

## The Adverse Impact Estate Tax Repeal Has On Nonprofits<sup>1</sup>

Permanent repeal of the estate tax jeopardizes billions of dollars in charitable bequests. This loss of revenue would mean hospitals, universities, religious institutions, humanitarian assistance organizations and many other nonprofits will lose a vital source of capital that cannot be replaced.

### 1. The estate tax provides people with the incentive and the opportunity to give to charities.

The estate tax includes an unlimited deduction for charitable giving, thus providing a valuable incentive to donate to charity. In fact, rigorous economic research shows the unlimited deduction for charitable giving in the estate tax is a valuable incentive for donations to charity.

- Bequests represent more than one-fourth of the total lifetime charitable giving of very wealthy individuals. The IRS reports charitable bequests have declined from \$16.15 billion in 2001 and \$17.83 billion in 2002 to \$14.6 billion in 2003. The decline to \$14.6 billion in 2003 was an 18.2 percent decrease from 2002.
- In 2003, \$240.72 billion was given to charity (*Giving USA 2004*). Bequests and foundation grants, which derive from bequests, are an important part of charitable giving.
- More than half of the taxable estates of \$20 million and above made charitable bequests, while only one-fourth of nontaxable estates of \$20 million and above made bequests.
- More than 40 percent of charitable bequests were attributable to large estates valued at \$20 million and above. In fact, more than 80 percent of charitable bequests were made from estates greater than \$2.5 million.

### 2. Permanent repeal of the estate tax would jeopardize billions of dollars currently given in charitable bequests.

- A recent study by the Congressional Budget Office, an arm of the U.S. Congress, confirms the findings of the Brookings scholars and has an even higher loss for the philanthropic community. CBO estimates if the estate tax had not existed in 2000, donations would have been reduced by a stunning \$13 billion to \$25 billion that year.
- According to Brookings Institution scholars, repeal could cost U.S. charities at least \$10 billion in lost charitable giving per year. The Brookings study found repeal would reduce charitable bequests by 22 to 37 percent (approximately \$3.6 to \$6 billion a year) **and** reduce annual charitable giving by an equal dollar amount (for a total of \$7.2 to \$12 billion per

---

<sup>1</sup> This fact sheet was prepared by Rick Cohen (National Committee for Responsive Philanthropy) and Adam Hughes (OMB Watch).

year). Each year, the nonprofit sector would lose an amount of money equivalent to the total grants currently made by the largest 110 foundations in the United States. (*Bakija/Gale*)

### **3. Charitable organizations make up a significant portion of our economy.**

They currently account for 6.7 percent of national income and 9.3 percent of employment. Repeal of the estate tax would significantly hurt charities and impede their abilities to serve their communities.

### **4. Permanent or accelerated repeal would hurt charitable organizations and the people they help.**

- In 2001, there were 12,229 bequests made to religious organizations, nearly twice the number of bequests to educational institutions. One hundred percent of large religious organizations, 56 percent of medium sized, and 24 percent of smaller organizations reported receiving charitable bequests. (*Giving USA Surveys*)
- The loss of revenue from charitable bequests would mean that hospitals, universities, religious institutions, and humanitarian assistance organizations will lose a vital source of capital that cannot be replaced.
- Repeal would cause many deserving nonprofits from every state to be less able to meet the health, educational, and service needs of their constituents and stakeholders.

### **5. Repeal of the estate tax also has other adverse impacts on charities and other non-profits**

- Roughly one-third of charity revenues come from government sources. Repeal of the estate tax will result in at least \$80 billion per year in lost federal revenue between 2012 and 2023 and \$7 to \$9 billion in state revenue per year. This will surely mean fewer resources for charities and nonprofits to provide community services.
- Many grant-making foundations are created or receive substantial sums through bequests at death. In fact, over half of all money given through bequests goes to foundations. These foundations often invest the bequest to be able to provide annual grants to charities and nonprofits. Repeal of the estate tax would likely harm such grant-making, making it yet more difficult to provide community services.

Just as important as the revenue aspects of the estate tax is the underlying message the tax represents – one of fairness and equality. The estate tax is the only significant federal tax on accumulated wealth in the United States. The widening gap between the rich and the majority of working Americans is unhealthy for our society. There is evidence the estate tax, aimed at reducing the concentration of wealth in the hands of only a very few, creates incentives for charitable giving supporting the delivery of vital services by nonprofits throughout the nation. The estate tax should be reformed instead of repealed because it creates incentives for charitable giving rather than giving massive tax breaks to the heirs of multi-millionaires.