House Ways and Means Committee
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Hearing on Tax Reform and Charitable Contributions

Written Statement for the Record

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On behalf of the Association of Fundraising Professionals (AFP), I am pleased to provide a written statement regarding tax reform options and incentives for charitable giving. AFP represents the individuals responsible for generating philanthropic funds, so we have a unique understanding of the impact of charitable giving and giving incentives.

As the committee contemplates tax reform, please remember that philanthropy is an extraordinary American tradition that is the envy of countries around the world. The charitable deduction and government funding for charitable programs are symbols of our commitment to the impact and change that philanthropy creates—communities coming together to help solve problems. Altering that commitment is not something we should take lightly or do in the spur of the moment. We urge you to maintain that commitment by preserving the charitable deduction and considering ways to enhance philanthropy.

We hope our thoughts and perspective will prove helpful to the committee as it continues its examination of issues related to the nonprofit sector and tax reform.

Organizational Background

AFP is the largest association of charitable fundraisers in the world. In the U.S., we represent 25,000 individuals and organizations in all 50 states, representing causes of all kinds. Our members help to raise approximately $115 billion annually, which represents more than one-third of all giving that takes place in the U.S.

Fundraising serves as the engine that drives the charitable sector by developing and maintaining relationships with donors and philanthropists who provide the necessary funding for education, social services, healthcare, medical research and the many other altruistic functions provided by the sector. Fundraising complements governmental support for charities and ensures the survival of the charitable sector when state, local and federal governments lack the budgetary means to help. AFP, in turn, fosters the development and growth of fundraising professionals through training and education and promotes high ethical standards in the fundraising profession.

Through the breadth of our membership, we have first-hand knowledge and understanding of charitable giving and the impact of tax policy that incentivizes giving in this country.

Sustain the Investment in the Charitable Sector

One of the defining characteristics of the United States is its strength of community and the way in which communities across America come together to address common needs and challenges. Communities act swiftly and decisively, based on an understanding of the environment in a way that those of us working at a national level sometimes struggle to do. It is this inherent sense of partnership and collaboration that drives successful charitable ventures.

Government is often a valuable partner. But Americans think of working with each other first, hand-in-hand with community groups and businesses, to solve a problem. That is the American mindset, which is then recognized and supported by government-created tax incentives, such as the charitable deduction. In the American context, government is a supporting partner, and it can significantly help philanthropy, but it is NOT the primary player.

I have worked for the fundraising community for twenty years in the UK, Europe and now America. During that time I have seen many different communities incentivize giving in many different ways. But the charitable tax deduction is unique in being established nearly one hundred years ago and having withstood the test of time.

This unique American mindset and tax structure is the envy of the world. Charities in other countries are upset at the potential change in the charitable deduction because they look to this country as a model. A step backwards here is a step backwards for philanthropy across the globe.

The charitable deduction does not define the philanthropic sector. The defining characteristic of the charitable sector is what we achieve—impact in communities. The charitable deduction enhances that impact by encouraging and sustaining the culture of giving in our country.
The deduction's enhancement value is clear: a calculation of the deduction shows that for every one dollar of potential tax revenue invested through the deduction, the public and communities across America receive approximately three dollars in philanthropic services. That rate of return is extraordinary. We should be investing more in the deduction and encouraging additional philanthropy, not finding ways to limit or cap it.

Beyond the significant giving that it creates, the deduction is a powerful symbol of the American tradition and system of philanthropy. In fact, its symbolic nature nearly outweighs its monetary values. The charitable deduction represents a gesture of confidence on the part of the people by way of their elected representatives, an acknowledgement of the effectiveness of nonprofit and community action and a commitment to the longstanding tradition of philanthropy in America. The deduction binds together the interests and concerns of all of us in the betterment of our society.

To drastically change that symbol—to limit the deduction—is to alter that commitment. As I show below, changes to the deduction will have a potentially catastrophic result on giving and philanthropy in our country. At a time when we are still recovering from the worst economic period in generations, we must continue to support traditions, like philanthropy and the charitable deduction, that have served America for so long and for so well.

