Charitable Estate Planning: Is the Party Over?

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Every great party is attended by two kinds of people:
the ones who decide it isn't fun and leave
and those who decide to make it fun and stay.

I. The two kinds of people in the field of planned giving

A. "This hasn't been any fun and it's going to get worse."

1. We've had the fiscal cliff, taxageddon and sequestration.
2. More regulation is coming for charities.
3. Charitable deductions are being threatened.
4. There's no incentive to make estate gifts any more.
5. Maybe I should be doing something else.

B. "Don't wait up for me."

1. This is not the first fiscal crisis and it will not be the last.
2. There are no permanent solutions (except "permanent portability").
3. Just because it worked before doesn't mean it will work in the future ... and vice versa.
3. In a search for temporary solutions, there will always be more focus on an income tax that affects millions annually than on estate and gift taxes that affect fewer people (present company excluded) and has less impact on governmental revenue.
4. Some areas of the tax code change more often than others.
5. Taking the long view versus the short view of taxes is like looking at climate change versus weather.

II. There are only two things you need to know to be successful in planned giving.

A. The things you can't control
B. The things you can.

III. Successful planned giving people know that you can control some of the things others think you can't. Here's a history lesson from Congress about the tax structure.

A. The relationship between the standard deduction and itemized deductions

1. The stated goals of 1944 legislation were:
   "a. To relieve the great majority of taxpayers from the necessity of computing their income tax
   b. To reduce the number of tax computations
   c. To simplify the return form
   d. To decrease the number of persons required to file declarations of estimated tax
   e. To eliminate some of the difficulties and uncertainties in the making of estimates required for declarations."

   Report of the House Ways and Means Committee on the Individual Income Tax Bill of 1944 (H.R. REP. NO. 78-1365, at 1 [1944])

2. Along with creating the forerunner of our current standard deduction, the 1944 Act established a new line, adjusted gross income (AGI), to accomplish a single goal: to create a uniform base from which a deduction would operate equitably, regardless of whether the taxpayer simply earned a wage or was engaged in business.

3. The system worked for a time. In 1944, 82 percent of taxpayers took the standard deduction. However, by 1965 that number had dropped to 59 percent.

B. There is little certainty concerning deductions and credits or their location on the tax code.

1. The rationale for placing deductions above- and below-the-line of AGI eroded gradually at first. Among the individual benefits arriving above-the-line were:

   a. Job-related moving expenses (1964)
   b. Alimony paid (1976)
   c. Some charitable deductions (1981-84)

2. The template for distinguishing between above- and below-the-line deductions has virtually disappeared in favor of:

   a. Granting an above-the-line *deduction* between gross income and adjusted gross income (e.g., educator expenses, student loan interest)

   b. Allowing a credit against tax liability (e.g., child and dependent care expenses, residential energy credits)

   c. Annually extending “temporary” tax benefits

C. The treatment of long-standing itemized deductions is being constantly reviewed or revised, often eliminating or mitigating their value. A guide to recent proposals is included in the appendix. Among the methods used have been:

1. Imposing a floor (e.g., 7.5 percent on medical expenses)
2. Defining out previously allowed deductions (e.g., non-mortgage interest)
3. Creating a ceiling by phasing out deductions for high income taxpayers
4. Discounting a deduction's value through imposition of the alternative minimum tax

D. The various proposals are instructive, not because all of them will be adopted, but because they indicate:

1. Where Congress will likely look to make changes in the tax code concerning charitable giving – itemized deductions and tax credits.

2. Where Congress is NOT looking – gross income. This is a place to concentrate efforts for longer-range charitable planning.

IV. Charitable estate planning has also changed, but Congressional emphasis remains on the exemption amount, not the treatment of charitable gifts.

A. The estate tax exemption of $5.25 million ($10.5 million for married individuals) for deaths in 2013 eliminates federal estate tax for all but the wealthiest individuals.

1. Estates of under $10 million have historically utilized the most straightforward charitable gifts to obtain an estate tax deduction, many of which are no longer advantageous for tax purposes:

a. Pecuniary bequests, whether a dollar amount or percentage

b. Formula clauses. But see: *Estate of Anne Y. Petter et al. v. Commissioner*; No. 10-71854 (9th Cir. 2011), where an increased estate tax charitable deduction was challenged, resulting from a higher compromised valuation of an LLC in an estate. The court held that the estate was entitled to a charitable deduction for its percentage interest in the value of the asset as finally determined.

c. Qualified disclaimers

d. Testamentary charitable remainder trusts. The balance between lifetime or term of year income and the corresponding charitable deduction benefit is skewed during a low income producing environment (as reflected in the monthly Section 7520 rates) due to the requirement that the instrument have a truly charitable purpose. The effect is that in order to qualify the trust for a charitable deduction, the highest permissible income is capped at historically low levels.

