

April 2010

*Does the Government
want us
“To give or not to give?”*

POLICY

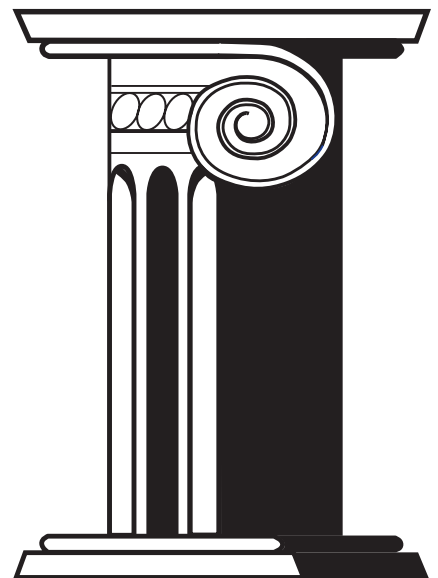
STUDY

No. 10-2

by

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PUBLIC INTEREST



I N S T I T U T E

POLICY STUDY

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No. 10-2

Public Interest Institute

**Dr. Don Racheter,
President**

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Does the Government want us “To give or not to give?”

Contents

Executive Summary	3
I. Donating and Volunteering in the United States	5
II. Federal Government Tax Treatment of Charitable Donations	7
III. Federal Tax Requirements on Charitable Organizations	11
IV. Economic Impact of the Recession	16
V. Corporate and High Dollar Donations Also Fall	17
VI. Future Tax Actions	18
VII. Endnotes	19

Executive Summary

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. We have sent sunscreen, calling cards, and mosquito nets to soldiers overseas. We have collected canned food for local food banks and given blankets to the homeless. 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. Closer to home, Iowans are actually recognized as having the fifth highest volunteer rate in the country.

In addition, those who have been personally financially successful donate millions of dollars to our institutions of higher education and major foundations. The recent Public Interest Institute POLICY STUDY, *Stewardship in Iowa: Our Own Horatio Algiers*, #09-7, addresses this issue and recognizes some of the major philanthropists in Iowa.

Everyone in Iowa, and the United States, is free to give their time and money to virtually any cause they support, or to establish a new effort if they see a need. For example, a group in Iowa City is working to ensure an American flag is in

every classroom in their local school district, after discovering that many classrooms do not have one. Many new groups have been established to help our soldiers and injured veterans or the families who remain at home.

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 acknowledgement, or those contributions will not be accepted. Further, depending upon your tax bracket, your contributions may be limited to as little as 20 percent of your adjusted gross income. Additional proposals have been made by President Obama

Executive Summary

“Continuing growth in the size and reach of government agencies and bureaucracy makes donating more difficult.”

Does the Government want us “To give...”

“Though jumping through these hoops is disagreeable to us as taxpayers, the hoops required of the receiving charity are even more onerous.”

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 the Internal Revenue Service (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. In Iowa alone there are 9,532 official organizations listed under IRS Publication 78, from local school PTAs to major statewide foundations.

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 which 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 also where it came from and how it was spent. Additionally, there are significant new sections on the organizational governance, board of directors, and operational policy positions.

Form 990 has 11 core sections, as well as 16 Schedules and 10 Appendixes. The IRS estimated time for “Record-keeping” is over 10 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 330-336 hours, or another eight weeks (two months) of staff time. The final total is almost half a year of staff time.

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 community. 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. 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.

This POLICY STUDY will review the impact of the current recession on charitable giving and the impact of government actions, especially Form 990 revisions, on the non-profits receiving the donations and working to promote their cause.

Donating and Volunteering in the United States

The American people are known worldwide for their compassion and generosity. Most recently we have given millions of dollars and thousands of hours of our time to help earthquake victims in Chile and Haiti. We write checks at church; we give cash to the Salvation Army Red Kettle Christmas campaign. In 2009 the Red Kettle campaign raised a record \$139 million, a seven percent increase over 2008.¹

Most recently, through a company called “mGive,” almost 2.5 million people gave \$10 each to the American Red Cross for Haiti earthquake victims in only seven days, through text messaging on their phones. This is the newest and most rapidly growing method of donating in a crisis situation. The donations are recorded and collected electronically and the amount added to your next telephone bill.²

We have sent sunscreen, calling cards, and mosquito nets to soldiers overseas. We have collected canned food for local food banks and given blankets to the homeless. Since 2004, under the national Good Turn for America Program, the Boy Scouts of America, the largest youth service organization in the world with almost three million members, has donated over eight million community service hours.³ In their 100-year history over 110

...or not to give?”

