

**Hearing on Tax Reform and Charitable Contributions**

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HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

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**February 14, 2013**

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## Hearing on Tax Reform and Charitable Contributions

U.S. House of Representatives,  
Committee on Ways and Means,  
Washington, D.C.

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The committee met, pursuant to notice, at 9:41 a.m., in Room 1100, Longworth House Office Building, Hon. Dave Camp [chairman of the committee] presiding. [Advisory](#)

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\*Chairman Camp. Good morning, and thank you for joining us today. As part of the committee's ongoing commitment to pursue comprehensive tax reform in an open and transparent manner, the committee is holding today's hearing to allow stakeholders and members of the public the opportunity to share their perspectives on the deduction for charitable contributions.

For today's hearing, we granted all timely requests to testify in person, so that national and local leaders in the charitable community could educate us about the work they do each day, and what Congress should consider as we explore comprehensive tax reform.

I realize that this open-door approach is a bit different than the way we typically structure hearings. But looking back to the 1986 Tax Reform Act, the last comprehensive tax reform endeavor, it turns out that this is a Ways and Means tradition. Then-Chairman Dan Rostenkowski, a Democrat from Illinois, employed the same method for gathering stakeholder input. Much like he did, I believe that including the voices of the stakeholders who are working every day in our communities is critical to understanding how the policy decisions we make in Washington will affect people back home.

We want to ensure that whichever policies we ultimately decide to pursue are crafted in a way that makes the tax code simpler, fairer, and easier to comply with. In the case of the charitable community, we also want to make sure that tax reform allows you to continue to meet and fulfill the mission of each of your organizations.

Our nation's public charities and private foundations perform invaluable services for our society at home, nationally, and, in some cases, across the globe. This is especially true during times of economic slowdown and high unemployment, challenges we have struggled with mightily over the past years. These are also the same organizations that step up and respond to individual moments of crisis: hurricanes, floods, earthquakes, fires, acts of terrorism, and community-specific tragedies as well.

It is in those moments that these organizations come face-to-face with humanity and the generosity of men and women who answer the call for help. Often times that means lending a hand to their own families, friends, and fellow church-goers. These organizations depend upon the goodwill of the American people,



the most giving and charitable people in the world. And our response, along with their service, underscores the truth that charity begins at home.

Over the last several months, we've heard a lot about the different ways that the tax code might be changed that could affect the charitable community and the valuable services it provides. Examples of some of these changes include limiting the tax rate against which contributions may be deducted; a dollar cap on itemized deductions, as the President has repeatedly proposed; a floor below which contributions may not be deducted; and the replacement of the deduction with a tax credit available regardless of whether the taxpayer itemizes.

Different types of limitations could have varying effects on giving. Because of the critical role that charities play, the committee needs to hear directly from the charitable community before considering any proposals as part of comprehensive tax reform. And let me be clear on this point: We want to hear from this community before considering proposals. This hearing is not about your responding to what we have already done. Instead, it is about gathering your input so that any policies that might be considered will be crafted with you and the communities you serve in mind.

So, I would like to thank all of you for being here today. We've assembled six panels of witnesses who have indicated a strong desire to share their perspectives. All of you have a unique story to tell, and we look forward to your testimony. Thank you again for being here today, and thank you in advance for your patience. I know it will be a long day.

I will now recognize Mr. Levin for his opening statement.

\*Mr. Levin. Thank you very much. And welcome. And welcome to all of you who will be testifying.

We are holding this hearing on an important but not very immediate topic. What is not being done is to address the sequester that looms immediately. There are five legislative days, only five legislative days, remaining before the sequester kicks in and begins to do severe damage to our economy.

Just last week the nonpartisan Congressional Budget Office warned about the prospects of inaction, noting that it would slash GDP growth by 30 percent this year. This Committee should be focused on reviewing the economic consequences of inaction, and finding a bipartisan solution.

Again, that is not to say that the topic for today's hearing is unimportant. Quite the contrary. In their last two budgets, House Republicans have proposed cutting the top marginal rate to 25 percent, creating a \$5 trillion revenue loss. Some of the proponents have suggested one way, one major way, to fill that hole is by cutting loopholes and acting on the largest deductions and credits, which includes the charitable deduction. Such action needs to be looked at carefully, as I have long suggested. Carefully.

The charitable deduction is among the 10 largest tax expenditures in the Code, benefitting almost 1.1 million charities, and more than 70 -- 37 million Americans who contribute to section 501(c)(3) organizations every year. In 2010 it is estimated that individuals donated 2.10 billion -- 210 billion to charitable organizations, of which they claimed 170 billion on their tax returns. As we know, there are already deduction limitations in place for the very wealthiest Americans through the so-called Pease Provision that was reinstated during the action that Congress took on New Year's Day to avoid the fiscal cliff.

I would be interested in knowing from our witnesses today how further limitations would affect their organizations. Yesterday, in announcing the working groups that we have set up on a bipartisan basis, I said that the process helps us undertake in-depth fact-finding on a variety of important issues related to tax reform, including the charitable deduction. The testimony we hear today may help us, Mr. Chairman, kick off that effort. Thank you.

\*Chairman Camp. Thank you, Mr. Levin. Now it's my pleasure to welcome our first panel of the day, whose experience and insights will be extraordinarily helpful as the committee considers this important issue.

Two of the witnesses on our first panel are constituents of committee members, and I will ask those members to formally introduce them when it's their turn to testify. So I will begin by introducing Mr. Steuerle. And then, after Mr. Steuerle's testimony, I will recognize Mr. Gerlach to introduce his constituent, Mr. Murphy. I will then proceed to introduce and recognize our next three witnesses before recognizing Mr. Young to introduce his constituent, Mr. Temple. And after Mr. Temple's testimony we will hear from Ms. Masaoka.

So, with that, let's get started. Gene Steuerle is a Richard B. Fisher chair and fellow at The Urban Institute, and is a familiar face here at the committee. Mr. Steuerle served as deputy assistant secretary of treasury for tax policy, and was an economic coordinator of the 1984 treasury study that led to the 1986 Tax Reform Act.

So, Mr. Steuerle, you and all of today's witnesses will be recognized for five minutes for your oral remarks. And everyone's full written statement will be made part of the official hearing record. Mr. Steuerle, welcome back to the committee, and you may proceed when you are ready to testify.

And, as you know, as you get near the end of your remarks, a yellow light will appear. You have just about 30 seconds to conclude your remarks, and it will be a hard timed stop. So, Mr. Steuerle, welcome.

\*Mr. Steuerle. Thank you, Chairman Camp, Mr. Levin, and members of the committee. It's my honor once again to testify to you -- before you today on the relationship between tax reform and charitable contributions. My testimony centers largely on one simple point, that a tax subsidy like that for charitable contributions should be treated like any other government program, examined regularly and reformed on occasion to make it more effective.

The good news is that the charitable deduction can be designed both to strengthen the charitable sector and increase charitable giving without costing revenues. In fact, revenues can be raised and charitable contributions raised at the same time.

So, what's the trick? Simply put, take the revenues that are spent with little or no effect on charitable giving, and reallocate those revenues toward measures that would encourage giving more effectively. For example, to increase giving, Congress can allow people to make contributions up until the time they file their tax returns, or April 15th. I believe that this would at least \$3 in charitable giving for every dollar of revenue loss.

Congress could also create a charitable contribution for all taxpayers, not just itemizers. It could remove or reduce the dysfunctional excise tax on foundations.

Congress can more than pay for these changes with little or no reduction in giving if it would put a floor into deductions which would have little effect on giving, and reform subsidies that tend to be highly ineffective and invite abuse, such as the deduction for household goods and clothing. I provide a somewhat longer list in my testimony, with further details.

Now, certainly, reform must take into account the extent to which IRS already does not and cannot properly enforce the rules for many charitable contributions. A chart in my testimony attempts to clarify my point by demonstrating the effect of three changes to the charitable tax law standardized to produce approximately \$10 billion in revenues. In one example show that this would have almost no cut-back at all in the amount of giving that is done.

Now, it would be much easier for Congress to reform the charitable deduction if the committee were to request the assistance of the Joint Committee and the Treasury to provide estimates not just of the revenue effect of proposals, but their effect on the amount of giving that would take place.

It would also help if the IRS would develop better methods for informing Congress through audits and related follow-through of the extent to which deductions for certain types of gifts were legitimate, not legitimate, and actually, most importantly, unable to be verified or enforced one way or the other. This approach to tax reform and charities is very different from one that derives from across-the-board cuts or caps. These tend to operate very much like sequestration, in the sense of their arbitrary effect across items.

Now, certainly, some subsidies should be kept. Examples include subsidies for home ownership or health insurance, where we mainly want to subsidize the first dollars of spending, rather than for second homes or for expensive health insurance. But just the opposite applies to charitable contributions, where it's the last, not the first dollars of giving that are the ones that we want to subsidize.

Now, although I focus here on the formal measures of revenues and giving that a charitable incentive might entail, it also affects -- this incentive also affects society in other immeasurable ways. It sends a positive signal about the type of society we seek, and our duties to one another. It promotes a general spirit of giving, and the development of mediating institutions. It reduces tensions that arise from the unequal distribution of power and wealth. And it promotes a more altruistic society, providing benefits beyond just what is transferred to ultimate donees.

Finally, note that the cost of reduced charitable deductions is born, to no small extent, by those who would have benefitted from the deductions: the museum visitor, the student, the recipient of food from the food bank, rather than the taxpayer, who can adjust to any additional tax burden simply by reducing his or her own contributions. Thank you.

\*Chairman Camp. Thank you. Mr. Gerlach.

\*Mr. Gerlach. Thank you, Mr. Chairman. Mr. Chairman, thank you for your recognition and for your leadership in initiating a comprehensive review of the tax code, and today specifically for looking at charitable deductions.

In addition, I appreciate the chairman giving Kevin Murphy, with the Berks County Community Foundation, the opportunity to discuss the good work he does in the sixth congressional district of Pennsylvania. Kevin serves as president of the Berks County Community Foundation in Reading, Pennsylvania. In addition, he currently serves as the chairman of the board of directors of the Council on Foundations, a national association of nonprofit foundations.

The Berks County Community Foundation was founded in 1994 to promote philanthropy and improve the quality of life for over 400,000 residents of our county. Additionally, the council and foundations represents over 2,000 grant-making foundations and corporations with assets over \$300 billion.

Kevin is a graduate of Penn State University, and he also holds a master's degree in community leadership from Duquesne University. His experience as president of a medium-sized community foundation has given him valuable insight on how to assess the importance on charitable provisions in the tax code, and how the proposed changes to it would affect my constituents in Pennsylvania, and all of us across the country.

I look forward to his testimony today. And again, I want to thank the chairman for allowing his opportunity to provide testimony to the panel.

\*Chairman Camp. Thank you, Mr. Gerlach. And welcome, Mr. Murphy. You are recognized for five minutes.

\*Mr. Murphy. Good morning and -- Mr. Chairman, Ranking Member Levin, members of the committee. Congressman Gerlach, thank you for that kind introduction and for your friendship and partnership in the work we do in the community.

In my role at Berks County Community Foundation I've worked every day for the last 19 years with local donors who are interested in designing and implementing charitable gifts that do the most good for our community with the resources they have. I have to say that, doing that work on the ground, I've become concerned that the conversation here within the beltway about the charitable deduction has become remarkably unglued from the reality of the community that Congressman Gerlach and I work in.

The discussion reached a highpoint -- or perhaps a low point -- when the Washington Post recently editorialized that the charitable deduction overwhelmingly benefits the wealthy. Ladies and gentlemen of the committee, I submit to you that the charitable deduction, and its encouragement of charitable giving, is hardly a loophole or a benefit for the rich, and, in fact, forms the final safety net in our nation.

I'd like to share with you what the charitable deduction means in our community. This is a backpack. It's one of about 400 backpacks that are sent home every Friday with elementary school children in Berks County by the Greater Reading Foodbank. And it's filled with as much food as we can get an elementary school student to carry home. And, for most of the students who take it home, it's the only food they'll have for the whole weekend. We even had to get backpacks with wheels on them, because some of the children were too small to carry this.

I think we should all take a moment some time today to imagine what it's like to be a six-year-old child, and for that backpack and this food to be the only thing that stands between you and hunger for the weekend. Before we sent these backpacks home, many of these children showed up sick on Monday mornings, having not eaten.

What's important for the members of the committee to understand about these backpacks is that there are no federal, state, or local government dollars invested in this program. These backpacks are funded entirely through charitable contributions from our community. And, yes, some of the people who made those contributions deduct that contribution from their income tax. But we cannot allow ourselves to lose sight of the fact that the person who benefits from those charitable gifts isn't the donors; it's those hungry children.

Seventy-five years ago, President Roosevelt established the March of Dimes to raise money from Americans to fight polio. Millions of donors have given to that cause. And today, the Bill and Melinda Gates Foundation projects there will be no cases of polio in the world by the close of this decade. And there hasn't been a case of polio in the United States since 1979. You see, it's the people who don't get polio who are the beneficiaries of the charitable deduction.

In my home town of Reading we consider ourselves fortunate that Terry McGlinn, who founded the Colonial Oaks Foundation, and his family were able to donate the money to build a cancer center at our local hospital.

Mr. Chairman, I have 17-year-old twin boys. They are great young men and I am very proud of them. But any of you who know 17-year-old boys know that some days you think they forgot to turn their brains on in the morning. But Carver and McQuillin, on their spiciest days, know that they are the beneficiaries of the McGlinn's generosity in establishing the cancer center because their mother, my wife, is still alive seven years after having been diagnosed with cancer and treated at the McGlinn Regional Cancer Center. Cancer survivors and their families are the beneficiaries of the charitable deduction.

Feeding hungry children, eradicating disease, building cancer centers, these aren't loopholes for the rich. These are solutions for our community. The charitable deduction stands alone among provisions in the tax code and encouraging behavior that benefits society, not the taxpayer. It's a simple statement of economic truth that any charitable contribution one of my donors makes leaves them with less money than they had before they made the gift.

Now, the value of the tax deduction may be an interesting debate for tax economists here in the beltway. President Reagan once said, "An economist is someone who sees something that works in practice and wonders if it will work in theory." I assure you that the charitable deduction works in practice for our communities. Let's do nothing that threatens the ability of the food bank to send this backpack home.

Thank you, Mr. Chairman, Mr. Levin.

\*Chairman Camp. Thank you, Mr. Murphy. We will now hear from David Wills, who is president of the National Christian Foundation. Mr. Wills has practiced in charitable giving, planning, and tax-exempt organizations for the last 22 years, and is testifying on behalf of the Alliance for Charitable Reform.

Mr. Wills, welcome. You are recognized for five minutes.

\*Mr. Wills. Thank you. Good morning, Chairman Camp, Ranking Member Levin, members of the committee. My name is David Wills, and I serve as the president of the National Christian Foundation. Thank you for the opportunity to testify before you today.

\*Chairman Camp. Is your microphone on?

\*Mr. Wills. Yes, it is.

\*Chairman Camp. Oh, okay. You may want to pull it just a little bit closer. Thank you.

