



## Foundations on the Hill- Memorial District Days Key Issues – May 2009

We are at a crucial time in our nation's history. We have a Congress and an Administration eager to work closely with the non-profit and philanthropic sectors, yet we face the most severe economic downturn in nearly a century. At this time of need, foundations are well situated to help develop innovative solutions to old problems, especially given their deep roots in the communities they serve and their ability to think through complex issues. As the leading representatives of the philanthropic sector, the Council on Foundations, and its members, stand ready to work closely with Congress and the Administration to develop effective and efficient ways to address the growing job losses, home foreclosures and need for health care reform.

The current economic crisis also presents our nation with an important challenge: how to increase charitable giving in communities across the country when individuals' and foundations' assets are down significantly. To help meet this challenge, we are urging Congress to adopt policies that encourage individuals to make charitable donations and which incentivize foundations to distribute more of their funds to charities. These policies will translate into significant new funding for community foundations, job training programs, health and human services outreach and other crucial services in communities across the nation.

**Extend and Expand the IRA Charitable Rollover:** In order to stimulate more charitable giving, Congress should allow donors more options for making charitable donations from their IRA retirement accounts. This should include allowing donors to make contributions to "donor-advised funds" at their local community foundations, or other public charities, with tax-free money from their retirement accounts. Donor-advised funds are used to support non-profits in the areas of job training, child care, housing, nutritional support, and many others areas, which will help support local communities hit hard by the economic downturn. Two recent studies by the Council on Foundations show that, in 2007, donor-advised funds accounted for over one-third of all community foundation assets and 62% of their total grantmaking.

**Implement a flat, and revenue-neutral, private foundation excise tax:** Each year, private foundations pay an excise tax on their net investment income. This rate changes depending on how any single year's payout rate compares to the average of the 5 prior years' rate. If the percentage of giving in a single year is more than the 5 year average, the excise tax rate is 1 percent for that year. But if the payout rate in a given year is less than the five year average, the excise tax rate is 2 percent. This system requires complicated tax planning and serves as a disincentive for foundations to increase giving to respond to an immediate and significant need, such as our current economic crisis, or a natural disaster such as Hurricane Katrina. A flat, revenue neutral, excise tax rate will assist many foundations in their tax

planning and will encourage greater payouts at this time of need, by eliminating the current tax penalty years which will follow a particularly generous payout year.

**Maintain Current Law on Charitable Deduction Rates:** President Obama's fiscal 2010 budget proposes capping the tax deduction for itemized charitable giving at 28 percent for families earning more than \$250,000 or individuals earning more than \$200,000. While philanthropy supports the President's goal of expanding health care coverage for the uninsured and underinsured, we believe that the cost of such a proposal should not disproportionately impact any single sector of the economy. A significant reduction in the charitable deduction rate will reduce the current incentive for donors to give, thus reducing the amount of money available to support worthy non-profits across the country. At a time when charities and non-profits are faced with increasing demands from their communities, it is important that public policies support and encourage charitable giving.

One common thread unites our positions on tax policy as it relates to philanthropy and charitable giving. We seek to encourage the growth of charitable giving, because we recognize the power, innovation, and reform that can be achieved through the expansion of a partnership between government, the private sector and philanthropy.