National Council of Nonprofits

Champions for the public good

Charitable Giving Tax Incentives

September 23, 2024

Charitable nonprofits continue to experience growing demand for their services, yet costs continue to rise due to inflation while private donations and the number of donors are declining. The needs in our communities are far greater than the ability of governments to address alone. Congress should empower millions more taxpayers to help solve these challenges by enacting tax incentives that encourage donations to the work of charitable organizations in their communities.

Current Law

The 2017 tax law made numerous temporary adjustments to tax policies that have had both direct and indirect effects on charitable giving. Each is set to expire at the end of 2025.

- The **standard deduction** was raised from $6,300 to $12,000 for individuals, from $12,600 to $24,000 for couples, and from $9,300 to $18,000 for heads of households. The 2017 law adjusted these amounts for inflation, with current levels for 2024 of $14,600 for individuals, $29,200 for couples, and $21,900.[1]
- The **limit on cash donations** for those who itemize deductions was raised from 50% to 60% of adjusted gross income (AGI).
- The **Pease limitation** on itemized deductions for upper-income individuals was suspended.[2]
- The **estate tax exemption** was doubled from $5.6 million to $11.2 million, indexed for inflation.

As a result of the tax policy changes affecting taxpayers and what they claim on their tax filings, incentives to give to charitable nonprofits have declined. In particular, the charitable deduction is no longer accessible for the majority of taxpayers because they now claim the standard deduction rather than itemizing. While the loosening of the AGI limitations for charitable deductions and

[1] IRS provides tax inflation adjustments for tax year 2024, IR-2023-208, Internal Revenue Service, Nov. 9, 2023.

[2] Options for Reducing the Deficit, 2023 to 2032, Volume I: Larger Reductions at 78, Congressional Budget Office, December 2022.

eliminations on limitations on itemized deductions for upper-income taxpayers under the Pease limitation repeal are helpful, those benefits only apply to approximately one-tenth of taxpayers.

The Challenge

It is not a partisan statement to say that the 2017 tax law did not live up to the prediction that charitable giving would increase because individuals would have more money in their pockets thanks to the tax cuts. An analysis by the American Enterprise Institute found that the 2017 tax law did not generate greater charitable giving among upper-income taxpayers as promised; in fact, charitable giving went down after its enactment.[3] In 2022, charitable giving suffered a 13.4% inflation-adjusted decline in individual donations, the largest recorded year-over-year drop.[4] Subsequently, there was a 2.1% decline in total giving in 2023 compared to 2022 when adjusted for inflation.[5]

Legislative Solutions

Reinstate a Non-itemizer Charitable Deduction

Congress can help alleviate some of the adverse funding difficulties in the charitable sector by enacting a non-itemizer deduction that all taxpayers, including those taking the standard deduction, can claim.

This non-itemizer deduction, also known as a Universal Charitable Deduction, has proven to be an to incentive charitable giving by individuals and couples. A previous short-term non-itemizer deduction allowed taxpayers to claim a deduction of up to $300 for cash gifts in 2020. Congress extended this special deduction for 2021 and increased it for joint filers to claim up to $600. The IRS reported that 42.2 million households generated $10.9 billion in charitable giving in 2020 alone.[6] One fifth (21.3%) of those donations came from taxpayers with adjusted gross income of less than $30,000.[7] Data show an increase of 7.5% in individual gifts of $300 in both 2020 and 2021, and donations of $600 increased 5% in 2021, compared to 2019.[8] The deduction expired after 2021.

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[3] The Tax Cuts and Jobs Act and Charitable Giving by Select High-Income Households, American Enterprise Institute, April 2022.

[4] Giving USA, Indiana University Lilly Family School of Philanthropy, June 20, 2023.

[5] Giving USA, Indiana University Lilly Family School of Philanthropy, June 25, 2024.

[6] Individual Income Tax Returns, Preliminary Data, Tax Year 2020, Statistics of Income Bulletin, Internal Revenue Service, Spring 2022.

[7] SOI tax stats - Individual income tax returns, Internal Revenue Service.

