

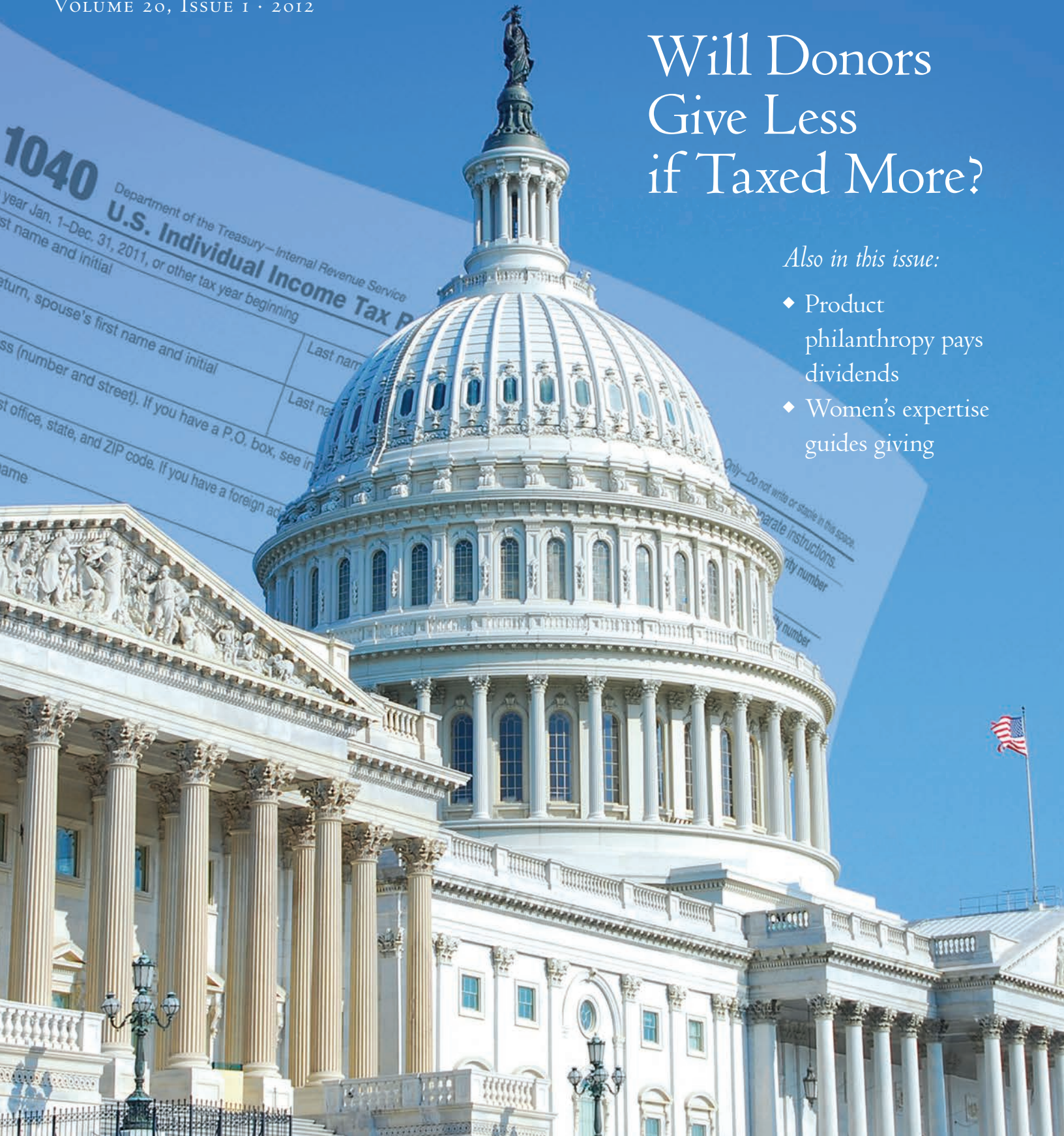
Philanthropy Matters[®]

The Center on Philanthropy at Indiana University
VOLUME 20, ISSUE 1 • 2012

Will Donors Give Less if Taxed More?

