

2020 IPA Public Policy Agenda

Approved by IPA Board of Directors December 6, 2019



Indiana's philanthropic sector plays an important role in promoting and supporting the quality of life in this state. More than 1,500 family, independent, community, and corporate foundations; corporate giving programs; and other grantmaking entities annually distribute more than \$1.7 billion to support a broad range of health, educational, cultural, human service, environmental, and other causes, with 76% going to Indiana-based organizations.

As a nonprofit membership association of grantmakers and individuals supporting philanthropy, Indiana Philanthropy Alliance (IPA)* strives to be the premier resource for networking, education, information and knowledge, and advocacy on behalf of organized philanthropy in Indiana. IPA recognizes that philanthropy is affected by public policies that relate directly to charitable giving and the nonprofit sector, as well as those that relate to issues that are addressed by grantmaking. IPA advances philanthropy by:

- 1. Educating members about public policy issues that can affect the nonprofit sector.**
- 2. Educating public officials about the role of foundations as stewards of resources for the public good to strengthen and improve the health and vitality of communities.**
- 3. Proactively developing relationships with public officials to ensure they recognize organized philanthropy and IPA as key constituents in their decision-making process.**
- 4. Advocating for public policies that promote effective philanthropy and build stronger communities.**

Guiding Principles

IPA'S WORK IN PUBLIC POLICY IS GUIDED BY THESE BASIC PRINCIPLES

Education of policy makers about the nature and importance of the nonprofit and philanthropic sectors

IPA builds an informed and supportive community of policy makers through regular dialogue, education, information, and advocacy; and will work with others in the nonprofit and philanthropic sector to advance this goal.

Effective management and governance of foundations and corporate giving programs

IPA supports public policies that promote effective management of charitable resources and supports values of transparency and ethical conduct, responsible philanthropy and corporate giving, and reasonable access to information. IPA encourages voluntary efforts of self-regulation within the sector and supports appropriate external enforcement agencies for nonprofit compliance and oversight.

Necessity of an advocacy role for the nonprofit community

Advocacy, within certain constraints, is legal for nonprofit organizations and conducive to an informed, healthy, and strong democratic society. IPA supports the advocacy rights of nonprofits and believes that they can and should participate in public policy dialogue that affects their organizations, communities, and the people they serve. IPA supports public policy efforts that safeguard these advocacy rights without undermining the public's trust in the nonprofit sector as nonpartisan community problem-solvers.

Supportive tax policy for private foundations and public charities

IPA supports tax policy that encourages the growth, maintenance, and vitality of private foundations and public charities.

Preservation of charitable deductions and strengthened tax policy supports for nonprofit organizations

IPA supports the preservation of charitable deductions as an important tool to encourage taxpayer contributions to nonprofit organizations. Respecting donors' choices, IPA supports tax policies that broaden the incentive for all donors to give to charities of their choice without influence, restriction, or inequitable treatment.

Building stronger communities

IPA recognizes that systemic community change requires partnership with government and other leaders, leveraging resources and public authority in order to understand complex problems and scale promising solutions. In service of building stronger communities, IPA educates members about policies that impact quality of life, provides opportunities for members to convene with policy makers, and supports member affinity groups or initiatives that address specific community needs.

*IPA is a membership organization, separate and distinct from our individual members. As such, we represent philanthropy in Indiana, not necessarily the views of any one member. We work to educate our members to understand the limitations of their lobbying under the law as it pertains to Private and Public Foundations.

2020 Public Policy Positions

The following are specific areas of public policy IPA will monitor, offer perspective, and when appropriate, take active policy positions when discussing with elected officials at the local, state, and national levels during 2020.

TAX POLICY

Congress passed the first major overhaul of tax policy at the end of 2017. The changes included some elements that have the potential to negatively impact charitable giving and the philanthropic sector, as well as the broader nonprofit sector. Efforts for additional tax policy revision continue. These fall under a range of issues that IPA is following, and, in some cases, taking an active advocacy position.

Charitable Deductions

POSITION: Support making the charitable deduction available to all taxpayers, regardless of their tax rate or whether they itemize, in order to incentivize and recognize the giving of all Americans.