The Reinstated Pease Limitation Imposed New Restrictions on the Charitable Deduction

We have already seen Congress chip away at our country's longstanding commitment to philanthropy. The recently reinstated Pease limitation contained in the American Taxpayer Relief Act of 2012 reduced the value of charitable deduction for certain taxpayers.

The Pease limitation is essentially a three percent surcharge on income over a certain threshold. In the American Taxpayer Relief Act of 2012, the threshold was established at $250,000 adjusted gross income (AGI) for an individual and $300,000 for families. Under the Pease limitation, if an individual earned $350,000, then there would be a three percent additional tax on that $100,000 difference between the threshold and the individual's AGI. The Pease limitation collects that three percent by limiting the value of the itemized deductions, including charitable deductions, by $3,000.

With the reinstatement of the Pease limitation, it is imperative that Congress not enact any additional caps or limitations on itemized deductions, including the charitable deduction. With the Pease limitation already poised to limit charitable giving, the sector cannot afford yet another, more direct limitation on the charitable deduction. With our country still recovering from the recent recession, I would hope that Congress will eventually exempt the charitable sector from the Pease limitation.

Additional Limits or Changes to the Charitable Deduction Will Reduce Charitable Donations

Over the past few years, we have seen a number of proposals introduced that would limit or change itemized deductions, including the charitable deduction. Each of President Obama's Budgets has included a 28 percent cap on itemized deductions for high-income taxpayers. During the 2012 Presidential election, Governor Romney proposed a $17,000 cap on all itemized deductions, a figure that he later raised to $25,000. Other proposals include an adjusted gross income (AGI) floor for deductions and the use of tax credits instead of deductions.

Various studies indicate that we would see a decrease in giving if the charitable deduction is capped or limited or replaced by other provisions. An Indiana University Center on Philanthropy study found that charitable giving would decrease by $0.82 billion in the first year but would jump to a loss of $1.31 billion the following year if the Administration's 28 percent cap were imposed on itemized deductions.[1] In comparison, the Tax Policy Center estimated that charitable giving would decrease between $1.7 billion and $3.2 billion a year under this plan.[2] These figures are conservative compared to the study done by Joseph Cordes, an economics professor at George Washington University, which estimated a loss in charitable contributions between $2.9 billion and $5.6 billion per year.[3] These estimates are based upon the previous top marginal tax rate of 35 percent. The actual loss in charitable contributions could be worse in light of the new 39.6 percent tax rate.

Regardless of the various estimates, it is clear that the Administration's 28 percent cap would result in a loss of vital charitable dollars.

The effect of Governor Romney's proposed hard dollar cap on the charitable deduction could be even more devastating, as research suggests that many taxpayers would exceed the $17,000 cap before ever claiming a charitable deduction. According to analysis by the National Association of Home Builders, the average married, joint-filing taxpayer who itemized in 2009 claimed $20,464 in itemized deductions, $17,319 of which was consumed by deductions for home mortgage interest ($10,365), state and local income taxes ($3,667), and real estate taxes

[1] The Center on Philanthropy at Indiana University, "Impact of The Obama Administration's Proposed Tax Policy Changes on Itemized Charitable Giving," Oct. 2011.
[2] C. Eugene Steurle, "The Tax Treatment of Charities & Major Budget Reform," Testimony before the Senate Committee on Finance, Hearing on Tax Reform Options: Incentives for Charitable Giving, Oct. 18, 2011.
[3] Joseph J. Cordes, "Re-Thinking the Deduction for Charitable Contributions: Evaluating the Effects of Deficit-Reduction Proposals," *National Tax Journal,* Dec. 2011.

($3,287).[4] But even if the cap were raised to $25,000 or even $50,000, a hard dollar cap effectively eliminates the charitable deduction from the equation—taxpayers would be forced to prioritize their deductions and choose between the charitable deduction and the other deductions that provide a more direct benefit.