Also in this issue:

- ◆ Product philanthropy pays dividends
- ◆ Women's expertise guides giving



The Knowledge to Lead



Becoming a social entrepreneur who provides social welfare relief. Raising funds for the well-being of others. Leading an international nonprofit seeking solutions on a larger level.

These are among the aspirations of the first five students to earn a bachelor's degree in Philanthropic Studies. Our newly minted graduates have ambitious goals, and I have no doubt they will achieve them. But it won't be easy.

The philanthropic environment they're entering and the requirements for leading in it are more sophisticated than ever, and so are the insights they'll need to succeed. Fortunately, they are launching their careers at a time when unprecedented levels of knowledge are at their fingertips.

The Center on Philanthropy is proud to generate powerful ideas and insights, such as those shared in this issue, to help these new leaders—and those who are more seasoned—successfully anticipate and navigate this complex landscape.

Please join me in welcoming these new colleagues as they begin helping improve philanthropy to improve the world.

Sincerely,

Patrick M. Rooney
Executive Director, The Center on Philanthropy at Indiana University

Center on Philanthropy Research Partners

(July 1, 2009–June 30, 2012)

This list recognizes individuals, corporations, foundations, and organizations that have provided funding for research at the level of \$10,000 and above. We are grateful for their generous and ongoing support of our research programs.

Association of Fundraising Professionals
Bank of America Merrill Lynch
Bill & Melinda Gates Foundation*
Campbell & Company
CCS
Charles Stewart Mott Foundation*
Corporation for National and Community Service through an interagency agreement with National Science Foundation*
Eli Lilly and Company*
Ewing Marion Kauffman Foundation
The Trustees of the *Fidelity* Charitable Gift FundSM
Giving Institute: Leading Consultants to Nonprofits
Giving USA Foundation
Greater Kansas City Community Foundation
J. F Maddox Foundation

Johnson & Johnson Family of Companies Contribution Fund
John Templeton Foundation*
The Kresge Foundation
Lions Club International Foundation
Mission Throttle
The Moody's Foundation
The Pew Forum on Religion and Public Life
Roche Diagnostics
The Salvation Army
United Student Aid Funds, Inc.
United Way Worldwide

*These Research Partners have specifically supported the Center on Philanthropy Panel Study (COPPS) at the level of \$10,000 and above. COPPS is also made possible by essential private support from many other individual donors.

Philanthropy Matters®

Volume 20, Issue I · 2012

The Center on Philanthropy at Indiana University
550 W. North Street, Suite 301
Indianapolis, IN 46202-3272
Telephone (317) 274-4200
Fax (317) 684-8900
www.philanthropy.iupui.edu

Patrick M. Rooney
Executive Director and Publisher

Marilyn Kuhn, Chief Operating Officer

Adriene Davis Kalugyer, Executive Editor

Michael Nelson, Managing Editor

Dennis Hill, Art Director

Meg Ban, Contributing Designer

Sarah Mote, Contributing Writer

Larry Endicott, Patrick Rooney Photo

Food preparation photo courtesy of Community Kitchen of Monroe County, Inc.

Indiana University Communications
Writing, Design, and Production

Philanthropy Matters® is published by the Center on Philanthropy at Indiana University. The Center on Philanthropy is improving philanthropy to improve the world through education, research, and training. The Center on Philanthropy is a part of the IU School of Liberal Arts at Indiana University–Purdue University Indianapolis.

To subscribe to *Philanthropy Matters*®, please register online at www.philanthropy.iupui.edu/philanthropy-matters. Editorial correspondence may be sent to Adriene Davis Kalugyer at adrldavi@iupui.edu, (317) 278-8972, or the mailing address above. For address changes, please email cphldbse@iupui.edu.

No information contained in this issue of *Philanthropy Matters*® should be construed as legal or financial advice.

All contents copyright © 2012, the Center on Philanthropy at Indiana University. Permission is hereby granted to reproduce, distribute, and display printed copies of this work for nonprofit educational purposes, provided that copies are distributed at or below cost, and that the author, source, and copyright notice are included on each copy. This permission is in addition to rights granted under Sections 107, 108, and other provisions of the U.S. Copyright Act. For commercial uses and other activities, please contact Adriene Davis Kalugyer at (317) 278-8972 or adrldavi@iupui.edu.

Philanthropy Matters® is Registered in US Patent and Trademark Office.