RATIONALE: The 2017 Tax Cuts and Jobs Act (TCJA) made several changes that hurt the effectiveness of the charitable deduction. In particular, by increasing the standard deduction, it greatly reduced the number of taxpayers who itemize, and therefore reduced the number of taxpayers who have access to the charitable deduction.

Early data reveal that charitable giving has indeed slowed down in 2018 following the implementation of the TCJA provisions. The 2018 Charitable Giving Report from the Blackbaud Institute for Philanthropic Impact shows that, while overall giving increased 1.5 percent in 2018, the increase did not keep up with the 1.9 percent rate of inflation. Additionally, the 1.5 percent increase in giving for 2018 is much smaller than the 4.1 percent increase in giving that Blackbaud reported in 2017, as well as the combined 9 percent increase since 2016. Particularly concerning, smaller nonprofits with annual fundraising of under \$1 million saw a 2.3 percent drop in donations between 2017 and 2018. A report by the Fundraising Effectiveness Project (FEP) found that the total number of charitable donors in 2018 dropped 4.5 percent from 2017 levels, and new donors decreased by a bigger margin of 7.3 percent.

IPA will continue to monitor this issue to assess the potential impact on charitable giving.

IRA Charitable Rollover

POSITION: Support enhancing the IRA charitable rollover by dropping the age threshold and expanding the organizations eligible for transfer of the IRA distribution to donor advised funds, supporting organizations and private foundations.

RATIONALE: IPA has actively supported extending and expanding the IRA charitable rollover since its inclusion in The Pension Protection Act of 2006 (PPA). PPA allowed taxpayers ages 70 ½ or older to transfer up to \$100,000 annually from their IRA accounts directly to charity without first having to recognize the distribution as income. This provision was made permanent in legislation passed by Congress—*Protecting Americans from Tax Hikes (PATH) Act of 2015*. However, current statute prohibits contributions to donor advised funds, supporting organizations, and private foundations.

Excise Tax on Private Foundations

POSITION: Support simplifying the private foundation excise tax on net investment income to a flat rate and dedicate use of the revenue raised for its original intended purpose, to provide funds for the IRS to regulate the nonprofit sector.

RATIONALE: The national philanthropic community has come together in unified support of a 1-2% revenue-neutral rate, an option under consideration for many years.

The current structure presents two problems for private foundations:

1. The complicated rules make the excise tax difficult to administer. The complexity of determining what tax rate a private foundation pays each year requires significant resources and consistent monitoring of grants and investments.
2. Due to the way the current excise tax is structured, it creates a tax penalty for private foundations that give at a higher rate in one year and then return to normal spending in subsequent years. For example, private foundations that respond to natural disasters by drastically increasing their giving in a given year might then face the higher of the two tax rates for several years afterward.

Federal Estate Tax

POSITION: Closely monitor any legislation that proposes elimination of the federal estate tax to consider impact on charitable giving.

RATIONALE: With the passage of the Tax Cuts and Jobs Act in 2017, every person may leave or give away up to \$11.2 million without owing any estate tax. As a practical matter, that means that under the new rules about 99.9% of all estates will NOT owe any federal gift/estate tax. The exemption amount will rise with inflation each year. However, many charity experts say the estate tax is a major incentive for wealthy people to give away their fortunes, and its elimination would hit big institutions like hospitals and universities especially hard because they rely the most on large bequests from wealthy donors.

An analysis (<https://bit.ly/2KYU3BS>) by the Center on Budget and Policy Priorities, a Washington think tank, found that just 50 small businesses and small farm estates would have faced the estate tax in 2017. A 2004 Congressional Budget Office study found that eliminating the estate tax could result in a decline of charitable contributions of up to 12%. Getting rid of the estate tax would cost the U.S. Treasury nearly \$270 billion in lost revenue over 10 years.

Donor Advised Funds (DAFs)

POSITION: Promote the availability of donor advised funds as a viable charitable giving vehicle (with operating policies that are consistent with National Standards for Community Foundations). Support legislative reforms for DAFs that help to promote ethical and accountable management of the charitable resources in these funds for the public good, without compromising the privacy of the donor, and oppose legislative reforms that inhibit or diminish the reasonable growth and effectiveness of donor advised funds.

