COUNCIL FOR ADVANCEMENT
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Council for Advancement and Support of Education
Written Comments
Submitted to
Individual Income Tax Working Group
U.S. Senate Committee on Finance

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The Council for Advancement and Support of Education thanks Chairman Hatch, Ranking Member Wyden and Individual Income Tax Working Group Co-Chairs Senators Grassley, Enzi and Stabenow for this opportunity to submit written comments on charitable giving incentives, particularly on the importance of preserving the value of the federal income tax deduction for charitable contributions.

Headquartered in Washington, D.C., with offices in London, Singapore and Mexico City, CASE is the professional organization for advancement professionals at all levels who work in alumni relations, communications, fundraising, marketing and other areas. Today, CASE's membership includes more than 3,600 colleges, universities, independent elementary and secondary schools, and educational associates in 77 countries around the world. CASE helps its members build stronger relationships with their alumni and donors, raise funds for campus projects, produce recruitment materials, market their institutions to prospective students, diversify the profession, and foster public support of education.

Private support raised from individuals is an essential funding source for both private and public colleges and universities. According to the Council for Aid to Education, donors contributed $37 billion to U.S. colleges and universities in 2014.[i] Charitable gifts help educational institutions fund scholarships for low-income students, recruit top-notch faculty and strengthen academic programs.

In the aftermath of the recent recession, colleges and universities continue to face challenges. Endowment investment returns continue to be volatile, with the most recent data showing that institutions had an average endowment return of 15.5 percent in 2014 but only 7.1 percent over the last decade.[ii] At the same time, colleges and universities are also seeing more and more cuts to their state and federal funding. Many students and their families are struggling to afford higher education tuition costs. Unless institutions can convince donors to provide additional aid for deserving students, educational opportunity will shrink even as the need for education grows.

Preserve the Charitable Deduction

CASE strongly urges the committee to support policies like the federal tax deduction for charitable gifts, policies that incentivize giving to educational institutions. While charitable giving is a voluntary act, driven by a desire to do good, to have impact, and to give back, tax incentives do play a role in encouraging donors to accelerate giving. Major donors to our institutions often base the size and timing of their gifts, at least in part, on tax considerations.

And major donors are exactly the taxpayers who would be most affected by proposals that limit the value of the charitable deduction. These are the donors who have the resources to give to charitable organizations consistently, and our tax policy should encourage them to continue to give generously. Proposals that limit the value of the charitable deduction, such as a hard dollar cap or a percentage of income cap do the opposite – reduce the incentive for major donors to give additional dollars to educational institutions and other charitable organizations.

Donors already face limits on the charitable contributions. A donor's deduction for charitable contributions cannot exceed more than 50 percent of the donor's Adjusted Gross Income (AGI). The limits are even more stringent – contributions cannot exceed more than 30 percent of a donor's AGI - for gifts made to private nonoperating foundations and some gifts of capital gain property. Donors can carryover amounts in excess of the limits for up to five years, and many do carryover large gifts. According to the Internal Revenue Service, more than 560,000 taxpayers used carryovers in tax year 2012, with carryovers totaling nearly $32 billion.[iii]

Donors who give little or nothing to charity would be unaffected by a cap on the charitable deduction. Instead, proposals like a percentage of income cap would target the most generous high-income donors, individuals and families who want to make large gifts to educational institutions or other charitable organizations. Why would Congress want to penalize individuals who want to give more of their wealth away, particularly at a time of rapidly increasing wealth disparities?

Unfortunately, some have mislabeled the charitable deduction as a tax break for the wealthy. A cap on the charitable deduction would not hurt high-income donors, many of whom would likely decide to give less if a cap was enacted. Students and others served by charitable organizations would feel the brunt of this policy change.

The committee should also proceed cautiously when considering other limits on the deduction, including floors. A floor on charitable donations, such as a percentage of AGI floor, could disproportionately impact giving by middle-class donors. Gifts by lower and middle-income donors make a tremendous difference for our institutions, particularly in supporting general operations. And many of these donors make larger gifts as they progress through their careers. The overall goal of our tax policy should be to encourage all individuals and families, regardless of income, to give more to charitable organizations.

CASE strongly urges the committee to preserve the value of the charitable deduction. Now is not the time to fundamentally change a tax incentive that has contributed to a cherished tradition of charitable giving unmatched in the world. Preserving the charitable deduction will reinforce our country's strong commitment to encouraging philanthropic investment.

Permanently Extend the IRA Charitable Rollover

CASE also encourages the committee to permanently extend a provision that allows tax free distributions from individual retirement plans for charitable purposes, also known as the IRA Charitable Rollover. Prior to its expiration on Dec. 31, 2014, the IRA Charitable Rollover allowed taxpayers age 70½ or older to make tax-free charitable gifts of up to $100,000 per year directly from their Individual Retirement Accounts to eligible charities, including colleges, universities and independent schools.

Since its initial enactment in 2006, the IRA Charitable Rollover has generated millions in new charitable gifts for colleges, universities and independent schools. In 2012, 152 educational institutions responded to a CASE survey on the IRA Charitable Rollover. Survey respondents reported receiving more than 6,500 IRA Charitable Rollover gifts in 2011, totaling nearly $100 million. Sixty-five percent of respondents reported that IRA Charitable Rollover gifts were primarily given for student financial aid and access.

Unfortunately, the IRA Charitable Rollover has been subject to multiple retroactive extensions, including a recent retroactive extension in 2014. The constant uncertainty about the future of the provision will continue to limit its effectiveness. Permanently extending the IRA Charitable Rollover would reduce this uncertainty and would generate additional charitable gifts for educational institutions.

Once again, we thank the committee and working group for this opportunity to share our views and comments. As you proceed on efforts to reform the tax code, we look forward to working with you and your staff to identify additional ways to encourage increased charitable giving among all individuals.

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[i] 2014 Council for Aid to Education Voluntary Support of Education Survey, http://cae.org/images/uploads/pdf/VSE-2014-Press-Release.pdf.

[ii] 2014 National Association of College and University Business Officers-Commonfund Institute Study of Endowments http://www.nacubo.org/Research/NACUBO-Commonfund_Study_of_Endowments/Public_NCSE_Tables.html.

[iii] 2012 Internal Revenue Service SOI Tax Stats Individual Income Tax Returns Publication 1304, Table 2.1 http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax-Returns-Publication-1304-(Complete-Report)#_pt2