\*Mr. Wills. The National Christian Foundation serves the giving needs of almost 10,000 families across our country. In 2012, these families contributed over \$870 million and made grants of over \$600 million to over 14,000 charities across our country. I have been privileged to serve families that give from 10,000 a year to 10 million a year, from those that give from their income and those that give from their wealth, from people that tithe to people that reverse tithe -- living on 10 percent and giving away 90 percent. One thing that they have in common is that they take advantage of the charitable income tax deduction.

It is the generosity of these people that in many ways makes America great. De Tocqueville once said, "America is great because she is good. If America ceases to be good, America will cease to be great."

Today I am testifying on behalf of the Alliance for Charitable Reform, a project of the Philanthropy Roundtable, which represents over 600 private charitable donors and foundations across the U.S. And I want to make three quick points: first, the charitable deduction is distinctive from any other credit or deduction; second, any cut, cap, or limit to the deduction will dramatically decrease giving; and finally, if the charitable deduction is limited, those who will be harmed most are people served by charities, not donors.

The charitable deduction is unique and should be considered separately. It's the only incentive that encourages people to give away their wealth. All others involve consuming more or acquiring more. Yet policy-makers and the President have proposed limits on the deduction as one solution to our nation's fiscal crisis. Their proposals would decrease giving by billions per year.

While any limit on the charitable deduction is ill-advised, so are back-door tax increases aimed at the deduction, and I would encourage you to carve out the charitable deduction out of the Pease limitation, as

well. One of our donors in central Florida saw the Pease Provision as a major factor when planning his giving. He originally hoped to give his business to charity over time. Last year it became clear to him that the rates could go up and the deduction could go down, and so he gave his business in 2012, over \$2 million worth of giving. He now knows, because of the Pease rule that's been implemented, that he made the right decision. It would have dramatically cut his giving.

Some argue that the deduction only financially benefits the wealthy. However, this simply isn't true. The charitable deduction provides no financial gain to any donor. It simply reduces the cost of giving, which encourages more giving. Limiting the deduction will result in donors paying taxes on what they give away, and the net will be less to charity. When you give a dollar away, you have a dollar less, and the deduction doesn't give that dollar back.

In the case of NCF, our donors are varied, but there is no doubt that the charitable deduction affects their behavior. In December alone we estimate that over \$50 million was given strictly because people were fearful that the charitable deduction would be limited.

A donor from Detroit, Michigan decided to make several years' worth of charitable contributions and move it into 2012, over \$300,000. He did it because he knew that if the deduction was limited, the cost to make a gift would go up and the charities he cares about most would be hurt. And he didn't want his giving to decline to these organizations.

Another of our donors from the Los Angeles area decided to give away the balance of his profit-sharing plan, almost \$80,000. He moved it all into 2012, because he was concerned that the charitable deduction would be cut. In fact, he ended up giving over 50 percent of his adjusted gross income last year to maximize the charitable deduction.

Let me be clear. The deduction not only affects how much people give; it also affects the timing and the number of organizations they support.

What we are really talking about here today are spending cuts. Already this year we have gone to every tax-paying American and asked them to decrease their spending so the government can spend more. If you limit the deduction, you will next be going to charities to ask them to decrease their spending, as well. Do we, as a nation, want to knock on the door of the AIDS clinic, the homeless shelter, the boys and girls clubs, or your houses of worship, and ask them to decrease their spending so the government has more to spend?

We have avoided making this decision since 1917, when the deduction was created. And I ask you today to avoid limiting the deduction going forward. Thank you for listening.

\*Chairman Camp. Thank you, Mr. Wills.

Next we will hear from Brian Gallagher, who is president and chief executive officer of United Way Worldwide. Mr. Gallagher oversees a network of 1,800 affiliates in over 40 countries, and is also an active member of the World Economic Forum.

Mr. Gallagher, welcome, and you are recognized for five minutes.

\*Mr. Gallagher. Thank you, Chairman Camp and Ranking Member Levin. Members of the committee, thanks for the opportunity to testify today in front of the committee. On behalf of the United Way network in the United States, I urge the committee to preserve or even expand the charitable deduction for all donors.

United Way is the largest privately-supported nonprofit in the world. Certainly largest in the United States. There are 1,200 local United Ways in just about every county, city, and town across America. We raised last year just under \$4 billion; 97 percent of that came from private donors. We are not a publicly-supported nonprofit. And we work in the basic building blocks of life: education, income, and health.

We have 10 million donors a year, 2.5 million volunteers. We have 500 people who have given us \$1 million or more. We have 26,000 people who gave us \$10,000 or more per year. We have 55,000 women who last year gave \$150 million to their local United Way. And yet our average gift is \$290. I say that because, while we do studies and modeling and so forth, we know donors. We've known donors for over 100 years, high-net-worth donors, middle-income donors, white people, people of color, women, men. And this will affect their giving, if we were to curb the incentive to give charitably in the U.S.

I am a little sheepish to say that there are 13 local United Ways testifying today. The fact is that when you opened up the hearing and asked anyone who wanted to testify, they all wanted to testify.

And I would encourage -- it's our most important public policy priority. But you are going to hear the stories from different communities, from Cleveland and Philadelphia, Butler, Pennsylvania, Winston-Salem, North Carolina, Grand Island, Nebraska. And you are going to hear the same story: This will affect giving.

Consider just what the cap at 28 percent would do to just giving to United Way. Our most conservative estimate is that it would reduce giving to United Way across the country by \$100 million. That's like wiping out the United Ways in Philadelphia and in Cleveland. Or take the 10 mid-sized and small United Ways that are going to testify here today. That wipes out all of them, that \$100 million. So when we use terms like "modest effect," it's not that modest when you start looking at backpacks like that, or local nonprofits that are doing this kind of work.

A mere 2.5 percent reduction in giving to United way means that 1.3 million fewer times will we provide a job training service for an unemployed person, early childhood development for a low-income child, mentoring or tutoring for a young person at risk. All the proposals that have been floated around Washington and around the country have two things in common: it will limit the value of the deduction for at least some group of donors, and it will result in reduced giving. It will.

In fact, I personally believed, having worked with these donors, that the estimates are very, very conservative. If you reduce the incentive, you should expect that donors will essentially make up the difference on the cost increase in the size of their gift. It's really not a tax on the wealthy, as much as a transfer to government of the money that would have gone to nonprofit organizations.

As already said, the charitable deduction is not a loophole. There is no personal gain. No one is getting a house, no one is getting a business benefit. They are just benefitting their community. By keeping the charitable deduction tied to the tax rate, we are simply not penalizing people for giving their money away. And every dollar that they give, every cent that they give, goes to their community.

Rather than limiting the deduction, we have for years proposed that we make the incentive fairer, and make it open to all taxpayers, those that itemize and those that don't itemize. We know that we are coming to government cuts at all levels -- local, state, federal -- in terms of human services and social services. We know it. We expect it. Now is not the time, then, to take incentive away from the private sector to provide those services in our communities.

Last two points I would make, that at a time when we are looking for new systems and new approaches to job training systems, to education reform, we should be putting incentive into innovation in local communities. This isn't just about charitable giving; this is about private citizen engagement. That's where problems, social and economic problems, get solved in our communities.

And finally, I find it incredibly ironic that, as the chairman said, we work in over 40 countries around the world -- I personally and we institutionally, over the last few years, have been giving counsel to the governments in England, in France, in China, in India, in terms of how to put greater incentive for charitable giving and volunteerism into their tax code, while we are considering rolling it back.

This is what's made America great. It's core, it's fabric of who we are.

I would ask us and ask you to preserve the incentive for people to stay involved in their communities and helping one another. Thanks very much.

\*Chairman Camp. Thank you, Mr. Gallagher. Next we will hear from Roger Colinvaux, associate professor of the Columbus School of Law at Catholic University of America. Professor Colinvaux has done extensive research and published numerous papers on the topic of charitable contributions, and he has previously appeared before this Committee, as well.

Mr. Colinvaux, welcome, and you are recognized for five minutes.

\*Mr. Colinvaux. Thank you, Chairman Camp, Ranking Member Levin, members of the committee.

My testimony focuses on two things: first, the various rationales for the charitable deduction; and second, on non-cash contributions.

First, on the rationales. There is no consensus on rationale, but there are two broad approaches. One is that the deduction makes sense to measure income. In other words, the tax base is defined not to include charitable expenses. The other rationale is that the deduction is a kind of subsidy or tax expenditure. As you consider tax reform and the charitable deduction, thinking about the rationale can lead you to different outcomes.

Now, the tax-based rationale offers some clarity, at least. Under a tax-based rationale, you would prefer to keep the tax benefit as a deduction and not a credit. This rationale also tends to disfavor putting any caps on the deduction. And it generally would not be consistent with a non-itemizer deduction. However, the rationale generally is consistent with imposing a floor under the deduction.

Also under this rationale, the ability under current law to deduct the unrealized depreciation in contributions of property should be repealed.

Finally, the rationale is at least agnostic and probably favors making the deduction more targeted to fewer groups. In other words, a base-broadening measure would be to narrow the scope of the deduction.

A subsidy or tax expenditure rationale is much messier, because virtually anything can be consistent with a subsidy. But even with a tax expenditure approach, emphasis on the goal matters. If the priority is to raise revenue without impacting giving, then some choices clearly are better than others. \$10 billion could be raised while causing a drop in giving of about \$10 billion, or you could raise \$10 billion with little to no effect on giving.

If the priority is to make the deduction more equitable, and extend the incentive to more people, then caps or a non-itemizer deduction or a credit are appealing. If the priority is to focus on activities performed by organizations -- say to make the tax benefit less about promoting giving in the abstract, and more about promoting, say, basic needs organizations -- then a credit or better targeting the incentive might make sense.



Although there is no consensus on rationale, it's noteworthy, in my view, that a floor is consistent with both rationales, and would have important administrative benefits, especially with respect to non-cash contributions.

Non-cash contributions, I believe, are somewhat neglected in the current tax reform debate, and they shouldn't be. The charitable deduction is not really one deduction. It's two. There is one for cash, and one for property. And the property deduction is significant. On average, it amounts to over \$45 billion in contributions a year, which is more than 25 percent of the charitable deduction.

I think that the deduction for property is worth a close look, as I am concerned that the cost of the deductions which are considerable may outweigh the benefits, which are uncertain.

First, the costs are significant. Costs are not limited to revenue, but include many factors. One cost is that the rules are incredibly complex. There are at least 10 approaches to property contributions, and a detailed anti-abuse reporting regime to navigate. The complexity undermines the transparency of the incentive and its effectiveness.

The rules are also largely inadministrable. Small-dollar contributions will escape scrutiny. Medium-sized amounts are probably not worth the effort. Large amounts depend on valuation, which is a resource-intensive area for the IRS. The rules also come at a cost of fairness. Most of the benefits go to a very small percentage of taxpayers. And the anti-abuse regime sometimes results in denying otherwise bona fide deductions.

There are real reputational costs to the charitable sector from abuses associated with charitable -- with property contributions. It's led to a lot of legislation. And the IRS continues to list non-cash property as a top tax scheme. So the costs are high.

Unfortunately, the benefits, though very real, are difficult to assess. So in trying to assess the benefits of property, valuation is a key problem, as the claimed value of property contributions may be inflated. And it's also not the same as the benefit to the donee. So, even if we know what the value actually is, the actual benefit to the donee depends on a number of factors, including the donee's need of the property that's given, any cost to the donee from carrying the property, any amounts that are paid by the donee in order to secure the contribution, and the timing of when the donee realizes the benefit.

In short, there are many uncertainties regarding donee benefit, and these uncertainties, combined with high costs, urge me to question whether a new approach is needed. Thank you very much.

\*Chairman Camp. Thank you very much, Mr. Colinvaux. I will now yield to the gentleman from Indiana, Mr. Young, for the purpose of an introduction.

\*Mr. Young. Thank you, Mr. Chairman. Dr. Eugene R. Tempel is the founding dean of the School of Philanthropy at Indiana University, which is happily nestled in Indiana's ninth congressional district. He is also president emeritus of IU's foundation. At the IU School of Philanthropy, Dr. Tempel is the leading -- leading the planning and organization of the world's first school dedicated to the study and teaching of philanthropy. He is a nationally-known expert on philanthropy in the nonprofit sector, and former executive director of the Center on Philanthropy at Indiana University.

Dr. Tempel is a fellow Hoosier. And on behalf of the committee, I would like to express my gratitude for your presence here today, and I thank you very much.

I yield back.

\*Chairman Camp. Thank you very much, Mr. Young.

And, Mr. Tempel, welcome. You are recognized for five minutes.

\*Mr. Tempel. Thank you, Mr. Chairman, Mr. Levin, members of the committee. Thank you for the opportunity to testify here today. I am the founding dean of the Indiana University School of Philanthropy, formerly known as the Center on Philanthropy at Indiana University, founded in 1987. The school's researchers are among the most respected sources of objective research on U.S. charitable giving and the factors that influence it. Their research is the basis for my testimony today.

Charitable giving has been a cornerstone of American society since before our nation was founded. The Massachusetts Bay Colony led one of the first formal fundraising drives in 1641. Giving is an important way citizens exercise democracy. Each year 65 percent of Americans give to charity, higher than the percent of people who vote.

Giving is a tremendous force in our society. An estimated \$298 billion was given to charities in 2011, according to our research. Seventy-three percent of that came from living individuals. Because of charitable giving's enormous scope and impact, I urge you to investigate carefully the various effects tax policy could have on giving before deciding whether and how to change policies in ways that may have significant positive or negative consequences for the nation's more than one million charities and the people they serve.

Federal tax policies have a significant impact. Our research shows that the cost of giving, the amount it actually costs taxpayers to make a gift after taxes, affects how much they contribute, and the timing of their contributions. Our research and research by colleagues elsewhere has looked at how various federal tax policy changes impact charity.

Raising marginal tax rates reduces the amount of after-tax income available for giving, but lowers the cost of giving by increasing the value of the tax deduction. Raising taxes alone without other policy changes that affect giving is usually a net positive for giving.

Capping or eliminating the charitable deduction negatively affects giving. It reduces households' incentives to give to charity, or to give as much as they might have. If rates increase, and the charitable deduction is capped or reduced, this would produce a double whammy for giving, because it both reduces after-tax income, and increases the cost of giving.

Reducing incentives for giving is especially likely to affect giving by higher-income households, which account for a disproportionate share of U.S. household giving. IRS data show that the top 10 percent of income earners at \$100,000 or more gave almost two-thirds of all itemized contributions in 2009. The top 1 percent gave 37 percent. Many charities rely on gifts of 100,000, 500,000, or \$1 million, the gifts most affected by the combination of raising taxes and reducing or eliminating the charitable deduction. That would have a detrimental impact on the services charities provide.

Our study of gifts of \$1 million or more shows that more than a third of the total dollar amounts of these gifts were given to foundations. Just under a third went to higher education. The next highest totals went to health care and the arts. In our 2012 survey, wealthy donors were almost evenly divided on whether or not they would decrease their giving if the charitable deduction were eliminated.

