

Submission for the Record

Submitted by:
The Giving Institute and Giving USA Foundation

Submitted to:
The Committee on Ways and Means
United States House of Representatives
Hearing on Tax Reform and Charitable Contributions

Submitted February 28, 2013

Mr. Chairman and Members of the Committee,

Thank you for the opportunity to submit a statement for the record about the impact changes to the tax deduction available to itemizers would have on charitable contributions to our nation's million-plus philanthropic organizations.

Our Standing on the Matter before the Committee

The Giving Institute, an international association of leaders in the philanthropic consulting field, is headquartered in Chicago. Our 40 member firms, listed in the table below, specialize in all areas of nonprofit consulting, including fundraising, executive search, capital campaigns, feasibility studies, technology and marketing communications. Collectively, our members will partner with over 30,000 charities to raise tens of billions of dollars this year in life changing philanthropic support.

Giving Institute Member Firm	Location
A.L. Brouman Associates Inc	Pittsburgh, PA
Alexander Haas	Atlanta, GA
Alford Group Inc	Seattle, WA
Arnoult & Associates Inc	Memphis, TN
Arthur Alley Associated	Jackson, MS
Benefactor Group	Columbus, OH
Bentz Whaley Flessner	Minneapolis, MN
Blackbaud	Charleston, SC
Campbell & Company	Chicago, IL
Carlson Fund Raising	Henderson, NV
Carlton & Company	Boston, MA
CCS Fund Raising	San Francisco, CA
Collins Group	Seattle, WA
Compton Fundraising Consultants Ltd	Vancouver, BC, Canada
Covenant Group	Louisville, KY
Cramer and Associates Inc	Dublin, OH
Curtis Group	Virginia Beach, VA
Dini Partners	Houston, TX
DonorPerfect	Horsham, PA
Dunham+Company	Plano, TX
Durkin Associates	Milwaukee, WI
EHL Consulting Group Inc	Willow Grove, PA

Event 360	Chicago, IL
Global Advancement LLC	Lexington, KY
Grenzebach Glier & Associates	Chicago, IL
Hodge Group	Dublin, OH
IDC Fundraising, Harris Connect LLC	Henderson, NV
Jeffrey Byrne & Associates Inc	Kansas City, MO
Johnson Grossnickle & Associates	Greenwood, IN
KCI-Ketchum Canada, Inc.	Toronto, ON, Canada
Marts & Lundy Inc	Lynwood, NJ
Oram Group Inc	New York, NY
The Phoenix Philanthropy Group	Phoenix, AZ
Prasad Consulting & Research	New York, NY
Ruotolo Associates Inc.	Cresskill, NJ
Smith Beers Yunker & Co Inc	Cincinnati, OH
SofTrek	Amherst, NY
StaleyRobeson	Mystic, CT
Winkler Group	Mount Pleasant, SC
Woodburn Kyle & Company	Madison, IN

Our mission is to advance the practice of philanthropy through research, education and best practices. Founded in 1935, we are known for, among other things, composing the industry's first code of ethics, which is still in use today. Our member firms operate without regard to geographic boundaries and thus, are experts in the totality of American philanthropy.

Giving USA Foundation, formed by the Institute in 1985 and also headquartered in Chicago, is our research and education arm that has chronicled charitable giving in America by individuals, corporations and foundations, for decades through its seminal annual namesake report. Prior to establishment of the Foundation, the Institute directly published the annual report. The first one was issued in 1956; it examined charitable giving in the United States for calendar year 1955. Its mission is to advance the research, education and public understanding of philanthropy in America.

In sum, as we explain in further detail below, our collective body of knowledge and long-running research into voluntary American charitable giving leads us to conclude that limiting or eliminating the charitable tax deduction would be deeply injurious to the health of our nation's philanthropic sector – a sector that employs one in 10 Americans and “gives back” to our economy an estimated \$3 in services for every \$1 in tax relief a household receives.¹ Since annual estimated charitable contributions from the groups listed above have hovered around the \$300 billion mark for several years now, that equates to a staggering sum and a hefty percentage of the total American economy.²

Current State of Charitable Giving in the United States

For calendar year 2011, Giving USA and its research partner, the Center on Philanthropy, estimated that total charitable contributions from American individuals, bequests, corporations and foundations were \$298.42 billion, up from a revised estimate of \$286.91 billion for 2010.

While charitable giving dollar totals have gone up and down over time, two constants have remained steady since we started measuring contributions: American philanthropy has traditionally hovered around 2 percent of GDP; and, individuals are consistently responsible for at

least three-quarters of the giving “pie.” (The total percentage that can be attributed to individuals is even higher when you consider bequests; in that case, it has been as high as 88 percent.)

In any discussion of tax reform, we believe the above salient facts need to be taken into consideration.

