

**Testimony for the Record  
of Valerie S. Lies  
President and CEO  
Donors Forum  
Hearing on the Itemized Deduction for Charitable Contributions  
House Committee on Ways and Means  
U.S. House of Representatives  
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Founded in 1974, Donors Forum is the hub of the philanthropic and nonprofit community in Illinois, and the only statewide association of funders and nonprofits of all kinds, as well as their advisors. More than 1,100 foundations, nonprofits and individuals belong to Donors Forum, and thousands more use our resources and benefit from our leadership on public policy affecting philanthropic and nonprofit operations.

For nearly a century, since the Revenue Act of 1917 first created the charitable income tax deduction, our nation's tax system has strongly encouraged Americans to give back to their communities by providing tax deductions for contributions to charitable organizations. These policies helped fuel a strong tradition of giving that has strengthened our educational system, broadened access to health and human services, fostered an appreciation for our history and cultural heritage, advanced scientific and medical research, and supported a variety of other programs vital to the health of our nation and communities around the world.

We not only see the deduction as in the best interest of our members, philanthropy, and nonprofit organizations serving Illinois communities, we see it as a critical tool for doing the most good; it represents the best of our democracy. Donors Forum supports current law defining the charitable deduction for the following reasons:

**It is cost effective:** When an individual in the highest tax bracket donates \$1,000 to charity, the government foregoes nearly \$400 in tax revenue, but communities benefit from the entire \$1,000 gift. The government is unlikely to find another vehicle that can leverage private spending for community services on a nearly 2.5-to-1 ratio.

**It is fair:** Unlike other tax incentives, the charitable deduction encourages behavior for which taxpayers receive no personal tangible benefit. This deduction is a means of enriching communities, rather than individual taxpayers.

**It enjoys broad support:** An April 2011 Gallup poll found that 7 in 10 Americans oppose eliminating the charitable deduction, regardless of whether the savings would be used to lower their taxes or reduce the deficit. Even among those Americans who do not claim the deduction, 62 percent are opposed to its elimination.

The giving profile for Illinois reflects the power of the charitable contribution and its relationship to the individual. Illinois has 4,031 foundations but they represent only 14 percent of all giving; corporate giving is even less than that, roughly 5 percent. Generally, individuals supply the bulk of charitable giving (nationally, contributions from individuals represent 81 percent of the sector, most of that to religious institutions). While the record level of foundation giving in Illinois was \$2.4 billion in 2010, individual contributions totaled \$6.9 billion.

For all its fiscal instability, Illinois' giving is strong, perhaps a testament to our state's slow emergence from the Great Recession. The most recently available data from tax year 2010 shows that Illinois gave a lot – far outstripping our Great Lakes neighbors. From all income levels, over 2 million tax returns were filed in Illinois, claiming over \$51 billion in itemized deductions. Of these, across all income levels, those who gave to charity contributed \$6.9 billion in total. Those important middle class households that earn less than \$200,000 contributed \$4 billion. High earning households, no less important to the charitable and nonprofit world, contributed \$3 billion.

Equally important is the fact the charitable deduction helps fuel a valuable sector in Illinois that, in turn, creates employment and brings material benefit to every community.

In a state as large as Illinois, the nonprofit & charitable sector is the fourth largest industry in the state. In a 2012 Johns Hopkins report commissioned by Donors Forum, the nonprofit sector supports over half a million jobs (517,600). This is more than the number of workers in transportation, construction and real estate industries combined. These jobs create \$24.3 billion in wages; they represent 8.7 percent of IL's payroll; and the income generated by nonprofit jobs is projected to yield \$459 million in state tax revenues and \$2.3 billion in federal tax receipts. These jobs would not be possible without, in part, the giving channeled via individual giving to foundations and nonprofits.

We believe changing the formula for calculating the value of the charitable deduction as a “pay for” for new federal programs establishes a troubling precedent – especially as these programs would likely be delivered by nonprofit organizations. The capacity enabled through charitable giving is vital to maintaining high quality service delivery of programs. **Fred Bernstein, Executive Director of Community Health & Emergency Services, Inc.**, shares his organization's story with us:

“Community Health & Emergency Services, Inc. (CHESI) is an FQHC 501-c-3 operating a community health center system in seven southern-most Illinois counties, including the four poorest counties in the state. The poorest county is Alexander, where our main facility is located.

During 2011, we faced an historic flood, which caused us to have to close six of our twelve facilities for up to two weeks, and also occasioned our having to evacuate our nursing home for a full month. We suffered economic damages totaling more than a million dollars.

A part of our ability to survive rested squarely on an organization known as DirectRelief.org, and a grant from the Blowitz-Ridgeway foundation. The former provided us supplies and commodities, all of which were donated by the private sector, as well as a cash grant of \$100,000. The latter provided us with a grant to allow our lab to buy reagents and supplies in the amount of \$12,000.

These grants and donated supplies helped enormously, as there were no government programs to help us, with the exception of an SBA loan which took us nine (9) months to secure. Any cap on donations would have seriously impacted the help we were able to get. And that, in turn, would have affected the accessibility of health care services for more than 24,000 persons.”

While analysts differ, it has been estimated that, with no deduction for charitable gifts, annual giving would drop by 25 to 36 percent, and a proposed cap could cost charitable nonprofits between \$2-7 billion a year in contributions. We also agree with the Urban-Brookings Tax Policy Center report that says “Policymakers should favor options that are more ‘cost effective’—that is, have smaller impacts on charitable giving for any given revenue target.”

Large and small, Illinois charitable nonprofits rely on the charitable giving incentive to deliver existing services, so reducing the incentive will reduce the amount of services they can deliver. To date, it is one of the most effective ways for government, nonprofits and philanthropy to come together and solve community problems.

We know these negotiations about spending priorities, tax reform, and national debt will be difficult. But as the voice for Illinois nonprofits and philanthropy, Donors Forum believes it is important to have a clear picture of the potential impact of limits on the efficacy of the charitable giving incentive on communities we serve and the charitable organizations that serve them.

Thank you for your consideration.