The School of Philanthropy analyzed the Obama Administration's 2011 budget proposals to raise rates and reduce the charitable deduction of -- for higher-income taxpayers. We estimated that if both proposals had been enacted, total itemized household given would have fallen by one percent in total, and giving by the higher-income households specifically affected would have fallen by 2.4 percent. These decreases may not seem huge in total, but they could have a greater impact for individual charities, especially in the context of other factors impacting charitable giving.

Our extensive research demonstrates that charitable giving is closely tied to the economy. Charities are still striving to recover from the great recession. Giving has dropped by more than 15 percent in 2008 and 2009 combined, after adjusting for inflation. Giving began to grow again in 2010 and 2011, but it is relatively slow in growth, reflecting the country's slow economy. If donations were to continue to grow at the post-recession average pace of 1.8 percent, it could take over 5 years for charitable giving to return to 2007 levels.

Finally, the health of the economy -- or the health of philanthropy depends on the health of the economy. Finding ways to address the nation's economic challenges without curbing the growth of charitable giving will ensure the continuity of services upon which our fellow citizens depend.

Thank you very much for the opportunity to testify. I will be happy to respond to any questions you may have.

\*Chairman Camp. Thank you, Mr. Tempel. And finally we will hear from Jan Masaoka, who is CEO of the California Association of Nonprofits. Ms. Masaoka has led several charitable organizations, and is a former Nonprofit Times Executive of the Year.

Thank you for being with us. You are now recognized for five minutes.

\*Ms. Masaoka. Thank you very much. Mr. Camp and Mr. Levin and members of the committee, thank you very much for inviting the participation of the nonprofit community into this important discussion. I am Jan Masaoka, and I am the CEO of the California Association of Nonprofits, which is a Chamber of Commerce-like organization for the nonprofit community.

In California, as you may know, as our California representatives here today may know, there are 150,000 nonprofit organizations that employ three-quarters of a million Californians, deploy 7 million volunteers, and have \$130 million -- billion, excuse me -- \$130 billion a year in purchasing power.

So, in order to discuss the impact of the charitable deduction on nonprofits, it's worth spending just a minute or two thinking about the impact of nonprofits on American life. And just to illustrate, I recently visited my aunt in an Alzheimer's care center that is run by our family church. I -- my hearing aid that I have in today was used as technology that was developed in part in a nonprofit medical research lab. I recently watched a documentary made by nonprofits on the history of trains with my young nephew. And when my younger daughter was in a serious car crash, she was taken in a nonprofit ambulance to a nonprofit hospital where she received the expert care that made it possible for her, after all, to eventually walk again.

Not only that, but all of us are breathing cleaner air today because of the work of nonprofit activists fighting against toxics and pollution. Many of us who are women and people of color went to universities and got jobs because of nonprofit activists who have fought against discrimination. Many of us are alive today because we weren't killed in a car accident that was related to alcohol, thanks to the work of the nonprofit Mothers Against Drunk Driving. And this morning, I looked up something on the nonprofit encyclopedia, Wikipedia, without knowing, without fearing or worrying that my personal data will be sold to companies that will then advertise to me.

So, all of these things are made possible, in part, because of the nonprofit corporate tax exemption and the charitable deduction. But, paradoxically, the charitable tax deduction disproportionately benefits people in the wealthier groups of society, with 57 percent of people claiming the charitable deduction actually claiming 79 percent of the dollars that were claimed. And the benefits of the charitable tax deduction go disproportionately to the disadvantaged in our society. So, despite the importance of the charitable tax deduction to poor and other people, disadvantaged people in our society, as the other speakers here have mentioned, it's also the case that only one in four foundation grants in the United States is specifically targeted to help lower-income communities.

So, what -- we at the California Association of Nonprofits have two important messages. First, we support the charitable deduction because we know the power of nonprofits using charitable tax monies and government monies to strengthen families and communities. Second, though, we also support efforts to make our taxation system more fair, and to make the benefits of the tax deduction through the nonprofit sector more proportionately support all aspects of our society.

If you remember the parable of the little Dutch boy who stuck his fingers into the dike to keep water from flooding into the town, the nonprofit sector could be seen that way. And if you were to be asking that little Dutch boy, "Would you like to take some of your fingers out of the dike," he would quite appropriately say, "No, it's important for me to keep them in."

But if we were to say, "Well, if you take your fingers out of the dike, we would have time to put in a wooden buttress against the dike that would do a better job," then I think he might do that. So, for us just to discuss one aspect of the charitable tax deduction without discussing the aspects in particular of a floor for the deduction and benefits for non-itemizers, is like asking us to only consider one change without looking at comprehensive tax reform.

So, we believe that charitable deduction should be kept as it is, but -- when it is kept in isolation. But in looking at all these factors together, we support not just a charitable tax donation that incentivizes giving, but more fairly distributes both the benefits of that charitable tax deduction and the benefits to all segments of our society. Thank you.

\*Chairman Camp. Thank you very much. And thank you all for your testimony. And now we'll move into a question-and-answer period.

Mr. Steuerle and Professor Colinvaux, you both recently co-authored a paper that discusses numerous aspects of the charitable deduction, including data on who gives, theories that support the deduction, and various proposals for reforms. I wanted to explore some of those issues that you raise in your report, and some of them reflected in your testimony with both of you.

So, Mr. Steuerle, the report notes that in discussing reform proposals, floors, caps, and credits can all have similar revenue effects. But each has a different impact on charitable giving. If I asked you for a package of three or four provisions that would broaden the base without reducing the total level of giving, or even possibly could increase giving, what would that package look like?

\*Mr. Steuerle. Mr. Chairman, I lay out a number of options in my testimony at the end. The two primary ones that I would use on what I would call the revenue-raising side are to put a floor under charitable contributions that has very little effect on giving. Basically, people would still probably give some basic amount. The idea of incentives is to give incentives at the margin for the next dollar of giving, the giving above which you would have done if there were no tax break.

And so, that concentrates the deduction at the top. It does raise revenues. But then I would take some of those revenues and, as I say, spend it on other items that I think would actually be much more effective in increasing giving. One that I've offered many times is to allow giving until April 15th, or the time people file their tax return. People would sit there, they would fill out their Turbo Tax or their H.R. Block Tax, and they would see immediately that they could save money -- and they see exactly how much they'd save. That's a very good marketing tool. We don't put grocery store advertisements out four months before often people go to the grocery.

Another revenue-raising option -- and Mr. Colinvaux got into this in some detail -- is I believe there is substantial areas in which you could raise money by looking at areas of weak compliance. In some cases, it's because IRS just simply doesn't have the resources to enforce. They simply can't check up on most clothing donations.

There is also the simple fact there that even if it's not abuse, if it's not non-compliance, in many cases somebody may be taking a \$1,000 deduction for \$10 or \$20 that goes to a charity. An example would be I've bought designer clothes, paid \$5,000, 2 years later I say, "Gee, that's worth \$2,500." I give it to a profit-making agency that takes a charitable -- works on behalf of a charity. That profit-making agency runs a thrift store. It goes to the thrift store, that designer clothes sells for \$100 in the thrift store. The thrift store people are paid off, the profit-making agency is paid off, and the charity gets \$10. Now, that's an exaggerated view, but that is actually legal under the current law.

So, I think there is a lot of areas where you could increase revenues by cutting back on areas of very weak compliance. But again, then I would actually -- I mentioned putting a floor under itemized deductions. I would then use that to extend a deduction to non-itemizers, which I believe, by the way, would get at some of Jan's comments, because that would actually increase the amount of giving by lower-income tax payers that I think would go to areas like food banks.

There is other options that I mention in my testimony. But those are among the principal items I would think about.

\*Chairman Camp. Thank you very much. Professor Colinvaux, you are the tax lawyer here. And one of the things I've learned from releasing two tax reform discussion drafts is that policy ideas are one thing, but turning those ideas into rules that are simple and easy to understand is something else.

So, what rules would we need to make Mr. Steuerle's proposals operational? And are there any other administrative issues we'd need to consider?

\*Mr. Colinvaux. Well, the question of rules is a difficult one in the absence of a specific proposal. But I think I'd echo what Mr. Steuerle said at least on a floor.

So, if you did impose a floor, my own belief is that it would affect giving on the margin. So it might not have a total bad effect on giving. And there are considerable administrative benefits to a floor. So this is not -- the rule of a floor may not be difficult to enforce, and the administrative benefits are considerable. And if you think about those benefits in the context of non-cash contributions in particular, right now taxpayers who give up to \$500 in non-cash contributions don't have to separately report that, as they do with higher-value property contributions.

We really don't know whether the property being given that's under \$500 is anything close to the value that's claimed by taxpayers, or whether the donee organizations are getting the benefits from those contributions. A floor would have the effect of virtually eliminating many of those contributions. So you wouldn't need any specific rules to address that.

I also want to echo something Mr. Steuerle said about trying to use proposals that focus on the benefit that actually goes to the charity. And a good example here were car donations, because car donations, money was raised through the contribution of a car. The car would then be sold by a third party. The money raised from selling the car would often be much less than the claimed fair market value. Some of the sales proceeds -- maybe the bulk -- would go to the third-party seller, and the charity, at the end of the day, would get pennies. So you'd have a charitable deduction claimed in a high amount with a fairly small actual net benefit going to the charity. And Congress's response to that was to tie the deduction to the actual sales proceeds from the car sale. So that is a rule that was used to try and make sure that the deduction is based on the benefit that goes to charity. That's the type of rule you might have to institute.

\*Chairman Camp. Thank you. I want to give everyone else on the panel a chance to comment. I know that you represent tax-exempt organizations that do incredibly important work. And the charitable deduction helps you fulfill that mission, as you've testified.

And the primary focus of this Committee for the next year is to produce a tax reform plan that broadens the base and lowers rates. So if you would each -- if you care to; you don't have to -- if you'd like to comment on Mr. Steuerle's and Mr. Colinvaux's statements, that there might be a mix of policy options that could help us broaden the base in tax reform while also preserving the level of giving, I will start with Mr. Murphy. And you don't have to comment if you don't want to, but I want to give everyone a chance before I go to Mr. Levin.

\*Mr. Murphy. Well, thank you, Mr. Chairman. As it should be obvious, I am not a tax economist. But the Council on Foundations has a long track record of supporting better enforcement of the existing laws. And it seems to me that a number of the issues that Mr. Steuerle and Mr. Colinvaux raise are concerns about enforcement. There is nobody on this panel representing a charity who does not want to weed out the bad apples and the bad actors. There will be strong support for any effort to try to do that, I think, from the nonprofit sector.

\*Chairman Camp. All right. Mr. Wills?

\*Mr. Wills. Yes, I'd like to echo that sentiment, as well. I think all of us are thinking that enforcement would be the wisest way to go, as opposed to creating a whole lot of new rules.

In addition to that, I think that we want to look at the wisest way to structure whatever is going to happen. And we just want to make sure that whatever it is that comes out doesn't further limit charitable giving. So when the net is all completed, that we are not harming the charities and the people that they serve. That's kind of the primary objective.

\*Chairman Camp. Thank you. Mr. Gallagher.

\*Mr. Gallagher. Two quick points. One is this conversation of the floor that's been circulating now for years. I think one of the things we ought to keep in mind is that not everybody lives in Washington, where a one-bedroom condo costs \$350,000. There are people who live in central Indiana and southwest Pennsylvania and parts of the west that, you know, make \$50,000 or \$75,000 a year, own their own home, deduct their taxes, give away \$1,500 or \$2,000 a year, and \$500 is a disincentive for them to make that gift. It's -- we always -- I think we have this conversation in such abstract, we forget about where a lot of people live.

The other is as we think about a fair -- and I would say simple -- approach, let's try to keep it simple. Because I -- you know, economists, I think, would say that a gift to charity is maybe the most elastic gift or spend anybody makes in a year. You don't get a pair of shoes, you don't get a car, you probably don't even meet the person that benefits from your gift. And, therefore, it is incredibly discretionary.

So, I think you will probably hear from folks today -- Volunteers of America and others -- who have benefitted greatly by gifts of property. Crack down on compliance issues, but the gifts to Volunteers of America, Salvation Army, and others, in terms of clothing and so forth, dropped dramatically after we moved on that, after we moved on trying to crack down. So whatever we do, I think we have to realize these gifts are very elastic. You know, the perception of complexity or cost drive human behavior and drive giving.

\*Chairman Camp. All right. Mr. Tempel.

\*Mr. Tempel. I would say simply that, you know, that a floor is better than a cap, because it pushes charity toward the top, and where the cost of giving will have an impact. I fully support the notion of a credit for non-itemizers, as well.

You know, Congress did a wonderful thing in providing us with a five-year experiment in the early '80s. And that experiment can be examined, and you can get real data from the impact that that had. Some economists at the time believed that some kind of a small floor there would have pushed giving up, as well. So, those things do provide an incentive.

We have one study out at the University of Michigan's panel study of income dynamics, where we have our own panel study on philanthropy. And in that study it's clear that when people move in and out of itemizing, their giving changes dramatically.

\*Chairman Camp. Right. Just one quick question. You mentioned in your testimony that when rates go up, charitable giving declines. Historically, when rates have gone down, has charitable giving increased? Is the opposite true?

\*Mr. Tempel. No.

\*Chairman Camp. All right.

\*Mr. Tempel. Yes.

\*Chairman Camp. Thank you. Ms. Masaoka.

\*Ms. Masaoka. Thanks. One point that hasn't really been mentioned is the impact of America's volunteers on America's communities, most of whom are mobilized through nonprofit organizations. And the charitable deduction does only a very small amount to incentivize and to reward volunteerism.

One very small thing that Congress could do to further incentivize and reward volunteerism would be to change the mileage reimbursement rates for people who are using their cars for volunteer work. Right now, if one person uses her car, let's say, for her own business, she can deduct the mileage that she uses for her car at \$.77 a mile. If she -- same person later in the day does volunteer work driving her car for Meals on Wheels, she can only deduct \$.41 for the mileage that she spends there. Just making that very small change, which would have a very minor impact, would send a really strong message about the importance of volunteerism.

\*Mr. Steuerle. Mr. Chairman, could I add just one quick footnote?

\*Chairman Camp. Yes.

\*Mr. Steuerle. When we talk about floors, the committee should consider that we really have two floors we are talking about. One is the one we suggest such a floor under charitable contributions. But the standard deduction serves as a multiplicative floor --

\*Chairman Camp. Yes.

\*Mr. Steuerle. -- that excludes most taxpayers from getting any incentive at all.

\*Chairman Camp. Yes.

\*Mr. Steuerle. And so, when you are thinking about what a floor might be, whether you agree or disagree with our proposals, think about how the two floors interact. And I think in that way you can actually think about ways of actually dealing with Mr. Gallagher's concern about moderate income tax payers and whether they have some incentive.

\*Chairman Camp. Thank you. Mr. Levin is recognized.

\*Mr. Levin. Thank you. I think this will be the only panel where we get into policy discussions, basically. At least the presentation. We may get into them, but I think the testimony will be less about policy. So let me just say a few words about the policy.

