CommonGood VERMONT

24 March 2015

To: Senator Tim Ashe, Senate Finance Committee

From: Lauren-Glenn Davitian, Common Good Vermont – davitian@cctv.org

Re: Impact of Capping State Charitable Deductions

Last week, the Vermont **House Ways and Means** committee approved, by an 8-3 vote, a plan to cap itemized deductions at 2.5 times the standard deduction as part of a broader package to raise $35 million in new tax revenues. This package includes charitable deductions. **While charitable deductions are estimated to generate $5 million in additional tax revenue, experience in other states show that this will cost Vermont nonprofits millions in charitable giving.** Nonprofit leaders have voiced strong opposition to the plan because of the harmful impact on charitable giving.

Analysis from the **Joint Fiscal Office** indicates that a plan that caps itemized deductions AND excludes charitable deductions will yield $26.9 million in revenue for the state. **Evidence from other states** that have adopted charitable giving caps show that less revenue will be generated for state coffers than expected, with a noted decline in nonprofit revenue from donors.

On Tuesday (3/24), the **Senate Finance Committee** will take up the issue of capping deductions and state tax policy–the next forum for nonprofits to weigh in.

Your help is needed now to contact **Senate Finance Committee** members and the **Speaker of the House** to let them know that charitable deductions should be exempt from state plans to cap itemized deductions. We've attached materials to help you build your argument:

Lessons from Other States

Lessons learned from other state's demonstrate the vital nature of charitable giving incentives. Research in Michigan, revealed a steep decline in giving since 2011 when the state repealed tax credits for donations to food banks, homeless shelters, and community foundations. Missouri, which had allowed a series of tax credits to lapse, restored them in 2013.

Lawmakers in several other states—including North Carolina, Kansas and Minnesota and Montana–considered limiting charitable giving incentives—but then reversed course when they saw the damage that would result.

Michigan: The State has yet to restore a series of charitable tax credits repealed in 2011. In tax year 1989, Michigan's Charitable Tax Credit for Community Foundations went into effect, providing a tax credit of 50 percent for donations to an endowed fund held by a community foundation certified by
the State of Michigan. The Credit was worth up to $200 for a couple or $100 for an individual, and up to
$5,000 or 10 percent of Michigan business tax liability, whichever was less. On Dec. 31, 2011, the

Credit
was repealed effective for the 2012 tax year and beyond.

There was a 37.5 percent decline in first time donors at the $200 level from 2010 to 2013 and an 84 percent decline in first time donors at the $400 level.

The 2013 survey found the following:

- **A 51 percent decrease in $400 donations**
- **A 28 percent decrease in $200 donations**
- **A 27 percent decrease in all donations $400 and below.**

"While the individual $200 and $400 gifts were wonderful, it was the relationships that we started as a result of these Tax Credit gifts that is the greatest loss. In 2013, we had 89% fewer first-time $200/$400 donors than we did in 2010. The loss of the Tax Credit has significantly reduced our pipeline of new donors and will reduce the amount of permanent resources we have to address our community's most critical needs forever."

Major Michigan nonprofits reported 10-29% decline in giving during this period resulting in cuts in program services services.

In Missouri, after the human services tax credits expired in 2012, mission critical organizations saw concrete declines in donations.

Hawaii: Lisa Maruyama, President and CEO of the **Hawaii Alliance of Nonprofit Organizations** filled us in on the experience of Hawaii, a rural state with similarities to Vermont. In 2011, the state confronted a serious 2011 state budget deficit, leading to a cap on itemized deductions, including mortgage interest and charitable giving. What were the affects in Hawaii? The cap on charitable deductions was expected to bring in $12 million to the treasury. But donations were estimated to fall by at least $60 million, according to the Hawaii Community Foundation—costing the community more than it generated.After two years of seeing the adverse effects on giving, the cap was lifted.

General Talking Points

- State spending for many state contracts and grants have levelled or declined over the past several years, making nonprofits more reliant on charitable contributions. While the state is not willing or able to restore full funding for these organizations that carry out state obligations, curbing charitable giving may make it impossible for these organizations to continue to provide these programs at all. The numbers may add up temporarily, but the adverse effect will be felt by every constituent in every community when nonprofits must now say NO to requests for assistance and state government employees must come up with costly solutions to growing problems.

- Most of the categories of itemized deductions are fixed. A taxpayer has already signed the mortgage and is paying local taxes, so that can't easily be altered to stay under the proposed cap of 2.5 times the standard deduction. Taxpayers don't determine how much they will spend on medical care based on the tax deduction; they either have catastrophic expenses or they don't. Only the charitable deduction is truly discretionary. As a result, the cap on itemized deductions is certain to adversely affect charitable giving; people incentivized by the deduction will give to the cap, after mortgage interest, medical expenses, etc. are calculated first. A cap on itemized is a cap on charitable giving, which is, in turn, a cap on the impact and effectiveness of charitable nonprofits in Vermont communities.