2. Congress focused on settling the exemption amounts and the relationship among estate, gift and generation skipping taxes.

a. The unlimited estate tax charitable deduction remains for the largest estates.

b. There is no tax disincentive for making a charitable gift if a donor decides to limit the amount passing to family members.

B. Tax benefits for charitable estate giving remain; they're only different in style and scope. And, by the nature of the gift, we have more time to plan strategically for them.

V. Perspective. What do you say when people ask you what you do for a living?

A. "I'm a fundraiser." Oops. Here's the rest of the conversation.
"You're just trying to get into my pocket."
"No, no, no. I do planned giving."
"You're just waiting for me to die."

B. Try this: "I help people achieve more than they ever thought possible."

VI. An over-emphasis on achieving tax deductions obscures the greatest benefits of charitable giving

A. The desire to reduce taxes is not the primary motivation to give.

The landmark by the National Committee on Planned Giving (now the Partnership for Philanthropic Planning) in 2000 asked why people give. Their responses:

1.	Desire to support the charity	97%
2.	Ultimate use of gift by the charity	82%
3.	**Desire to reduce taxes (income or estate)**	**35%**
4.	Long-range estate and financial planning issues	35%
5.	Create a lasting memorial for self or loved one	33%
6.	Relationship with a representative of the charity	21%
7.	Encouragement of family or friends	13%
8.	Encouragement of legal or financial advisors	12%

B. Emphasizing the *impact* of the gift (1 and 2 above) meets the goals of the vast majority of donors.

C. Tax policy is the only issue of the eight listed above that a charity cannot influence.

D. Donors plan holistically to meet a wide variety of goals in the rest of their lives. The most effective tax and estate planning incorporates charitable giving into *their* overall goals, often showing how charitable giving can help *them* accomplish more than *they* ever thought possible.

E. Rethink your definition of planned giving. It extends into some forms of annual giving.

VII. Charitable giving from the gross income section of the tax return

A. Adjusted Gross Income (AGI), line 37, is used more than once for tax computation purposes. If AGI can be reduced, significant financial benefits follow.

1. The most familiar use of AGI is to establish the baseline for computing an individual's tax rate and, under current law, whether itemized deductions are to be phased out.

2. It is the number used to determine the floor amount for itemized medical expenses, casualty and theft losses, and miscellaneous expenses on Schedule A.

3. It is the number used to determine the maximum charitable deduction allowed in a particular year.

4. AGI, as modified (MAGI), is the baseline for determining, among other things, the taxability of social security benefits, contribution limits to retirement plans, and the application of the alternative minimum tax.

5. New in 2013. The Patient Protection and Affordable Care Act of 2010's surcharge provisions kicked in. Taxpayers whose MAGI exceeds the threshold amount of $200,000 or $250,000 (depending on filing status), will owe a surcharge of 3.8 percent on "net investment income."

B. Charitable giving from the gross income section of the tax return permanently removes income, reduces the AGI, and is not "called back" for MAGI purposes. To illustrate, we will examine three lines from the gross income section of Form 1040.

page 17.

Dependents on 6c not entered above

Add numbers on lines above ▶

d Total number of exemptions claimed

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see page 21.

Enclose, but do not attach, any payment. Also, please use Form 1040-V.

Line	Description	Line
7	Wages, salaries, tips, etc. Attach Form(s) W-2	7
8a	Taxable interest. Attach Schedule B if required	8a
b	Tax-exempt interest. Do not include on line 8a — 8b	
9a	Ordinary dividends. Attach Schedule B if required	9a
b	Qualified dividends (see page 21) — 9b	
10	Taxable refunds, credits, or offsets of state and local income taxes (see page 22)	10
11	Alimony received	11
12	Business income or (loss). Attach Schedule C or C-EZ	12
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐	13
14	Other gains or (losses). Attach Form 4797	14
15a	IRA distributions — 15a — b Taxable amount (see page 23)	15b
16a	Pensions and annuities — 16a — b Taxable amount (see page 24)	16b
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17
18	Farm income or (loss). Attach Schedule F	18
19	Unemployment compensation	19
20a	Social security benefits — 20a — b Taxable amount (see page 26)	20b
21	Other income. List type and amount (see page 28)	21
22	Add the amounts in the far right column for lines 7 through 21. This is your **total income** ▶	22