Number one, the charitable deduction is not a loophole. And I think when anyone talks about widening the base, or whatever they say, and they say let's get at loopholes, it's often, I think, misleading. Because the charitable deduction is a tax policy. We have loopholes, lots of loopholes. These so-called tax preferences are not loopholes.

Secondly, I think we should be careful to say that if there is any limitation, it's a transfer to the government, if I might say so, because all of these tax policies, these tax preferences, if we change them at all you can say it's a transfer to the government. For example, the limitations we placed on the mortgage interest deduction. You can say that's a transfer to the government.

But I think it isn't a loophole, this deduction. Also, any limitation isn't a transfer to the government. That conjures up it's just sending the money to Washington. So I think we need to be careful about that, if I might say so.

Also, we need to look at income distribution. And we've been, some of us, working on this for over a year-and-a-half. And in July of 2011, at our request, Joint Tax gave us income distributions on all of the tax preferences. And they gave us one on charitable contribution deductions. And this was based on the 2009 rates and income levels. And there has been some change, but I think the distribution analysis was instructive. This was from Joint Tax.

And this is a chart, Mr. Chairman, I would like to enter into the record.

\*Chairman Camp. Without objection.

[The information follows: [The Honorable Sander Levin](#)]

\*Mr. Levin. And it shows, as to this deduction, a 19 percent is from people with incomes below 100,000; 26 percent income between 100,000 and 200,000; and 55 percent income over 200,000. And this somewhat parallels what some of you have testified to.

I think, again, I said in my opening statement, we need to look at this deduction, as well as others, with care. And I think we need to be careful of the labels. Also, we need to have a study carefully of the Pease Provision, which is now back in law. And I know one or more of you gave some anecdotal evidence as to the impact, but we have several studies that indicate that the Pease amendment did have -- in the past it was in effect, the Pease Provision -- a negligible impact. And the suggestion is that it will continue to have that. So, I think we need to look very carefully at that.

Mr. Chairman, the working groups include one on charitable deductions --

\*Chairman Camp. Yes.

\*Mr. Levin. -- that you and I have set up together. And I think this is a vivid example of the need for this Committee together to dig into the facts, and really bring out all of these issues, all of the suggestions, and see if we can come to some conclusion as to the facts.



And so, let me just end by saying we'll also probably ask economists to give us their views. I have great respect for President Reagan's views on some issues, but I think we'll talk to everybody. So if there are any economists listening, we'll hear you also. Thank you.

\*Chairman Camp. All right. Thank you, Mr. Levin. Mr. Johnson is recognized for five minutes.

\*Mr. Johnson. Thank you, Mr. Chairman. I appreciate you holding this hearing. And I remember a roundtable of charitable groups back in Dallas, where just about everyone in the room spoke of the importance of charitable tax deductions. To that point, I am reminded of the quote I saw about an unnamed congressman -- and perhaps for good reason -- who said during a debate surrounding the creation of the federal income tax system in 1913 that, "If a man wants to make a gift to charity, he ought to be encouraged to do so and not be discouraged. He ought to be encouraged to make such a gift, rather than be penalized for doing so."

So, with that, I have some questions for Mr. Steuerle, please.

Given your role with respect to the 1986 Tax Reform Act, I would like to get your insights regarding the debate back then regarding the tax treatment of charitable giving. One, why did Congress, back in '81, decide to allow non-itemizers the ability to deduct their charitable contributions?

\*Mr. Steuerle. I think accepting the broad tax-base argument that Mr. Colinvaux laid out, there is a good argument for extending a deduction to everyone to provide them an incentive. The concern we had by the time we got into '86 was basically this was causing very large enforcement problems for IRS, that IRS did not basically deal with small contributions, and it complicated the tax return. So we were trying to reach a compromise between that argument about providing an incentive for everyone, and having something that's administrable.

It's not dissimilar, if you want, to the argument for having a standard deduction under all contributions, although, as I've laid out in my testimony, I would prefer, with respect to the charitable contribution, to put a floor under it and put it outside the law.

But back to '86, it was trying to reach that compromise between issues of enforcement and issues of trying to provide an incentive to all taxpayers.

\*Mr. Johnson. Well, my understanding is the House version still allowed for non-itemizers a deduction, but the Senate bill didn't. How did it come to pass that the Senate ultimately prevailed in that question? Do you know?

\*Mr. Steuerle. I don't remember. Again, I think sometimes when you go to -- you know, to compromise committees, that they often take out items where there is some dispute, or where there is some big extra cost, or where there is, again, some extra administrative burden. But I can't speak for the participants --

\*Mr. Johnson. Sometimes the Senate has different brain inserts --

\*Mr. Steuerle. -- in the conference committee.

\*Mr. Johnson. -- than we do over here. Why did the Reagan Administration's Treasury One plan propose to allow for a deduction for amounts over two percent of the taxpayer's adjusted gross income? And what was the rationale behind that proposal, do you know?

\*Mr. Steuerle. Mr. Johnson, that rationale was very similar to the one that I suggest in my testimony. We were trying to put a floor under deductions, because we thought the first dollars of giving were not greatly influenced by the incentive.

\*Mr. Johnson. Lastly, do you think non-itemizers should once again have the ability to deduct their charitable contributions?

\*Mr. Steuerle. Again, Mr. Johnson, yes, but if subject to a floor. That is, I have very strong concerns for IRS's ability to administer much of this. So I don't want to provide any --

\*Mr. Johnson. A floor, or a max, or both?

\*Mr. Steuerle. I would allow a non-itemizer deduction, but subject to a floor. So that way we are only allowing a deduction for everyone who gives in excess of some amount -- say one percent of income. Average amount of giving is two percent. So people who give in excess of some average, or some amount below that average, like one percent of income, it seems to me that's a compromise that deals with the issues of enforcement for IRS and administrability, but also deals with the concerns of the charitable sector that provide incentive for everyone.

I do think the signal -- I just want to be clear; we are getting very technical here -- the signal of a charitable deduction, I think, is a powerful one and a very good one for our society. And I want to maintain it.

\*Mr. Johnson. Thank you for your comments. Thank you, Mr. Chairman. I yield back.

\*Chairman Camp. Thank you. Mr. Lewis is recognized.

\*Mr. Lewis. Thank you, Mr. Chairman, for holding this hearing today. And let me join the chairman and welcome each of you and thank you for being here today.

I have a question for each member of the panel. And if you can, just be very brief. I want to thank each of the experts for sharing your views and your thoughts. I would like to know if there is an option under consideration that would be better for increasing giving than others. Do you have an option better than we have? Do you have a suggestion or recommendation that would increase contribution, giving?

\*Mr. Steuerle. I want to give my panelists equal opportunity. I offered several options in my paper. Again, extending the deduction to non-itemizers, done the right way, I think could increase giving. I think one of the major ways of increasing giving would be to allow giving until April 15th. So I have a number of issues like that, where -- that I suggest in my testimony, though those are probably the two principal ones.

\*Mr. Lewis. Mr. Murphy?

\*Mr. Murphy. Mr. Lewis, I would defer to the folks who are better at writing tax law than I am, and simply --

\*Mr. Lewis. Are you the head of the Council on Foundation?

\*Mr. Murphy. Yes.

\*Mr. Lewis. So you know a great deal about the whole foundation community?

\*Mr. Murphy. Well, I work for a foundation, yes, right. I mean I think there are certainly a number of proposals that have been suggested that would expand charitable giving. Our concern is primarily not to send a signal to donors that charitable giving is less important. We would be very concerned about any limitations that Congress would impose.

\*Mr. Lewis. Yes, Mr. Wills?

\*Mr. Wills. Mr. Lewis, I believe that there are many options that are available. Our key concern is that whatever option is selected doesn't do anything to decrease charitable giving. That's the key.

So, as far as a particular option that I would have a preference for, I don't have a particular preference, but would be very interested in helping the working group on tax-exempt and charitable efforts from this Committee to help design something that will not decrease the incentive for charitable giving.

\*Mr. Lewis. Well, have any of you considered or thought about ways to get a greater degree of giving from the larger American community?

\*Mr. Gallagher. Well, Mr. Lewis, I would say -- answer the first question and then that question. First of all, I don't think we can overstate the simplicity and the compelling nature of tying the charitable tax deduction to an individual's tax rate is the envy of the world. The fact is that it's simple, and it's compelling, and it works. And it's amazing to me that just in the consultation we've had in the last two or three years with the French government, that the French are -- now have the most generous tax incentive for charitable giving in Western Europe because they were benchmarking us.

So, one, I would -- having said that, I think extending tax deductibility for charitable giving to all taxpayers is the fairest and simplest way to improve the current environment.

\*Mr. Colinvau. I think I am going to echo that. But if the goal is to have more giving, then look to those who currently don't have an incentive. And those who don't currently have an incentive are those who take the standard deduction -- so that would lead you to a non-itemizer -- but with a floor. I think a floor is very important for the non-itemizer deduction, because we already know that non-itemizers do give already. And so we'd want to encourage additional gifts that aren't already being made.

\*Mr. Lewis. Thank you.

\*Mr. Tempel. Mr. Lewis, I would say that, you know, certainly not putting a cap on deductions would keep from dampening it. But anything you do to shift the cost of giving from the donor, you know, to the beneficiary, would be helpful. So creating special incentives among people who give would be helpful. I think the charitable tax credit for non-itemizers, or some way for non-itemizers to get recognized would be helpful.

The problem is that, you know -- I mean I believe in democratizing philanthropy, so that everyone can participate, and everyone should participate. But the philanthropy is skewed to the top. And so we need to find incentives that allow those people who care most about this to -- and provide the largest sums of money -- to do so easily.

I was -- I visited in the last three weeks with two people --

\*Chairman Camp. Time has expired.

\*Mr. Tempel. Okay.

\*Chairman Camp. If you want to submit anything in writing for the remainder of his questions, you are free to do that.

Mr. Brady, you are recognized for five --

\*Ms. Masaoka. I just have one comment, quickly, that --

\*Chairman Camp. You can submit that comment.

\*Ms. Masaoka. As two people have already commented earlier --

\*Chairman Camp. You may submit that comment in writing.

\*Ms. Masaoka. Oh, all right. I am sorry.

\*Chairman Camp. We are going to stick to the five-minute rule. We have a very long day, we have a lot of witnesses that want to testify --

\*Ms. Masaoka. I am sorry.

\*Chairman Camp. -- and a lot of Members who want to ask questions.

So, Mr. Brady, you are recognized for five minutes.

\*Mr. Brady. Thank you, Mr. Chairman. I like charitable giving, especially at home. Our part of Texas is Hurricane Alley, and so what our churches and clubs and organizations to -- United Way, others -- during that crisis is just so critical. And what I like is that in local giving, you are looking at the organization that's delivering that service. They're accountable. And if they don't perform or do the job, you quit giving to them.

My worry is that when I send my taxes to Washington, I've noticed there is a middle man who takes a pretty big chunk out of that dollar and sends it who knows where. So I want to grow charitable giving. And I can't help but think that, with a tax code so complex, it costs our nation three times more a year to comply with the tax code than what we spend to encourage charitable giving in the tax code. I would much rather, in a simpler code that lowers tax rates, I'd much rather send my money to my church or charity than to my accountant -- I hope my accountant is not watching the hearing today, but that's what I want to achieve.

So I think this is helpful, to ask, after 96 years of principally the same charitable giving exemption, is there a smarter, is there a better way to encourage, reward charitable giving. And my question, though, is the reverse of that.

In the current tax code, which areas are probably the least effective in encouraging charitable giving? For example, someone raised the issue of the clothing deduction, and sort of how that can be -- my sense is it's going to curl one way or the other. People, rather than running the storage unit, want to do something with clothes and items that they have. I will ask the panel. What are the areas that we aren't quite as good as [sic] rewarding giving, and is there a better way to do it?

And I will open it up. Do you want to start, Ms. --

\*Ms. Masaoka. No.

[Laughter.]

\*Mr. Brady. That was kind of easy, you just -- don't give up that easy here.

Mr. Tempel?

\*Mr. Tempel. Well, I would say that, you know, one of the simplest things you can do to reward charitable giving is to have the tax credit for non-itemizers, so that you create incentive for those people to, you know, to give, and to give at higher levels.

\*Mr. Brady. Can you do that without risking, you know, a greater gaming of the system?

\*Mr. Tempel. Well, there are --

\*Mr. Brady. You think we could do it in a good way?

\*Mr. Tempel. As Mr. Steuerle said, there are issues -- there are enforcement issues that become involve when you make the credit available for non-itemizers, in how you would -- how people would document that, et cetera.

\*Mr. Brady. You think it can be done?

\*Mr. Tempel. I think it would be possible, sure. But I am not a tax law expert, nor am I an economist. But those -- and when you study giving, incentives matter in terms of how much people give. And not whether they give, but how much people give. And so that would be one way to encourage more giving.

The more -- you know, the more you can reward people for making a contribution, that is to -- supporting this sector of our society, our supporting it outside the government, to supporting it in ways that are meaningful to them, the more you strengthen democracy and, I think, increase philanthropy. So, you know, you have to look at -- the cost of giving matters to individuals. Research shows that over and over again. So that anything you can do to lower their cost of giving is, in fact, helpful.

\*Mr. Brady. Can I ask you this? How much in that research is the tax break critical to their giving? How much of a motivator is that?

\*Mr. Tempel. Well, it doesn't motivate whether they will give, but it motivates how much they will give, and when they will make the gift.

Again, another wonderful experiment in 1986, 1987, you saw people move their giving from 1987 to 1986. It's the only time in the Giving USA data that giving went down from one year to the next.

\*Mr. Brady. And when you say "moved it," they limited it?

\*Mr. Tempel. No, they moved their giving forward into 1986 to take advantage of the higher marginal tax rates. And then the giving dropped in 1987, in the aggregate.

So, you know, it's very -- their giving is very price-sensitive. Not whether they give, but how much they give.

\*Mr. Gallagher. Okay. Mr. Brady, if I could, there is a direct correlation to people that volunteer, and whether they give to charity and how much they give.

\*Mr. Brady. Yes, but --

\*Mr. Gallagher. So we could -- the promotion of volunteerism is -- has a direct connection to giving. And if you -- whether you agree with mandatory service in high schools or not, if you watch that generation of kids coming, they are incredibly philanthropic, more than the boomers in -- on aggregate.

So, anything we can do to promote volunteerism -- and I would say one of the things that has happened in this debate is you have galvanized the nonprofit sector. We ought to try to galvanize the nonprofit sector on volunteerism and innovation around solutions to some of our social problems.

\*Mr. Brady. Thank you, Chairman. Appreciate it.

\*Chairman Camp. Thank you very much. Mr. Blumenauer is recognized.

\*Mr. Blumenauer. Thank you, Mr. Chairman. I would direct a question to Mr. Steuerle. I like the way that you package together your concepts here to try and streamline something to be revenue-neutral and get more impact out of the contributions that are made. And it seems very common-sense to me. I have been deeply concerned of late watching -- you were talking about the counter-cyclical impact on foundation giving, the pay-out requirements.

Can you elaborate on what is going to be necessary -- I mean you have been through the wars on this in administrations. You have watched the process. What do we have to do to be able to somehow make progress on something like this, that seems common-sense, broad base of support, revenue-neutral? What is the key?