“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.”

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“Iowans are recognized as having the fifth highest volunteer rate in the country. (In 2008) We gave almost 91 million hours of service, or 37.5 hours per resident.”

million Boy Scouts and their adult leaders have provided significant assistance to a wide variety of community causes, including Scouting for Food.

According to the Giving USA Foundation, in 2008 Americans donated over \$300 billion dollars and eight billion hours of volunteer time for the second year in a row to a wide variety of charitable causes. We give approximately 2.2 percent of the Gross Domestic Product (GDP) each year to charity.⁴ Research by the Independent Sector group, a non-profit leadership organization, has determined that the national value of volunteer time is \$20.25 per hour, based on the average wage of a non-farm, non-management worker. This makes the market value of the eight billion volunteer hours over \$162 billion each year.

Over 61 million individual Americans or over 26 percent of our population contributed these hours.⁵ Of those volunteering, just over a third gave more than 100 hours, or almost three weeks, per year.⁶ This number is the highest it has been since 2002, so those who are volunteering are increasing their commitment.

In addition, significant numbers of young people are learning the volunteer tradition through programs such as the Iowa City Community School District “Silver Cord” recognition program. In this program graduating Seniors who have volunteered 400 hours or more during their four years in high

school are awarded a silver cord to be worn on their gown during graduation.⁷

The Hands on Network, part of the Points of Light Institute – originally inspired by President George H.W. Bush’s “thousand points of light” inaugural speech reference, has established National Volunteer Week to encourage volunteerism. This year National Volunteer Week was April 18-24.⁸

Iowans are recognized as having the fifth highest volunteer rate in the country. On average, 26.8 percent of the United States population, or just over one out of four individuals, volunteers each year.⁹ In contrast 37 percent of Iowans or some 865,600 of our adult residents volunteered in 2008, according to a study by the Corporation for National and Community Service. Iowa as a state is beaten only by Utah, Nebraska, Minnesota, and Alaska. In Iowa we gave almost 91 million hours of service, or 37.5 hours per resident.¹⁰ This time has a value of almost \$1.5 billion when figured using our average hourly rate of \$16.10.¹¹

However, the number of volunteer hours per resident when compared to other states is actually a little low, at twenty-fourth of all states. According to the U.S. Department of Labor’s Bureau of Labor Statistics (BLS) report on volunteering, the median number of volunteer hours was 52 for men and 50 for women. If only those Iowans

who are currently volunteering increased the number of hours they worked per year by 14.5 hours, to the national median, that would represent another \$202,074,320, or almost another quarter of a billion dollars in labor hours given to help our communities, neighbors, and friends. As a result, one would think our government would encourage these efforts.

Within Iowa, the city with the highest volunteer rate is Iowa City, at 49.2 percent. This is the second highest volunteer rate for a “mid-sized” city in the country. The only mid-sized city that beats Iowa City is Provo-Orem, Utah, at almost 63 percent. Just behind Iowa City, in third place, is Madison, Wisconsin, at 42 percent.¹² In general, towns with colleges and a highly educated workforce have higher volunteer rates, so Iowa City fits this pattern.

More importantly, everyone in Iowa, and the United States, is free to give their time and money to virtually any cause they support, or to establish a new effort if they see a need. For example, a group in Iowa City is working to ensure an American flag is in every classroom in their local school district after discovering that many classrooms do not have one.¹³ Many new groups have been established to help our soldiers and injured veterans or the families who remain at home.

