The Alliance
Voice of Community Nonprofits

DATE: February 13, 2019

TO: Finance, Revenue and Bonding Committee

FROM: Jeff Shaw, Senior Director of Public Policy & Advocacy, The Alliance

RE: S.B. No. 124, AN ACT ESTABLISHING A TAX DEDUCTION FOR CONTRIBUTIONS TO A CITIZENS IN NEED ACCOUNT.

Good afternoon Senator Fonfara, Representative Rojas, Senator Witkos, Representative Davis and members of the Finance, Revenue and Bonding Committee:

My name is Jeff Shaw, Senior Director of Public Policy & Advocacy, of the Connecticut Community Nonprofit Alliance (The Alliance). The Alliance is the statewide advocacy organization representing nonprofits, with a membership of more than 300 community organizations and associations. Nonprofits deliver essential services to more than half a million people each year and employ almost 14% of Connecticut's workforce.

The Alliance opposes S.B. No. 124, An Act Establishing a Tax Deduction for Contributions to a Citizens in Need Account.

The bill would establish a 200% tax deduction for contributions to a new Citizens In Need Account to assist residents who had their benefits from social service programs reduced due to state budgetary constraints. We appreciate the intent of this bill, to help restore funding for important social services that been reduced due to multiple years of state budget cuts. These cuts have often been felt by nonprofit providers of social services and the people they serve.

However, The Alliance cannot support the bill without two significant changes. First, it should provide a "no supplant" clause so that state agency budget line items that support community services are not reduced further because there is money in the new fund. All current funding for nonprofits in the general fund should be protected if such a new fund is established. It is also unclear how the money in the new fund would be distributed by the Department of Social Services.

Second, the 200% tax deduction should be made available for all charitable contributions, not just those made to the Citizens in Need Account. Without this change, there would be a significant financial incentive for donors and philanthropists not to contribute directly to community nonprofits but to a fund controlled by the State**. This would be harmful to all community nonprofits across the state**. It would be especially harmful to nonprofits that do not receive state funding, organizations that provide valuable services, but would never be considered to receive money from the Citizens in Need Account.

Further, due to recent federal tax law changes, many nonprofit organizations remain concerned about the potential impact of fewer taxpayers/donors itemizing due to the increase in the standard deduction,

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and therefore fewer people making charitable contributions. According to the Tax Policy Center, about 11 percent of U.S. households are projected to itemize deductions, down from 26 percent under the prior law.

Every community nonprofit relies on charitable contributions as part of their revenue stream. We are concerned the incentive this bill would create would add to the “compounding effect” of reduced giving due to (a) the incentive of taking the standard deduction and therefore, fewer donations to community nonprofits generally and (b), increased competition for individual donations and other philanthropic dollars by community nonprofits as a result of year after year of state budget cuts. All of these factors could lead to a dramatic decrease in charitable contributions to nonprofit organizations that support people in need.

Community nonprofits cannot raise taxes or prices, meaning they are forced to cut services, lay-off employees or close programs to make ends meet. This is not a context in which we should create disincentives for contributing to community nonprofits.

While we appreciate the good intentions of the proposal, we urge you to take no action on this bill.

Thank you for your consideration.