A New April 15: Make It a Day of Giving (Efficiently)

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President Barack Obama on January 22 signed into law a provision allowing charitable gifts made for Haiti relief during February and most of January 2010 to be deducted on 2009 federal tax returns. This noble sentiment would work a lot better if deductions were allowed for all giving made to qualified charities by April 15.

A 14-week window isn't just an accounting trick. It would very likely increase charitable giving, get Congress out of the game of picking charities, and cost almost nothing if it doesn't spur more giving.

The Haiti provision was not the first time taxpayers were allowed to apply deductions retroactively to the previous calendar year. Charitable contributions made early in 2005 for Indian Ocean tsunami victims were deductible in 2004. With that precedent matched, Congress can be expected to follow suit with ever-greater frequency in coming years. So let's get it right from here on out.

All charitable deductions should be treated just like contributions to Individual Retirement Accounts (IRA) -- allowable up until April 15 or the filing of one's tax return. The incentive to give would be increased substantially. As pointed out by my colleague Howard Gleckman, resident fellow at the Urban Institute and editor of the Tax Policy Center's blog, TaxVox, the option to deduct in one year or another doesn't affect the value of the deduction that much, especially if the taxpayer adjusts withholding or estimated tax payments.

What does change is knowledge of the exact amount of tax saving that can be generated. Households can only guess during 2009, for instance, the tax incentive for gifts made that year. When they file their tax returns in 2010, they know the exact value.

Perhaps most important, people pay a lot of attention to potential tax savings when they are filing their returns. Behavioral economists and other social scientists who study motivation understand how choices are presented hugely influences how choices are made. Advertising execs and marketers say that the time to advertise a sale is when they've got the customers' attention. Stores stage advertising blitzes on big shopping days.

Let's apply that logic to a permanent offering of charitable giving until April 15. Tax preparers would ask taxpayers if they wanted to give to some favorite charity and would show the exact tax saving involved. Tax preparers, human and electronic, could easily add this question: "Would you like to see how much tax you?d save by giving additional gifts to charity? If so, specify amount here ________."

Contrast that approach with last-minute and occasional actions to benefit Haiti, victims of the tsunami or whatever comes along next. By the time Congress got around to acting, many people (fortunately) had already responded. Tax preparers could barely be brought on board to help "advertise" the additional option. In the case of Haiti, many people will not go to their tax preparers until after the February window is closed.

At the same time, an across-the-board allowance for all charities avoids a major problem that arises when Congress picks particular causes. People are induced simply to switch charities rather than increase overall giving.

Extended donation deadlines call for a better reporting system. A permanent rule again would help us get it right. Record-keeping rules similar to those for IRAs would enable both the individual and the Internal Revenue Service (IRS) to be sure that a contribution made early in the year doesn't get deducted on both last year's and this year's return.

IRS Form 1099 reporting could gradually be required, beginning with gifts of $250 or more, for charities that want to accept contributions retroactive to the previous calendar year. By starting with charities that want to be on the receiving end of April 15 giving, these administrative approaches would significantly reduce compliance problems for other giving.

For those who believe that government dollars should follow actual performance, part of the beauty of April 15 allowances is that if they don't increase giving, the U.S. Department of the Treasury is out very little or nothing at all. There is a slight timing difference as to when the deduction is taken, but an improved reporting system could more than offset that cost. In contrast, many of today's tax and spending provisions subsidize actions taxpayers would take anyway and yield low benefits relative to costs.

It makes sense to start allowing charitable deductions up until April 15 sooner rather than later. Recovery from a deep recession puts the needs of individuals -- not to mention the charities that serve them -- at their highest level.

We're already moving down the road toward allowing charitable deductions made during the filing season to be claimed for the previous tax year. Therefore, let's proceed in the cleanest and most efficient fashion, deter Congress from picking favorite causes, and keep our eyes on the prize of increasing charitable giving.