Adjusted Gross Income

Line	Description	Line
23	Educator expenses (see page 28)	23
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24

C. Uncle Sam's Matching Gift Program
Line 13 - capital gain or loss from publicly traded stock

1. *Example.* You bought publicly-traded stock a few years ago for $1,000 and plan to sell it at its current market value of $3,000. After sale, you will owe long-term capital gains tax on the $2,000 increase in value and this will be reflected on line 13. Instead, you give the stock to charity *before its sale.* The gain does not appear on line 13, plus you may take an itemized charitable deduction for the full fair market value of $3,000.

2. It gets better.

   a. Even though your itemized charitable deduction in a single year is limited to 30 percent of AGI (albeit with a five-year carry forward), there is no limit on the amount that line 13 may be reduced to eliminate gains, subject to the net long-term loss rules. Thus, in a year when the liquidation of stock might otherwise put you into a higher tax bracket, charitable giving can ameliorate the tax consequences.

   b. A net long-term loss of $3,000 is allowed on line 13. Rather than simply offsetting losses with realized gains, donate sufficient appreciated stock to result in a net long-term loss.

   c. Gifts of stock are not called back for recomputation or AMT purposes.

D. Legally not reporting income
Line 15a – IRA distributions - *Don't Cry For Me IRArgentina*

1. Required distributions during lifetime

   a. *Example.* You are age 70½ or above and must take a required minimum distribution (RMD) of $5,000. You could certainly withdraw the $5,000 and immediately contribute it to charity. Although you would receive a charitable deduction, the distribution would still show as income since IRA withdrawals of any type except rollovers are recognized immediately as income.

   b. A temporary exception to the rule, which had been extended before, expired, extended, and expired is back again through December 31, 2013. In our example, the direct distribution of the $5,000 made to charity will be excluded from income. The limit is $100,000 per year, which also includes distributions that are above the required minimums. *No itemized charitable deduction is allowed for this kind of gift.*

   c. Why this kind of gift is great:

(1) Gifts from RMD reduce income you are otherwise *required* to show.

(2) Gifts from IRAs are not called back for recomputation or AMT purposes.

d. What do we tell donors?

(1) First ask the question, "Are you planning on making charitable gifts throughout the year that total more than your RMD?"

(2) If so, make the direct rollover gift from the IRA to charity. Income is reduced, albeit without double dipping through a charitable deduction.

2. Roth IRA conversions

a. Among the factors involved in converting an IRA to a Roth is the immediate increase to adjusted gross income the year of the transaction.

b. Charitable giving considerations

(1) If you have charitable carryforward that is about to expire (unused charitable deductions carried forward for five years because you exceeded the 50 percent or 30 percent deduction allowable in the year of the gift), the increase in income due to the conversion can be partially offset by the increased charitable deduction available.

(2) Charitable gifts that reduce adjusted gross income may partially or fully offset the income increase resulting from the conversion.

E. Producing income that disappears for tax purposes through now-and-later giving
<u>Line 8a – Tax-exempt interest</u>

1. Tax *exempt* does not mean tax *free*. Thus, even though the income amounts on line 8a are not included in initial tax computations, they are called back to arrive at MAGI for subsequent tax computation purposes.

2. *Example*. A portion of your portfolio is municipal bonds, partly because the rate of return is higher when it is not taxed. However, when combined with other income, a portion of your social security benefits are being taxed. Your goal is to keep a significant revenue stream without incurring tax on social security benefits. The method is a charitable gift annuity (CGA).

3. CGAs in a nutshell

a. When reduced to its simplest form, a CGA is a contract between an individual

and a charity. An amount, typically $10,000 or more, is given to charity in exchange for a lifetime annuity, with the annuity rate based on the donor's age.

b. A 75-year-old donor makes a cash gift to charity of $10,000. The donor receives an immediate charitable deduction of $4,101.60 and receives a 5.8 percent annual annuity, $580.00, for life. (Utilizing American Council on Gift Annuity rates effective January 1, 2012 and assuming an AFR rate of 1.2 percent)

c. The first question most people ask is how a charity can prudently invest to receive a 5.8 percent annual return. The answer is that it cannot, nor is that the intention. It is assumed that the charity will need to dip into principal over time in order to make the annuity payments. This is the main reason that the charitable deduction is not $10,000. The calculations assume that if a donor lives until life expectancy and the gift is invested prudently, $4,101.60 will be left for charity.

d. The annuity payments to the donor will be a combination of interest earned and return of principal. This is where the magic occurs for tax purposes. The annual annuity in our scenario is reported to our donor this way:
   Taxable portion: $104.40
   Tax-free portion: $475.60

e. How has our donor benefited?