There are equally immense consequences to implementing other changes to the charitable deduction—$3 billion per year if a two percent adjusted gross income (AGI) floor were imposed[5] and $9.17 billion per year if the charitable deduction were replaced with a 12 percent tax credit.[6]

In the context of the federal budget and deficit reduction, the money gained by the federal government is paltry, but those amounts represent a significant loss to the sector in terms of impact and mission. These dollar amounts must be viewed in the context of the government's investment in the charitable sector and their philanthropic missions. Frankly, it is a great investment and an even better return—again, roughly a three dollar return in the form of philanthropic services, in community impact, in exchange for every one dollar of deduction.

It is worth noting that high-income earners are more sensitive to changes in tax incentives. Given this sensitivity, reducing the charitable deduction for higher income earners will negatively impact the amount these donors give to charitable organizations, particularly since higher income taxpayers account for the majority of individual giving. According to the CBO report on the tax treatment of charitable giving, tax filers who reported AGI of at least $100,000 in 2008 were responsible for well over half (about 58 percent) of all charitable giving by taxpayers.[7]

The Charitable Deduction Encourages a Culture of Selfless Giving

The charitable deduction is unique in that it rewards people for giving their money away. It is not a tax cut; it is an incentive to give away income to organizations that serve America's communities and those in need. $298.4 billion was donated to charities in 2011.[8] It is estimated that tax deductible contributions comprise about 61 percent of all contributions to charity.[9]

Historically, the federal government has understood the vast impact that the charitable deduction has on charitable giving. During times of crisis, such as the natural disasters like Hurricane Katrina, the 2008 Midwest flooding and the 2010 Haiti earthquake, Congress regularly passes charitable giving incentives to make it easier for Americans to give donations and support to the nonprofits serving individuals, families and communities in need. These incentives essentially leverage the existing charitable deduction to provide even greater support.

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[4] Rob Dietz, Ph.D. and Natalia Siniavskaia, Ph.D., "A Tax Profile of a Typical Mortgage Interest Deduction Beneficiary," Sept. 4, 2012.
[5] Statement of Frank J. Sammartino, Assistant Director for Tax Analysis, "Options for Changing the Tax Treatment of Charitable Giving," Senate Committee on Finance, Oct. 18, 2011.
[6] Joseph J. Cordes, "Re-Thinking the Deduction for Charitable Contributions: Evaluating the Effects of Deficit-Reduction Proposals," *National Tax Journal,* Dec. 2011.
[7] Congressional Budget Office, "Options for Changing the Tax Treatment of Charitable Giving," May 2011.
[8] Ibid
[9] Joseph J. Cordes, "Re-Thinking the Deduction for Charitable Contributions: Evaluating the Effects of Deficit-Reduction Proposals," *National Tax Journal,* Dec. 2011.

The charitable deduction is the only deduction where the money you spend does not benefit you directly. The mortgage deduction is for buying a house. Scholarship, education and health deductions relate to money spent on you and your family. But the charitable deduction involves a selfless, generous motivation—giving to a cause that might never directly benefit you.

Martin Feldstein, chairman of the Council of Economic Advisers under President Ronald Reagan, a professor at Harvard and a member of *The Wall Street Journal's* board of contributors, acknowledges this fact in a Feb. 20, 2013 article in *The Wall Street Journal* where he proposes limiting the tax savings from all deduction and two major tax exclusions to a two percent cap on an individual's adjusted gross income to reduce the deficit. However, he specifically exempts the charitable deduction from that calculation and states, "The existing charitable deduction in particular deserves to be maintained. Unlike other deductions and exclusions, it does not benefit the taxpayer but provides important private support for universities, religious and cultural institutions, and hospitals."[10]