RATIONALE: Donor advised funds (DAFs) are a unique philanthropic tool that allows donors to establish charitable funds at institutions, such as community foundations, and remain involved in supporting the issues and causes they care about. When a DAF is established, donors relinquish personal control of the funds to the community foundation, which then oversees and manages these funds on behalf of the families, groups, or individual donors. All funds distributed from these DAFs must be used for qualified, charitable purposes.

Under Current law, public charities (including community foundations) are permitted to establish accounts to which donors may contribute and provide advice or recommendations with regard to distributions from the fund or the investment of assets in the fund. Such accounts are commonly referred to as “donor-advised funds” or DAFs. Donor-advised funds are powerful tools—both for average people who want to make lasting commitments to their communities, as well as those with significant financial resources who are looking for an alternative to a private foundation.

FOUNDATION AND NONPROFIT REGULATION

Unrelated Business Income Tax (UBIT) on Nonprofits

POSITION: Support a full repeal of the changes to the unrelated business income tax (UBIT) for tax-exempt organizations in the Tax Cuts and Jobs Act of 2017. Specifically, Indiana Philanthropy Alliance calls for a full repeal of the requirement that unrelated income streams be calculated and reported separately, as well as a full repeal of the treatment of fringe benefits as taxable income.

RATIONALE: The 2017 Tax Cuts and Jobs Act made two changes to the tax code regarding the unrelated business income tax (UBIT) that negatively affect foundations and other tax-exempt organizations. The first is a requirement that tax-exempt organizations pay a new tax on fringe benefits offered to their employees, such as parking and transportation benefits. Nonprofits have never been subject to such a tax before.

The second is a requirement that tax-exempt organizations calculate unrelated revenue streams separately or “in silos.” When tax-exempt organizations earn profits through an activity unrelated to their tax-exempt status, this revenue is taxed. Under the new law, tax-exempt organizations can no longer aggregate the profits and losses of unrelated business activities, but rather must pay taxes separately for each activity. For those organizations that are affected, this change will increase their tax burdens.

Nonprofit Regulation

POSITION: Support public policies that promote effective management of charitable resources, appropriate transparency, ethical conduct, responsible philanthropy and corporate giving, the diversity and independence of the sector, and reasonable access to information without placing undue or unreasonable burden on nonprofits.

RATIONALE: IPA encourages **voluntary efforts of self-regulation within the sector** and supports appropriate external enforcement agencies for nonprofit compliance and oversight. Government-imposed requirements on foundations for specific collection of data based on certain demographic information, for example, are seen as overly burdensome without providing a meaningful assessment of the impact of the organization's work.

Private Foundation Distribution Requirements

POSITION: Support an appropriate payout level for private foundation distributions that allows for the availability of funds for distribution in perpetuity.

RATIONALE: Proposals to increase the required distribution by private foundations beyond the current 5% IRS regulation or to change the types of expenses that are allowed to be included in the calculation have been considered by Congress in recent years. Current tax reform proposals do not include such language, but IPA will continue to closely monitor legislation as it moves forward. Previous national studies have shown that a 5% payout is optimum for supporting the long-term position of a foundation and ensuring the availability of charitable grantmaking for the future. Some foundations choose “sunset” provisions that direct the full distribution of assets within a selected timeframe, but **such policies should be the decision of the foundation's governing body, not imposed by Congress.**

Protection of Endowed Gifts

POSITION: IPA will work with policymakers to support current laws protecting and promoting endowed gifts within the philanthropic sector.

RATIONALE: IPA believes that, through their philanthropic endowments, foundations are able to operate with a longer-term focus. Foundations thrive when policies allow them to be agile, autonomous, and different from government and business sectors. The perpetuity of endowments ensures that private resources will continue to be available to address difficult social issues and the evolving needs of society, especially when other resources may not be available. Policy makers should preserve foundations' ability to advance their charitable missions and should acknowledge the importance of philanthropic endowments, recognizing that these endowments are critical to sustain communities. They help underwrite long-term support of charitable institutions, use public and private resources, and provide a base for the development of new and effective philanthropic tools that will support the charitable sector in the future.