In addition, those who have been personally financially

successful donate millions of dollars to our institutions of higher education and major foundations. The recent Public Interest Institute POLICY STUDY, *Stewardship in Iowa: Our Own Horatio Algiers*, #09-7, addresses this issue and recognizes some of the major philanthropists in Iowa. (<http://www.limitedgovernment.org/publications/pubs/studies/ps-09-7.pdf>)

Federal Government Tax Treatment of Charitable Donations

One would think this sort of activity, both financial gifts and volunteer time donations, would be supported and encouraged by our government. In some ways it is, as individuals who “itemize” their taxes may specifically deduct charitable donations from their federal tax bill on April 15 of each year. However, only one of every three taxpayers itemizes their taxes, the rest leave their charitable deductions unclaimed. According to the 2009 Form 1040 instructions, 70 percent of Americans file the 1040 with the other 30 percent filing either the 1040A or the 1040EZ.¹⁴ The main difference is in the claiming of individual, itemized deductions (on 1040 Schedule A) instead of the standard deduction. The 2009 standard deduction for a person who is married, filing jointly is \$11,400. A single person’s deduction is \$5,700. The personal exemption amount is \$3,650.¹⁵ Itemized deductions, for not only charitable contribu-

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Does the Government want us “To give...”

“...because of not itemizing or filing the longer form ‘as many as 2.2 million filers erroneously paid Uncle Sam too much.’ The average overpayment was \$438 per taxpayer.”

tions, but also medical expenses, home mortgage interest, job search expenses, home business expenses, and others can be substantially more. If a taxpayer’s itemized expenses are more than the standard deductions, then the more complex form, Form 1040 and Schedule A, should be used.

A study conducted in 2003 by the Government Accounting Office¹⁶ (GAO) which examined 1998 tax returns, found that because of not itemizing or filing the longer form “as many as 2.2 million filers erroneously paid Uncle Sam too much.”¹⁷ The overpayment areas included unclaimed deductions for loan points, charitable donations, and real estate, personal property, state and local income taxes. The average overpayment was \$438 per taxpayer. It would seem that more people would file itemized tax returns in order to claim these deductions, rather than paying more to the federal government.

The GAO report found that many lower-income and middle-income taxpayers, those making between \$25,000 and \$50,000 and those making between \$50,000 and \$75,000, did not file the itemized form.¹⁸ Instead they opted for the simpler and quicker Form 1040EZ, instead of the more complex Form 1040 with Schedule A. Accordingly, they paid more in federal income taxes. These taxpayers are among those who could benefit the most from keeping their own money in their own pocket. Apparently,

even paid preparers found the filing process too complex as tax professionals prepared almost half of the returns with unclaimed deductions. The GAO study was completed at the request of former House Majority Leader Dick Armey (Republican-Texas) and is the most recent analysis available.

The main reason cited for not filing the longer, more complex Form 1040 with the Schedule A is the time needed to complete it. The official IRS estimate for the 2009 tax year was that it should take the average taxpayer 21.4 hours to complete the 1040, while the 1040EZ is estimated to take only 8 hours. The projected cost associated with completing the forms was \$280 for the 1040 and \$96 for the 1040A or 1040EZ.¹⁹

Recent, temporary changes to the standard deduction process of the EZ form make it almost as complex, according to the principal federal tax analyst for tax publisher CCH.²⁰ These changes include an additional standard deduction for state and local property taxes, up to \$500 for single filers and \$1,000 for joint filers. This change was designed to prop up the real estate market and encourage home buying.

New car buyers were also rewarded by the federal government in 2009, in addition to the Cash for Clunkers program. If you bought a new car on or after February 17, 2009 you can add to your standard deduction the state and local sales

and excise tax you paid. This is unless you make too much money. In this case, if you are a single filer with a modified adjusted gross income between \$125,000 and \$135,000 the deduction phases out, as it does if you bought a car which cost more than \$49,500. The joint filer limits are around \$250,000. This change was designed to prop up the automobile market.²¹

Those living in federal disaster areas can also deduct their casualty losses on the standard form. However, for those Iowans living in the Midwest Disaster Area of 2008, different rules apply. For those specifics you need to see the 15 page IRS Publication 4492-B, "Information for Affected Taxpayers in the Midwestern Disaster Areas," revised January 2010. These changes were designed to prop up the victims of natural disasters in all or part of 11 Midwestern states, including Iowa.

After reading all these regulations and requirements and reviewing all of these forms, one can easily understand the growing strength of the Flat or Fair Tax movements. A key component of these tax movements is the simplification of the tax imposition and collection process, and a corresponding decrease in filing time and costs.

