

New Tax Breaks for Hurricane Relief Efforts Fall Short, Critics Say

By Elizabeth Schwinn. The Chronicle of Philanthropy
Washington. September 22, 2005

Congress passed several tax breaks designed to encourage donors to give to hurricane-relief efforts.

But many nonprofit leaders were frustrated that the measure did not include provisions that might do more to help charities raise money, especially for long-term hurricane-recovery efforts.

While the Senate initially passed a provision that fund raisers had long sought -- to allow people to give money in their individual retirement accounts to charity tax-free -- it was deleted from the final version of the bill approved by the House and the Senate.

Among the key provisions in the legislation:

- The maximum percentage of income that people and corporations can deduct in 2005 for their charitable contributions would rise. Individuals would be allowed to write off up to 100 percent of adjusted gross income for any charitable gifts they make in 2005, compared with the 50-percent ceiling that governs other tax years.

Corporations could deduct up to 100 percent of taxable income in 2005, up from 10 percent -- but only as long as the additional giving is in cash and goes to an organization that is providing relief to Hurricane Katrina survivors.

- Ranches, farms, and other such businesses would be allowed to write off donations of food to charities. Under current law, only corporations set up as so-called C corporations can take a deduction. Under the legislation, partnerships and other such companies, known as S corporations, would also get the deduction.

- Companies that donate educational books to public schools could take a charitable deduction, something they cannot now do for such gifts.
- Volunteers would be able to write off a larger portion of their travel expenses when they use their own cars for charity business. They would be allowed to write off 34 cents a mile, instead of the 14 cents a mile they are now allowed to deduct.

Donors have to act fast to take advantage of those provisions: They all expire January 1, 2006.

Several charity officials praised the bill as a promising start.

"Short term is better than nothing," said Candy S. Hill, senior vice president for social policy at Catholic Charities USA. "We're encouraged by efforts to expand charitable giving in any way."

But Ms. Hill also predicted that charitable-giving fatigue is likely to return next year, as it did after the wave of tsunami giving, despite the fact that "Katrina victims will likely need aid for many months and years ahead." Longer-term charitable-giving incentives are needed, Ms. Hill said.

Rick Cohen, executive director of the National Committee for Responsive Philanthropy, an advocacy group in Washington, warned that the Katrina-relief bill provides little in the way of real benefits to charities, yet it might prevent some groups from being as vocal as they should be in holding government accountable for its role in disaster relief.

"We need to get serious about holding government responsible for living up to its crucial function in our society, and not play around the edges with charitable-giving incentives that deflect from what should be the nonprofit sector's core priorities," Mr. Cohen said.

Small Impact

The Congressional Research Service, the nonpartisan research arm of Congress, said that most charitable-giving incentives in the bill probably would make only a small difference in providing aid to Katrina victims. Donors will probably give food and books to charities near their hometowns, not to groups working across the country, it said. In addition, wealthy people, who might be encouraged to give more because of the increase in the amount they can deduct from their taxes, often direct their giving to universities, colleges, private foundations, or other entities. Such gifts might not be spent for many years, the research service said.

Congressional aides and lobbyists said that the change in the deduction limit might mitigate the loss of the individual-retirement-account provision.

Some retired people might choose to use the temporary waiver of charitable-deduction limits to give all or part of their retirement accounts to a favorite cause.

Other nonprofit representatives said they doubted many retired people would take advantage of the change.

Sheldon E. Steinbach, vice president of the American Council on Education, in Washington, said that while the provision may bring more money to some charities, it is far from "the outpouring that could occur" if donors were simply allowed to roll over their IRA's into a direct gift or a charitable annuity. "The complexity of this is only going to spur business for high-level accountants," he said.

Another provision that the Senate had passed in its first version of the hurricane bill would have allowed the Internal Revenue Service to disclose to state charity officials information on groups whose tax-exempt status has been denied or revoked, as well as other actions it may be taking to punish groups for wrongdoing. Some tax lawyers said that such a provision might have made it easier for state and federal officials to curb Katrina charity scams.

Many charities said they also would have liked Congress to pass a charitable deduction for people who do not itemize deductions on their federal tax returns. Such a deduction was proposed in last year's Senate Charity Aid, Recovery and Empowerment (Care) Act, but did not become law.

Paul Thornell, a top official at United Way of America, said that his organization estimated last year it would receive an additional \$217-million in giving per year if people who don't itemize could write off their gifts.

The Katrina bill "is a good start," he said, but United Way will urge lawmakers to enact a more comprehensive bill in the future.