[8] AFP Supports Charitable Act to Incentivize Giving, Association of Fundraising Professionals, Mar. 2, 2023.

NCN supports the bipartisan *Charitable Act* (H.R. 3435/S.566), which would create a new non-itemizer deduction that would provide a charitable contribution deduction of roughly $4,800 for individuals and $9,600 for couples when they give to the work of charitable organizations and claim the standard deduction. This would empower taxpayers to give back to their communities, allow for greater giving to the work of nonprofits that individuals care about, and effectively reduce demands on governments.[9]

A Special Note on Alternative Approaches to the Charitable Deduction

We strongly recommend against shifting to new approaches suggested by economists and others outside of the charitable, such as tax credits in place of deductions, or imposing arbitrary floors or caps. Our recommendation applies equally to the current itemized deduction and any non-itemizer that may be considered.

Our position is grounded in practical and economic realities. The charitable deduction has existed since 1917[10] and more than a century of philanthropic and cultural alignment have been built around the current deduction model. Changes would cause wholesale disruption that – as seen with the 2017 tax law – can lead to unintended consequences that harm real people and the charitable organizations that serve them.

Further, while economic models can attempt to predict the impact of a floor or cap on giving tax incentives, they can only suggest behaviors in the aggregate. Simply stated, different restrictions affect organizations differently. A requirement that a donor must give more than a certain amount – whether a dollar floor or a percentage of the person's adjusted gross income – would reduce small donations, harming organizations with broad bases of support from many donors giving relatively small gifts. An upper limit (cap) on giving, on the other hand, would harm organizations that receive larger donations from fewer donors. Imposition of both limits, of course, would exponentially harm the work of charitable organizations.

Additional Issues Affecting Charitable Giving Incentives

AGI caps for individuals and corporations

The limit on cash donations for those who itemize deductions will return to 50% of adjusted gross income (AGI) after 2025. We recommend making permanent the increased cap to 60% to increase

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[9] The cost of this, and all other tax incentives, is a factor of great significance now, and will be during the 2025 tax debate. One way to "pay for" the cost of restoring and improving the non-itemizer deduction would be to adjust the standard deduction downward to accommodate for some of the costs.

[10] The Charitable Deduction for Individuals: A Brief Legislative History, Congressional Research Service, Updated June 26, 2020.

charitable giving by itemizers. During times of natural disasters, we recommend lifting any ceiling for deductions for amounts devoted directly to disaster relief and recover efforts. See our Natural Disaster Tax Relief policy paper for more information.

Pease Limitation

The Pease limitation will be reinstated after 2025. The provision reduces the overall value of certain itemized deductions taxpayers whose AGI exceeds a specified threshold. Depending on the taxpayer's income, this reduction can be up to 80%.[11] The reinstatement could significantly reduce the amount of itemized deductions permitted by higher income taxpayers.[12]

Estate Tax

The estate tax is an important source of revenue for the federal government, regularly generating between $20 and $30 billion per year.[13] It also serves as an incentive for giving to the work of charitable nonprofits by excluding donations of cash and assets from taxable estates. The estate tax exemption amount in 2024, indexed for inflation, is $13.6 million.[14] That threshold will revert back to the pre-2017 tax law level in 2026 unless Congress maintains some or all of the higher level. The National Council of Nonprofits does not recommend a specific estate tax exemption threshold going forward, but does urge caution in making adjustments that could disrupt long-term planning by individuals who have engaged in estate planning. We ask that Congress be mindful that many taxpayers have planned ahead for their deaths and will need time to make adjustments to any changes that result from the 2025 tax debate.

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[11] Options for Reducing the Deficit, 2023 to 2032, Volume I: Larger Reductions at 78, Congressional Budget Office, December 2022.

[12] Preparing for the tax cuts and jobs act sunset, Elliott Davis, Jan. 5, 2024.

[13] How much revenue has the U.S. government collected this year?, Federal Revenue Trends Over Time, FiscalData, U.S. Department of Treasury.

[14] Estate tax, Internal Revenue Service, visited Sept. 23, 2024.