In addition to having officially approved charities, the IRS specifically prohibits the deduction of certain aspects of contributions to these organiza-

tions. Publication 526 outlines those things you may not deduct, which include contributions to a specific individual, to "nonqualified" organizations, contributions from which you expect to receive a benefit (such as a dinner), the value of your time and services, and your personal expenses in volunteering.²² This means the millions of volunteer hours representing billions of dollars of effort we donate are not recognized or rewarded by the federal government.

You also may not deduct contributions to nonqualified organizations, even if there is a charitable or non-profit aspect. This includes groups such as chambers of commerce, state legal bar associations, civic leagues and associations, and social organizations.²³ Most people are aware that contributions to political campaign organizations are not deductible on their federal taxes.

However, if you are a Whaling Captain, recognized by the Alaska Eskimo Whaling Commission as such, you may deduct up to \$10,000 per year "reasonable and necessary" whaling expenses as a charitable contribution. This includes expenses for acquiring and maintaining boats and gear, food, storing and distributing your catch.²⁴

If you are a hunter who likes to have their trophy heads and antlers mounted, or their fish or pheasant stuffed, you receive special tax benefits when you take off of your taxes the fair

...or not to give?"

"After reading all these regulations and requirements and reviewing all of these forms, one can easily understand the growing strength of the Flat or Fair Tax movements."

Does the Government want us “To give...”

“If you give over \$500 in physical goods (instead of cash/checks) to a charity you also must file IRS Form 8283. If the value of the donation is over \$5,000, you must have an appraisal done.”

market value of any taxidermy property you donate to a qualified organization.²⁵

For those who do file the more complex Form 1040A, continuing growth in the size and reach of government agencies and bureaucracy make donating more difficult. Specifically, in recent years the federal government has made it more difficult for individuals to donate to the causes they support.

The Internal Revenue Service (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 list 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 dated prior to the filing of your taxes, or those contributions will not be accepted.

If you give over \$500 in physical goods (instead of cash/checks) to a charity you also must file IRS Form 8283. If the value of the donation is over \$5,000, you must have an appraisal done, and Form 8283 must be signed by both the appraiser and someone from the charity. Further, depending upon your tax bracket, your contributions may be limited to as little as 20 percent of your adjusted gross income.²⁶ The IRS Publication 526 details the requirements for charitable contributions in only 24 pages.

Outside of the specific instructions for charitable donations, the instruction publication for IRS Form 1040, for your regular, everyday taxpayer, is 175 pages. The estimated time for completing the 1040 form(s) ranges from eight hours for the 1040EZ to over 21 hours for the full 1040 and accompanying schedules, A, B, C, D, E, F, J, L, M, and SE.²⁷ As a practical experience, this time is probably underestimated.

Because of the time needed to complete these tax forms, private, for-profit businesses such as H & R Block and Liberty Tax Service, as well as legal and accounting firms specializing in tax issues, have experienced significant growth in the past few years.

Additionally, there has been significant growth in the use of home computer tax preparation programs. H & R Block reported that for the 2008 tax season, they completed 5.7 percent fewer returns, but because of complexity the average fee was up by 7.2 percent, and they had more customers with higher adjusted gross incomes using their services.²⁸ H & R Block reports significant growth in their sale of on-line tax products and home computer software, up 900,000 units or 21.2 percent. On-line tax return preparation was up 45.2 percent in their Fiscal Year 2009 report. For the current 2009 tax season, Liberty Tax Service is reporting a 10.2 percent increase in the number of returns filed as

of February 15, with net fees up 16 percent. In response to increased demand, they added 350 new locations for this tax season for a total of 3,512 locations in the U.S. and Canada.²⁹

Federal Tax Requirements on Charitable Organizations

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 the Internal Revenue Service Form 990 – the form submitted by non-profit organizations when filing their own taxes.