Printing of *Philanthropy Matters*® is made possible by Lilly Endowment Inc. and the support of our donors.

Follow *Philanthropy Matters*®



www.philanthropy.iupui.edu/philanthropy-matters



www.facebook.com/thecenteronphilanthropy



twitter.com/IUPhilanthropy



www.youtube.com/iuphilanthropy



Will Donors Give Less if Taxed More?

How the proposed charitable deduction cap and higher tax rates may affect the wealthiest donors' giving habits.

With changes in the tax code under ongoing debate in Washington, fundraisers and nonprofits need to be aware of how possible tax policy changes could affect charitable giving.

“It’s important for nonprofits to understand policy debates taking place, and the implications for future charitable revenues,” says Una Osili, director of research at the Center on Philanthropy at Indiana University.

Recent research conducted by the Center provides useful insights.

What’s on the Table

In its last four budget proposals the Obama administration has recommended reducing the value of itemized charitable deductions from the current 35 percent to 28 percent for taxpayers with an adjusted gross income over \$250,000 for couples or \$200,000 for individuals. It also proposes raising the marginal income tax rate from 35 percent to 39.6 percent for those taxpayers.



Estimating the Impact

The Center examined the impact of both proposals in a 2011 study, *Impact of the Obama Administration’s Proposed Tax Policy Changes on Itemized Charitable Giving*, sponsored by Campbell & Company, a national fundraising and executive search firm to nonprofits.

The proposal to cap the charitable deduction would have a relatively small negative effect on *overall* charitable giving, the study found; individual nonprofits might be affected to a greater or lesser extent. Most striking among the study’s findings is that increasing the marginal income tax rate for wealthy taxpayers would have a larger negative impact on charitable giving than would reducing the charitable deduction.

Using historical tax data, the study examined how itemized charitable giving would have been affected if the charitable deduction and tax rate proposals in the 2012 budget proposal had been implemented in 2009 and 2010, respectively. The study estimated that itemized charitable giving would have declined by 0.4 percent (\$820 million) in the first year and by 1.3 percent (\$2.43 billion) in the second.

When researchers looked only at giving by the affected high net worth households, they estimated that itemized giving from those households alone would have decreased by much more: 1.6 percent in 2009 and 2.4 percent in 2010.

“We believe the charitable deduction is a unique partnership between donors supporting charitable causes and government,” says Peter Fissinger, president and chief executive officer of Campbell & Company. “It provides an incentive for donors to give more. Cutting that incentive would adversely affect nonprofits’ budgets at a time when many are already strained.”

Research shows that while tax incentives usually are not among the strongest motivations for charitable giving, they

do influence how much donors give. Another study, *Tax Motivation for Giving across the Charitable Subsectors*, conducted by the Center on Philanthropy for Giving USA Foundation's *Spotlight* report, found that two-thirds of high net worth donors cite tax incentives as a consideration in giving decisions, and those so motivated tend to give more than those who aren't. That percentage increases as net worth increases.

High net worth households may be paying attention to the potential effects of tax policy changes. The 2010 *Study of High Net Worth Philanthropy* that the Center conducted for Bank of America Merrill Lynch found an increase in the share of high net worth households that said they would reduce their charitable giving if the charitable deduction were eliminated altogether, 48 percent, up from 37 percent in a similar study just two years earlier.

Subsectors Would Feel the Pinch

If changes to the tax code such as those advocated by the Obama administration become law, subsectors favored by high net worth donors motivated by tax incentives might experience greater drops in giving than other areas.

According to the Giving USA *Spotlight* report, such donors are more likely to give to educational organizations, those that serve a combination of purposes (e.g., United Way), and basic needs organizations (e.g., nonprofits that provide food, shelter, and clothing).