\*Mr. Steuerle. Well, some of the impact, in terms of foundations giving in a counter-cyclical way, or making -- that is they give -- they have a tendency -- although I have to say in the current recession they did not do it as much as might be expected -- they have a tendency to give less in a recession because their assets go down, and then more when their assets go up. Some of this is just the natural result of the economic cycle as due to their own internal methods.

So, for instance, if they decide to give five percent of asset value every year, they start to get caught in that trap. And better planning could help a lot, dealing with that.

There is a particular policy issue, however, as well, in that the current excise tax has this very strange effect by the way it is calculated, that if you give more -- for instance, those foundations that said, "We will give seven and eight percent of our asset value this year" get penalized later on. So they have a strong incentive not to give more in times of recession or asset declines. And that excise tax is something worthy of fixing. The Council on Foundations has been fighting to fix it for some time.

Now, the debate there often gets, then, narrowed down to, well, gee, there is a revenue aspect involved. And so, if we fix it by just, say, making it a flat one percent of assets and an excise tax, that might lower slightly the revenues. I have offered you other revenue options here.

Quite honestly, I think the whole excise tax on foundations is silly. I mean there is no excuse for it. And if you actually talk about bang per buck, you get rid of \$1 of excise tax on foundations, that means at some point they are going to give a dollar more to charity. That is actually more than we get out of some of the charitable deduction. As far as I am concerned, I would eliminate it. But admittedly, I would simplify it, and that would solve part of your problem.

\*Mr. Blumenauer. But what I am interested in, from your vantage point as somebody who is a scholar studying it, and somebody who has been on the inside administratively dealing with tax policy and administration, how -- what is the dynamic that enables us to move forward on some things that would appear to be common sense, and have broad support? Is -- what is the key to making it happen?

\*Mr. Steuerle. Well, I think one of the tricks -- and this is an issue that goes far beyond the subject of this hearing; it goes to tax reform, or budget reform in general -- the key is often to be able to make trade-offs on a broader scale.

So, for instance, there are some things that people might feel, "I don't want to change that, because it is -- if we change it, it is progressive." But it is very inefficient. You know, we can go into a part of the city and throw money off the roof to a poor part of the city and say, "Gee, we want to keep that, because if we get rid of it, we are going to -- it is going to be regressive." But if you are allowed to combine other elements, other packages to maintain that same goal, you can get at it.

The same with this excise tax. When it is dealt with one item at a time, people say, "Gee, I would love to fix it, but it is going to cost us revenue," so then we don't get any movement on it.

I think most people -- I think even most legislators on both sides of the aisle -- would say the current design of the excise tax on foundations -- and I don't want to over-emphasize that -- but it is badly designed, you know. Nobody really supports its current design.

So the question is -- how to get movement is how to be able to offer trade-offs that allow Congress to get past whatever the impasse is. If the impasse is revenues, then you decide what is the total amount of revenues we want to raise, and then let's consider the package as a whole. Let's not take them one item at a time off of a list and decide it on the basis of its revenue impact or its progressivity, or anything else.

\*Mr. Blumenauer. Thank you. I found your testimony very useful. Thank you, sir.

\*Chairman Camp. Thank you very much. Mr. Tiberi is recognized.

\*Mr. Tiberi. Thank you, Mr. Chairman, and thank you all for being here. Mr. Gallagher, great to see you.

\*Mr. Gallagher. Good to see you.

\*Mr. Tiberi. We miss you in Ohio.

\*Mr. Gallagher. Thank you.

\*Mr. Tiberi. I found a statement that you made in your written testimony to be just fantastic: "A limitation on the deductibility of charitable donations isn't really an increase in tax on the wealthy, so much as it is a transfer to the government of money that would otherwise go to charities. The real impact will be felt by the people we serve."

I had a conversation with a man you may remember who has since passed away in Ohio by the name of Richard Solove, who gave over \$20 million to Ohio State. And the cancer hospital, the James Cancer Hospital, is now called the James Cancer Hospital and Solove Research Institute. Before he gave that money he said, "Never let anybody tell you, Pat, that people like me don't give money based upon what the tax code looks like. That doesn't mean I still wouldn't give, but maybe not as much."

\*Mr. Gallagher. Right.

\*Mr. Tiberi. It was an unbelievable point that I will never forget.

And so, on New Year's Day, all of us were here. I was in the Capitol that afternoon, trying to figure out what was in the so-called fiscal cliff deal that was negotiated between Vice President Biden and Mr. McConnell that the Senate had just passed. And obviously included in that were provisions in the tax code that members of this side of the aisle did not like, including what the President insisted on, the return of the Pease and PEP provisions that impact donations, including donations to charity, with the tax provision.

And what was astounding to me is that day, as we were looking at those provisions, the President did a press conference. So the ink is not even dry on this proposal, and the President said he was coming back for more, in terms of limits on donations to charities. Now, as chairman with the great American, Mr. Lewis, of the Philanthropy Caucus, I have grave concerns about what that means to charities.

Can you tell us -- and it has only been a little over a month, a month-and-a-half, what that has meant to charitable giving, and what it would mean further if the President gets his way?

\*Mr. Gallagher. Well, in short, there is no question that the White House's proposal to cap the charitable deduction for the highest income earners would reduce giving in the country. There is no question about it. The debate is how much.

You know, the fact is that, at least the donors that we work with, are -- they look at complexity they look at cost. They are anticipating that the cost is going to go up for their charitable giving. They are doing one of two things. And somebody referenced it on the panel. They are accelerating their giving -- and accelerated their giving at the end of last year -- in anticipation of that gift costing more, or they are extending their gifts out.

So, we work directly with a very large donor from Orange County, California, who has made lots of gifts to cancer hospitals, local nonprofits, United Way. In fact, he has seeded the founding of United Way in Paris. And he is extending his gifts out multiple years. So what he is doing is he is reducing his annual giving in anticipation of the cost. So the giving is going to go down.

I want to make another point. I want to use Columbus -- and it is great to see you again -- in Ohio, in terms of what gets crowded out here is -- so there is \$20 million donors. But when -- I think we are missing the opportunity to galvanize the nonprofit community around social solutions, working with government and businesses and local nonprofits. Service-supportive housing in Columbus, in Ohio, and across the country started because Federal Government and state government started loosening the rules around Section 8 funding and other housing funding. Local donors stepped up with local contributions. Local government got flexible in terms of instead sending people to shelter, why don't we put them in housing and force the services, public and nonprofit, to support them to get into housing. Twenty percent of the people in shelters in all of your districts consume eighty percent of the capacity of those shelters.

If, on the other hand, we can create innovative approaches to service-supportive housing with flexibility around government funding -- and the way we seeded it in Columbus was with an individual \$500,000 gift that allowed us to buy a building, go to the YMCA, manage it. Mental Health Association put money into it to provide support services. There are 1,000 units of new service-supportive housing in the city of Columbus and in Franklin County because of that. And you know it.

And we should be talking about my view, how you get us galvanized around that, versus what we are galvanized around right now, which is trying to prevent the limitation on the incentive, which will reduce giving.

\*Chairman Camp. All right --

\*Mr. Tiberi. Thank you, great point.

\*Chairman Camp. -- thank you very much.

\*Mr. Tiberi. I yield back.

\*Chairman Camp. Mr. Davis is recognized.



\*Mr. Davis. Thank you very much. I was not daydreaming, but I wasn't looking.

\*Chairman Camp. We are following the Gibbons Rule in this hearing. So it is Mr. Davis's turn.

\*Mr. Davis. Thank you very much. Let me thank you all for being here. There are many people who express the theory that the more control individuals have over the use of whatever they give or is extracted from them, the more likely they are to give more.

Let me just ask your opinion quickly, relative to that theory, and we will just start with you, Mr. Steuerle.

\*Mr. Steuerle. It depends on the individual. The one thing I would say about the charitable deduction is that government, in most areas of social policy, does drive policy, that government decides what to do with its spending budget. So it decides often, you know, that we will put money into Medicare, we will put money into Medicaid, we will put money into, sometimes, subsidizing food banks. What the charitable deduction does on the side is it gives the taxpayer some independent choice over where to allocate those social benefits, and it provides a tax subsidy to do it. And I think that is a very useful part of this broader social welfare budget, in the sense that we are allowing individuals to signal -- it is not just the giving they do, it is the signal that they give.

And so, I think the incentive for them to give sends a positive signal to which they respond very positively. And that is a good thing.

\*Mr. Davis. Mr. Murphy?

\*Mr. Murphy. Mr. Davis, I think it may not be so much a matter of control as engagement. Donors have more than a tax motivation to give. And the more we give them an opportunity to see the impact of their gift, yes, the more active they become in giving. I think there is no question about that. But I am not sure it is as much about control as the ability to see results, and that they have made a difference.

\*Mr. Davis. Mr. Wills?

\*Mr. Wills. Yes. If control means that they have more of an opportunity to create more wealth and have more disposable income to make decisions upon, certainly the more control they have over those things the greater their giving is going to be, as long as the incentive to give is still in place.

\*Mr. Davis. Mr. Gallagher?

\*Mr. Gallagher. Our research is pretty compelling. People give because they want to help other people. That is number one driver. And that there is an incentive to do it. It is those two things.

\*Mr. Colinvaux. If control of the gift means having the ability, as itemizers do, to direct a portion of government money to a charity of their choice, then, yes. Again, this leads into the idea of a non-itemizer deduction.

\*Mr. Davis. Mr. Tempel?

\*Mr. Tempel. I think it is not so much control, unless you mean control as having a choice about where you give, following your own values, fulfilling your own values.

But I would echo what Mr. Gallagher and several have said, that it is, in fact, engagement. Organizations need to engage people and build trust. Research shows over and over again that when people

trust organizations, they trust or trust highly, they give almost double the amount that they give, they don't trust.

\*Ms. Masaoka. Well, what several people have already pointed out is that when tax rates go up, or when tax rates threaten to go up, people give more and they give sooner. And so, what is clearly -- people are clearly making a choice about control by doing that. They are saying, "I would rather give to a place that I care about and that I know, rather than to give that money to the government."

\*Mr. Davis. Mr. Steuerle, let me ask you, if I could. According to the Joint Committee on Tax, individuals with higher incomes give more, on average, to charity. Is the tax benefit higher for wealthier individuals than the general population who itemizes?

\*Mr. Steuerle. If we are speaking about giving to particular charities, higher-income people clearly have more of an incentive to give than lower-income people, because the gift is subsidized at their tax rate.

However, I do want to make another point in terms of neutrality. Think about a high-income person and a low-income person taking a vow of poverty. If you convert away from a deduction to a credit, you actually would end up in the strange situation where the high-income person would have to pay taxes, even though they took a vow of poverty; the low-income person wouldn't.

So, what I am trying to argue is that the non-neutrality is partly caused -- for progressive reasons we want higher rates on higher-income taxpayers. But the result is they pay a much higher tax rate on their earnings, on their wages. So if they decide to work and give their wages to charity, we are sort of neutralizing that effect by giving them a charitable deduction.

Or, if you want to, if we have a spouse that says, "I want to go work and give money to charity," one spouse is high income, one is not, the deduction sort of treats them in a more neutral fashion.

\*Mr. Davis. Thank you very much --

\*Chairman Camp. Thank --

\*Mr. Davis. -- and I yield back.

\*Chairman Camp. Well, thank you very much. Mr. Reichert is recognized.

\*Mr. Reichert. Thank you, Mr. Chairman, and thank you for holding this hearing today. And I also want to thank you for the opportunity to serve as the chair of the charitable and exempt organization tax reform working group. So we may meet again somewhere along the road here in the next few months.

And Mr. Chairman, also as you have mentioned in your comments, charitable organizations perform invaluable services for our society, and I believe are part of what makes America great. And you have all spoken to that eloquently. But all parts of our tax code need to be reviewed. And charitable giving and exempt organizations deserve a close look, also. And I think all of you would agree with that.

And I will just give an example. On one side of things you have AARP. The last congress, Dr. Boustany, former Congressman Herder, and I took a close look at how AARP sells for-profit insurance, and its implications for this nonprofit title and organization that they run. We need to ask if organizations like AARP have significant financial interests in a business like selling insurance, and should they continue to enjoy their tax-exempt status. I mean that is the question that a lot of us have.

And on the other side of things, I think, Mr. Colinvaux, you have mentioned the vehicle and property donations and the confusion around that. In pre-2005 people were allowed to deduct the fair market value

of anything less -- a vehicle less than \$5,000. And then, if it was above \$5,000 they had to have an appraisal. I am sure you are very familiar with the law. But post-2005, it was less than \$500 for fair market value, and then you had to have the sales price of a -- evaluation over \$500. So what happened after 2005 is the donation of vehicles went from 900,000 vehicles to 200,000 vehicles.

So, I am in agreement with you that there needs to be a lot of work done. And as some have mentioned here, enforcement is one of the, I think, major concerns here, and people taking advantage of certain parts of a charitable giving tax code. I am an old cop, so I am all about enforcement. So we will be taking a look at this language very closely.

But I also want to mention that Mr. Lewis is my co-chair on this charitable giving working group. And so, together, Mr. Lewis and I will be taking a close look and hopefully finding some solutions and looking at some reforms that increases giving, but also allows some fairness in the tax code and some enforcement, holding those people accountable that might be thinking about taking advantage of certain parts of the code.

I do have one quick question for Mr. Tempel, and it has sort of been touched on, but I want to sort of get to it at a different -- in a different way. You mentioned in your testimony, and you pointed out, that the economy and consumer confidence is more important to charitable giving than tax incentives.

So, if we enact tax reform that grows the economy, do you believe that, even if we limit the subsidy for the charitable deduction, that giving to charities will rise? So the economy grows, not just the tax brackets are changed and go from 6 to 2 to 10 and 25 percent, but the economy, as a result of tax reform, grows?

\*Mr. Tempel. Well, the answer to that would be that there will be a lag if you do something to limit charitable gift deductions. But as the economy grows, you know, the -- you know, philanthropy would grow with it. And you would eventually overcome the downturn that is caused by negative incentives.

I mean there is just no -- there are no two ways about it. We have looked at research going back now to 1960, analyzed the core -- you know, the drivers of increases in giving year to year. And the two single biggest predictors of increases in giving are the -- are a rise in household income and the rise of the S&P.

\*Mr. Reichert. And you see that happening, even if we limit subsidies?

\*Mr. Tempel. Yes. You know, that correlation has existed through various tax schemes. But you can see where shifts take place inside the sector. I do not have with me, but I can get for you, the research that shows what happened after 1986. Because there was a redistribution of philanthropy from the very top of the economy distributed out throughout the middle class. And the top marginal tax rate folks decreased their giving, but they recovered about 10 years later. So that is what happens. You see a depression, but it will recover if you can really grow the economy.

\*Mr. Reichert. Thank you, Mr. Chairman.

\*Chairman Camp. Thank you very much. Ms. Sanchez is recognized.