According to the National Council of Non-profits, over 500,000 non-profits file this form each year. For tax year 2005, the IRS lists 853,500 exempt organizations as filing tax returns.³⁰ In Iowa alone there are 9,532 official organizations listed under IRS Publication 78, from local school PTAs to major statewide foundations.³¹

The IRS claims these changes, first implemented for the 2008 tax year, are justified because it 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.”³² Reading a 74 page summary of changes or 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 which 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 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. For example, Part VI of the form – Governance, Management and Disclosure – requires detailed reporting of the governance structure, policies, and disclosure practices.

In a program at the Bar Association of San Francisco last October, the IRS exempt organizations audit manager, Joe Kroll, addressed both audit and compliance issues. According to him, 75 percent of the form asks about and requires reporting on “activities,” not finances. He also noted that audits are not being conducted randomly, except in industry segments where they have found reporting problems or where specific individuals are connected to multiple organizations with compliance problems. He indicated that “referrals” are the “number one source” for audit

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“There have been significant changes to the Internal Revenue Service Form 990 – the form submitted by non-profit organizations when filing their own taxes.”

Does the Government want us “To give...”

“There are 11 core form sections, as well as 16 Schedules and 10 Appendixes in the standard IRS 990 form for 501(c) organizations.”

investigations.³³ This seems troublesome in that a disgruntled former employee, competitor organization, or opposition organization could trigger an audit of a perfectly compliant organization for petty reasons, resulting in significant time and cost to defend.

There are 11 core form sections, as well as 16 Schedules and 10 Appendixes in the standard IRS 990 form for 501(c) organizations. The IRS estimated time for “Record-keeping” for the core form is over 10 weeks (409 hours). The time required 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.³⁴

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. If this time is valued at \$38.00 per hour, for a CPA level staff accountant or office manager, the average cost to a non-profit is over \$18,000.³⁵

Then you move onto the various Schedules that could be required, depending on the activities of your organization. These schedules, from A to R, could consume another 330-336 hours of staff time – or another two months and over \$15,000 in additional payroll cost. Almost half a year of one person’s work time is dedicated to completing an IRS reporting requirement. This does not seem to be a reduction of burden on our charitable organizations. Nor does it encourage individuals or organizations to become involved in establish-

IRS Form 990 Core Sections	
Part I	Summary
Part II	Signature Block of Officer and paid preparer
Part III	Statement of Program Service Accomplishments
Part IV	Checklist of Required Schedules
Part V	Statements Regarding Other IRS Filings and Tax Compliance
Part VI	Governance, Management and Financial Disclosure
Part VII	Compensation of Officers, Directors, Trustees, Key Employees and Other Highest Compensated Employees or Independent Contractors
Part VIII	Statement of Revenue
Part IX	Statement of Functional Expenses
Part X	Balance Sheet
Part XI	Financial Statements and Reporting

Source: 2009 Instructions for Form 990 Return of Organizations Exempt from Income Tax, pg. 2.

ing new organizations to meet changing needs.

If the organization, as many large non-profits do, uses an outside accounting firm, the cost may well be billed at \$100 per hour. For example, the accounting costs for 2008 listed on the University of Iowa Foundation's 990 report, which was 40 pages, were listed as \$52,818.³⁶ Though other items besides 990 preparation were included, this is a significant operational cost and use of donor funds and does not include the internal staff time costs – just those funds paid to outside accounting service providers.

During the form revision process, with the standard 90-day comment period, there were over 700 official comments received by the IRS.³⁷ In addition many organizations sent representatives to meet with the IRS officials in charge of the re-design. The National Association of College and University Business Officers (NACUBO) sent a delegation of five, including senior staff from Washington and Jefferson College, Johns Hopkins University, and George Washington University, to attempt to address the impact on colleges.³⁸

On an informal basis, virtually every non-profit in Iowa contacted for this study reported significantly increased costs and time in reporting, though most had not quantified it in terms of costs. They reported increased use of outside accounting firms, increased staff

training, additional lead-time, and organizational procedure changes. Virtually all reported at least a week in additional training time for financial management staff.

One organization reported that a volunteer accountant had previously completed their 990 with no problems. Because of the change to the new form, not only was the work incorrect, but it required the “overnight” time of both the financial manager and the organization's attorney to “completely redo” the work, at a “significant” additional cost. That organization has now hired outside accounting specialists to complete the 2009 Form 990, at a cost of almost \$5,000. Several organizations reported spending time updating various policies and procedures, resulting in slightly higher costs to address those issues. They viewed this as a one-time activity.

