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Nonprofit Strategies



SAN LUIS OBISPO COUNTY COMMUNITY FOUNDATION

Debt deal may affect tax deductions for donations

By Barry VanderKelen

Reducing or eliminating the deductibility of charitable donations may be part of a deal to raise the federal debt ceiling. This is another reason nonprofit board and staff members need to pay attention to what's happening in Washington.

Currently, all donors can deduct their donations from income taxes if they itemize their tax returns. This spring, President Barack Obama proposed limiting the deduction of charitable gifts from individuals at 28 percent of value, below the highest tax brackets of 33 percent and 35 percent.

Polls consistently show that people are motivated to give primarily by a nonprofit's mission, with tax benefits being a secondary reason. People

making larger donations calculate tax benefits as part of their considerations. And research suggests that if the 28 percent cap was in effect in 2006, between \$4 billion and \$9 billion in charitable donations would not have occurred.

My reactions to this proposal are many and conflicting. Given the increasing reliance on nonprofits to provide services that have been cut by government agencies, any disincentive to give is troubling. Also, only those who itemize benefit from the charitable deduction, meaning it is a benefit not available to our lower income neighbors. Further, if tax incentives are ranked third on the list of motivations for charitable donation, we shouldn't worry about limiting the deductibility of them.

Yet if the amount of donations drops because of limits to their deductibility, fewer services will be available to those who need them most.

The fragmentation of the sector weakens nonprofits' ability to influence the discussion in Washington. That doesn't mean nonprofits shouldn't try to educate their elected representatives about the growing importance of their work.

But nonprofits already know that they must emphasize mission and impact and build relationships with donors. This is hard work, and it is taking on increasing urgency.

Barry VanderKelen is Executive Director of the San Luis Obispo County Community Foundation. He can be reached at

Resource Use

- Support nonprofit leadership
- Board development/training
- Strategic planning

Nonprofit Business Column of *The Tribune*

Barry VanderKelen, Executive Director of the San Luis Obispo County Community Foundation writes a bi-weekly column to help strengthen nonprofit organizations in the community.

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Each column is reprinted as a one-page handout for use by local organizations. Barry can be reached at 543-2323 or by e-mail at barry@slcocc.org.