   (1) In addition to receiving an upfront charitable deduction, $475.60 of "income" will never appear on the donor's tax return.

   (2) Since a CGA is a contract rather than a split-interest trust, the paperwork is simple, upfront costs are minimal, and there is no annual trust tax return.

f. How has the charity benefited?

   (1) A future gift from the donor is locked in, and this is a donor who will receive checks *from* you every year.

   (2) CGAs can be easy to issue and manage. Even though CGA are tightly regulated in California, a number of third party agencies will issue and manage them on your behalf. Fees and some restrictions upon final distribution may apply, depending on the third party issuer.

VIII. The continued tax benefits of planned giving through estates and trusts.

A. Very large estates may still benefit from the unlimited charitable deduction. The estate tax rate of 40 percent is *relatively* manageable (compared with rates of up to 70 percent in the past); complex estate planning options remain.

B. Domestic partners may incur federal estate taxes at a lower level than married individuals due to remaining inequities in their treatment.

C. Even smaller estates might not escape other taxes imposed at death--and these are the sneaky taxes--with rates up to 39.6%.

1. Taxes are due on money where we've deliberately delayed paying taxes, e.g., retirement accounts. These taxes are owed by the beneficiary, at the beneficiary's marginal rate. Distribution may push the beneficiary into a higher tax bracket. Proceeds made payable to the estate are included in #2 below.

2. Taxes due on money that was owed to the decedent but not paid before death are called Income in Respect of a Decedent (IRD), and may include such things as taxable portions of annuities, Series EE US Savings Bonds, installment agreements, wages and vacation time paid after death, or interest and dividends earned. Unlike individual income taxes, the highest marginal rate of 39.6% occurs at an extremely low level - $11,950.

3. Uses of planned giving to avoid these other death taxes.

a. Non-Roth IRAs.

(1) Naming a charity as a beneficiary of an IRA eliminates deferred income taxes completely on the amount passing to charity.

(2) The potential for IRA gifts is exceptional

In 2011, for estates filing a federal estate tax return:
62.8% - included retirement plan assets
5.5% - retirement plan assets as percentage of estate
$2.6 billion - retirement assets transferred in one year
$1.3 billion - retirement assets in estates of $5-10 million

b. IRD may be taxed twice, first in the fiduciary tax return and then in the estate recipient's income tax return (subject to credits).

(1) The traditional means to avoid IRD through charitable giving has been to include language in wills/trusts that, simplified, suggested: "I direct that all my charitable gifts be satisfied first from property classified as income in respect of a decedent in my estate."

(2) Potential problem: A proposed IRS regulation would deny tax-favored treatment where specific assets are earmarked for charitable gifts unless the "provision has economic effect independent of income tax

consequences.” Since this proposal only applies to property passing through and estate or trust, beneficiary designations are unaffected.

(3) Three alternatives:

(a) Have the IRD paid directly to charity so that it recognizes all the income.

(b) Where beneficiary designations are possible, name the charity.

(c) Give all IRD (or all IRD of a specific source) to charity rather than identifying IRD as a partial source to satisfy the charitable gift.

c. Identifying specific assets or types of assets for charitable giving is particularly helpful where there are both individual and charitable recipients. By giving taxable assets to charity, the total amount available for distribution increases.

d. For a more in-depth analysis, read Christopher Hoyt’s excellent piece on the subject at http://www.pgdc.com/pgdc/treacherous-waters.

VIII. Thoughts about how to keep the party going, especially in a weak economy

A. **Don’t panic.** There’s plenty of that going around already. A part of what planned giving people do is to provide perspective and vision in a time of clichés. These are valuable skills to share in times like these.

B. **Review your five-year development plan.** The tendency is to think in terms of cutting or eliminating. A five-year plan give you the relative luxury of being able to delay some items which concentrating on making a success of others.

C. **Remember that some things don’t change**. People still want to give and charities still perform important functions. This environment is one of those rare opportunities to refocus on your core mission.