The Iowa Nonprofit Resource Center, based in Iowa City, is currently sponsoring Form 990 workshops held at different locations around the state to help organizations understand and comply with 990 provisions. A key aspect of the 990 reporting is that in order to address transparency issues, all charitable organizations must have copies of their 990 reports available to the public. The names of donors are not provided to the general public, in order to protect their privacy – though those names are submitted to the IRS.

The 990EZ form, for or-

...or not to give?”

“Virtually every non-profit in Iowa contacted for this study reported significantly increased costs and time in reporting.”

ganizations 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. The various Schedules (only

A, B, C, E, G, L, and N) which might be required also result in additional completion time. These schedules potentially add another 137 hours of staff time, or approximately three and a half weeks, for a total of just over two months.

Forms 990 and 990-EZ Official Burden Estimates					
The time needed to complete and file this form and related schedules will vary depending on individual circumstances.					
The estimated average times are:					
Form	Purpose/Topic of form	Recordkeeping	Learning about the law or the form	Preparing the form	Copying, assembling, and sending the form to the IRS
990 Core	Organization Exempt from Income Tax	117 hr., 54 min.	16 hr., 4 min.	23 hr., 29 min.	1 hr., 4 min.
990-EZ	Short Form	29 hr., 10 min.	11 hr., 33 min.	14 hr., 24 min.	32 min.
Schedule A (Form 990 or 990-EZ)	Public Charity Status and Public Support	39 hr., 56 min.	6 hr., 51 min.	7 hr., 48 min.	
Schedule B (Form 990 or 990-EZ)	Schedule of Contributors	5 hr., 58 min.	1 hr., 35 min.	1 hr., 45 min.	
Schedule C (Form 990 or 990-EZ)	Political Campaign and Lobbying Activities	22 hr., 0 min.	42 min.	1 hr., 5 min.	
Schedule D (Form 990)	Supplemental Financial Statements	30 hr., 51 min.	1 hr., 17 min.	1 hr., 51 min.	
Schedule E (Form 990 or 990-EZ)	Schools	5 hr., 30 min.	53 min.	1 hr., 1 min.	
Schedule F (Form 990)	Activities outside the United States	6 hr., 42 min.	6 min.	12 min.	
Schedule G (Form 990 or 990-EZ)	Fundraising or Gaming activities	24 hr., 9 min.	24 min.	48 min.	
Schedule H (Form 990)	Hospitals	71 hr., 1 min.		1 hr., 9 min.	
Schedule I (Form 990)	Information on Grants and other assistance	5 hr., 15 min.	18 min.	23 min.	
Schedule J (Form 990)	Compensation Information	13 hr., 21 min.	2 hr. 34 min.	2 hr., 54 min.	
Schedule K (Form 990)	Tax exempt Bonds	9 hr., 34 min.	2 hr., 22 min.	2 hr., 39 min.	
Schedule L (Form 990 or 990-EZ)	Transactions with Interested Persons	5 hr., 30 min.	1 hr., 5 min.	1 hr., 13 min.	
Schedule M (Form 990)	Non-Cash Contributions	28 hr., 27 min.	35 min.	1 hr., 5 min.	
Schedule N (Form 990 or 990-EZ)	Disposition of Assets	7 hr., 53 min.	42 min.	51 min.	
Schedule O (Form 990)	Supplemental Information for 990	43 min.			
Schedule R (Form 990)	Related Organizations and Unrelated Partnerships	11 hr. 36 min.	1 hr., 29 min.	1 hr. 52 min.	
We welcome comments on forms. If you have comments concerning the accuracy of these time estimates or suggestions for making these forms simpler, we would be happy to hear from you.					
You can write to the Internal Revenue Service:					
Tax Products Coordinating Committee, 1111 Constitution Avenue, NW, IR-6526, Washington, DC 20224					
Source: 2009 Instructions for Form 990 Return of Organizations Exempt from Income Tax, pg. 42.					