\*Ms. Sanchez. Thank you, Mr. Chairman. I want to take a moment to thank each of our panelists for appearing before the committee today. I know that your organizations do remarkable work in our communities, often encountering many challenges, and sometimes very limited funding. And I also wanted to thank the chairman and the ranking member for holding this hearing, because it is an important step, as the committee starts to think about the long-overdue tax of comprehensive tax reform. Our tax code needs to be fair to working families and businesses, alike. And in an effort to simplify our tax code, we hope that we can encourage American innovation and job creation, and pass a strong economy on to our next generation.

One thing that I hear over and over again is that we can't continue down this path of uncertainty, complexity, and, most of all, inequity in our tax code. It is just not going to be sustainable. So I am very much encouraged by the fact that Chairman Camp and Ranking Member Levin are strongly committed to working together to pass comprehensive tax reform, because only through completing that task are we going to accomplish the goals of bringing in the revenue that we need. And I think the charitable tax deduction is a very important part of that discussion.

I also know that Americans are -- have a very long and proud tradition of taking care of our own. And that is why I support robust incentives for charitable giving. It is only through the sacrifices of friends and neighbors that everything from food banks to homeless shelters to museums and libraries are funded. And the tax code should encourage those charitable donations and try to treat all Americans equally in that giving.

But one thing that I have heard more than once in this hearing already is that individuals who file itemized tax returns are the only ones who can take advantage of the charitable deduction. And those individuals only make up about a third of all of those who file returns. The National Philanthropic Trust recently found that 65 percent of households give to charity.

So, with that big disparity between those who give to charity and those who can actually claim the charitable deduction, I think it is time to think about expanding access to this credit to lower and moderate-income workers -- earners, pardon me -- who take the standard deduction.

Charities that are in my district serve every function imaginable, and they receive a very high percentage of their donations in the form of small gifts from everyday working people. And as I would suspect, that is the point that I think Mrs. Masaoka made earlier. Most of your charities, much like those in my district, benefit from similar small-dollar donations. Local charities in California receive donations from both high and low-income earners. But it wouldn't hurt the charity business model if we -- if lower wage earners could deduct their contributions, as well.

And I understand that there is somewhat of a difference in what large-dollar donors tend to give money to and what low-dollar earner -- or low-income earners tend to give their money to. Low-income people are more likely to donate to things that are, like, directly benefitting local communities, things like food banks, homeless shelters, and churches. So, if that group can most benefit our community, why do we not incentivize their giving more under the tax code?

Now, assuming that the charitable deduction incentivizes giving, encouraging low and moderate-income individuals to donate would only increase charitable giving if taxpayers at these income levels become eligible for the deduction. So I am interested in getting your perspective on that.

I wonder if Ms. Masaoka could expand on that, on that theory.

\*Ms. Masaoka. I think you have made all the important points very wonderfully, that, in fact, what we do know is that while a great deal of the money to the charitable sector comes from high-income households, that people at lower ends of that spectrum are more likely to give to their local communities, to people that are disadvantaged in some way. And they are also more likely to give a higher percentage of their incomes. It may not be the same in dollars, but they are giving -- lower-income people give a higher percentage of their income than do higher-income people.

So, all of these things argue, I think, for not only, but for the inclusion of benefits to non-itemizers as part of a package in tax reform.

\*Ms. Sanchez. Is there anybody on that panel that would disagree with what was just said? No? Okay.

Then, very quickly --

\*Mr. Tempel. Ms. Sanchez, I would --

\*Ms. Sanchez. Oh, I am sorry, Mr. --

\*Mr. Tempel. I would only say that, you know, our survey of high-net-worth households does show that 80 percent of them give to higher education, but 79 percent of them give to direct needs causes, as well. So it is not true that the wealthy only give to, you know, very esoteric causes, or the causes that help enhance human potential, as opposed to reducing human suffering.

\*Ms. Sanchez. I understand, and I didn't mean to imply that. I was just making a -- the case that lower-income earners tend to more specifically give to those needs.

\*Chairman Camp. All right. Thank --

\*Ms. Sanchez. Thank you, Mr. Chairman.

\*Chairman Camp. Thank you. Dr. Boustany is recognized.

\*Mr. Boustany. Thank you, Mr. Chairman, and thank you all for being here today.

As Americans, we are all very, very proud of our unsurpassed generosity. I certainly saw it in my time in Congress when I took the oath of office in 2005. And since then, my home state of Louisiana has been hit by five hurricanes. Four directly affected my district. And during all of that, often times, charitable and tax-exempt organizations were the first to be involved in the first response, before the government could get involved in helping so many families.

Given that we are seeing a lot of difficulty throughout our country today, a lot of Americans are struggling, I have a policy question and I would like to direct it to Mr. Tempel, to start with.

Should we, as we craft policy in this area, should we give preferential tax treatment to those U.S. tax -- to donors who give to U.S. organizations who preferentially -- say 50 percent or more of the time -- provide services to American citizens and residents versus some overseas charitable type of event?

I mean I have no doubt about the importance of public health globally, but is this something we should consider, as we look at policy? Mr. Tempel, if you want to, start with that.

\*Mr. Tempel. Well, you know, and I would have to offer personal opinion, because I don't think we have any research that shows this. I mean one thing one might consider is what kind of an impact does that have on U.S. foreign policy, if we were to encourage people to give locally, rather than internationally. And international is growing, although it is a very small sliver of the total U.S. philanthropic pie.

There is some -- I think what happens is there are some very visible new donors who are spending a lot of their resources in, you know, in developing countries. And so we notice that. But it is still a very small sliver. I did ask one of those donors why he gave in Africa, and he said, "I have been to West Virginia, I have been everywhere in the United States." And he said, "What you see in the United States, you can't even imagine -- it doesn't even get close to what you see where I am putting my money." So I think that is -- you know, I think that is one of the ways one might consider it.

This is a complicated issue. And, of course, we are one of the countries that allows people to make contributions here that benefit other countries. Many countries don't do that. But I think it is probably is

something you want to take into consideration, in terms of the way in which the U.S. approaches its foreign aid program and foreign relations program.

\*Mr. Boustany. Thank you. Anybody else want to comment on this?

\*Mr. Steuerle. I would just say, in terms of the data, international organizations are probably more dependent upon charitable contribution than almost any other type of charity, and that is because other charities, such hospitals, nonprofit hospitals, get a lot of their money through fees. Higher education, the same way. So you would have a fairly -- much more deleterious impact upon international organizations, if you went after them.

Let me also say -- and I actually personally have dealt with this with State Department and some other aspects of my life -- and that is that the goodwill that the American people create through their private donations abroad is often, in many cases, greater than what the State Department can do. The State Department, almost inevitably, has to deal through governments, who often are corrupt. But you have to -- they have to deal government to government, whereas the private international organizations can be much more effective in dealing one-on-one with schools, hospitals, and needs abroad.

So they actually serve our country very much in promoting goodwill abroad, and I think, as a result, actually reducing such things as terrorism by creating that goodwill.

\*Mr. Boustany. No, I fully understand that. And having traveled abroad to a number of these troubled areas and taken an interest in public health, you know, clearly you are correct in your analysis and statements.

But I wanted to ask this question on behalf of a lot of constituents I have in south Louisiana, who often times wonder why are charitable dollars going out of the country when we have immense needs that were unmet on the Gulf Coast. And certainly now we are seeing that on the East Coast, and so forth. So, Mr. Wills?

\*Mr. Wills. Yes, I just -- I want to just add and echo the point. I completely concur with this gentleman's comments about how it would be harmful to international efforts. But also it is very important that we maintain philanthropic liberty, so that the donors have -- they can give to what their intent is to give to. If we start to tell them where they should and should not give, especially if you start to try to divide between whether or not an organization is doing work in the States or internationally, that could become very complex, very difficult to enforce, and also would harm giving significantly.

\*Mr. Boustany. Right. I was going to put aside the complexity of administering that for a minute, and just --

\*Mr. Wills. Right.

\*Mr. Boustany. -- I wanted to address the policy issue. So I appreciate it.

I see that my time has expired. Thank you, Mr. Chairman.

\*Chairman Camp. Thank you. Mr. McDermott is recognized.

\*Mr. McDermott. Thank you, Mr. Chairman. I always try and figure out what these hearings are about. And I don't know whether the purpose was to panic the charitable community into rushing to Washington to talk about what their deductions are all about. If that is the point, I guess we have done it.

But what is troublesome to me is that I don't think that is what it is about, really. The gentleman from Ohio was asserting that the President was the only person who was looking to limit the cost of tax expenditures, including charitable deductions. Now, it was the chairman who proposed last year a lower -- to lower the top individual rate to 25 percent in the revenue-neutral bases. So you got to have some revenue from someplace. That would require them to raise revenue from someplace by limiting certain tax expenditures.

Now, during the election, Governor Romney had exactly the same proposal. The people rejected that at the polls. But he was proposing limiting the itemized deductions to 25,000, a proposal that most people think would have absolutely decimated charitable giving in this country, if that had been proposed by the President when he got into office.

Now, I am really confused because if you think about this, the majority wants to bring the individual rate down to 25 percent by finding revenues someplace. And I look around at where the places are you would look for revenue. There is broad agreement among the members and the witnesses that we need to expand incentives to give, right? So where do you look for those revenues?

I guess you could go to the deduction for health expenditures, or you could go to home mortgage interest. Or I deduct state sales tax that I pay in the State of Washington for my income tax. They could take that away from me. I don't know where this revenue is going to come from to lower the rate on a neutral basis.

Now, we could go after oil companies. That would be -- but I don't think that -- the first hearing was not having oil companies in here to talk about their deductions. Or the first hearing in here was not about carried interest from hedge funds. But what we do is we scare you folks into running in here and signing up in droves to say, "Hey, do you realize what you are going to do to this country if you start limiting the deductions?"

I heard from the president of Seattle University. And he said to me, "Jim, our charitable deductions will drop, we figure, by at least 40 percent if you start fooling around with the limits that are in the law today." And I can't understand -- and maybe the chairman has already told you -- but are we talking about lowering their -- the deduction for this? Or are we talking about getting rid of it all together? Or what are we doing here?

\*Chairman Camp. Is this rhetorically, or would you like me to comment?

[Laughter.]

\*Mr. McDermott. No, I would like -- my question is to you, Mr. Chairman.

\*Chairman Camp. Well, on your time --

\*Mr. McDermott. Yes, sir.

\*Chairman Camp. -- I will say that there have been a lot of public debates about these issues, whether it is the Simpson-Bowles Commission, whether it is the President's proposals, whether it is candidates for president's proposals. And what we are trying to do is hear from the charitable giving community in a professional and open and businesslike way. And that is why we have developed the working groups. And I know that Mr. Lewis and Mr. Reichert will do a very fine job of exploring those issues.

You know, a lot of this -- some of the testimony today is about the complexity of this. And there might be ways to simplify some of these rules. So we are really approaching this with an open mind.

And actually, I gave a longer answer than I wanted to, so why don't I give you some time to continue.

\*Mr. McDermott. Yes, I was just talking to Mr. Lewis. I said, "You got to be the vice chair of the charitable giving working group. Congratulations."

These folks are going to be 100 percent against doing what is perceived as what might happen in tax reform in this country. And I can't understand. Is it we are sort of softening them up for the fact that they are going to get clipped?

\*Chairman Camp. No.

\*Mr. McDermott. Or are we saying today, "Gee, we heard from you and we understand that this is a bad idea"?

Now, I can't judge yet quite what this hearing is about. But I appreciate your all coming. And I am -- Dr. Boustany asked a question that worries me. When you start saying we are only going to give to Americans, that is like buying American. A lot of us give a lot of money to organizations that are based outside this country that are doing things in global health all over the world. And for anybody to start putting those kind of prescriptions into law really don't make sense to me.

I yield back the balance of my time.

\*Chairman Camp. All right. Mr. Gerlach is recognized.

\*Mr. Gerlach. Thank you, Mr. Chairman. Given the testimony we have had from this panel, which we all appreciate, and given the schedule we have today, I will yield back my time and thank you very much.

\*Chairman Camp. All right. Thank you. Mr. Becerra is recognized.

\*Mr. Becerra. Mr. Chairman, thank you very much for this hearing. And to all of you, thank you for not just your testimony, but your patience. Lots of questions, and you have done a tremendous job of trying to respond.

Mr. Steuerle, let me ask you a few questions first, because I thought you did a great job in your -- not just your oral, but your written testimony, which was much more extensive, in trying to sort of navigate this whole question. And you start off -- let me start off with what you said in your conclusion. "The charitable deduction and the rules governing tax exemption are in need of critical examination. The focus of any such examination should be on whether existing rules are maximizing the public benefit at the lowest cost to taxpayers."

I agree 100 percent with what you have just said, because I think most of us can personally -- or whether by example and observation -- talk about some of the tremendous things that have been done by so many of the nonprofits that are out there today. In Los Angeles -- and Ms. Masaoka could testify to this -- there are some tremendous things being done on the educational side, on the homeless side -- Los Angeles has perhaps the largest homeless population in the country because of its weather, lots of folks gravitate to it.

But I wanted to get to a couple of points -- still in your testimony. Now I am looking at page seven of your testimony, where you talk about: "The charitable deduction supports not charity as it is commonly understood, but rather the entire section 501(c)(3) sector, of which basic needs or traditional charitable organizations are just one of many supported types."

So, in other words, when we think charitable deduction, most Americans think, "Ah, we are giving to charity." When we think charity, we think serving the basic needs of those who need it most. But yet, as



you point out, so much of what is given through this taxable -- or deductible contribution, doesn't go to those -- to serve those who have the most basic of needs.

You also make a very important point in a footnote, footnote 17, that I want to read for the record, because it is so important, and it is based off of what I just -- the quote I just mentioned from page 7. Your footnote 17 says, "Further, as a general matter, many basic needs or traditional charitable organizations would be more adversely impacted by cuts to direct government spending than by changes to the charitable deduction."

So, if the goal is to protect basic needs organizations from harm, the charitable deduction is but one small piece of a broader policy issue. So if you are truly trying to make sure you protect the basic needs or help those who have basic needs, we should really be looking at what the government is doing with its direct allocation of dollars and investments to services that go to those who we are trying to make sure don't fall through the cracks, which is sometimes something I think too many Members of Congress neglect in this effort to just cut, cut, cut. And we leave those behind who need it the most, most, most.

You go on to point out something on page six. You have a chart of what the wealthiest taxpayers who take the charitable deduction do and where they give. And the only thing I can extract from what you and others have said is that those who give the most don't direct their giving to those who need the most. Let me repeat that: "Those who give the most don't direct their giving to those who need the most."

And so, I agree with your conclusion that we must examine the charitable deduction. Because when it is defended as giving to charity, and most people conjure up this image of charity, most people don't recognize that too much of what is being given is not being given to what we would traditionally define as charity. And I want this sector to do very well.

I wish you all would do more enforcement of your own kind, because we have too many examples -- and, unfortunately, too many examples in the area of our veterans, where organizations pop up by the minute saying they are going to protect our veterans, and we find out that they did nothing of the sort, except enrich themselves.