- The people hurt by the cap on itemized deductions are individuals in need in communities who do not receive help from nonprofits because the money ran out. Higher income taxpayers aren't hurt (soaked) by the cap; they will spend the same amount as before – they'll just pay more in taxes to the government and give less back in charitable donations to their communities. People in need do not care what tax break made their meal/housing/training available, so long as their urgent needs are met. Politicians may aim their rhetoric at "the rich" but actually hit and harm those most vulnerable in communities, the people that charitable nonprofits are dedicated to serving.

Nonprofit Leaders are Saying…

- **John Killacky**, executive director at the **Flynn Center for Performing Arts**, testified at a recent hearing that "Nonprofit organizations work with [legislators] to solve problems that are too big for government alone. Any short-term gains in tax revenue will come at the expense of the already insufficient social safety net that nonprofits provide and will be much more costly to Vermont long-term."

- **Stuart Comstock-Gay**, President of the **Vermont Community Foundation** also expressed opposition, saying that "While not the primary reason that most people give, tax incentives matter to enough donors that reducing or eliminating charitable deductions will have an impact." The proposal to cap itemized deductions in Vermont was considered and rejected in 2013.

- **Martha Maksym**, Director of the **United Way of Chittenden County** also weighed in: I would ask that you carefully consider if the gain is worth the risk to this critical source of support for our non-profit organization. I have heard from several donors who have expressed that this cap on deductions that included charitable giving would negatively influence their philanthropy. Many other states have learned the hard way that capping the charitable tax deduction has significant adverse impact, and subsequently reversed that decision. I would submit that in these difficult fiscal times, the risk is philanthropy is just too great

This letter was sent to Representative Janet Ancel, Chair of House Ways & Means Committee on March 19, 2015 by more than three dozen Vermont human services leaders:

Re: Proposal to Cap Tax Deductions – Exempt Non-Profits

We are writing to express our significant concern about inclusion of a cap on charitable contributions in the proposed tax deduction cap, and to request that you exclude charitable contributions from any cap on deductions. We represent a number of community-based non-profits in Vermont, and all of our organizations rely on philanthropic contributions to provide vital support for our work – work which is essential to the health, safety and well-being of Vermont's citizens and communities.

The cap in itemized deductions that is under consideration by the House Ways and Means Committee will jeopardize our ability to continue providing these services to many low-income families. Furthermore, we and other human services organizations in Vermont have seen reductions in public funding support over the past many years, and are faced with the prospect of further cuts to state contributions – thus our reliance on philanthropic contributions is increasingly important. As United Way of Chittenden County Executive Director Martha Maksym has noted, the end beneficiary of the charitable tax deduction is not the tax payer, but rather the Vermont community.

We believe that the value of charitable donations to our organizations vastly exceeds the revenue loss from charitable deductions; other states which have implemented such caps have later repealed them because of the adverse impact on charitable giving and the consequent impact on non-profit organizations. Many if not most large charitable contributions remain in Vermont and benefit our health, human services, and educational institutions, however we certainly understand the concern that Vermont taxpayers could be subsidizing a large gift to an entity in another state. As an alternative, we might suggest that you consider exempting contributions specifically to Vermont non-profits.

As you face the daunting task of developing our state's budget in these challenging fiscal times, we believe that the very last thing the legislature should do is discourage charitable giving which is where our programs and services find the support we need to continue our work.

Thank you for your consideration.

Sally Borden, Executive Director, KidSafe Collaborative

Sarah Adams-Kollitz, Director, Burlington Children's Space

Trine Bech, Esq. Executive Director, Vermont Parent Representation Center, Inc.

Bob Bick, Executive Director, Howard Center

Mary Burns, President & CEO, Greater Burlington YMCA

Jan Demers, Executive Director, CVOEO

Jack Donnelly, Executive Director, Community Health Centers of Burlington

Kelly Dougherty, Executive Director, Women Helping Battered Women
Kirby Dunn, Executive Director, HomeShare Vermont

Kim Fountain, Executive Director, Pride Center of Vermont

Lynn Granger, Executive Director, Vermont Kin as Parents

Jon Michael Hall, Executive Director, CVAA

Christopher Hess, Executive Director, Essex Meals On Wheels

Linda E Johnson, Exec. Director, Prevent Child Abuse Vermont

Mike Loner, CEO, The DREAM Program

Mary Alice McKenzie, Executive Director, Burlington Boys & Girls Club

Larry Bayle, Executive Director, Boys & Girls Club of Rutland

Mike Reiderer, Executive Director, Boys & Girls Club of Vergennes

Beth Baldwin Page, Executive Director, Boys & Girls Club of Brattleboro

Rita Markley, Executive Director, COTS

Elizabeth Meyer, Executive Director, Child Care Resource

Leisa Pollander, Executive Director, Sara Holbrook Community Center

Judy Peterson, CEO, VNA of Chittenden and Grand Isle

Mark Redmond, Executive Director, Spectrum

Elizabeth Sightler, Executive Director, Champlain Community Services

Vicky Smith, Executive Director, King Street Center

Jan-Roberta Tarjan, Executive Director, Dismas of Vermont