D. **Donors have changed changing their giving patterns**. As people cut back financially to adjust for their personal needs, they did the same in their giving. A donor who gave to twenty charities a few years ago is likely giving to no more than ten now. Your job as a fundraiser is to make the case that you should be one of those ten. If you were not on the initial list of twenty, you probably will not be one of the ten. This makes truly cold calling a most inefficient use of time.

E. **Let your fundraising efforts multitask**. Annual fund campaigns may bring in smaller amounts. However, the people who continue to give have self-identified as your best prospects.

F. **Describing yourself as a quality charity is not enough.** Donors always believe that

they are giving to good charities, so simply extolling your virtues will have minimal impact. If anything, emphasize consistency in vision and painstaking attention to the stewardship of gifts received.

G. **Telling donors that "times are tough" is a waste of time.** Donors know what is going on in the economy and are feeling it in their own lives. Expressing your dire financial need may actually be counterproductive. Your best donors have anticipated the possibility of monetary reversals in their personal planning. They will likely have expected the same from you.

H. **Do not emphasize how much you "need to raise."** I heard a December news story that a local service organization needed to raise $8 million by the end of the year. My first reaction was "so what?" I am adjusting my needs; the charity should be doing the same. A better term is "goal," defined further in terms of the specific impact donors can have.

I. **Donors can multiply easier than they can divide.** When you were taking math in school, which was easier – multiplication or division? If a charity tells me they have a goal of $8 million, my first reaction as a donor is that my gift will have minimal impact in helping them achieve that goal.
A few years ago, I was working on a planned gift with a prospective donor as part of a capital giving campaign. In our third meeting, she said: "I'm afraid I only have a million dollars to give. I only wish that I had enough money to do some good." She had divided the campaign amount by her gift and saw that her percentage contribution was small – and therefore unimportant. I told her not to think about the total campaign amount. Instead, I specifically listed all the things that could be accomplished with a gift of $100,000. This was a number she could understand and, when she multiplied this "impact gift" by ten, she saw how significant her gift could be.

J. **Help the donor spend somebody else's money.** Matching gifts are exceptionally attractive. Some companies match employee gifts. Other donors may also be willing to match gifts. The concept is easy to understand and, again, the donor is able to use multiplication of benefits.

K. **Downplay the tax benefits of charitable giving.** This may sound counterintuitive. However, gifts are exactly that. Gifts. Even if you get a tax deduction, it will cost you something. The most common comment about taxes I've heard during poor economic times is: "I don't need more deductions. I need more income." A better approach is to put the tax benefits in terms of matching gifts. "When you give $100, Uncle Sam will effectively contribute $35."

L. **Don't be greedy.** Remember that you are not trying to get the donor's entire charitable gift, only your share of it. Let them know that you are aware other charities will be soliciting them. If possible, show how you are working in collaboration with other organizations.

M. **Make the donor feel special.** Even if you have calendared a time to call the donor, there should be another reason to call besides asking for the gift. "I noticed that last year you made a direct gift to us out of your IRA. I wanted to give you a call because, in case you aren't aware of it, this benefit has been extended."

N. **Heighten recognition**. Donors expect to be solicited but they may not expect the same level of thanks. Exceed these expectations.

O. **Introduce current gifts other than cash**. Planned gifts allow donors to deepen their relationship with you, often while meeting other personal planning goals. For example, a charitable gift annuity may provide a consistent and predictable flow of income that their current investments are not offering.

P. **Engage others, especially those who have also given.** The adage that "people give to people" is especially true now. Fundraisers come and go, but friendships continue on. This is a prime time to ask board members, staff or volunteers to make introductions or join in a meeting with the donor.

Q. **Offer yourself as a resource**. A donor's time is valuable and it doesn't hurt to expressly recognize that. On an organizational level, offer to provide answers to questions they might have, or be willing to direct them to a person who can provide the information. If you have other expertise (such as tax insights), suggest that the donor call you any time to answer questions about what they have heard or read.

R. **Be responsive.** It is especially important to be diligent in responding to emails or phone messages. If possible, reinforce your accessibility by giving them "the number that rings on my desk."

S. **Always do what is best for the donor.** Credibility and trustworthiness should be the most notable attributes of people who ask others for money. There have been times when I have told donors that, after getting to know them, a particular gift probably did not make sense or that they may regret it later. Fortunately, this does not happen often. The more you reflect this attitude, the more attuned you will be to helping the donor meet a variety of needs.

T. **Network**. Nobody has all the answers, and even in these difficult times, the fundraising community continues to be exceptionally generous in sharing ideas. The fresh eyes and insights of others may help you see what is not apparent to those within the organization.

