

The Impact of the FairTax on Charitable Giving and Non-Profit Organizations – Will People Still Give?

Many people assume that the level of charitable giving in America is driven by the tax code and tax deductions, and they conclude that if charitable donations were not deductible, then charitable organizations could not exist. Nothing could be further from the truth.

The majority of charitable contributions today come from *non-itemizers*. Under current income tax law, most taxpayers *cannot* deduct charitable contributions. In fact, only 28% of all taxpayers who itemize may deduct their contributions. The incentive for giving to charitable organizations will not be diminished in any respect by the FairTax. In fact, it will probably increase under the FairTax. The FairTax will allow people to make charitable contributions out of *pre-tax dollars*. Under the current system, the charitable deduction only offsets a portion of a taxpayer's tax liability. For those generally less affluent taxpayers who do not itemize, the cost of charitable giving will actually go down under the FairTax because they will be able to give to their churches or other charitable organizations from *pre-tax dollars*.

Under the FairTax, non-itemizers will not be taxed on charitable contributions, and therefore, for the first time since 1986, the vast majority will actually be encouraged to make charitable contributions if the "FairTax" Bill is enacted. It should be noted, that percentage ceilings also limit individual contributions today –even if a taxpayer itemizes. For example, all contributions are limited to fifty percent or less of adjusted gross income. This percentage is ten percent for corporations.

Two more points should be mentioned. First, a large source of income for universities, colleges, and other training institutions are tuition payments. Under current law, tuition payments are not deductible, not creditable, and must be made with after-tax dollars. Under the FairTax proposed by Americans for Fair Taxation, all types of training and education are considered investments in human capital and are therefore paid with pre-tax dollars. Second, voluntary services provided to non-profits today, under the income tax system, are discouraged because out-of-pocket expenditures are not fully deductible. Under the FairTax, such expenditures would be from pre-tax earnings.

In many respects, however, benefactors who grant large donations *are not* primarily influenced by the tax consequences of their acts, but by the desire to contribute to charitable causes.