

Office of the President

**Comments to the House Ways and Means Committee  
Tax Reform Working Group  
on Charitable/Exempt Organizations**

April 15, 2013

**Introduction**

On behalf of the higher education associations listed below, which represent approximately 4,300 two- and four-year public and private non-profit colleges and universities, we thank you for the opportunity to submit our views to the working group concerning charitable giving tax incentives, particularly the itemized deduction for charitable giving.

We recognize the pressing need for major, long-term deficit-reduction, and we are mindful that this likely will result in sacrifice shared broadly across the country. We understand that reforming the tax code will be a critical element of shoring up our nation's finances and promoting economic growth. There are a number of proposals which would significantly change the current federal income tax deduction for charitable donations as a means of increasing revenues. We urge you to proceed very cautiously when considering any potential changes to the current charitable deduction, which is an extremely efficient and effective incentive for giving that supports many beneficial purposes and causes and ultimately, our society. For nonprofit colleges and universities, the charitable deduction is vital to generating private support to help achieve their educational missions of teaching, research and public service.

Enacted in 1917, the charitable deduction is a long-standing feature of the federal income tax code. The deduction was created in recognition that funds voluntarily donated to support a charitable or educational purpose were no longer available to the donor for their personal consumption or, for that matter, to pay taxes to the Treasury. As a result, the charitable deduction is unique in recognizing that this income has been foregone, transferred to support public purposes and advance the common good.

The deduction has long served as an important and effective incentive for charitable giving, which benefits both higher education as well as society in general. While private donors make gifts for many reasons, it is well established that the charitable tax deduction helps generate and sustain donations. The benefit to society of a charitable donation far exceeds the financial benefit received by a donor. In fact, for each dollar a typical donor receives in tax relief, the public gains approximately three dollars of benefit.<sup>1</sup>

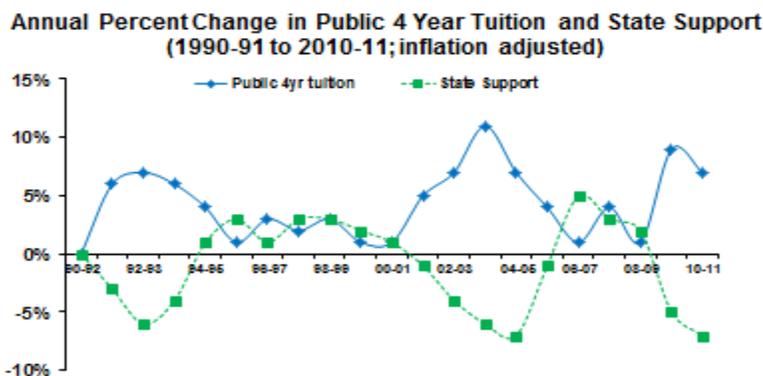
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<sup>1</sup> Stephanie Strom, *Big Gifts, Tax Breaks and a Debate on Charity*, New York Times, September 6, 2007.

### The Importance of the Charitable Deduction to Higher Education

Now more than ever, the ability of colleges and universities to fulfill their teaching, research and public service missions depends upon charitable giving. According to the Council for Aid to Education, colleges and universities in 2012 received \$31 billion in charitable gifts. Private donations work in concert with federal and state investments in student aid to ensure access to higher education for students irrespective of their socio-economic status. Charitable gifts also support teaching, groundbreaking research and technological innovation, and the public service activities of colleges and universities. In short, the partnership with private donors has delivered enormous economic benefits to our society, but unfortunately, it is a partnership undergoing severe stress.

Colleges and universities are facing great financial challenges, escalating the importance of private giving to help restrain tuition increases and sustain these anchor institutions. For public institutions, which enroll 80 percent of all students in the nation, the single largest factor driving up tuition is declining state support. Unfortunately, as a result of the Great Recession, state support for public higher education is at a 20-year low, triggering increased tuition at public institutions to offset reduced state appropriations. Indeed, there is a direct and inverse relationship between the level of state appropriations and the level of tuition increases, as illustrated in the chart below.



In 2010, state and local support for general higher education operations fell to a 25-year low in inflation-adjusted terms, while full-time equivalent enrollment increased 61 percent over the same period. Specifically, from 1998-99 to 2008-09, state appropriations as a share of institutional revenues per student dropped from 49 percent to 34 percent at public research institutions, 56 percent to 43 percent at state colleges, and 64 percent to 57 percent at community colleges. Further, between 2007-08 and 2010-11, state appropriations for higher education per student dropped 18 percent in real terms, the largest three-year decline in 30 years. As a result of this decline, the share of total institutional revenue from tuition rose from 25 percent to 32 percent at public research institutions, 33 percent to 43 percent at state colleges and 22 percent to 27 percent at community colleges. But even these increases were insufficient to offset the collective decline in state support. Under these circumstances, private philanthropy is especially critical to the mission of public college and universities.