U. **Engage the professional community**. This is not an easy time to be a professional advisor either. Remember that there are some people who will be reevaluating their long-term goals and priorities now. The professional community and fundraisers rely on each other to identify these people and help them achieve their goals.

APPENDIX

Proposals to limit the charitable deduction have taken a number of forms:*

A. Raise the floor

1. Similar to the treatment of medical expenses, deductions are limited to the excess over a certain percentage of adjusted gross income.

2. Once a floor percentage has been established, it is subject to change; most likely to increase.

3. Recent proposals:

    a. Congressional Budget Office, 2011b. Reducing the Deficit: Spending and Revenue Options. Congressional Budget Office, Washington DC.
    b. National Commission on Fiscal Responsibility and Reform, 2010. The Moment of Truth. National Commission on Fiscal Responsibility and Reform, Washington, DC, http://www.fiscalcommission.gov/sites/ Fiscalcommission.gov/files/documents/TheMomentofTruth 12_1_2010.pdf.

B. Lower the ceiling

1. The deduction is capped, whether as a percentage, dollar amount, or phased out related to adjusted gross income.

2. Some proposals address the charitable deduction alone, others aggregate it with other itemized deductions.

3. Recent proposals:

    a. Office of Management and Budget, 2011. "The President's Budget." Office of Management and Budget, Washington, DC. http://www.whitehouse.gov/ sites/default/files/omb/budget/fy2012/ assets/receipts.pdf.
    b. Wyden, Ron, 2011. "The Bipartisan Tax Fairness and Simplification Act of 2011." http://wyden.senate.gov/ issues/legislation/details/?id=fb5b603a-ed94-48a8-8ff1-c220c1052b3f.
    c. Congressional Budget Office, 2011b. Reducing the Deficit: Spending and Revenue Options. Congressional Budget Office, Washington DC.
    d. Feldstein, Martin, Dan Feenberg, and Maya MacGuineas, 2011. "Capping Individual Tax Expenditure Benefits." NBER Working Paper 16921. National Bureau of Economic Research, Cambridge, MA.
    e. Bipartisan Policy Center, 2010. "Restoring America's Future: Reviving The Economy, Cutting Spending and Debt, and Creating a Simple, Pro-Growth Tax System," http://www.bipartisanpolicy.org/sites/default/files/ BPC% 20FINAL%20REPORT%20FOR%20PRINTER%2002%2028%2011.pdf.

f. Mitt Romney, presidential debate, October 16, 2012. "I'll pick a number -- $25,000 of deductions and credits, and you can decide which ones to use. Your home mortgage interest deduction, charity, child tax credit, and so forth; you can use those as part of filling that bucket ... of deductions."
g. Committee for a Responsible Federal Government, 2012. Tax Working Paper: *Raising Revenue from Higher Earners through Base Broadening November 15, 2012.* http://crfb.org/sites/default/files/ Raising_Revenue_from_Higher_Earners_11_15-2_1.pdf
h. The Pease limitations (from former Rep. Don Pease (D-OH)) reduce itemized deductions for high income taxpayers. Though eliminated for a number of years, they are set to return in 2013 absent Congressional action.

C. Substitute the deduction with a credit

1. Remove charitable giving completely from itemized deductions and replace the deduction with a tax credit.

2. Although there are percentage limitations, a tax credit extends the charitable giving benefit to all taxpayers, not just those who currently itemize deductions.

3. Recent proposals:

a. Century Foundation, 2010. “Investing in America’s Economy: A Budget Blueprint for Economic Recovery and Fiscal Responsibility.” Century Foundation, New York, NY, http://tcf.org/publications/2010/11/investing-in-americas-economy-a-budget-blueprint-for-economic-recovery-andfiscal-responsibility/pdf.
b. Congressional Budget Office, 2011b. Reducing the Deficit: Spending and Revenue Options. Congressional Budget Office, Washington DC.
c. National Commission on Fiscal Responsibility` and Reform, 2010. The Moment of Truth. National Commission on Fiscal Responsibility and Reform, Washington, DC, http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf.

* For a more detailed discussion of many of the options for limiting charitable deductions, see: Cordes, Joseph J. *Re-thinking the Deduction for Charitable Contributions: Evaluating the Effects of Deficit-reduction Proposals.* National Tax Journal, December 2011, 64(4), 1001-1004. Acknowledgment is given to this work for some of the reference citations contained herein.

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