Nonprofit Advocacy

POSITION: Support the rights of charitable organizations to continue their involvement in public policy debates. Oppose additional limitations on the ability of nonprofit organizations to participate in the public policy process, including legislation or rules that:

- place more burdensome reporting and disclosure on nonprofits than on business or governmental bodies;
- restrict the ability of nonprofit agencies that apply for or receive government funds to use non-governmental funds to conduct nonpartisan advocacy, lobbying, or other legitimate program activities that further their charitable missions;
- unnecessarily limit public policy input on the part of nonprofit organizations that would otherwise be allowed to participate in public discourse.

RATIONALE: Advocacy, within certain constraints, is currently legal for nonprofit organizations and is conducive to an informed, healthy, and strong democratic society. IPA supports the advocacy rights of nonprofits and believes that nonprofits can and should participate in public policy dialogues that affect their organizations, communities, and the people they serve.

2020 Census

POSITION: Support a fair and accurate census count.

RATIONALE: Accurate census data are an essential foundation for fair political representation and the fair allocation of government resources at the national, state, and local levels. Census data are required for implementation and enforcement of most civil rights laws, including the Voting Rights Act and fair housing, education, and employment laws. At least \$800 billion in federal program funds are allocated each year to states, localities, and Tribal areas, based in-whole or in-part on census data. State governments also distribute public funds to localities using census data. Businesses depend on accurate census and American Community Survey (ACS) data to make prudent decisions on location, hiring, products and services, and capital investment. Nonprofits rely on the data to identify special community needs and target services. Historically, the census has missed disproportionate numbers of people of color, immigrants, young children (especially Latino and Black children), people with low incomes and low educational attainment, and rural households, exacerbating inequities.

Post-Graduation Scholarships

POSITION: Support allowing foundations to administer post-graduation scholarship programs through a measure like the Workforce Development Through Post-Graduation Scholarships Act (H.R. 6486).

RATIONALE: A post-graduation scholarship is a type of charitable grant that foundations would make to attract individuals who have career skills needed in a particular region and encourage them to make their homes and build their careers in that community. It would function much like a traditional scholarship, but would pay off a portion of the student loans held by an individual who has already completed a degree or technical program, qualifying him or her to work in a chosen career field that is needed in a community. As with traditional scholarships, these programs would establish eligibility requirements as well as a process to verify that those requirements continue to be met through the duration of the scholarship award agreement, and the payments would likely be made directly to the loan provider and not to the individual. Foundation grants made for a charitable purpose are already exempt from income tax for the recipient—whether it’s a grant to an individual as a scholarship, or a grant to any other entity for a charitable purpose. In some cases, the scholarship might only cover a fraction of an individual’s student loans, leaving the individual responsible for paying any remaining amount.

Philanthropy Caucus

POSITION: Support efforts to encourage members of the Indiana Congressional delegation to join the House and Senate Philanthropy Caucuses.

RATIONALE: The work of the philanthropic sector affects the lives of millions of Americans, so it is critical that Indiana foundation leaders take an active role in shaping public policy by building relationships with their members of Congress. Lawmakers need to know more about the work that foundations and corporate giving programs do in their states and districts. The Bipartisan Philanthropy Caucus will:

- inform members of Congress and Congressional staff about the important role that foundations play in our communities and around the globe
- identify issues of mutual interest to the philanthropic sector and lawmakers
- raise awareness about legislative issues affecting foundations.

IPA will continue to work with its membership to inform and educate Indiana's elected officials about the important role that Indiana's philanthropic community serves to enhance Indiana's communities, positively impact the lives of all Hoosiers, and advocate for state policies that promote effective philanthropy and build stronger communities.

Promotion of Charitable Giving

POSITION: Support income tax credits, deductions, and other vehicles that provide an incentive for increased charitable giving.

RATIONALE: In keeping with IPA's mission to champion, support, and connect members as they transform Indiana through effective philanthropy, we support efforts that increase the availability of grantmaking funds. We specifically support legislation that provides a tax credit against adjusted gross state income tax liability for donations to a qualified endowment fund at an eligible Indiana community foundation.

