WRITTEN STATEMENT
OF
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FOR THE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS

HEARING ON
TAX REFORM AND CHARITABLE DEDUCTIONS
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Mr. Chairman and distinguished Members of the Committee:

Thank you for the opportunity to present this testimony to you on the issue of taxation and charitable deduction, which are of great importance to the people of this nation.

I am one of the founding Directors of Cars 4 Causes, one of this nation's leading vehicle donation charities. Since our inception in 1997, Cars 4 Causes has raised more than $130 million from vehicle donations and shared the proceeds from the sale of those donations with more than 16,500 non-profit organizations, churches and schools across this great nation.

While a few of the well recognized charitable names, like the American Red Cross, Make-a-Wish Foundation, Catholic Charities, Wounded Warrior Project and City of Hope are included in that list, the majority of those charities that we support are smaller, less known and local organizations that provide a great service to those in need at the local level across every state in our union.

Many of these organizations, like ours, receive no government funding and rely on the generosity of private citizens, including donations of non-cash assets, especially vehicle donation. It is these vehicle donations that many of these smaller organizations rely on heavily to underwrite the services they provide to our nation's underprivledged youth, impoverished families, wounded veterans, ailing seniors and many others in need throughout this great land.

On behalf of Cars 4 Causes and all the charities that we support I would like to say that we strongly support the retention of the overall charitable deduction and we would encourage this Committee to explore and recommend those policies that would encourage more Americans to increase their charitable giving.

Charitable Deductions Stimulate and Support Economic Growth.

We believe tax policies that support and encourage charitable giving, not only provide a great service to those in need, but do so in a manner that stimulates economic activity and promotes economic growth at the local, state and federal economy.

Without the charitable deduction, the needs met by services provided through charitable giving might otherwise be left unattended leading to the further degradation of our social safety net, or, if such needs were alternatively met by the public sector, a greater burden would be placed on our cash strapped federal and state governments at a time when cutting, not increasing, expenses should be the priority.

Furthermore, by supporting the deduction for charitable giving, we are supporting the expression of the American people and their desire to directly select those programs that they feel need support, thus removing such decisions from the public sector officials who, unfortunately, and not necessarily intentionally, distort the process by rewarding needs for political gain at the expense of actual social benefit and at a much greater cost to the American public.

It is simple math that suggests that the cost to the American public of policies that support charitable giving are only a fraction of the total value of the amounts given. The cost to the public is determined by the savings to each taxpayer who participates in charitable giving and that savings is determined by each individuals own tax rate. Thus, the actual value of these charitable contributions spent at the local level is far greater than the cost to the public by an amount equal to the difference between the value of the charitable gift and the savings the taxpayer realizes from claiming a charitable deduction.

Furthermore, if one were to apply a multiplier (that simulates economic activity) to each dollar spend at the local level from these charitable donations, the stimulative effects of the charitable deduction far exceeds the cost to the American public.

Therefore, it is clear that retaining and expanding the charitable deduction would promote and stimulate economic activity while at the same time support the social benefits of charitable giving. Any attempt to limit or abandon the charitable deduction would do enormous harm to the United States economy, far more than any amount this Committee would hope to save by eliminating or reducing it.

In the case of Cars 4 Causes, we examined the public cost and economic benefit of vehicle donations to our organization and we learned that, without even applying a multiplier to each dollar we spend from vehicle donations, we see an economic benefit to local economies of nearly 3.5 times the actual tax cost to the American public. So, even if a multiplier was applied to both sides of the equation; the economic activity spent at the local level by Cars 4 Causes activities vs. the increased revenue to the Federal government from eliminating the charitable deduction, there is no question that the benefits of the charitable deduction are far more stimulative to the economy than the funds that would be raised by the Federal government by eliminating the charitable deduction, specifically the vehicle donation deduction.