And I believe that it is time for us, given this whole discussion of looking at how we invest, through taxpayer dollars, that we try to look at how we could make this charitable deduction work best for those of you who do some great things. United Way does some great things in Los Angeles. And I hope that we continue to support the nonprofit world, the charitable sector. But I do believe we have to examine some of these things.

And I join in agreeing with some of my colleagues and some of the comments that have been made on both sides of the aisle on how this important sector does deserve a critical examination. I have lots more questions, if I could get to them, but I just wanted to point out that, Mr. Steuerle, I thought your testimony hit it right on the mark.

\*Chairman Camp. All right.

\*Mr. Becerra. I yield back.

\*Chairman Camp. Thank you. Mr. Smith is recognized.

\*Mr. Smith. Thank you, Mr. Chairman. And thank you to our witnesses for sharing your perspective here today. And I hope you can appreciate the balance that we are trying to approach this issue with.

Mr. Gallagher, you illustrated in your testimony that perhaps a change, as suggested by various entities or parties, that it would perhaps lead to the elimination of the United Ways in Philadelphia, Washington,

D.C., and Cleveland. Or -- and I think you emboldened the print that says -- "or all of the work of 10 or 20 United Ways" if changes would occur.

Now, for the record, that would be an option for you to take, not necessarily a mandate for you to take that approach, should changes occur.

\*Mr. Gallagher. Correct. That is illustrative.

\*Mr. Smith. Right. Okay, thank you. Mr. Murphy, you used the comment, or the words, that "we should do nothing that would threaten charitable giving." Is that accurate?

\*Mr. Murphy. Yes.

\*Mr. Smith. Let's discuss the estate tax, for example. And now, some would argue that the existence of the estate tax actually drives up charitable giving. Would that be your assessment?

\*Mr. Murphy. Based on the work that I have done with individual donors, yes.

\*Mr. Smith. And does the latest estate tax reform -- do you feel that that would threaten your work?

\*Mr. Murphy. I think donors are still uncertain about what the final outcome will be. One of the difficulties with the estate tax is donors are fairly comfortable planning their income tax for the next 12 months; most of them not sure when they want to plan to die. And so there is uncertainty out there, yes.

\*Mr. Smith. But perhaps a balance of estate tax reform, you know, and other approaches, you know -- we can achieve a balance, I guess, if we have a thoughtful dialogue and debate on the issue itself, rather than statements of "Do nothing that might threaten."

\*Mr. Murphy. Well, you know, Mr. Smith, I think, fundamentally, our position is that we ought not tax people on the money they give to charitable purposes. And that is a fairly fundamental principle, that we are asking people in this country to voluntarily donate their dollars. And we simply shouldn't tax them on it.

\*Mr. Smith. Okay, and I can understand that. I can appreciate that. But I would hope that donors are motivated out of charity more so than tax avoidance. Would you share that?

\*Mr. Murphy. My experience has been -- and I have worked with thousands of donors -- I have never had a donor make a gift because there was a charitable deduction. What -- as I said in my testimony, what it has allowed them to do is make a larger gift, to dream larger about the impact they can have on the community. But the motivation, as Mr. Gallagher pointed out, is very clear. It is to help their neighbors, to make their community a better place.

\*Mr. Smith. I fully understand. And as Mr. Becerra just shared, though, there are some examples out there -- and I think you even acknowledged -- that there are some bad actors. And we need to approach the issue with the objective of some reforms to make sure that dollars end up where they need to be, rather than someone perhaps gaming the system, not necessarily with the rate here, but through some changes that I would hope you wouldn't consider, you know, a threat to the beneficiaries of your organization.

\*Mr. Murphy. Well, and I don't know what specific changes you are proposing. But again, the Council on Foundations has a long history of supporting stronger enforcement by the IRS. Most of the abuses that are cited aren't legal in the first place; they are illegal. And there has been an enforcement problem.

\*Mr. Smith. So you would not perceive those to be a threat to --

\*Mr. Murphy. We would not perceive -- I don't think anybody here would perceive better enforcement of the law, the weeding out of bad actors, to be a threat. Quite to the contrary, as someone -- I think Mr. Tempel -- noted, we exist in the world of trust. And to the extent there are bad actors, we have to overcome the mistrust that creates.

\*Mr. Smith. Very well, very well. Thank you, Mr. Chairman. I yield back.

\*Chairman Camp. Well, thank you very much. Mr. Rangel is recognized.

\*Mr. Rangel. Thank you, Mr. Chairman. And thank you so much for having these hearings. They are very informative. And I am going to ask the panel to help me to frame the questions, because I want to find out what each one of you think, generally, is the amount of monies that is given to not-for-profit organization -- how much of that actually goes to assist people that have problems that concern poverty or their well-being or -- there must be a word in the foundation business that you use to demonstrate that we are not talking about the perpetuation of the arts or tennis or all of those good things that are important to the country, but those things that are directly related to issues such as education and health care and poverty.

What percentage, generally speaking -- and it is a guesstimate I am looking for -- would you say goes to that, so that when we talk about tax-exempt organizations, we don't automatically believe that we are talking about helping the poor? Mr. Steuerle?

\*Mr. Steuerle. Mr. Rangel, I don't have the numbers with me. In --

\*Mr. Rangel. You don't need any numbers for what I want.

\*Mr. Steuerle. In various reports we do examine the percent of giving that goes to various types of organizations.

\*Mr. Rangel. I gathered that, that is why I --

\*Mr. Steuerle. And you are quite correct. Only a minority of contributions goes to those organizations that directly serve the poor. So --

\*Mr. Rangel. What is that? A minority?

\*Mr. Steuerle. Only a small minority of contributions go --

\*Mr. Rangel. Oh, okay.

\*Mr. Steuerle. -- that directly serve the poor.

\*Mr. Rangel. Let me withdraw the question and say now, would each of you describe in percentage form what a minority would be, so I can get a better handle on that? Mr. Murphy?

\*Mr. Murphy. Mr. Rangel, I think it is a slippery slope to try to --

\*Mr. Rangel. I know it is a terrible slope to get onto, but --

\*Mr. Murphy. There is -- I mean we have a huge definitional problem here.

\*Mr. Rangel. Talking about the poor is never very comfortable. I know that.

\*Mr. Murphy. I mean we fund --

\*Mr. Rangel. But I just don't want the poor to -- you don't want to deal with the question.

\*Mr. Murphy. Well, Mr. Rangel, you mentioned specifically tennis. Our community foundation funds a tennis program in our community that provides tennis lessons --

\*Mr. Rangel. Here we go. I am not talking about tennis. I know how important that is for the poor. But that is exactly what I want to separate from food and homelessness and job training. I want to separate the two.

Suppose I say only 10 percent of charitable dollars actually go to improve the quality of life of human beings. Suppose I just said that. And I am making it up, but there is no challenge to that. Having said that, you are not bound by --

\*Mr. Murphy. Well, I would challenge that.

\*Mr. Rangel. I know, tennis. Excluding --

\*Mr. Murphy. I would challenge that assertion, Mr. Rangel.

\*Mr. Rangel. -- taking people to learn how to play tennis and going to the opera and those things that are vital to make a whole person. But I am talking about where poverty doesn't give a person an option.

Now, having said that, what do you think we could do to make the contributions to this type of work? What types of incentives could we do for this, as opposed to other worthwhile foundation and charitable work? Is there anything that you can do so that if I decide that I want to get my deductions from a tax provision, that I can target it to the 10 percent, rather than the 90 percent?

\*Mr. Tempel. Mr. Rangel?

\*Mr. Rangel. Yes.

\*Mr. Tempel. I would like to add a perspective to this. We actually did some research on this last year.

\*Mr. Rangel. Good.

\*Mr. Tempel. About eight percent of money goes to direct-need organizations. And you know, you can turn into a philosopher here, if you are not careful. But philanthropy is really about reducing human suffering on one side, and enhancing human potential on the other side. I am a --

\*Mr. Rangel. What is the other side?

\*Mr. Tempel. Enhancing human potential. I am the -- my father and mother did not go to college. I am a first-generation -- they did not go to high school. And so, I am the beneficiary of a scholarship, a need-based scholarship.

About 23 percent of money that goes through all other organizations ends up benefitting need-based scholarships, job opportunities, job training, and other kinds -- food banks and other kinds of --

\*Mr. Rangel. Is that within your eight percent?

\*Mr. Tempel. What is that?

\*Mr. Rangel. Is that within the --

\*Mr. Tempel. Twenty-three percent of the money that goes to all organizations goes back to these needs, yes.

\*Mr. Rangel. And you have some data that you have accumulated?

\*Mr. Tempel. Yes, mm-hmm. Yes, we have got a big study.

\*Mr. Rangel. Well, then I would broaden my question and ask, since so many people associate poverty and helping a person improve the quality of life, is there anything that you would think that we could target what we are talking about when we say charity?

\*Chairman Camp. And, obviously, time has expired. But if you could get us some of that data. And I think -- I believe Mr. Rangel is asking about more basic needs.

\*Mr. Tempel. Yes.

\*Chairman Camp. Not necessarily college education. I think you were thinking about basic needs.

\*Mr. Rangel. Exactly.

\*Chairman Camp. And I am not sure that is the correct term, but --

\*Mr. Rangel. But he mentioned they hadn't finished high school. And I would think that in today's economy, that you have to include that.

Now, how can you and I -- before you leave, maybe you can direct me in the right direction?

\*Mr. Tempel. We can send you things. Yes.

\*Mr. Rangel. I would like to see you before we leave, though.

\*Chairman Camp. That would be helpful.

\*Mr. Rangel. Thank you.

[Laughter.]

\*Mr. Rangel. Thank you, Mr. Chairman.

\*Chairman Camp. Mr. Young is recognized for five minutes.

\*Mr. Young. Thank you, Mr. Chairman. Dr. Tempel, earlier in your testimony you, I think very helpfully and pointedly, indicated that there is a direct correlation, very tight relationship, between the state of the economy and the incidence and amount of charitable giving. You specifically identified sort of two metrics to look at, which is household income and the S&P rate, and at any given moment to determine what sort of charitable giving one might expect in the economy.

So, it is important, from my perspective, that we implement tax policy as we are embarking on comprehensive tax reform here, that will grow household incomes, in particular.

I found it notable in your statement, Doctor, that higher-income households provide a disproportionate share of giving. And you said you did a study in 2012 that examined giving by higher-income households. What else can you tell us about giving by these households, based on your study, sir?

\*Mr. Tempel. Congressman Young, I -- this is why the task you have ahead of you is so complicated, because there are so many different factors that work in different ways on charitable giving.

But, you know, high-income households, those incomes with -- incomes of 200,000 or more, \$1 million in net worth, excluding their homes, do give a disproportionate share of philanthropy. And as you look at that and study that, they give about nine percent, actually, about nine percent of their household income, as compared to two percent, generally. About 95 percent of them give. And, as I said earlier, interestingly, 80 percent of them give to higher education. You would expect that. But 79 percent of them give to basic needs organizations, you know, as illustrated by Mr. Gallagher's point, that he has \$1 million and \$10,000 donors. So, those are the donors that will be impacted by any kinds of price sensitivity. So I think that is worth looking at.

The other thing is we asked them for the first time three years ago -- we do this study every two years -- we asked them three years ago if they would be -- if they would increase, keep the same, or decrease their giving if the tax deduction were eliminated. And we used the phrase "eliminated." And interesting, about half of them said they would keep their giving the same. But about half of them said they would decrease their giving. And that percentage got worse as the economy got worse, and as we got closer to these discussions. So we know that, even -- you know, that they are sensitive to those things.

\*Mr. Young. Thank you. What impact did the recession have on charitable giving? And how, generally, can you tell me, are charities doing right now?

\*Mr. Tempel. Well, in the aggregate, charitable giving went down by 15 percent over a 2-year period of 2009 and 2010. And there has been some recovery, but the last two years have recovered at an average rate of 1.8 percent.

And so, you know, going back to the earlier question I had, if you think about the slow growth of philanthropy now, and you did something -- you know, the economy will help philanthropy grow, there is no question about it. But if you do anything to dampen philanthropy now, it will simply prolong the length of time it needs -- it takes to come out.

The other thing is that not all charities and not all philanthropic organizations are hit the same by this downturn. There was, in fact, in 2009, an increase in giving in basic needs or human service organizations. But after that, after 2009, that kind of evaporated. So people turned attention back away from that. So you can see these kinds of things inside the economy.

\*Mr. Young. Which leads me to my final question. You and other panelists have indicated concern -- understandably, I think -- about the financial consequences of changing tax policy with respect to charitable giving. Doctor, are there other perhaps intangible or unforeseen consequences that you can conceive of, and that this panel should consider as we look to reform the overall tax code?

\*Mr. Tempel. Yes. Just for the record, I did not come to argue in any direction, but just to point out how complex this issue is you are dealing with, from the data we have.

I would echo some other comments here that, you know, one of the intangibles here is that this is the way people get involved. They get engaged in their communities this way. They give this way, they

volunteer this way, you know, and those things are all beneficial. But we have some emerging research that shows that when people give and volunteer, they have better health outcomes. And those could have huge public policy implications, if we don't encourage this kind of activity.

\*Mr. Gallagher. And I would, if I could, add that -- so we are a very large nonprofit that focuses only on human services, and mostly basic need. And we operate within an ecosystem of all nonprofits.

I think the committee, with all respect, should focus on the health of the nonprofit sector. Compliance, bad apples has to be managed, and regulation and enforcement has to be managed. But we need a stronger nonprofit sector. And we need to then balance what is the role of government versus the role of nonprofit. We are dwarfed in dollars by what local, state, and Federal Government put into human services, and that has to be balanced, in terms of your deliberation, I think.

\*Chairman Camp. All right. Thank you. Mr. Neal is recognized.

\*Mr. Neal. Thank you, Mr. Chairman. Question is going to be directed to any of the panelists. And by way of the question, you are going to understand my sympathies for the argument you have made.

I represent a spectacular district, the Berkshires. So just a few names that you might quickly associate with the Berkshires: the Rockwell Museum, Barrington Stage, Shakespeare and Company. I have some of the best colleges and universities in the world. I sit on the board at Mount Holyoke. And the eastern part of the district, Sturbridge Village in between the Seuss Museum, Carnegie Libraries.

And I think the question could be summed up -- along with Tanglewood, where so many of you have visited at one time or another -- I think the question that I would have could best be summed up by what the multiplier effect is of charitable giving, what it means to the creative economy, the people that it draws. And I would be happy to be instructed by any one of you, assuming that what you are about to say is entirely consistent with what I think.

[Laughter.]

\*Mr. Steuerle. I have still got a piece of data I would add. Although we talk about charitable contributions here in terms of dollars, the volunteer labor is a much larger portion of the economy than is the amount of dollar contributions. So we might talk about charitable contributions being about two percent of income. But I believe, in terms of labor supply, if we add volunteer labor we come to a number about seven percent. Is that about right, Jean? I think it is.

So, we -- and, of course, the impact is beyond just what the volunteers are doing, but the people they are affecting. So it permeates throughout society.

\*Mr. Gallagher. And two quick points. I mean there -- over 10 percent of the American workforce works for nonprofits. It is 12 to 13 million people or more.