In future years, the limits that determine which organizations can file the 990EZ are reduced to those with less than \$200,000 in gross receipts and less than \$500,000 in total assets. This will result in virtually every charitable organization having to file the more complex form.

article, the IRS reported hiring 155 new employees for the Exempt Organizations office in 2009. The total number of workers in that office is now 921. Of those 921, about 100 are involved in auditing the non-profit returns.³⁹

...or not to give?"

Which organizations may file Form 990-EZ?			
Tax Year	Gross Receipts	Total Assets	
2007	<\$100,000	<\$250,000	Old Form
2008	<\$1,000,000	<\$2,500,000	New Form
2009	<\$500,000	<\$1,250,000	
2010	<\$200,000	<\$500,000	

source: IRS publication 990

Established procedures and implemented routines for meeting the IRS requirements might allow the work to be completed by a lower level administrative person instead of an accountant. Even if this person was paid only \$25.00 per hour, the cost will still be almost \$8,500 to comply with IRS filing requirements. At the higher professional accountant level, the fee would probably be doubled. If your organization is only bringing in \$200,000 per year, that means five to ten percent of your donations go to government compliance instead of positive charitable works.

On the government end of the equation, the IRS has had to hire additional people to deal with processing these more complex forms. In a March 7 *Chronicle of Philanthropy*

A 2009 report from ResearchandMarkets.com stated that until recently most of the auditing was done on colleges, universities, and hospitals. Since 1999, the number and type of organizations audited has “dramatically increased,” with the agency apparently targeting specific industries in an attempt to be able to revoke the non-profit status of the entire industry. Examples of this include “massive” audits of credit counseling and homeowner down payment assistance organizations.⁴⁰

A key area of auditing concerns the salary and benefits of senior executives of non-profit organizations. There is a three-prong requirement for justifying these salaries, including using comparability data and documentation of deci-

“If your organization is only bringing in \$200,000 per year, that means five to ten percent of your donations go to government compliance instead of positive charitable works.”

Does the Government want us “To give...”

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sions. At an American Health Lawyers Association meeting last August, tax attorney T.J. Sullivan with Drinker Biddle in Washington, D.C indicated that even after following the “reasonable process” steps, the IRS is specifically questioning the compensation of executives with tax-exempt hospitals. He indicated that this was in response to Congressional pressure, especially from Senator Chuck Grassley, ranking minority member on the Senate Finance Committee.⁴¹ Senator Grassley has expressed concerns about the tax-exempt status and financial reporting of a wide variety of non-profit organizations in the last year.

Other areas of IRS interest include the “good governance” policies and procedures. According to IRS Commissioner Sarah Hall Ingram, this means that the organization should clearly understand and publicly express its mission, that its board should be engaged, informed, and independent, that there should be appropriate internal financial controls, there should be policies for the proper use and safeguarding of assets, and that the organization’s activities should be transparent with proper minutes and whistleblower protections.⁴²

Economic Impact of the Recession

At the same time the IRS is increasing oversight of non-profit organizations and their management, the recent eco-

nomie recession is having an impact on donations, with some non-profits closing and others finding it difficult to serve their community. Many organizations are currently reporting significant drops in the amount of donations they are receiving, with total giving down by almost six percent in 2008, the first drop since 1987 according to the Giving USA Foundation. Two-thirds of charities reported decreases in 2008 giving, especially foundations, health organizations, and arts, culture and humanities groups.⁴³

The official IRS report from 2008 tax returns shows that charitable donations were down by 7.5 percent from 2007 to 2008. The IRS reports giving of \$161.9 billion in 2008, down from \$174.5 billion in 2007. This contrasts with the Giving USA report of over \$300 billion in donations and is further documentation of the idea that many Americans don’t properly take their tax deductions. If the Giving USA report when compared to the IRS report is accurate, almost \$150 billion is either not reported to the IRS or is given to charities that are not officially recognized. Either way, a significant number of taxpayers are not receiving the allowed federal, or state, government tax credit for their generosity.

