

# ENCOURAGING CHARITABLE GIFTS TO ARTS AND CULTURE

## SUPPORT AMERICA'S NONPROFIT ARTS ORGANIZATIONS

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### ACTIONS NEEDED

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We urge Congress to:

- **Include the IRA Charitable Rollover in legislation to extend the “expiring provisions” that lapsed on December 31, 2009.**
- **Cosponsor H.R. 1250 introduced by Reps. Earl Pomeroy (D-ND) and Wally Herger (R-CA) or S. 864 introduced by Sens. Byron Dorgan (D-ND) and Olympia Snowe (R-ME). The legislation would make permanent the IRA Charitable Rollover provision, allowing individuals to roll funds from IRAs to charity without first treating them as taxable income. It would also remove the cap of \$100,000 of funds that may be rolled over free of tax.**
- **Preserve incentives for charitable giving.**

### TALKING POINTS

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#### **The Nonprofit Arts Sector:**

Nonprofit arts organizations improve quality of life by contributing to lifelong learning, preserving our cultural heritage, and fostering the creative expression that tells the story of our personal and collective histories.

- In communities large and small across the country, nonprofit arts organizations engage the public in a diverse array of cultural and artistic experiences. Arts organizations offer communities a significant number of free events and provide public access to the arts through online resources, distance learning, and social networking.
- Ticket sales and admission fees alone do not come close to subsidizing the artistic presentations, educational offerings, and community-based programming of nonprofit arts organizations. A significant percentage of direct financial support for nonprofit arts organizations is derived from charitable giving. Without this support, public access to the arts would be greatly diminished.
- Diverse types of charitable giving comprise support for arts organizations large and small: individual contributions; planned giving; family, business, and corporate foundation grants; in-kind contributions; and gifts of art.
- Nationally, the nonprofit arts and culture industry generates \$166.2 billion in economic activity every year—\$63.1 billion in spending by organizations and an additional \$103.1 billion in related spending by their audiences. (Figures from Americans for the Arts, *Arts & Economic Prosperity III* study, 2007).
- The fundamental characteristics of federal support for the nonprofit community, which have built a cultural sector that is the envy of the world, need not only to remain in place but should be strengthened for the future. The nonprofit arts community can continue delivering the vital programs and services that the country has relied on so long as mission-related income is exempt from federal tax, real property is exempt from property tax, and charitable contributions remain fully tax-deductible.

### IRA ROLLOVER

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- The IRA Charitable Rollover provision permits donors age 70.5 and older to make tax-free charitable gifts directly from their individual retirement accounts to charities, up to an annual ceiling of \$100,000. The IRA Rollover was enacted as part of the Pension Protection Act of 2006 and expired on December 31, 2007. Before the 110<sup>th</sup> Congress adjourned, the provision was extended to December 31, 2009, as part of a package of other popular tax bills. The House has approved a bill that would extend the IRA Rollover through December 31, 2010 (Sec. 135 of H.R. 4213) but the Senate has not yet followed suit.
- The IRA Rollover had an immediate and ongoing positive impact in the nonprofit arts community, underscoring the provision as a key incentive for charitable giving.
- The IRA Rollover increases gifts to charity by providing a new incentive for charitable giving. Beginning at age 70.5, all IRA owners are required to take annual minimum distributions, even if they do not need the income. With the charitable rollover, IRA owners may use the required distribution and other money in their IRAs to support charitable causes, without being taxed on the distribution. No additional tax deduction is taken for an IRA Rollover gift to charity.

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- Since its enactment in 2006, the IRA Rollover has spurred millions of dollars in new gifts to all forms of charities.
- Legislation (H.R. 1250 and S. 864) has been introduced that would make the IRA Rollover permanent, remove the arbitrary \$100,000 cap, and reduce the qualifying age to 59.5. Reps. Earl Pomeroy (D-ND) and Wally Herger (R-CA) also co-sponsored the bill last year in the House of Representatives along with Sens. Byron Dorgan (D-ND) and Olympia Snowe (R-ME) in the Senate, and is supported by a broad coalition of organizations, including the arts, higher education, human services, health, and other nonprofits.

## **PRESERVE INCENTIVES FOR CHARITABLE GIVING**

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**The administration's FY 2011 budget proposes reducing the value of tax deductions from 35 percent to 28 percent for charitable donations made by taxpayers with incomes over \$200,000 (single) or \$250,000 (joint).**

- Whereas last year the Administration proposed this measure as a way to pay for healthcare reform which would have other economic benefits to nonprofits, this year's proposal would dedicate revenue solely to federal deficit reduction.

**Reducing the rate for charitable deductions would reduce donations and add challenges to nonprofits.**

- Many experts believe that this provision would serve as a disincentive to individual donors as foundation and corporate giving declines, along with state and local government spending cutbacks.
- The Indiana University Center on Philanthropy calculated, using 2006 data on giving, that had the Obama tax plan been in effect taxpayers with incomes of \$250,000 or more would have decreased their giving by 4.6 percent or nearly \$3.9 billion.

**Congressional leaders from both parties spoke out against the proposal last year.**

- House Majority Leader Steny Hoyer (D-MD) called the idea "controversial" and of "great concern" for charitable institutions. House Minority Leader John Boehner (R-OH) said the proposed limitation was "reckless policy" and "absolutely the wrong thing to do."

**The administration also proposes to reinstate an itemized deduction floor in an amount equal to three percent of a donor's income in excess of \$200,000.** In other words, if a person earns \$250,000, he or she would not be able to deduct the first three percent of \$50,000, which is equal to \$1,500. As a result, if the person then donates \$5,000 and incurs \$20,000 of other itemizable expenses, he or she would only be able to deduct \$23,500 instead of the full \$25,000.

- Both proposals would reduce donations to the arts and other charities at a time when society is counting on them more than ever. Because charitable giving is purely discretionary, upper income taxpayers can choose to preserve their bottom line by simply giving less.

## **BACKGROUND**

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The United States supports a robust private charitable sector that provides many public services in fields ranging from education and healthcare to arts and culture. Nonprofit organizations provide access to arts and culture in every U.S. congressional district, and receive crucial—but indirect—government support through tax benefits that encourage charitable gifts by generous individuals.

A charitable contribution is an act of private giving for the public good. The tax deduction for charitable gifts enhances the public good by encouraging contributions to arts programs, museums, libraries, or other nonprofit efforts that serve the public. Private donations range from very small gifts to large donations and are contributed by corporations, foundations, and individuals in support of a myriad of arts programs. It is this process of private giving for the public good that sustains the arts and helps the arts to reach more and more Americans.

Charitable giving keeps access to the arts and humanities affordable for all segments of society, subsidizing thousands of programs and other activities that serve our citizens. The above measures will result in more services to the public as increased charitable giving, including gifts of art as well as cash, strengthen nonprofit arts organizations. They will encourage Americans to be as generous as possible rather than being limited by arbitrary caps and other restrictions.

The current economic climate presents challenges to the charitable sector. Donors need to be encouraged to maintain their commitment to the vital services and programs the nonprofit community provides, especially as local governments and municipalities struggle to maintain the current level of services to their communities.

**Tax Fairness for Artists and Writers:** Please see our separate Issue Brief on this topic.