Although the Administration continues to support its proposed 28 percent cap on all itemized deductions, including charitable deductions, the Administration acknowledged the uniqueness of the charitable deduction in the Buffett Rule proposal in its FY 2013 Budget. The Buffett Rule proposal would establish a 30 percent minimum effective tax rate for taxpayers with income in excess of one million while specifically protecting the full value of the charitable deduction. The language in the Budget even acknowledged that "the Administration will work to ensure that this rule is implemented in a way that is equitable, including not disadvantaging individuals who make large charitable contributions."[11]

The American public understands the unique value of the charitable deduction and strongly supports its continued existence. In an April 15, 2011 Gallup poll, 71 percent opposed eliminating the charitable deduction to lower the overall income tax rate, and 68 percent opposed eliminating the charitable deduction to reduce the federal budget deficit.[12] More supported the charitable deduction than the home mortgage interest deduction or state and local tax deduction.

In addition, according to a 2013 Dunham+Company national study conducted by Wilson Perkins Allen Opinion Research, 75 percent of Americans continue to say they value the deduction as it currently stands.[13] And 61 percent say that they feel strongly about maintaining the current deduction, up from 56 percent in January 2012.[14] Only nine percent strongly disagree.[15]

These findings are echoed by the November 2012 public opinion poll commissioned by the United Way which who found that nearly 80 percent of Americans believe reducing or eliminating the charitable tax deduction would have a negative impact on charities and the people they serve.[16] Of those who indicate they would reduce charitable giving, the majority (62

[10] Martin Feldstien, "A Simple Route to Major Deficit Reduction," *The Wall Street Journal*, Feb. 20, 2013.
[11] FY 2013 Budget, "Cutting Waste, Reducing the Deficit, and Asking All to Pay Their Fair Share," 2012.
[12] Jeffrey M. Jones, "Americans Oppose Eliminating Income Tax Deductions," Gallup Poll, Apr. 15, 2011.
[13] Dunham+Company study (Wilson Perkins Allen Opinion Research's January 2013 Omnibus Study).
[14] Ibid
[15] Ibid
[16] United Way Worldwide, "The Charitable Deduction Poll," Nov. 2012.

percent) would have to reduce their contributions by 25 percent or more.[17] Two out of every three Americans (67 percent) are opposed to reducing the charitable tax deduction.[18]

I also must stress that deductibility is equally important for all charities. Every so often, there are murmurs of changing deductibility rules based upon the type of nonprofit—a futile attempt to weigh the comparative value of arts organizations, nonprofit hospitals, universities, social services organizations and the various other entities that form the breadth of the sector. Setting a hierarchy of charitable causes is detrimental to the broad segment of the public who benefit from a similarly wide range of nonprofit services. Since 1917, the full range of charitable nonprofits have expressly been eligible for the charitable deduction, in keeping with this nation's strong tradition of incentivizing taxpayers to give to causes that they most believe will benefit the public good.

The various types of charitable organizations that comprise the nonprofit sector do not exist or operate in silos. They are tightly connected through critical local partnerships that leverage shared resources and strengthen services to the public. Diminish one part of the sector, and the entire sector and the public it serves will suffer. Furthermore, creating separate deductibility rules for different types of charitable organizations only adds complexity to the tax code, something counter to the very concept of tax reform.

The Charitable Sector is Vital to Economic Growth and Recovery

Charities have an immensely positive impact on the economy. We need to remember the significance of nonprofits—something that is consistently overlooked in all of the sweeping statements that are being made about the sector and charitable giving. The data is conclusive: $800 billion through the economy (5.5 percent of GDP), 13.7 million individuals employed (roughly 10 percent of the workforce), 15.2 billion volunteer hours and nearly $300 billion raised every year.[19] The charitable sector represents a significant cog that drives economic recovery.

However, the sector is also extremely vulnerable during economic downturns. The economic challenges of the past few years have had a powerful, negative impact on America's charities. According to Giving USA reports, annual giving has declined by almost $13 billion since 2007.[20] We have only recently begun to see modest increases in charitable giving, at the current rate of growth, giving will not return to 2007 levels for almost a decade.