You see, when Cars 4 Causes accepts a vehicle that has been donated to charity, we need to hire independent tow drivers, transport and hauling companies, repairmen, auction houses, salvage yards. These are all local businesses that in turn hire employees, buy equipment and vehicles, rent facilities and pay income and payroll taxes. We hire employees to process local DMV paperwork, to coordinate the sales process and to account for the sales proceeds and engage in our own local charitable events. We share proceeds with thousands of other charities who provide services for those that they support, services that are provided by paid and volunteer staff members and require the purchase of products and services provided by outside vendors. Throughout this process, there are hundreds of middle class folks involved in converting these donated assets to cash and meeting the needs of those who need their help.

Now, we believe this Committee is interested in supporting tax policies that balance the need to stimulate and grow the economy, support middle class job retention and growth and meet the needs of those who require it with the cost to the American public. We encourage you to ask the Congressional Budget Office to provide their own cost/benefit analysis of the economic impact of the charitable deduction. And we are sure the Internal Revence Service can provide current data on the value of charitable deductions and the cost to the American public; specifically vehicle donation.

If you do that, as you review their data and their reports, consider the experience of Cars 4 Causes mentioned above where we estimate that there is 3.5 times more benefit than cost associated with vehicle donation deductions. Once you do, I'm sure you will agree that we not only need to retain the current charitable deduction but adopt policies that encourage more Americans to give.

Let All Taxpayers Enjoy the Economic Benefits of Charitable Giving

One way to encourage Americans to give more to charity would be to extend the economic benefits of charitable deduction to lower income taxpayers who are unable to itemize and take advantage of the current charitable deduction.

Currently, 70% of taxpayers who don't itemize are excluded from tax benefits from making charitable contributions. Cars 4 Causes strongly supports incentivizing charitable giving through the tax code. We believe the current incentives work well for higher income brackets, but exclude a large portion of the population, mostly lower income, non-itemizing tax payers, who are discourage from charitable giving because the tax benefits are not available to them since they do not itemize.

We believe that by expanding access to the financial benefits of charitable giving to the lower income, non-itemizing tax payers more Americans would participate in the charitable process. In particular, we would expect to see an increase in the number of lower valued vehicle donations. These would be the same types of vehicles target by the Cash For Clunkers program implemented in 2009, however, the cost to remove these vehicles from the road via a charitable donation would be substantially less than that program and far more stimulative to the economy.

According to C.A.R.S Program Statistics found at www.Cars.gov, the Federal government paid a total of $2,853,668,500 to remove 678,024 "clunkers" from the American roadways. That program spent an average cost of $4,208 per vehicle. By contrast, in 2009, if that same type of vehicle had been donated to charity and sold to a dealer/dismantler it would have brought, on average, a selling price of approximately $200 per vehicle.

I use this example to point out that a charitable deduction would have been a far more cost effective way to realize the objectives of the C.A.R.S program. The C.A.R.S program (i.e. American taxpayer) grossly over paid for these vehicles. These vehicles ended up at the same dealer/dismantlers that purchase donated vehicles from charities that operate vehicle donation programs. With the exception of moving "dead" inventory from new car dealer lots, the stimulative nature of the C.A.R.S program would have been virtually the same had the vehicle been donated to charity rather than sold to dealers in exchange for a C.A.R.S. program voucher.

Had incentives been created to cause these same "clunkers" to be donated to charity rather than participate in the C.A.R.S program, the cost to the public would have been substantially less and far more stimulative to the economy and supportive of our social safety net.

Determine Charitable Vehicle Donation Values at the Time of Donation.

Cars 4 Causes encourages changes to the existing law that would allow taxpayers to determine the deduction amount of their vehicle donation at the time of donation rather than "some time" after the donation has been made.

The decision to engage in any transaction, charitable or otherwise is more often than not determined by the economic benefit to be received by the parties to such a transaction. One of the negative side effects of the 2005 change in the tax treatment of vehicle donations was to push the timing of the valuation of the vehicle donation to the end of the donation process.

Under the current provisions, a potential donor of a vehicle worth more than $500 is unable to determine the tax advantages of a donation until after the charity sells the vehicle. Sometimes this process can take several weeks, requiring the donor to give up all rights to his vehicle without any idea of how the donation will ultimately be valued.

