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CHARITIES COAX LAWMAKERS TO RETHINK TAX PLAN

Nonprofits pitch idea of 'universal' tax deduction for charitable contributions, which would likely decline if Congress were to double standard deduction

By Richard Rubin
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WASHINGTON - Charities stand to lose billions in donations if Republicans advance their tax overhaul, prompting the nonprofits to carefully attempt to persuade lawmakers to reshape their plan.

As a result of [a proposal to double the standard deduction](#) and prevent people from deducting state and local taxes from federal taxable income, fewer taxpayers - 5 percent instead of 30 percent - would have a financial incentive to itemize their deductions, including their charitable gifts, according to several estimates.

Moreover, each deduction would be worth less to individuals if marginal tax rates are reduced, as Republicans want.

For example, a married couple with costs of \$7,000 in mortgage interest and \$6,000 in local taxes would exceed today's \$12,700 standard deduction. That couple would have an incentive to itemize and deduct every dollar of charitable contributions. If the standard deduction climbed to \$24,000 or more and state and local taxes stopped being deductible, the same couple would likely claim that standard break rather than itemize.

People don't donate only for the tax deduction. But [according to an Indiana University study](#), these backdoor limits on charitable deductions could reduce giving by \$13 billion, or 4.6 percent, annually. That is about four times [the Salvation Army's 2015 annual revenue](#).

Many nonprofits - including universities, museums and foundations - don't want to be seen opposing a doubled standard deduction, which could lower taxes for millions of middle-class households and make the tax code simpler.

"What I have most encouraged them to do is to offer a solution and not position themselves as adversaries of tax reform," said former GOP congressman Phil English, a lobbyist at Arent Fox LLP, whose clients include Catholic Charities. "If they appear to be against tax reform, per se, they are running the risk of being adverse to many of their own donors."

Instead, nonprofits are pitching an alternative: what they call a "universal" tax deduction for charitable contributions. That switch would let taxpayers deduct donations even if they don't itemize.

"We don't think that anybody should have their charitable giving taxed. Anybody," said David Wills, president emeritus of the National Christian Foundation, who was part of a group including prominent right-leaning donors and foundations that met with members of Congress and Vice President Mike Pence last month.

That idea of personal choice appeals to Republicans, said Rodney Prunty, president and chief professional officer of the United Way of Racine County, Wisconsin. Mr. Prunty said he has been encouraging his representatives - including the local congressman, House Speaker Paul Ryan - to be wary of changes that could undermine charitable giving.

Rep. Kevin Brady (R., Texas), chairman of the tax-writing House Ways and Means Committee, said his panel is taking a "very serious look" at a universal deduction. "We want to encourage Americans, who are incredibly generous already, to give more, to give earlier in life, and to continue to grow," he said last month.

But a universal deduction could be expensive. Measured against today's tax code, that change would lower government revenue by \$191 billion over a decade and deliver some of the biggest benefits to high-income households, [according to an analysis by the Tax Foundation](#), a Washington, D.C.-based think tank that favors a simpler tax system with lower rates.

That would force even more trade-offs. Lawmakers are already scouring the code for revenue-raising provisions to pay for lower tax rates.

Sen. John Thune (R., S.D.), a member of the Finance Committee and GOP leadership, said he wasn't sold on doubling the standard deduction and said the idea needs more study.

"It's a fairly interesting and simple way to allow people to get a significant break in their tax liability, but it does have some implications," he said. "I can see why it would have a lot of appeal, but I think from the charitable community, what that's likely to do is to create fewer itemizers and if you're not itemizing, there's a lot less incentive."

Elsewhere in the tax debate, many charities are choosing to stay on the sidelines when it comes to the estate tax, because [lawmakers are unlikely to be swayed on that issue](#). Republicans' wish to repeal it would depress charitable bequests, which are tax-deductible.

Other policy questions in the nonprofit sector could emerge, including tax rules for foundations and limits on political activity by churches, and those could divide charities.

What unites them is protecting the income-tax deduction.

"It's really the heart and soul of our sector," said Vikki Spruill, president and chief executive officer of the Council on Foundations, an industry association. "As government resources become more scarce, philanthropy will not be able to fill the gap, and so we are concerned that we might have sort of a two-pronged problem."

David L. Thompson, vice president of public policy at the National Council of Nonprofits, said charities aren't "telling Republicans not to do what's orthodoxy."

"Our message is, those policy decisions have consequences," he said.