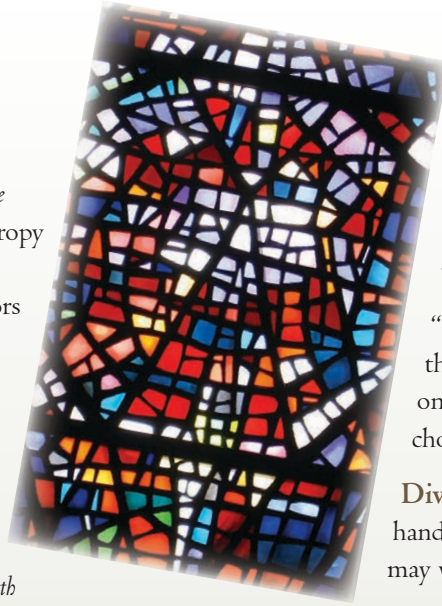
"We also found that tax motivated, wealthy donors give more on average to education, basic needs, health, and arts organizations," Osili said. "If the charitable deduction were capped, these nonprofits likely would see a decline in the size of the average gift from their current affluent donors."

Navigating the Proposals

How should fundraisers and nonprofit leaders prepare for the tax changes that might affect their donors?

Get informed. Osili recommends nonprofit professionals learn as much as they can about these issues by reading information from the Center on Philanthropy, the Urban Institute, Independent Sector, and other groups.

"Nonprofits need to be aware of how these changes would affect donors, including how much they give, what vehicles they use, and the timing of their gifts," says Osili.



Communicate. Nonprofit professionals should continue to communicate with their donors, using all the various channels available to them.

"If there is a cap, and donors look to reduce their giving at all, the effectiveness of your ongoing stewardship will be a factor in how they choose to give," says Fissinger.

Diversify. Nonprofits that rely heavily on a handful of donors, especially high net worth donors, may want to diversify funding sources, says Osili.

Join the discussion. Fissinger says Campbell & Company funded the *Impact* study to create a meaningful dialogue and help fundraisers become informed. "We encourage others to read the research, and other relevant research, make an informed opinion, and develop dialogue with your board members and stakeholders," he says.

◆◆ MORE INFO ◆◆

Contact Una Osili at uosili@iupui.edu. Contact Peter Fissinger at peter.fissinger@campbellcompany.com. Read the *Impact* study at <http://www.philanthropy.iupui.edu/research-by-category/tax-policy-and-giving-2011>. Purchase the Giving USA *Spotlight* at www.givingusareports.org.

Why I Give

PHIL PURCELL

From the start of his fundraising career, Phil Purcell connected strongly with The Fund Raising School and the Center on Philanthropy. "I still remember the lessons from that first class and how helpful it was," Phil says.

"The Center touches so many lives in a field that's ever more important to the future of our world," Phil says. "It's at the top of the list of organizations I support."

Now a Fund Raising School faculty member teaching planned giving and Vice President of Planned Giving and Endowment Stewardship at the Ball State University Foundation, Phil continues to use lessons learned at the Center. That's one reason he and his wife Beth chose to support The Fund Raising School Excellence Fund through a planned gift. "Our gifts help leverage the greater good and create an impact," Phil says.





Necessary Goods

Making the Case for Product Philanthropy

In a good economy and especially in a challenging one, businesses must contend with excess inventory. Their options: destroy it, discount it—or donate it.

What a company may not realize, and what nonprofits can help them discover, is the benefit that donating products to charitable organizations can bring to communities, business, and the bottom line.

“For the most part, businesses have no idea how product philanthropy can benefit their businesses, and those that do think it’s too expensive to implement,” says Justin Ross, assistant professor of public finance and economics and the lead researcher for a new study on product philanthropy.

The Business Case for Product Philanthropy provides the first detailed examination of the return on investment for businesses that choose to donate merchandise as opposed to liquidating or destroying it. Conducted by faculty researchers from the Indiana University School of Public and Environmental Affairs and the Philanthropic Studies faculty, the study reveals that in-kind donations not only make for good corporate citizenship, but they also provide a cost-effective way to reduce excess inventory and enhance businesses’ corporate image.

“Nonprofits can use this research to dispel the assumptions and encourage and inspire corporate in-kind donations,” adds Ross.

A Reason to Repurpose

In most cases, donating products to charitable organizations can provide a greater financial benefit for businesses than disposing of those goods—and the tax deductions businesses receive may even surpass the value products would bring through liquidation or salvage markets. In fact, while reselling inventory recoups just 10 to 30 percent of the value of the product, the special tax deduction can be as much as twice the value. Moreover, because of its enhanced tax deductions, product giving offers businesses a greater financial advantage than cash donations.

“For many corporations, it makes sound financial sense,” says Ross, “especially when companies work with a nonprofit that matches companies with charities.”