Private colleges and universities face a different set of circumstances. They have always relied upon charitable gifts to achieve their educational missions. In fact, many private institutions owe their very existence to generous charitable gifts. Few independent institutions receive significant amounts of state support for their operating budgets. Some states provide financial aid that helps students attend these institutions, but when state financial aid is reduced as a result of budget cuts, private colleges must use even more of their own funds to fill the gap. Private institutions have increased college and university grants, scholarships and fellowships for students in recent years.<sup>2</sup> This institutionally provided aid is funded in significant part from charitable donations.

Private and public institutions experienced historic declines in the value of their endowments during the height of the recession from which they have not completely recovered. Last fiscal year, the average rate of endowment return was -0.3 percent, and over the last five years it has been 1.1 percent.<sup>3</sup>

Today's struggling economy has reinforced the importance of obtaining a college education. During this time of slow economic growth, the employment divide between college-educated and non-college-educated workers has widened. At the same time, many families are under budgetary stress, creating greater demand for student financial aid. While increased Pell Grants and institutional financial aid have softened the blow from the Great Recession for many students, particularly low-income students, federal funding for financial aid is under tremendous pressure. Charitable gifts colleges and universities receive help to minimize tuition increases and support student financial aid programs, advancing the important goal of providing access to higher education regardless of income.

Our nation's long-term economic growth depends upon a larger well-educated and trained workforce and innovations from scientific research. Diminished support for student financial aid undermines access to higher education and ultimately, the country's ability to produce enough well-trained workers essential to our economy. Workforce projections show that by 2018, there will be jobs for as many as 22 million new workers with college degrees. But on our current trajectory, we will not make that goal—in fact, we will miss it by 3 million.<sup>4</sup> As a result, we need to expand access to education. Similarly, long-term economic growth depends upon sustained and strong investments in scientific research. Indeed, economists generally attribute more than half of all growth in the United States since the end of World War II to technological innovations and advancements. Many of these innovations and advancements trace their origins to federal investments in scientific research, including the laser, GPS and the Internet.

While there is no replacing the investments made by federal government in student financial aid and scientific research, private charitable giving plays an increasingly important role in supplementing

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<sup>2</sup> NACUBO Tuition Discounting Survey 2000 to 2010.

<sup>3</sup> 2012 NACUBO-Commonfund Study of Endowments.

<sup>4</sup> Anthony P. Carnevale, Nicole Smith, and Jeff Strohl, *Help Wanted: Projections of Jobs and Education Requirements Through 2018*, Center on Education and the Workforce, Georgetown University, 18 (June 2010).

them. We should continue as a nation to encourage strong charitable giving to support student financial aid, research and other academic programs. The current charitable deduction does just that.

### **The IRA Charitable Rollover**

Since it was first instituted in 2006, the IRA Charitable Rollover has proven to be a very valuable incentive that has helped many different types of non-profit organizations generate new or increased contributions. The IRA Charitable Rollover permits individuals age 70½ and older to donate up to \$100,000 from their Individual Retirement Accounts (IRAs) and Roth IRAs to public charities, including colleges and universities, without having to count the distributions as taxable income. Many donations made through this provision to colleges and universities have gone to support student financial aid. The IRA Charitable Rollover is particularly beneficial to so-called “non-itemizers”—individuals who do not itemize tax deductions and cannot take advantage of the charitable deduction. Moreover, taxpayers in states that do not allow itemized deductions and follow federal income inclusion rules may save on their state taxes by making qualified charitable distributions from their IRAs.

Recently renewed as part of the American Taxpayer Relief Act of 2012, the IRA Charitable Rollover is now set to expire on December 31, 2013. Permanent extension of this provision would enhance its effectiveness by encouraging greater usage by donors who could better plan their charitable giving and personal finances.

### **Conclusion**

We believe the charitable deduction and IRA Charitable Rollover are essential to help provide access to postsecondary education through financial aid awards, preserve and improve the quality of education and research occurring at our nation’s campuses, and offer campus leaders effective tools to secure additional resources for this important work.

We urge you to preserve strong federal tax incentives for charitable donations and avoid measures that could significantly affect giving and thereby harm students, as well as the colleges and universities that serve them and our nation. As efforts to reform the tax code move forward, we stand ready to work with you.

Sincerely,



Molly Corbett Broad  
President

Charitable and Tax Exempt Organizations Tax Reform Working Group

Page 5

April 15, 2013

On behalf of:

American Association of Community Colleges

American Association of State Colleges and Universities

American Council on Education

Association of American Universities

Association of Community College Trustees

Association of Jesuit Colleges and Universities

Association of Public and Land-grant Universities

Council for Advancement and Support of Education

National Association of College and University Business Officers

National Association of Independent Colleges and Universities

National Association of Student Financial Aid Administrators