



Capping State Itemized Deductions Would Reduce Charitable Giving In North Carolina

North Carolina's nonprofit sector is concerned that the \$20,000 cap on itemized deductions in the Senate budget would harm communities across the state by reducing charitable giving.

- North Carolinians gave \$5.9 billion in charitable contributions in 2012, the most recent year for which federal income tax data is available.
- Nonprofits use private charitable contributions to provide essential services such as food, education, health care, youth programs, arts and culture, child care, services for seniors, land conservation, and affordable housing.
- At a time when 60% of North Carolina nonprofits aren't able to meet basic needs, any decline in charitable giving will take away from nonprofits' ability to serve communities and will increase the number of North Carolinians relying on government services.

Impact of Caps on Itemized Deductions in Other States

In recent years, Hawaii is the only other state that has put in place a cap on itemized deductions similar to one proposed in the Senate budget. Hawaii's cap, which was enacted in 2011 and took effect in 2012, applied to taxpayers with adjusted gross incomes of \$100,000 or more. After seeing the negative impact on charitable giving, Hawaii passed a law in 2013 removing the charitable deduction from the state cap on itemized deductions.

In 2011, Michigan removed three tax credits designed to encourage charitable giving. A 2014 study by the Council of Michigan Foundations found that the removal of these tax incentive for charitable giving led to a sharp reduction in donations.

What This Means for North Carolina

The N.C. Center for Nonprofits reviewed federal income tax data on trends in charitable contributions before and after Hawaii's cap on itemized deductions was enacted. This review found that, during this period of general recovery in the economy (nationally and in Hawaii and North Carolina), charitable giving among Hawaii taxpayers affected by the cap on itemized deductions lagged well below national and North Carolina trends.

- From 2011 to 2012, Hawaii suffered the nation's largest drop (a reduction of 3.4%) in the amount of charitable giving by individuals with adjusted gross incomes of \$500,000 to \$1 million – those who would be most affected by Hawaii's cap on itemized deductions.
- In the same year, Hawaii experienced slower growth than North Carolina and the nation as a whole in charitable giving among all taxpayers with adjusted gross incomes between \$100,000 and \$1 million.
- For more details, see the chart on the reverse side.

Based on the experience in Hawaii, a \$20,000 cap on itemized deductions would likely reduce charitable giving in North Carolina by between \$60 million and \$900 million per year.

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Potential Impact of Itemized Deduction Cap on Charitable Giving in North Carolina

	North Carolina	Hawaii	Potential Impact in North Carolina (based on Hawaii trends)
Cap on itemized deductions	<ul style="list-style-type: none"> • \$20,000 cap for married filing jointly (all taxpayers) • Proposed in Senate budget • If enacted, would take effect in 2016 	<ul style="list-style-type: none"> • \$50,000 cap for married filing jointly with adjusted gross income of \$200,000 or greater • \$25,000 cap for single taxpayers with adjusted gross income of \$100,000 or greater • Enacted in 2011 and effective for 2012 taxable year • Repealed in 2013 due to negative impact on charitable giving 	<ul style="list-style-type: none"> • Overall reduction in charitable giving of \$60 million to \$900 million
Change in charitable contributions (2011-2012) for taxpayers with adjusted gross incomes between \$500,000 and \$1 million	<ul style="list-style-type: none"> • 16.6% increase in charitable contributions 	<ul style="list-style-type: none"> • 3.4% reduction in charitable contributions • National average was a 4.3% increase 	<ul style="list-style-type: none"> • \$44 million less in charitable contributions by taxpayers in this category • If the same drop was true for all taxpayers, this would mean \$961 million less per year in charitable contributions
Change in charitable contributions (2011-2012) for taxpayers with adjusted gross incomes between \$100,000 and \$1 million	<ul style="list-style-type: none"> • 7.2% increase in charitable contributions 	<ul style="list-style-type: none"> • 4.4% increase in charitable contributions • National average was a 6.7% increase 	<ul style="list-style-type: none"> • \$69 million less in charitable contributions by taxpayers in this category • If the same drop was true for all taxpayers, this would mean \$159 million less per year in charitable contributions