An example of this in-kind intermediary is Good360, a nonprofit that has worked in product giving for almost 30 years and that helped fund the study’s research. Such in-kind intermediaries help companies lower administrative costs, simplify logistics, ensure brand security, free up warehouse space, and gain positive media coverage.

Spillover Effect

Donations that corporations make to nonprofits carry an advantage well beyond their immediate value. Donated goods can alleviate budgetary constraints for poverty-stricken families, reducing necessary expenses associated with utilities, household upkeep, furnishings, apparel, and personal care products.

When corporations donate an energy-efficient light bulb, ceiling fan, or a water-saving toilet, for example, they help the families those nonprofits serve free up their limited resources for food, health care, and other vital needs.

Mission Marketing

In addition to providing an economic justification for giving products, the report offers formulas and worksheets to help corporate leaders weigh the costs, benefits, and risks of implementing a product philanthropy program.

Nonprofits can strengthen that argument by helping corporations see the marketing opportunities in their charitable missions.

Companies have successfully combined product donations with brand campaigns—like Home Depot’s “Framing Hope” program, where donations of excess inventory go to repair, refurbish, and rebuild homes for deserving families and individuals, or Proctor & Gamble’s “Mean Stinks” program, where donations of deodorant go to high schools as part of an anti-bullying campaign. Some firms have even used strategic philanthropy programs in lieu of advertising and marketing.

“Product giving not only advances business and enhances corporate image, it’s a way for corporations to have an impact on the causes they care about and the communities they live in,” says Ross.

◆◆ MORE INFO ◆◆

Contact Justin Ross at justross@indiana.edu. Download the free report at <http://about.good360.org/productdonationresearch>.

The Power of Purposeful Giving



Women's philanthropic expertise and acumen guide charitable decision making in the vast majority of affluent households.

Over the years, women have not just increased their participation in formal philanthropic giving, they are leading the way, according to research from the Center on Philanthropy at Indiana University. Contrary to popular belief, in almost 90 percent of affluent households, women are either the sole decision maker or an equal partner in charitable decisions.

"As women create and control a growing share of wealth in the country, their influence in philanthropy is more evident," said Claire Costello, national foundation executive at Bank of America Merrill Lynch. "This study helps to quantify the philanthropic clout that women have and demonstrates to nonprofit leaders and fundraisers the value and impact of engaging women, especially high net worth women, in the organization's mission."

The Bank of America Merrill Lynch 2011 Study of High Net Worth Women's Philanthropy lends critical insight into the differences

between wealthy women and men donors. The latest in a series of in-depth reports that began in 2006, the study reveals that these women are more strategic in their giving, more focused on impact, and more involved with the charities they support than their high net worth male counterparts.

"Women play an immense role in philanthropy," says Reema Bhakta, who was assistant director of research at the Center on Philanthropy when the study was conducted. "Nonprofits that want to reach these women have to understand why and how women give, and they have to earn—and keep—their trust."

Start with Strategy

Affluent women do more due diligence and have higher expectations for nonprofits' efficiency and effectiveness than men. Some 78 percent of wealthy women approach their charitable giving with an annual strategy or budget, compared to 72 percent of men. About a quarter of high net worth women and men have neither a strategy nor a budget for their giving.

"These are savvy women who do their homework," says Bhakta. "Nonprofits should focus on how to leverage their strategic approach to giving and meet their desire for deeper levels of communication and collaboration with the organization."

Focus on Impact

More so than men, wealthy women are motivated to give because they want to make a difference, give back to their communities, set a good example for the next generation, and know the organization is efficient in its use of donations.

And then women want to hear about the impact their gifts have made.

More women than men, 80 percent to 68 percent, expect nonprofits to honor their requests for how their gifts are used, and 45 percent of women compared to 26 percent of men expect nonprofits to share the positive impact their gifts have made.

“Women want to know that the organizations they support are effective. Nonprofits should adapt their messaging and strategies to help women get more involved in ways that let them see the impact of their gift firsthand,” says Bhakta.

Engage and Inspire

In fact, for many women, personal engagement is key.

Women are more likely to give to organizations with which they are actively involved. For 82 percent of wealthy women, personal experience with a nonprofit is a central factor in giving decisions. In addition, 66 percent of affluent women indicate they are more likely to give to organizations where they volunteer compared to slightly less than 50 percent of men.

