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Extending the Charitable Deduction Deadline to Tax Day

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Extending the charitable deduction deadline is a move with precedent: the government has used it to encourage giving following a natural disaster. President Barak Obama signed a provision allowing charitable donations toward the Haiti earthquake made from January 11 to March 1, 2010, to be deducted on 2009 tax returns. President George W. Bush signed a similar law allowing donations for tsunami relief made through January 31, 2005, to be deducted in 2004.

These provisions aim to increase giving at a time when need is critical. In reality, such temporary laws have limited effect because many do not know about these one-off incentives.

Consider instead the marketing possibilities of more permanent incentives to allow charitable deductions made by April 15, aka tax day, to be applied to the previous year's tax returns.

By making what has frequently been a temporary measure into a permanent law, you eliminate the problem of trying to publicize brief windows of opportunity. Instead, people would come to expect that at filing time they would consider how much they would save by giving to charity.

Evidence suggests that, as in other facets of life, people are prone to making their decisions concerning giving at the last minute. The Online Giving Study finds that 22 percent of online donations are made on the last two days of the December, the last possible moment to claim a tax deduction for that year. Presumably this effect could be magnified if taxpayers were able to add to their charitable giving up until the last two days before they filed their tax returns.

Think of what such tax software companies as TurboTax or H&R Block could do by showing taxpayers directly how donating an extra $100 or $1,000 to any charity would lower their taxable income. The companies could even process the donation immediately through a credit card. If such a measure were enacted, I predict some foundations and charitable-sector collaborative organizations would immediately engage software tax preparation companies, other tax preparers, banks, and online giving organizations to figure out the best way to market this opportunity to the public.

This incentive would be by far among the most effective that Congress has ever provided in almost any arena, including existing charitable incentives. Why? Essentially, the revenue loss to the government is only 30 cents or so (the tax saving) for every additional dollar of charity generated. If people don't give more, there are no losses, outside some slight timing differences. This is triple or more the estimated effectiveness of charitable giving incentives overall.

Marketing experts immediately grasp windows of opportunity. Back-to-school sales take place in September when families are thinking about school, grocery store advertisements near the weekend when more people do their shopping, Caribbean cruises in the winter when people are cold. The very best time to advertise charitable tax saving is when people file their tax returns.

This change would also add an element of certainty. Not knowing their income and tax rates for the existing year until it is over, people can only guess at the tax effect of any contribution they make to charity. When filing taxes, they can calculate exactly how much tax an additional donation would save.

A permanent law would also encourage all areas of giving instead of only the specific causes picked by

Congress. Such targeted opportunities don't necessarily increase people's total donations: people are more likely to switch which charity they give to, not give more overall, when Congress highlights a particular charity.

In exploring this option for a number of years, I can find only one significant concern: the increased complication that is always induced by offering people choices (the actual tax-saving calculation, as noted, is actually simpler for many). Would people, for instance, mistakenly report their contributions twice, once for the past year and once for the current year? Would charities have trouble handling an extra checkbox in which taxpayers indicate in what year the contribution was intended?

If one is really interested in making the incentive better, this complication obstacle is easy to overcome. There are options here.

One would be to improve information reporting to IRS on charitable gifts. Only gifts for which charities give formal statements to individuals and the IRS itself could be made eligible. Noncash gifts might be limited in this case to those for which a formal valuation is provided to the taxpayers or, at least initially, excluded altogether. The information reports might only apply to those contributions over $250 for which charities are already required to provide statements to individuals. If charities don't want to participate, they don't have to.

Another, lesser bargain would be to experiment first only with online contributions for which software companies could send a report to the individual, charity, and IRS alike (this could include online checks for those banks and other institutions, not just credit card companies, who would be willing to participate). Other compromises along these lines are possible, and some of them on net are likely to improve compliance because of the integrated information system—a win-win strategy.

In separate testimony,[1] I have offered a number of ways that this type of proposal could be incorporated into broader tax and budget reform so charitable giving is increased without any loss in revenues to the government.

With the United States still locked in a recession and the government cutting back its own efforts, what better time is there to encourage greater charitable giving?

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This issue brief draws extensively from previous articles on this topic published in *Tax Notes* and the *Nonprofit Times*, such as A New April 15: Make It a Day of Giving (Efficiently).[2]

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This publication is part of the Urban Institute's Tax Policy and Charities project. The purpose of this project is to analyze the many interactions between the tax system and the charitable sector, with special emphasis on the ongoing fiscal debates at both the federal and state levels. For further information and related publications, see our web site at http://www.urban.org/taxandcharities/index.cfm.

[1] http://www.urban.org/UploadedPDF/901555-Tax-Reform-and-Charitable-Contributions.pdf

[2] http://www.urban.org/publications/901325.html