

MEMORANDUM

To: Nonprofit Development Executives

From: The Sharpe Group

Re: POTENTIAL FOR GIVING TAX REBATES TO CHARITY

Date: April 26, 2008

In February of this year, Congress passed the *Economic Stimulus Act of 2008*. Included in this bill is a provision for up to 130 million taxpayers to receive tax rebates. The rebate amount varies but is generally up to \$600 per individual or \$1,200 for a married couple. An additional \$300 per child and certain other persons also applies.

The rebate is phased out for singles earning more than \$75,000 or couples earning more than \$150,000. Note that 2005 tax return data reveals that over 80% of tax returns filed by either single or married individuals reported adjusted gross income under \$75,000 and some 90% reported income under \$100,000. Less than 3% reported income over \$200,000.

Size and accumulated size of adjusted gross income	Number of returns	Percent of total	Cumulative Percentage
Size of Adjusted Gross Income	(1)	(2)	
Total.....	134,372,678	100.0	
No adjusted gross income.....	1,761,041	1.3%	1.3%
\$1 under \$5,000.....	11,476,416	8.54%	9.9%
\$5,000 under \$10,000.....	12,114,237	9.02%	18.9%
\$10,000 under \$15,000.....	11,635,684	8.66%	27.5%
\$15,000 under \$20,000.....	11,126,599	8.28%	35.8%
\$20,000 under \$25,000.....	9,784,167	7.28%	43.1%
\$25,000 under \$30,000.....	8,738,107	6.50%	49.6%
\$30,000 under \$40,000.....	13,940,405	10.37%	60.0%
\$40,000 under \$50,000.....	10,618,506	7.90%	67.9%
\$50,000 under \$75,000.....	18,351,037	13.66%	81.5%
\$75,000 under \$100,000.....	10,449,989	7.78%	89.3%
\$100,000 under \$200,000.....	10,810,367	8.05%	97.3%
\$200,000 under \$500,000.....	2,737,802	2.04%	99.4%
\$500,000 under \$1,000,000.....	524,506	0.39%	99.8%
\$1,000,000 under \$1,500,000.....	127,925	0.10%	99.9%
\$1,500,000 under \$2,000,000.....	56,615	0.04%	99.9%
\$2,000,000 under \$5,000,000.....	84,070	0.06%	100.0%
\$5,000,000 under \$10,000,000.....	21,431	0.02%	100.0%
\$10,000,000 or more.....	13,776	0.01%	100.0%

Source: <http://www.irs.gov/pub/irs-soi/05in11si.xls>

It is clear, therefore, that well over 95% of taxpayers and a similar percentage of donors will receive tax rebates.

Many reports in the press have detailed how taxpayers plan to spend, save, or give their tax rebates. Early surveys indicate that as many as 4% of Americans plan to give their rebates to charity.

Editorials in newspapers across the country have encouraged this trend. Consider this quote from the *Fresno Bee* where editors urged readers to donate all or a portion of their rebates to charity: “... remember that donations to non-profits multiply their way through the local economy, and that non-profits are more likely than most private-sector organizations to spend money locally rather than send it off to faraway pockets. That's the sort of investment that pays real dividends to all of us.”

One might rightfully ask, “Don’t most people need their rebate checks to pay bills, reduce debt, or satisfy other personal needs?” The answer to that question in most cases may be “yes.” But consider the fact that 4% of recipients represents some 5.2 million potential donors. At \$600 each, that would amount to some \$3 billion in charitable giving. To put this in perspective, the NCPG has thus far reported less than \$150 million from IRA rollover gifts.

Other polls indicate that about one-third of rebate recipients plan to save or invest these funds. That translates to another 40 million people who could instead decide to make charitable gifts using these funds.

In distilling all the commentary and observations regarding charitable gifts of tax rebate funds, reasons for donating tax rebates appear to fall into one or more of the following categories:

1. **The desire to help those in need.** A certain number of people are sensitive to the needs of others in difficult economic times. Consider a recently retired couple in their mid-60s. Their home is paid for and they are free of other debt. They live on \$120,000 (\$10,000 per month) in pension and other investment income. A couple in this situation might well decide to donate their \$1,200 rebate to one or more charitable interests to help others less fortunate.
2. **Religious motivations.** Others who may not be as economically secure as the couple described above may nevertheless not be experiencing dire economic circumstances and may regularly give a percentage of their discretionary income to charity based on the tenets of their religion. For these persons, their rebate represents additional disposable income from which to give.
3. **Political motivations.** Press reports and blogs indicate that some will give their rebates to charity because of their political beliefs. Some may believe in fiscal responsibility and feel the national deficit should not be further increased through rebates. As a type of “political protest” they will give their rebate to charity rather than spend or save the funds for their own use. Others of a more liberal political persuasion may believe the government has not done enough to help those in need and that giving their rebate is a way to redirect tax money in ways they think it will be better spent.

4. **Economic theory.** Some will conclude that economic stimulus is required at the federal level and that they should immediately put their rebate funds back into the economy. Many will decide, in the spirit of the Fresno newspaper editorial quoted above, that their rebate is better reinvested through charitable donations that nonprofits will immediately reinvest through payment of salaries and purchases of other goods and services.
5. **Good tax planning.** A percentage of financially-savvy donors may rightfully conclude that tax rebate funds are the best funds to give from a tax-planning perspective. Remember that tax rebate funds are not reportable as taxable income – but they *are* deductible as charitable contributions. It appears that a large number of rebate donors will be in the 25% tax bracket. If a couple donates \$1,200 in rebate funds, there will be an immediate benefit of \$1,200 to the charitable recipient. Next April, in a 25% tax bracket, the donors could enjoy \$300 more in tax savings (plus state tax savings if applicable). The total benefit from the rebate is then \$1,500. A donor who saves the rebate might earn 3% on a certificate of deposit. It would take eight years or more to earn as much “return” as the charitable deduction will bring in the year of the gift.

The donors who decide to donate their tax rebates will do so for any number of the above reasons or combinations thereof. Like other forms of fund raising, however, the persons who are most likely to give are the ones who are asked. All donors are not prospects for tax rebate gifts. They will not come from the most affluent few percent because they will not receive rebates. These gifts are also not likely to come from the least affluent donors because they need their rebate to pay bills or make necessary purchases.

The best prospects for tax rebate gifts are those in the broad middle. How do you find these donors? Consider the fact that most who have recently written a check for \$100, \$200, \$500, or more for charitable purposes are probably not facing foreclosure and are not likely behind on their credit card payments. This is a case where the best group to ask may be obvious – those who have recently given relatively larger amounts.

Retailers, travel promoters, and many others are actively seeking expenditures of tax rebate funds. The charitable community should do the same – but in a rational and sensitive manner. For more information on tax rebates and charitable giving, including links to numerous press reports and other useful tools, visit www.sharpenet.com/taxrebatesandgiving.