Dear Chairman Neal and Members of the House Ways and Means Committee,

Thank you for your leadership in holding the hearing “The 2017 Tax Law and Who It Left Behind” and for the opportunity to submit written testimony on the topic.

As the largest and most diverse network in American philanthropy, United Philanthropy Forum holds a unique position in the social sector to help increase philanthropy’s impact in communities across the country. We are a membership organization of more than 75 regional and national philanthropy-serving organizations, representing 7,000 foundations and other funders, who work to make philanthropy better. The Forum envisions a courageous philanthropic sector that catalyzes a just and equitable society where all can participate and prosper.

For members of our network, the Tax Cuts and Jobs Act (TCJA) has had a profound and negative impact on their ability to carry out their charitable missions. Specifically, two issues have hampered our work: a threat to the effectiveness of the charitable deduction as a result of the increased standard deduction and changes to the tax-exempt organizations’ unrelated business income tax (UBIT). We appreciate that during the recent hearing, several Members of the Committee raised both of these issues as examples of how our sector was “left behind” in the 2017 tax bill.

While the TCJA did not directly limit the charitable deduction, by increasing the standard deduction it greatly reduced the number of taxpayers who itemize and therefore reduced access to the charitable deduction. The Tax Policy Center estimated that the number of households claiming the charitable deduction will shrink from about 37 million to about 16 million.¹ We know that the charitable deduction increases giving. Data shows that taxpayers who itemize give at higher rates and make larger gifts than non-itemizers. By restricting the number of taxpayers who can take advantage of the charitable deduction, the TCJA severely limits a crucial element of the tax code that ensures the continued health of the charitable sector.

The TCJA’s changes to the tax code come at a time when the philanthropy and nonprofit sector is already vulnerable. Early data reveal that charitable giving has indeed slowed down in 2018, following the implementation of the TCJA provisions. The 2018 Charitable Giving Report from the Blackbaud Institute for Philanthropic Impact shows that while overall giving increased 1.5 percent in 2018, the increase did not keep up with the 1.9 percent rate of inflation. Additionally, the 1.5 percent increase in giving for 2018 is much smaller than the 4.1 percent increase in giving that Blackbaud reported in 2017 and the combined 9 percent increase since 2016. Particularly concerning, smaller nonprofits with annual fundraising of under $1 million saw a 2.3 percent drop in donations between 2017 and 2018.² A report by the Fundraising Effectiveness Project (FEP) found

that the total number of charitable donors in 2018 dropped 4.5 percent from 2017 levels, and new donors decreased by a bigger margin of 7.3 percent.³

To address this issue, we strongly support increasing charitable giving by providing all taxpayers access to a universal charitable deduction. A universal charitable deduction would help charitable organizations continue raising the funds they need to achieve their critical missions and democratize the incentive for all Americans to donate.

Regarding the second issue of the TCJA’s new taxes on nonprofits, changes in the TCJA to the UBIT created both financial and administrative burdens for philanthropy-serving organizations and foundations. The new tax on fringe benefits is of serious concern. Introduced in the TCJA, this tax requires for the first time that nonprofits pay a 21% federal tax on employee transportation and parking benefits. According to research by the Urban Institute, the tax will cost nonprofits $12,000 per year on average, and for some, much more.⁴ This tax funnels money away from its intended charitable purpose and impedes our members’ abilities to achieve their organizational missions. For many nonprofits, the administrative burden to calculate the tax will be extremely costly and often times will cost more than the tax itself.

Moreover, the new requirement that unrelated business income and related losses must be calculated separately in “silos” creates an additional challenge, one that is estimated to cost affected nonprofits $15,000 per year—further diverting precious funds away from supporting our communities.⁵ We are appreciative of the bipartisan efforts in Congress to repeal both these UBIT provisions.

We are encouraged by the fact that the Ways and Means Committee hosted this hearing and we support additional hearings to further investigate how the 2017 tax bill impacted the charitable sector and what can be done to ameliorate these unintended consequences. We welcome the opportunity to work with Members of the Committee and their offices to provide data and perspectives on this topic. Please let us know how we can continue to support our sector’s partnership with government and advance tax policies that encourages philanthropy to continue to innovate and deliver results in America’s communities and leverage government investments.

On behalf of our network of philanthropy-serving organizations, United Philanthropy Forum thanks Chairman Neal, Ranking Member Brady, and members of the Committee for their support of the charitable sector. We look forward to working together with you on these important issues and exploring other topics related to strengthening America’s philanthropy and nonprofit sector.

Respectfully Submitted,

United Philanthropy Forum