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An April 15 Deadline for Charitable Giving Would Be a Boon to Nonprofits

By Eugene Steuerle

Many years ago, I began to suggest that taxpayers should have the opportunity to give to charity all the way until April 15 and then take a deduction against their previous year's taxable income.

Now the idea is getting attention from lawmakers—but it needs the support of charities to make possible the increase in charitable giving it would foster.

In previous years, Congress approved a post-December adjustment to stimulate certain kinds of behavior: Taxpayers who add to individual retirement accounts have been offered a similar option since the mid-1970s, and Congress has occasionally extended the charitable-giving deadline to April 15 for disaster relief, as in the aftermath of Hurricane Katrina.

A great deal of evidence suggests that simply changing the charitable-deduction deadline could increase giving significantly.

Nonprofits like the Jewish Federations of North America support the option, but some other charities have expressed concern about whether it would harm end-of-year appeals.

I would suggest that these charities avoid thinking of charitable giving as a fixed amount—what I call the "clump of charity" thesis.

All the research, plus some real-life fundraising experience, suggests that the April 15 option would lead to an overall increase in the sums Americans give annually.

Just for a minute, however, let's suppose that the clump-of-charity thesis is right and that the amount of charitable giving nationwide is the same every year. If that's the case, then it's unwise to add this new wrinkle to the tax system. But consider the corollaries: If giving is immune to incentives or circumstances, then both the charitable deduction and fundraising more broadly are superfluous, if not wasteful.

I doubt that most fundraisers believe the clump-of-charity thesis, so the real question is whether an April option would increase giving. Here are six pieces of evidence suggesting it would be a wise policy:

Taxpayers tend to underestimate the incentive to give. Several scholarly papers, including by researchers associated with the Federal Reserve Board and the National Bureau of Economic Research, have examined how well taxpayers understand and respond to tax provisions.

It turns out that many taxpayers, particularly middle-class ones, possess only a limited idea of their marginal tax rate—that is, the rate of subsidy they would get for additional charitable gifts if they itemized. They tend to equate the marginal rate with the average rate of tax they pay on all income, not recognizing that tax law looks differently at the first dollar and the average dollar earned than at the last one.

For example, a taxpayer who earns $50,000 might owe $5,000, or 10 percent of income on average. So she might imagine at year's end, without formally doing her taxes, that donating $100 more before April 15 would save her that average percentage, or just $10 in taxes. But if she prepared her taxes under an April 15 option, she would get a formal notice from her tax software or tax preparer telling her such a gift would save her $25 and cost just $75 out of pocket.

If people saw this information laid out clearly with a first draft of their tax return, they would quickly grasp the real benefits of an increase in giving.

Few people know their tax and income circumstances until they get that information in January and beyond. Many Americans reconcile their books when preparing their tax returns. At this time, they see whether they've met goals and what options they've passed up but should have considered. That's why the April 15 proposal should appeal to organizations that are working to attract gifts of all sizes, not just those that get more modest contributions from the broad middle class.

Advertising works best when it is closely timed to the activity you want to promote. Marketers understand this: That is why grocery stores send flyers out near weekend shopping time, not months in advance.

There is absolutely no time like tax time, not even the end of the year, when people are so tuned into taxation after toting up their annual income and charitable gifts. What better time to promote an opportunity to them?

Charities would get tons of free marketing from influential players. Hundreds of thousands of tax preparers and tax-software designers would promote the idea of charitable giving to their clients. Tax software already walks people through ways to reduce their taxes, and my discussions with people who deal with the interaction between technology and fundraising indicate that people preparing their tax returns could easily be encouraged to make a gift with just a few clicks of a mouse while filling out their returns.

Many trained tax preparers, in turn, would give special attention to the April 15 option for reducing taxes. They want to make clients happy, and they, too, want to improve their communities and the nation.

The April 15 option would be an even better deal for the federal treasury than the basic charitable deduction.

While the charitable deduction on average increases giving by 50 cents to $1 or a bit more for every dollar of revenue lost to the government, the April 15 option would provide $3 to $5 on average to charity for every dollar of revenue loss.

Why? Much of the existing deduction subsidizes giving that would occur anyway, but the additional cost with the April 15 idea applies only to added giving. For a taxpayer in a 25-percent marginal tax bracket, for instance, each additional $100 of giving costs the Treasury just $25.

People don't like paying taxes. Alex Rees-Jones, an assistant professor at the University of Pennsylvania's Wharton School, has found that taxpayers seek to minimize the amount they owe when they file.

The April 15 option would allow them to pay less to Uncle Sam when they haven't withheld enough money over the year, and it would be a good way to use some of their refund when they have. They could also avoid penalties at times by simply giving more to charity.

To be sure, people who worry about the April 15 idea do have a legitimate concern: While giving over all would almost assuredly go up, some people would simply change when they give.

Still, while some people might delay one year's end-of-year giving until the first months of the following year, others might accelerate each year's end-of-year giving to the beginning of the same year.

This adjustment, I believe, is a small price to pay for the gain to charities over all. And charities can maximize the benefits by promoting giving both at the emotional time when people are thinking about helping others during the holidays and then again at tax time when people are focusing on taxes and how tax incentives help them stretch their own finances to aid those in need.

The debate over the April 15 option reminds me of when I served as a cofounder of a community foundation in Alexandria, Va. Initially, a few charities expressed anxiety about competition, but once they saw how the foundation's activities raised money for them and helped expand their management capacity, any fear turned to broad-based support.

The April 15 option deserves the full advocacy of all nonprofits. It would be among the most cost-efficient ways possible to increase giving.

At a time when we depend so heavily on nonprofits, that's exactly what we need.

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