While every other type vehicle transaction, whether it's a trade-in, private sale, or the governments own "2009 Cash for Clunkers Program, offers the parties up-front certainty about the value of the transaction, only vehicle donations asks potential donor to blindly commit their property for the promise of a future valuation. This uncertainty, which no doubt, was inadvertanty injected into the donation process as a result of the 2005 reforms, significantly reduces the attractiveness of vehicle donations as a method of disposition, especially for vehicles valued in excess of $500. And, as we have seen from the decline in overall vehicle donations since the reforms were enacted, the benefits those vehicle donations provide to the non-profit sector and the local economies have declined.

Raise Revenue by Enforcing Current Vehicle Donation Rules.

One last thing I would like to point out is that if current rules in IRS Publication 4302 governing vehicle donations were enforced, this Committee would see substantial revenue increases. These increases would come as a result of the disallowance of certain vehicle donations and the collection of penalties imposed on charities that improperly hire for-profit entities to solicit vehicle donations on their behalf with no oversight or control of how the for-profit entity runs its operation.

I am referring specifically to the fourth type of car donation program identified in IRS Publication 4302, which states:

> [The fourth type of car donation program is where…] "The charity allows a for-profit entity to use its name to solicit car donations, receives a fee or percentage from the sales, but has no control over the for-profit organization's activities."
>
> Contributions to this kind of vehicle donation program are *not* deductible, even if the nonprofit uses the money it receives to fund charitable activities.
>
> Because the charity has not hired the for-profit entity as its agent and has no control over how the program is carried out, the IRS regards the car donations as contributions to the for-profit organization, *not* the nonprofit.
>
> "A charity," the IRS warns, "cannot license its right to receive tax deductible contributions." Both the charity and the for-profit entity can be penalized if they mislead donors about the deductibility of their contributions through this kind of program.

It is common practice that many vehicle donation programs are run by these for-profit entities that yield no oversight of their activities to the charities that they support. In many cases, the charity, for which these for-profit entities solicit car donations and receive fees or a percentage of the sales have no idea that a vehicle has been donated to the for-profit entity on their behalf until the for-profit entity sells the vehicle and sends the charity the net proceeds, after deducting their fees and costs. This hardly constitutes "oversight" of the for-profit entity's activities by the charity.

Although this type of car donation program is identified by IRS Publication 4302 as one that can get both the charity and donors in trouble, it appears to do little to discourage the proliferation of this type of activity amongst a majority of the vehicle donation programs that currently exist today. In fact, our discussions with many other charities exploring the option of starting their own vehicle donation programs have raised the issue of this type of program as a reason for them to avoid creating such programs.

We believe that this provision should be enforced so as to further reduce the abuses the 2005 changes in the tax treatment of vehicle donations sought to eliminate and remove the uncertainty that this unenforced rule creates. In the absence of enforcing the published rule, we would request that you seek its elimination and allow the current practice, which runs counter to this rule, to carry no risk of potential enforcement and subsequent penalty or deduction denial. Either way, by enforcing or eliminating this rule the uncertainty currently associated with vehicle donation programs and vehicle donations would be removed and we would see an increase in legitimate vehicle donation programs and more vehicle donations.

It is our hope that by presenting these issues to this Committee, our "on the ground" perspective will better equip you to undertake reforms that retain and encourage more charitable giving (especially in the form or vehicle donations), which we strongly believe will i) stimulate and promote economic growth; ii) make the economic benefits of the charitable deduction more available to all Americans; iii) restore the attractiveness of vehicle donations to the American taxpayer; and iv) further limit abuses associated with vehicle charitable donation.

Cars 4 Causes understands the difficult task ahead of you to reduce the federal deficit and reform the tax code. We support your efforts to the extent that they increase receipts by broadening the tax base, incentivize success and private sector growth, reduce federal spending by eliminating wasteful, outdated and ineffective government programs and encourage individual self reliance and charitable giving while maintaining a social safety net that supports those in need who are unable to care for themselves or offers temporary relief to those who have fallen on difficult times but are ultimately capable to re-entering the private sector as productive members of our community.

Thank you Mr. Chairman and Members of the Committee for the opportunity to offer our input on this matter of great importance.

SUPPLEMENTAL INFORMATION

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