However, that doesn't mean that once nonprofits have a woman's trust they keep it.

Wealthy women (49 percent) are more likely to stop supporting an organization they had previously supported than are men (41 percent), so getting women involved and sharing how their work makes a difference to the organization and its recipients is essential.



The Power of Networks

One way charities have invited high net worth women to increase their giving power is through philanthropic networks and giving circles. In some cases, women themselves create these networks. In other situations, charitable organizations lead the charge to increase the engagement and impact of a new and diverse audience of female donors.

The *2011 Study of High Net Worth Women's Philanthropy* reveals that affluent women who participate in such networks are more motivated than their non-networked peers by giving back to the community (87 percent vs. 71 percent), when their participation can make a difference (87 percent compared to 78 percent), or when the nonprofit is efficient in its use of donations (86 percent vs. 76 percent). In addition, 91 percent of these women are likely to volunteer, compared to 83 percent of non-networked women.

The American Red Cross's Tiffany Circle is one example of a volunteer-created and volunteer-led philanthropic network. Launched in 2007, the eight-chapter pilot program recruited 235 women leaders and philanthropists, with over three-fourths making their first five-figure gift to the organization. Many of the women were new donors to the American Red Cross. In its first year, the network raised \$3 million, tripling the initial fundraising goal. Today, the Tiffany Circle is a network of 70 chapters nationwide, whose 800 members have raised a total of \$44 million.

Elaine Lyerly, Tiffany Circle national chair and CEO of Lyerly Agency, a brand marketing firm near Charlotte, North Carolina, further testifies to the power of purposeful networks. She tells the story of a vacation she spent on a dude ranch in Wyoming. Over dinner one night, she told her new friends about her work with the Tiffany Circle. Six months later, one of her vacation companions approached her local Red Cross chapter and is now the co-chair of the first Tiffany Circle in Canada. Together, its members have raised \$1 million.

Lyerly's advice to other nonprofits: "All it takes is one woman who is passionate about your cause. Find her, align her passions with your needs, and look for ways to engage her."

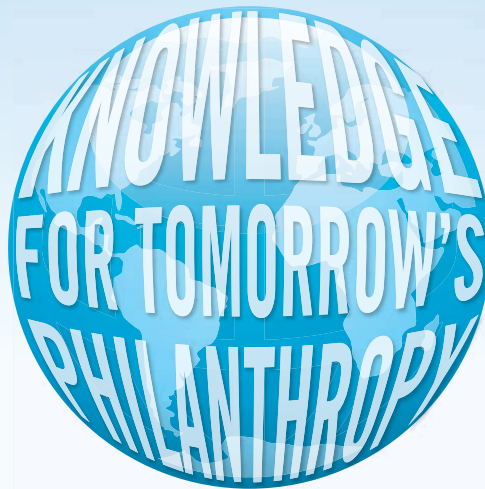
◆◆MORE INFO◆◆

Contact Una Osili, director of research at the Center on Philanthropy, at uosili@iupui.edu. Download the full report at http://philanthropy.iupui.edu/files/research/2011bac_highnetworthwomensphilanthropy.pdf.

Visit the Women's Philanthropy Institute at www.philanthropy.iupui.edu/womens-philanthropy-institute.

550 W. North Street, Suite 301
Indianapolis, Indiana 46202-3272
www.philanthropy.iupui.edu

CHANGE SERVICE REQUESTED



EXPLORATION. ACTION. IMPACT.

THE CENTER ON PHILANTHROPY AT INDIANA UNIVERSITY

25TH SYMPOSIUM

WEDNESDAY/NOVEMBER 14

REGISTER NOW

Powerful new ideas are transforming philanthropy. Will these innovations inspire positive, enduring change for a better world? Join national and international innovators and thought leaders to explore insights into key forces shaping philanthropy's future.

FOR MORE INFORMATION, REGISTRATION, AND SPONSORSHIP OPPORTUNITIES VISIT:

www.philanthropy.iupui.edu/symposium25



Fundraising • Development Services • Strategic Consulting

The Center on Philanthropy appreciates the sponsorship of:
CCS and Lilly Endowment Inc.