Tax Issues

POSITION: Continue to promote tax exemption for nonprofits. Increasingly throughout the nation, local and state governments are imposing a variety of fees and special taxes impacting the nonprofit community. IPA will closely monitor state and local legislation that would extend Indiana sales or property taxes, or user fees in lieu of taxes, to nonprofit 501(c)(3) organizations.

RATIONALE: There are several historic reasons for providing tax exemptions to nonprofits. Changes in tax policy should be made only on a demonstration that these rationales no longer apply:

- *Fairness* argues that the tax exemption compensates nonprofits for the resources and opportunities that are closed to them by state and federal regulations.
- *Market gaps* argue that the tax exemption is in recognition of the fact that there are some goods and services that the market cannot supply.
- *Subsidy* argues that nonprofits serve minority interests that are not sufficiently served by government action, and which government would have to provide if the nonprofit sector did not.
- *Regulation* argues that the special regulatory treatment of nonprofits is in return for special tax treatment.

Nonprofit Regulation

POSITION: Support public policies that promote effective management of charitable resources, appropriate transparency, ethical conduct, responsible philanthropy and corporate giving, and reasonable access to information without placing undue or unreasonable burden on nonprofits.

RATIONALE: IPA encourages voluntary efforts of self-regulation within the sector and supports appropriate external enforcement agencies for nonprofit compliance and oversight.

Early Childhood Education

POSITION: IPA supports access to high-quality early childhood education programs and will work in partnership with strategic partners to educate public officials about the role of philanthropy in supporting early childhood education and subordinate programs combatting education gaps and barriers to access.

RATIONALE: IPA members support organizations providing high-quality early childhood learning programs and services, increasing the quality of life for all Hoosiers. IPA recognizes early childhood to be 0-8 years old. The benefits of a quality statewide pre-K program include both short- and long-term gains for society as a whole, such as increased school readiness, alleviation of the burden of child care costs on families, higher graduation rates, and lower incarceration rates. Long-term studies by the Upjohn Institute showed the participants had stronger gains in language comprehension, early literacy skills, including word decoding, self-regulation, mathematics, and overall school readiness than children who attended lower quality-rated centers during their preschool year. In addition, the Perry Preschool Project, which followed children into adulthood, found students who completed high-quality preschool programs realized significant long term benefits, including a 44% higher high school graduation rate, a 50% lower rate of teen pregnancy, and a 46% lower rate of incarceration. These are all positive outcomes members of Indiana's philanthropy community works to impact through funding and leadership.

Workforce Development

POSITION: IPA supports efforts to attract, retain, and educate Indiana's current and future workforce.

RATIONALE: Healthy, dynamic economies require thriving populations. However, Indiana remains a net out-migration state. Over the last decade, 80% of Indiana's population growth (6M to 6.4M) is attributable to the birth rate outpacing the death rate. Despite boasting some of the country's most respected universities, talented people continue to move out of Indiana in favor of Southern and Western states, which claimed 84% of the nation's population growth through the past decade.

Within a community, the interactions among people, places, and things determine its quality of place and vibrancy. Concentrating efforts on continuously improving quality of place, while maintaining traditional economic development efforts, is a proven formula for attracting and retaining talent.

Lumina Foundation has set a nationally accepted target that 60% of all Americans obtain a college degree or high-quality credential by 2025. Indiana falls behind at 43% attainment.

According to a 2017 study by the National Skills Coalition, Indiana has an 11% gap between the number of middle-skill jobs and the number of people trained to perform those jobs. With 76% of Hoosier jobs requiring a post-secondary education, Indiana must rise to the challenge of preparing our workforce to ensure economic opportunity for our citizens. Philanthropy plays a role in supporting those efforts.

The ability for citizens to earn a living is a basic building block of society. Recognizing the economic health of many communities relies on a trained workforce, IPA members fund a myriad of programs aimed at helping people receive workforce training for current and future jobs needs. IPA supports efforts by policy makers to increase awareness and support of workforce and education programs aimed at attracting, educating, and retaining workers.