Yet, while charitable giving contracted over the past few years, the need for charitable services and programs increased exponentially during the economic downturn. Nonprofits provide vital necessities such as food, shelter, clothing, job training and placement and so many other services during such a great time of need.

These charitable services are called upon even more when local and state governments slash their budgets and reduce their own social services and other programs. These reduced state and local

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[17] Ibid
[18] Ibid
[19] Katie Roeger, Amy Blackwood and Sarah Pettijohn, *The Nonprofit Almanac 2012*, The Urban Institute 2012.
[20] Giving USA Foundation 2012, Giving USA 2011 The Annual Report on Philanthropy for the year 2011.

budgets, along with a decreased federal budget, negatively impact the charitable sector as much-needed grants and other government assistance are reduced or eliminated altogether. Over the past few years, it is clear that charities have been called upon to do much more—with much, much less.

Given the almost 100 year old investment in the charitable sector and the continued need for philanthropy in this country, there will never be a justifiable time to limit the charitable deduction. But to alter the framework of charitable giving now, just when charitable contributions are finally rising again, is untenable. The federal government would cut America's nonprofits at the knees just as they are trying to regain their footing.

Expand the Investment in the Sector for Greater Returns

If anything the federal government should seek ways to increase its investment in the charitable sector. An easy (and fairly inexpensive) way for Congress to leverage existing tax incentives to enhance charitable giving is by extending the IRA Charitable Rollover provision beyond the end of this year. This provision, a part of the American Taxpayer Relief Act of 2012, allows donors age 70½ to exclude from their taxable income any IRA funds up to $100,000 that have been withdrawn and transferred to a charity when filing a tax return. The provision will expire on Dec. 31, 2013.

Tax incentives such as the IRA Charitable Rollover provision play a vital role in encouraging donors to make gifts, especially as the contribution amounts become larger. The rollover provision is a powerful and unique way that donors can support charitable causes in their communities.

The IRA Charitable Rollover has worked very successfully over the last few years, but it would be far more effective if it were extended for a longer period of time, as opposed to a short-term provision requiring reinstatement every one or two years. We believe that the provision's impact could reach billions of dollars annually once the public becomes more familiar with it.

Making the IRA Rollover provision permanent simplifies the tax code. During a Senate Finance Committee hearing on March 30, 2011, titled "How Do Complexity, Uncertainty and Other Factors Impact Responses to Tax Incentives?," hearing panelist Robert Carroll, Former Deputy Assistant Secretary for Tax Analysis, U.S. Department of the Treasury, stated the following:

> There are also a large number of provisions – expiring provisions – often extended a year at a time. In principle, the periodic extension of expiring provisions provides Congress an opportunity to reconsider and reevaluate their effectiveness, but the lack of their permanence may undermine the ability of taxpayers to rely upon and base decisions on the benefits they provide.

During his oral testimony, Dr. Carroll noted that these temporary provisions within the tax system, provisions that are constantly expiring and subsequently extended, add to the complexity of the tax system, which increases the bureaucratic burden on taxpayers and the federal government.

By making the IRA Rollover provision permanent, you would simplify the tax code while exponentially enhancing charitable giving.

Conclusion

We need to have many conversations in this country. We need to talk about how we could encourage more public-private partnerships to tackle issues head on. We need to discuss incentivizing more long-term social investment to address our core problems. We need to come together in dialogue about how we can mobilize resources more effectively—and not just financial resources, but human, social and other types of capital.

But the charitable deduction? I truly believe this conversation should be settled. The deduction is effective and proven to work. But most importantly, it is a vital symbol of the tradition of philanthropy in the United States. It is part of the culture of America. It is a rare example of government coming together with the people to invest in a better future for all. And I firmly believe that you cannot simply limit or replace the deduction without losing something very vital in this country.

Thank you for the opportunity to share this testimony with the committee. We look forward to working with the committee and its staff on these issues and any others affecting the charitable sector.