Along with increased federal government oversight, many organizations are seeing significant increases in the demand for their services. Though the Salvation Army Red Kettle

Under-reporting of Individual Taxpayer Charitable Giving		
	2007 Giving	2008 Giving
Giving USA	\$314.07 billion	\$307.65 billion
IRS Form 1040A	\$174.50 billion	\$161.90 billion
Difference	\$139.57 billion less	\$145.75 billion less
<small>source: Giving USA Foundation, IRS data</small>		

contributions set a record in 2009, increasing by seven percent, the demand for services was up 400 percent, according to the national commander Israel L. Gaither.⁴⁴

Corporate and High Dollar Donations Also Fall

Receiving charitable gifts from corporations, as opposed to individuals, is a key financial component of many non-profits. Those have also fallen in the last two years. The Rockefeller Philanthropy Advisors recently reported that corporate giving was down by ten percent in 2009.

Those organizations which have grown during the recession have often done so by the use of on-line and automated giving such as the “mGive” program and use of social networking sites such as Facebook and Twitter. For example, the group “Water,” which works to provide safe drinking water for people in developing countries, developed a list of over 80,000 donors and raised \$9 million using those methods.⁴⁵

High dollar donors are critical to the success of

many non-profits. 2009 saw a change in their giving behavior also. The PNC Wealth Management group recently reported that over one in four wealthy Americans reduced their giving in 2009. For their study, “wealthy” was defined as someone who had at least \$500,000 in investable assets.

While the emotional and personal commitment to their communities remained strong, 55 percent of these wealthy donors said they felt an “obligation” to give financially, and 28 percent said they had reduced their giving. Only 13 percent said they had increased their donations. This even carried over into the “ultra wealthy” contributors, those with over \$5 million in investable assets, with 24 percent of those fortunate folks saying they were concerned about their ability to give.⁴⁶ Representatives of PNC further stated that many of the people they work with were “redefining” their giving to focus on having greater impact with specific issues in specific locations which are meaningful to them.

...or not to give?”

“Along with increased federal government oversight, many organizations are seeing significant increases in the demand for their services”

*Does the
Government
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“To give...”*

*“Complicating
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The estate tax was
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Future Tax Actions

Complicating matters is the expiration of the estate or “death” tax. This tax expired as of December 31, 2009. Basically this tax was 45 percent of a person’s estate, on amounts above \$3.5 million for an individual and \$7 million for a couple. As of 2004 there were 604,000 people in the United States with a net worth of at least \$3.5 million who are affected by this tax provision. While most of those impacted by this tax are probably glad it has gone away, the question is, “Will it come back?” and “In what form?”

The estate tax was an important consideration in many people’s charitable giving decisions and estate planning. The general premise would be to leave one’s heirs as much as possible, while trying to keep the total number low enough to keep the 45 percent tax rate from kicking in. Because of this uncertainty, many high net worth taxpayers are expected to not make significant decisions about their estates and their charitable giving during 2010.⁴⁷

In addition, current legislative proposals, including one by President Barack Obama, to reduce the tax benefit of charitable donations are also creating concern. His proposal is aimed at reducing charitable tax deductions and using that increased tax revenue to help pay for health care reform.

It is important to note that the Obama itemized deduction

proposals do not only affect charitable giving, but all itemized deductions, including home mortgage interest, health care expenses, and others. The Obama proposal would reduce the tax savings for high-income taxpayers that itemize (those with an AGI over \$250,000) from 33 or 35 cents on the dollar to only 28 cents.⁴⁸

If passed, this provision, along with the current economic recession, may well result in additional reductions in charitable giving. According to the Indiana University Center on Philanthropy, this proposal could result in an additional reduction of four to five percent in donations.⁴⁹ They also estimate that every 100-point decline in the stock market results in a \$1.85 billion decline in charitable giving. Fortunately there is a corresponding increase in giving with each 100-point rise.

As Bruce Flessner, a Minneapolis fund-raising consultant, recently said, “You have a philosophical issue about whether the government should play a bigger role and the private sector should be in a smaller role” in helping those in need. Baltimore attorney Emil Kallina, who advises wealthy donors on their charitable and estate plans, echoed these comments. He said, “This proposal allows the government to choose the charitable recipient rather than the donor. The government is cutting back on our ability to give to charity, because they

want to dictate where the dollars go.”⁵⁰

Though I doubt changes in tax law and tax forms will significantly affect the charitable work of Bill and Melinda Gates and the Gates Foundation, they greatly impact the rest of us.

One wonders if our government, led by a former community organizer, 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 – while keeping themselves employed.

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