

Committee on Ways and Means
Hearing on Itemized Deduction for Charitable Contributions
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February 28, 2013

Our country and its citizens have a proud history of generosity and contributing to our communities and those in need. For almost a century, the charitable tax deduction has encouraged Americans to continue these philanthropic efforts into present day. The non-profits we support feed, clothe, educate, enlighten, and support those in need through a network of over 1 million charities. **It is critical, not just to the future of charitable giving, but also to our economy, to protect the charitable deduction from any limitation proposal.**

Charitable Deduction Inspires Giving

Proposals to limit the deduction have the ability to seriously impact the future of philanthropic giving in America. A recent study by Bank of America investigated how those with net assets of \$1 million or higher would alter their giving if this deduction was limited. **Almost 49% of affluent respondents said they would decrease their giving, and 20% indicated they would “dramatically decrease” their giving.**¹ Such a decrease would drastically change the face of philanthropy in America. Although not all individuals who contribute to charity utilize itemizations, and, thus, the charitable tax deduction, **those that itemize represent more than 76% of individual contributions to non-profit organizations.**² This could mean a **drop of over \$30 billion if those individuals chose to reduce their giving by just 20%.**

Charities Unable to Fulfill the Needs of All Constituents

A reduction in giving would compel non-profits to reduce services to those most in need in a time when their services are in high demand. According to a recent study, **85% of charities saw an increase in the demand for their services in 2011, and most expect demand to persist at its current levels through 2012.**³ Nevertheless, some argue that because high net worth individuals are the main beneficiaries of the charitable deduction, there is a disproportionate benefit to charities that they favor, such as arts organizations and top research universities. However, a **2012 study by the Center on Philanthropy proves that 79.3% of high net worth households donated to basic needs charities in 2011.**⁴ Unfortunately, all non-profits will be impacted by a limitation to the charitable deduction. Such an outcome is neither equitable nor desirable.

Everyone Benefits—Including the Government

Non-profits leverage charitable contributions to fulfill a wide range of missions with a greater cost savings to society than most companies or government programs can claim. The Nonprofit Roundtable reports that while **the yearly cost to Maryland to keep a child in the welfare system is \$25,000, the yearly cost for Adoptions Together, a DC nonprofit partnering with the**

¹ Bank of America, “High Net Worth Philanthropy: Issues Driving Charitable Giving Among Wealthy Households,” November 2012.

² IRS Statistics of Income Data for 2008. Does not include bequests and estates.

³ Nonprofit Finance Fund, “2012 State of the Sector Survey,” 2012.

⁴ Center on Philanthropy at Indiana University, “The 2012 Study of High Net Worth Philanthropy,” November 2012.

government, to place a child with a family is only \$7,200.⁵ The examples do not stop with adoption cost. DC Central Kitchen serves over 2 million meals each year with food that would have been wasted.⁶ Law and medical schools who, in addition to serving their core educational purposes, save taxpayer money by providing free legal clinics and medical care to the most deserving, but underserved, populations of society. Non-profits take over when other resources are stretched thin and unable to assist. When a non-profit's work provides cost-effective and efficient value, everyone benefits, including federal, state, and local governments.

Clear Relationship between Donor Behavior and Charitable Deduction

There is evidence that both the government and donors alike recognize the persuasive impact of the charitable deduction. In the aftermath of several devastating natural disasters, such as the earthquake in Haiti and Hurricane Katrina, **legislation was enacted to allow taxpayers to claim an extension on deductions made to those causes**, by accepting such donations to be included in the previous year's taxes. Moreover, as any annual giving team knows, **20% of all donations to the institution occur on December 30 and 31⁷** due to the end-of-the-year ramp-up. The power of this deduction cannot be compromised.

Limitations Will Slow Economic Growth

Not only is there an anticipated impact to charitable giving overall, there are also clear economic consequences to any limitations placed on the charitable deduction. The non-profit sector does not merely aid those in need, provide educational opportunities, offer arts and cultural programs, and assuage suffering both abroad and at home, it also employs 13 million Americans. **With 1 in 10 workers in the U.S. employed by a non-profit, our sector is larger than the finance and real estate sectors combined.⁸** The Joint Committee on Taxation estimates that the charitable deduction costs the government \$187.5 billion over 5 years, or about \$40 billion per year.⁹ However, **non-profits pay more than 16 times the annual charitable deduction cost to the government in annual wages and benefits to their employees.** Although the Committee's efforts to explore and pursue a comprehensive tax reform to aid economic growth and development should be lauded, the pathway to fiscal strength is not through a breakdown of a large and robust sector aimed at supporting America's most vulnerable populations.

The importance of the charitable deduction cannot be understated. Not only does the deduction encourage philanthropic behavior that benefits the wider community, it is an efficient and effective government tool that encourages donations to those in need. Imagine no community theaters, emergency shelters, or free educational opportunities. Imagine fewer human service and community supporters.

⁵ The Nonprofit Roundtable, "Beyond Charity: Recognizing Return on Investment," November 2007.

⁶ DC Central Kitchen Website, "Successes," Accessed February 21, 2013.

⁷ Network for Good and True Sense Marketing, "Online Giving Study: Donations Driven by Donor Experience, Year-End Gifts and Large-Scale Disasters," December 2010.

⁸ Urban Institute, "The Nonprofit Sector in Brief: Public Charities, Giving, and Volunteering," 2012.

⁹ Joint Committee on Taxation, "Estimates of Federal Tax Expenditures for Fiscal Years 2010-2014," December 2010.

It is time to reconsider the enactment of limitations to the charitable deduction—we must preserve the charitable deduction and remove modifying it from future income tax legislation.

Supplemental Sheet—Witness Information

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