



Our Government is not supporting Charitable Giving

by Deborah D. Thornton

The American people are known worldwide for their compassion and generosity, but is the federal government helping us to be charitable or making it more difficult? Most recently we have given millions of dollars and thousands of hours of our time to help earthquake victims in Chile and Haiti. According to some estimates, Americans donate over 300 billion dollars and eight billion hours of volunteer time to a wide variety of charitable causes every year.¹ Closer to home, Iowans are recognized as having the fifth highest volunteer rate in the country.² In addition, those who have been personally financially successful donate millions of dollars to our institutions of higher education and major foundations. Everyone in Iowa, and the United States, is free to give their time and money to virtually any cause they support, or are they?

One would think this sort of activity would be supported and encouraged by our government. In some ways it is, as individuals who itemize their taxes may deduct charitable donations from their federal tax bill, Internal Revenue Service (IRS) Form 1040, on April 15 of each year. Yet continuing growth in the size and reach of government agencies and bureaucracy makes donating more difficult. Specifically, in recent years the federal government has made it more difficult for individuals to donate to the causes they support. For example, IRS Publication 78 lists those organizations legally recognized by the government as being “official charitable organizations.” Those are the only ones you are supposed to claim on your tax return. Then, if you give over \$250 to any organization, your cancelled checks are no longer considered sufficient evidence. If audited, you must have a written acknowledgment or those contributions will not be accepted.³ Further, depending upon your tax bracket, your deductible contributions may be limited to as little as 20 percent of your adjusted gross income. Additional proposals have been made by President Obama to further reduce or limit the amount of donations that may be deducted from high-income individuals’ taxes.

Though jumping through these hoops is disagreeable to us as taxpayers, the hoops required of the receiving charity are even more onerous. Most recently there have been significant changes to IRS Form 990 – the form submitted by non-profit organizations when filing their own taxes. The IRS reported 853,500 exempt organizations filing returns as of 2005.⁴ In Iowa alone there are 9,532 official organizations listed under IRS Publication 78, from local school PTAs to major statewide foundations.⁵

The IRS claims these changes are justified because Form 990 had not been significantly revised since 1979. Because of technology and growth in non-profits, the IRS wanted to increase transparency and accountability, while promoting tax compliance. An additional goal of the revision was to “minimize burden on the filing organization.” Reading a 79-page overview of directions before even beginning to gather the materials and information needed to complete the form does not seem to be an action that will “minimize burden!” The revised IRS Form 990 — “Return of Organization Exempt from Income Tax, under section 501(c), 527, or 4947(a) (1) of the Internal Revenue Code” — adds significant new filing and reporting burdens to many charitable organizations. It addresses not only how much money an organization brought in, but

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also where it came from and how it was spent. Additionally, there are significant new sections on the organization's governance, board of directors, and operational-policy positions.⁶

Form 990 has 11 core sections, as well as 16 schedules and ten appendixes. The IRS estimated time for "Recordkeeping" is over ten weeks (409 hours). The time for "Learning about the law or the form" is over 47 hours, and time for actually "Preparing the Form" is over 50 hours, plus an hour for copying, assembling, and sending the form to the IRS. This adds up to a grand total of over three months of a single person's time over the year. This is whether the person is a volunteer, a paid internal staff member, or an external accounting or law firm. In addition to the core forms, the hours required for completing the schedules (from A to R depending on the specific charity) can be as high as another 330 to 336 hours, or another eight weeks (two months) of staff time. The final total is almost half a year of staff time.⁷

The 990EZ form, for organizations bringing in less than \$500,000 and with less than \$1,250,000 in assets, is somewhat shorter and easier, requiring a total of less than 200 hours, or only five weeks for the core form — plus another 130 hours (over three weeks) for the schedules.

The recent economic recession is having an impact on donations, with some non-profits closing and others finding it difficult to serve their communities. Many organizations are currently reporting significant drops in the amount of donations they are receiving, with total giving down almost six percent in 2008, the first drop since 1987. Two-thirds of charities reported decreases in 2008 giving, especially foundations, health organizations, the arts, culture, and humanities groups.⁸ At the same time, virtually all organizations reported an increase in need for their services, especially those in the areas of basic needs, youth development, and children.

Though I doubt changes in tax law will significantly affect the charitable work of Bill and Melinda Gates or the Gates Foundation, they greatly impact the rest of us, and our local charities. One wonders if our government really wants the uniquely American tradition of individuals helping individuals as they see fit to continue, or if the bureaucrats would really prefer to do it all themselves — giving our tax dollars to those they deem deserving.

Public Interest Institute's POLICY STUDY, "Does the Government want us 'To give or not to give?'" can be viewed at www.limitedgovernment.org.

(Endnotes)

¹ "U.S. charitable giving estimated to be \$307.65 billion in 2008," News Release, Giving USA Foundation, <http://www.philanthropy.iupui.edu/News/2009/docs/GivingReaches300billion_06102009.pdf> (March 4, 2010).

² "Volunteering In America Research Highlights," Corporation for National and Community Service, p.1, July 2009, <<http://www.nationalservice.gov>> (March 2, 2010).

³ *IRS Form 1040 Instructions 2009*, p. 98.

⁴ "Internal Revenue Service, SIO Tax Stats – Charities and Other Tax-exempt Organizations' Statistics," <<http://www.irs.gov/taxstats/charitablestats/article/0,,id=0717600.html>> (March 20, 2010).

⁵ *Internal Revenue Service, Publication 78, Online Version*, <<http://www.irs.gov/app/pub-78/search.do?nameSearchTypeStarts=false&names=&nameSearchTypeAll=false&city=&state=IA&country=USA&deductibility=all&dispatchMthod=search&submitName=Search>> (March 3, 2010).

⁶ "Form 990 Redesign for Tax Year 2008 (Filed in 2009)," December 20, 2007, <<http://www.irs.gov/charities/article/0,,id=176613,00.html>> (March 12, 2010).

⁷ *IRS Form 990, Instructions for Form 990 Return of Organization Exempt from Income Tax*, p. 42.

⁸ "Charities Working Harder to Find Revenue," *Foundation Center Philanthropy News Digest*, <<http://foundationcenter.org/pnd/news/story.jhtml?id=286000019>> (March 4, 2010).

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