

# Tax Reform: Implications to Nonprofit Fundraising

The end of 2017 brought with it tax reform. From a nonprofit organization perspective, this reform has created a degree of industry concern around its potential effect on charitable giving. For many organizations, fundraising is the lifeblood of their operations and can directly affect their ability to fulfill their missions.

We believe that, at this time, the tax reform implemented should not have a material effect on the overall level of charitable giving, mainly due to the composition of donor types. According to the Giving USA Foundation, 72% of charitable donations came from individuals.<sup>1</sup> On an individual basis, the after-tax cost of charitable giving did not rise significantly (with the top tax bracket moving from 39.6% to 37%), and tax deductibility is not cited as a material motivation by donors in industry surveys.<sup>2</sup> Our inference from this is that tax reform likely will not materially affect individual donors' propensity to make charitable contributions.

## Philanthropy Outlook

From an outlook perspective, we anticipate there may be some major tailwinds supportive of future

charitable giving levels and some minor headwinds antagonistic of future charitable giving levels to consider in 2018 and beyond (Table 1, page 2).

## Key Takeaways

Our research has found that, at least over the past 40 years, tax reform has had less of an impact on charitable giving than other factors such as market/investment performance and household wealth. While there will always be exceptions to the rule and nuances between how local and regional nonprofits experience the effects of tax reform relative to national-level nonprofits, we nevertheless believe that the outlook for future charitable giving remains positive.

For a more in-depth analysis of our 2018 charitable giving outlook, please see our white paper *Philanthropy Outlook: 2018*. For a deeper analysis of how tax reform may affect the capital markets, please see our first-quarter 2018 *Investment Strategy Quarterly*.

*If you have questions or for more information, please contact your PNC Institutional Advisory Solutions representative.*

## About Us

### The Endowment & Foundation National Practice Group

The Endowment & Foundation National Practice Group builds on PNC Bank's long-standing commitment to philanthropy and is focused on endowments, private and public foundations, and nonprofit organizations. We seek to help these organizations address their distinct investment, distribution and capital preservation challenges.

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<sup>1</sup> Giving USA Foundation, *Giving USA 2017: The Annual Report on Philanthropy for the Year 2016* (Chicago: Giving USA Foundation, June 2017)

<sup>2</sup> For example, The 2016 U.S. Trust® Study of High Net Worth Philanthropy found that "to receive a tax benefit" served as a motivation "always" to 18.0%, "sometimes" to 52.3%, and "never" to 29.7% of respondents.

Table 1

**Major Tailwinds and Headwinds to Consider in Charitable Giving**

Donor Type	Charitable Giving Tailwinds	Charitable Giving Headwinds
Individual	A long bull-run for the stock market has significantly increased household wealth over the last seven to eight years, providing donors with a larger base from which to donate. As investors take gains and households begin to recover more fully from the recession, we anticipate this will translate into increased charitable giving levels.	Tax reform that reduces tax rates can increase the after-tax cost of charitable giving. However, given that tax deductibility is frequently cited as one of the <i>lowest</i> factors in the charitable giving decision-making process for individuals, we believe tax reform to be a rather minor headwind for charitable giving.
Corporation	A renewed corporate focus on corporate social responsibility increases the likelihood that corporations will support and donate to charitable causes. Further, the reduction in corporate tax rates may increase the funds available for corporations to distribute for charitable purposes.	While a reduction in corporate tax rates leaves more money in the bottom line for corporations, it also increases the after-tax cost of charitable giving. We do not anticipate this will have a material effect on corporate giving levels, but we believe it is worth mentioning as a minor headwind to total giving.
Foundations	The recent run-up in the global equity markets has increased the market value of many foundations, meaning that a fixed distribution percentage may result in a larger distribution as a dollar amount relative to before the run-up. This could serve as a major tailwind for giving.	The stock market has experienced a bull run for an extended period of time. Should this reverse, even over the short term, it may have an impact on foundations' market values and thus distributions. While a minor tailwind, it is nevertheless worth watching.
Bequests	With an aging population and the United States poised for a massive generational transfer of wealth, we may see a major increase in bequest donations over the next decade.	The "softening" of the estate tax has the potential to remove much of the impetus to make bequests; however, we do not anticipate this will have a significant impact on total bequest levels.

Source: PNC

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