Meeting
Explore, Dream, Discover: The Power of Philanthropy
October 14-16 ~ Amelia Island, Florida

Register early for discounts at www.philanthropyroundtable.org.

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