Giving Pre/Post recession and impact on the Sector

It should also be noted that while Americans are generous, the impact of the economy on donor behavior cannot be overstated; our research shows that recessionary times beget fewer total dollars; conversely, the healthier the economy is perceived to be, the more likely it is that people will feel comfortable contributing to non-profit causes from their total household budget.

Consider the following:

- 2007 charitable giving – the year before the Great Recession began – was an estimated \$335.96 billion -- the highest amount ever recorded (inflation-adjusted dollars).
- At \$298.42 billion in 2011 – two years after the official end of that recession – giving remains strong while still significantly impacted by the remnants of a tattered American economy.

In fact, the average rate of growth in charitable giving in 2010 and 2011 was the second slowest of any two-year period following all recessions since 1971.

High-Net-Worth Donors Give Most; are Biggest Itemizers

The reasons people donate to charitable causes are many and complex, but our most-recent research, conducted on our behalf by the Center on Philanthropy at Indiana University (now the Indiana University School of Philanthropy), has done much to reveal the correlation between tax policy and giving.

For example, giving from high-net-worth donors – those with incomes greater than \$200,000 or assets greater than \$1 million -- would drop precipitously if the charitable tax deduction were eliminated.⁴ Since these donations account for a large percentage of individual donations, the impact is potentially devastating, and a scenario could be envisioned wherein government were asked to pick up the difference.

More factors to consider:

- High-net-worth donors motivated by tax benefits give, on average, \$11,300 more than those who are not.
- 100 percent of donors at the highest income levels cited tax incentives as a significant motivator in their charitable giving plans.

(Source: *Giving USA Spotlight, Issue 4, 2011*)

Increased Burden on Government?

A precipitous drop in giving would mean many nonprofits would struggle to continue their current levels of service and, in fact, tens of thousands would likely cease to exist. Millions would be added to the unemployment rolls as nonprofits failed or made dramatic budget cuts in response to reduced donations. Furthermore, many of these provide services that are basic and

necessary to our society and government would be called upon to continue these services. This would mean, of course, that decisions about how American non-profits are funded would increasingly be made by Congress instead of citizens. In a time of economic and budgetary pressures such as our country currently faces, this outcome is perhaps one the Committee would not find optimal.

What Americans Think of the Charitable Tax Deduction

In short, Americans want to protect the charitable deduction. This is true across income levels, even though only 30 percent of taxpayers itemize.

New research shows there is strong and growing support for America's tradition of giving:

According to Dunham + Company:

- *75 percent of Americans say they value the charitable deduction as it currently stands.*

(Conducted as part of Wilson Perkins Allen Opinion Research's January 2013 Omnibus Study)

According to the United Way:

- *79 percent of respondents in a recent survey believe reducing or eliminating the charitable tax deduction would have a negative impact on charities and the people they serve.*
- *62 percent indicate they would have to reduce their contributions by a significant amount – by 25 percent or more.*
- *Two out of every three Americans (67 percent) are opposed to reducing the charitable tax deduction.*

(Source: United Way: 2012 United Way Worldwide National Survey)

A Chilling Effect

An American landscape that sees services made available to our most vulnerable populations highly curtailed, or that provides even fewer cultural amenities to our citizens in a time of dwindling resources in that particular arena, might seem inconceivable on the face of it.

Conventional wisdom might seem to say that the nonprofit institutions that have been providing so much for so long surely will go on, at minimum at their current levels, because people will continue to give no matter if tax benefits decrease. And, in fact, they have given, year in and year out; as noted above, American individuals comprise the vast majority of the giving "pie" – depending on how you slice it, anywhere from 75 percent to 88 percent of the annual estimated total. Unfortunately, that will not necessarily continue to be the case if the tax deduction available to itemizers is eliminated or significantly capped.

Our Recommendation to the Committee

The member firms of the Giving Institute and the board of Giving USA Foundation know that our elected representatives understand the importance of our nation's charitable organizations, and that they also are looking for the right answers to the complicated economic dilemma facing our country.

We would ask the Committee members to remember, though, that Congress, in its “fiscal cliff” negotiations, has already placed a limitation on charitable deductions through the Pease Amendment. Further caps or limits could unravel charitable giving.

So that this indispensable sector of our economy does not face further potential reductions in annual giving by Americans, it is our recommendation to the Committee that no further changes to the tax deduction for gifts to charitable organizations be made.

Charitable giving is not a “tax loophole” or a “tax shelter”, but an attempt to better society. This is one tax benefit that deserves to remain untouched.

Further Discussion Welcome

Thank you again for the opportunity to comment for the record on this important issue. The leadership of the Giving Institute and Giving USA Foundation would welcome the opportunity to be of service to the Committee as it continues its discussions on tax reform, and would be happy to make ourselves available as a resource, especially as you move from discussion to decision making.