The other -- maybe the most compelling economic statement I have ever heard -- piece of research I heard was by a man named Art Rolnick, who at the time was the chief economist for the Federal Reserve in Minneapolis, and he was speaking to a group of business leaders in the Twin Cities when they were debating on whether to build the Vikings a new football stadium, the Twins a new baseball stadium. He said, "If you take the \$1 billion and put it into an endowment for making sure that every child born in Minnesota gets a quality early childhood education, the economic rate of return would outpace what you are going to put into the stadium and into the" -- into those two stadiums. His point was that there is an economic engine that is human development that goes neighborhood to neighborhood. And the Fed has modeled it.

\*Mr. Neal. And the number of students since then who come to Jacob's Pillow and give freely of their time and volunteer and participate in stage.

And I always have some fun with my Republican friends by pointing out that one thing that is inarguable is the best hospitals perhaps in the world are right in Massachusetts. And so, when anybody gets sick I have never heard them make the argument, "I don't want to be in Massachusetts." And those hospitals derive an enormous amount of charitable giving.

And I think that is a very important consideration here, as well: universities, arts, and hospitals. And the reputation that the state has, which is still very low unemployment rate, relatively speaking, it is a very high-income state, and it is consistent with that creative economy argument that I made a few moments ago. People from all over the world come to Massachusetts to participate not only in what I have outlined, but, just as importantly, the sheer beauty of the state. And it has been a net winner for us. And I think protecting the charitable contribution is a very important part of this tax reform discussion because it induces behavior, it incents behavior, and that is a theme that is neither Republican nor Democratic.

So, if there is anybody else that would like to offer in the last two or three seconds I have, Mr. Chairman, I --

\*Mr. Murphy. Well, Mr. Neal, I think you point out the incredible diversity of the nonprofit sector, which is one of this country's great assets, and why I am so hesitant to start parsing out what is a basic need and what is not. And I go back to my testimony. My wife was cured of cancer with treatments that were developed by medical researchers at universities, in part, in your state. And contributions to that medical research aren't considered, generally, by folks to be a basic need. But they sure become a basic need when someone you love has cancer.

\*Mr. Neal. My colleague, John Lewis, was treated in some of the most difficult moments of his life, he was treated by the only group that would treat him at the time in the aftermath of Selma, and that was a group of Catholic nuns. He has never forgotten. As he reminds me, the order of Edmonites that also cared for him and the critical surgery that he took in his life was in Boston. Thank you all very much.

\*Chairman Camp. Thank you. Mr. Kelly is recognized.

\*Mr. Kelly. Mr. Chairman, I am going to yield back my time to the chair.

\*Chairman Camp. All right. Mr. Larson is recognized.

\*Mr. Larson. [No response.]

\*Chairman Camp. You are yielding to Mr. Blumenauer? All right, Mr. Blumenauer. All right.

Mr. Griffin is recognized. Oh. Go ahead, Mr. Griffin.

\*Mr. Griffin. Thank you, Mr. Chairman. Thank you for having such a thoughtful and serious discussion. I want to add my voice to the others who have said that they want to encourage giving, they believe in the nonprofits and the work that they do. I would point out that Arkansas has historically been at the top. We are not a wealthy state, but we give a lot. And we are -- I think we were ranked number one, per capita, giving at one point.

And so, nonprofits are a big part of the community where I live in Little Rock. And I have learned a lot about nonprofits, as I have been serving up here. And one of the things that I want to drill down on is the role of the Federal Government with nonprofits. It seems to me if we could encourage more giving, then -- someone was asking where do we get the revenue -- well, maybe the Federal Government could quit



giving nonprofits so much money, and we could replace that with private donations, where people are making individual choices.

And I want to lay some of this out, and then get your comment. I have learned, since being in Congress -- I have toured a lot of nonprofits. I have toured food banks and a rice depot, and other things. And I -- usually, the first question I ask is, "Where do you get your revenue? How much of your revenue is from contributions?" And some of them say, "We are proud that we get no government money," and others say, "We get 80 percent government money," which just shocked me, when I learned that a lot of these nonprofits are federal agencies, in fact, and they get their money through -- as a pass-through, you know.

And when I started tracing the dollar that we, as taxpayers, give, and how much is left when it gets back to Arkansas and is distributed by a state agency after it has been through seven steps to get there, a dollar gets back at, like, a quarter or \$.10 or whatever. And it seems to me, if we want to find waste and better use of our dollars, we should encourage someone who lives down the street from the rice depot to just give them a check, instead of having taxpayers send all the money to Washington, it is then sent over to an agency, they then divvy it up, send it back to the state, the state gives it to the county, and then they distribute it to a local community group that does good things, but it is a very inefficient way of doing good things.

And one of the things that has bothered me is -- and I have talked with some charities about this -- they will start out -- they will tell me, "We started out with no government money. Then it went to 5 percent, then it went to 10 percent. And then one time we got a big grant, and it was 75 percent. So we quit fundraising." They have become dependent nonprofits, and they -- the tools in their philanthropy toolbox rust, because they don't have to court big donors, and they love that. And they don't have to have annual dinners, and they love that. They just get that big check from the Federal Government. And I know those are a minority, but this is the -- what we have created. And so I would like to get your comment on that.

And I just want to let you know that I want to encourage private individuals to make decisions of where they want to put their money. And we have to remember that simplification is critical. There is a lot of great ideas that get complicated.

So, if any -- Mr. Gallagher?

\*Mr. Gallagher. Congressman, just point of fact, United Way is the second-largest funder of human services behind government. So we are the largest private supporter of human service programming. There are nonprofits that are overly dependent on government funding; there is no question about it. The private sector will never be able to replace government funding, in total. It is just -- we are dwarfed by it.

Having said that, where you see the partnership working is what is great about local private money is that it is local and it is flexible and it moves quickly. Where you see public investment working is when there is flexibility built in. So we will not be able to replace public money and federal support and state support. But if you look at -- if you look in Detroit right now, there has been a rehauling of the entire food distribution system. Local government, state government, with federal money, created incentive and flexibility in the food bank system, and local nonprofits redesigned it together.

\*Mr. Griffin. Just real quickly I want to say --

\*Chairman Camp. Please, because we are out of time. Very quickly.

\*Mr. Griffin. Thank you.

\*Chairman Camp. Thank you. I want to thank this panel very much for their testimony. I very much appreciate the amount of time and the quality of the remarks. I thank you very much.

\*Mr. Lewis. Thank you, Mr. Chairman.

\*Chairman Camp. All right. I would like to welcome our second panel. Thank you for being here, and welcome.

First, we will hear from Mr. Mark Huddleston, president of the University of New Hampshire, and testifying on behalf of the American Council of Education, the Association of American Universities, and the Association of Public and Land Grant Universities.

Second, we will hear from Conrad Teitell, who is chairman of the Charitable Planning Group at Cummings and Lockwood, LLC, and is testifying on behalf of the American Council of Gift Annuities.

And third, we will hear from Jake Schrum, who is president of Southwestern University in Georgetown, Texas, and is testifying on behalf of the Council for Advancement and Support of Education. Since joining Southwestern University, Mr. Schrum has led the largest fundraising campaign in the university's history.

Fourth, we will hear from Diana Aviv, who is president and CEO of Independent Sector, a national network of American nonprofit organizations. In that capacity, Ms. Aviv represents tens of thousands of organizations across the country.

And fifth, we will hear from Vinsen Faris, who is chairman of the board of directors of the Meals on Wheels Association of America. Mr. Faris has consulted for the Center for Nonprofit Management, and has testified before Congress and the Texas legislature on several occasions.

And sixth, we will hear from Mr. Bill Rieth, president and CEO of the United Way of Elkhart County. Mr. Rieth has over 25 years of experience in education and philanthropy.

And finally, we will hear from Jill Michal, president and CEO of the United Way of Greater Philadelphia and Southern New Jersey, who also serves as a board member of the Greater Philadelphia Chamber of Commerce and the Philadelphia Council for College and Career Success.

Again, thank you all for being with us today. The committee has received each of your written statements, and they will be made part of the formal hearing record. Each of you will be recognized for five minutes for your oral remarks.

And Mr. Huddleston, we will begin with you, and you are recognized for five minutes. Thank you.

\*Mr. Huddleston. Good morning -- I think it is still morning -- Chairman Camp, Ranking Member Levin, and members of the committee. My name is Mark Huddleston, and I am the president of the University of New Hampshire. In addition to representing UNH, I am here on behalf of organizations representing 4,300 2 and 4-year public and private colleges and universities. I appreciate the opportunity to share with you a broad perspective on the importance of the itemized deduction for charitable giving based on my current post at UNH and from my prior service as president of Ohio Wesleyan University.

As the committee addresses long-term deficit reduction, a hugely important task, we urge you to proceed with caution in considering changes to the charitable deduction. At its core, our case is simple. Since it was enacted in 1917, the charitable deduction has encouraged and delivered vital private support for higher education, support that otherwise would have required even higher levels of direct public expenditure.

In fact, for every dollar a typical donor receives in tax relief, the public gains approximately \$3 of benefit. And, according to the Council for Aid to Education, colleges and universities received \$30.3 billion in gifts in 2011.

Charitable gifts advance scholarship, propel ground-breaking research, and promote technological innovations that drive the nation's economy. Most important, charitable gifts make higher education more accessible and affordable for our students. I imagine that almost everyone here has benefitted from donors who gave generously to our alma maters. I certainly did. And, by the way, if there are any UNH alums in the audience, I would like to talk to you after the hearing. That was a joke.

But certainly we could not achieve all that we do at UNH without private gifts. More than two-thirds of the donors who have created endowments at UNH have done so to support financial aid and scholarships. An additional 10 percent supports grants for research and teaching initiatives. And fortunately, some of our donors also direct their gifts toward better facilities for instruction and research. And these gifts are especially important, given the challenges associated with state bonding and deferred maintenance.

Yet even as our private donors deliver enormous benefits, colleges and universities continue to face dire financial challenges. For our public institutions, which enroll 80 percent of all college students, the largest factor driving up tuition is declining state support. Unfortunately, the recession saw state support for higher education -- for public higher education -- drop to a 20-year low. And our students and their families are left to bear resulting tuition increases.

At UNH we are proud of several distinctions, including our role as one of the nation's few land, sea, and space grant institutions. And we provide tremendous value and opportunity to our students, roughly 30 percent of whom are either Pell-eligible or first in their families to attend college.

However, another distinction sets us apart. New Hampshire is last in the nation in per capita support for higher education. Today, the state of New Hampshire provides less than six percent of our operating budget, the result of a 2011 vote to cut our appropriation by 49 percent -- that is 49 percent in 1 year. That was the deepest cut, by the way, in the history of higher education in America. The state's subsidy to each student has fallen by \$5,000 in real terms over the past decade, and is now less than \$600 per student per year.

So, how do we make up the shortfall? We already operate efficiently and our cost per credit hour is 30 percent lower than our competitors. And we absorbed nearly 80 percent of the state budget cut through layoffs, a hiring freeze, and further cost cutting. Well, we have bridged that gap in no small part because generous alumni and friends are stepping up to help. Truly, we could not achieve what we do without them. And we certainly do not want to erect barriers to successful individuals to help new generations of students.

Private colleges and universities face somewhat different circumstances. They have always relied upon charitable gifts, and many owe their very existence to generous donors. At these institutions, charitable donations that provide grants, scholarships, and fellowships for students have been increasing in recent years, and they are increasingly important. At Ohio Wesleyan, for instance, in a total annual budget of slightly more than \$100 million this year, \$39 million comes from private sources, which is devoted to student financial aid.

During the height of the recession, private and public institutions had a common experience, as well. Our endowment values dropped across the board. Given the slow economy, many still have not fully recovered. In the last fiscal year, for instance, the average rate of endowment return was -.3 percent. And over the past five years, it has been only 1.1 percent.

Of course, this all comes at a time when the recession and the dynamics of the global economy reinforce the value of a college education. Recent projections show that by 2018, our country will need 22 million new workers with college degrees. But on our current trajectory, we will not make that goal. In fact, we will miss it by three million workers. And while Pell Grants and federal financial aid help many students, we realize that limited federal resources are also under intense pressure.

\*Mr. Kelly. [Presiding] Okay.

\*Mr. Huddleston. So what is the solution? A large part is to support continued private support for higher education.

Thank you, Mr. Chairman, and I look forward to answering your questions.

\*Mr. Kelly. And thank you, Mr. Huddleston. I am sorry the light system is not working right now, we are having a little bit of trouble with the clock. So, since we don't have any officials on the field watching the game clock, we will let you know. I will let you know when there is about a minute left. I will just tap very lightly, so you that you still have about a minute left.

Mr. Teitell, if you would, please.

\*Mr. Teitell. Mr. Chairman Camp, Mr. Ranking Member Levin, members of the committee, I am Conrad Teitell with the Cummings and Lockwood law firm, and here today as volunteer legal counsel for the American Council on Gift Annuities, a publicly-supported charity sponsored by over 1,000 charities of all stripes, large and small, religious organizations, social welfare organizations, the Salvation Army.

In your deliberations, members of the committee, I ask you to be aware -- beware of salami tactics. Matyas Rakosi, chairman of the Hungarian Communist Party in the 1950s coined the term "salami tactics." He said, "If your opponent has a salami and you want it for your very own, you had better not grab it, because he will defend it. Rather, take for yourself a slice, and then another slice, and he will not notice. And if he does, he will not object. And then another slice, and then another slice. And slowly, but surely, that salami will pass from his possession into yours." So it could be with the charitable tax incentives, a floor here, a cap there.

Mr. Levin, you spoke about the Pease limitation. The Pease limitation introduced by Congressman Pease of Ohio in the 1990s was supposed to be temporary, five or six years. And the reason for that limitation was that Congress did not want to raise the tax rate by .09 of 1 percent, because that would have taken it into the next category, just the way on television nothing costs more than \$19.95. Well, if it is a 39.6 percent bracket, can't make it over 40 percent, hence the Pease limitation.

Now is the time to increase tax incentives, not to decrease them. And a few members of the committee have -- and some of the witnesses have -- spoken about non-itemizers. There currently are -- there is a tax benefit right now for tax itemizers. And that is the tax-free distribution from an IRA to a qualified charity. The two-thirds of the taxpayers who take the standard deduction who make gifts from their IRAs to charity aren't taxed on the income that they take from their IRA. They don't get a deduction. But not being taxed on something is the equivalent of a charitable deduction.

So, the IRA charitable rollover, in the law since 2006, is a wonderful provision. But it has been on-again, off-again, on-again, off-again. And when it gets on again, frequently it is retroactive. And frequently it is too late for most of the taxpayers. And it is off again at the end of this year. So we ask that the non-itemizer charitable deduction, in effect, for the rollover from an IRA to a qualified charity be made permanent.

There are many, many people who are middle class who would like to roll over gifts from their IRAs to charities, but they need the income. We ask that the IRA charitable rollover, which now is for direct gifts, be expanded to include rollovers for charitable remainder trust life income gifts.

Much has been said here today about President Reagan. He started out life as an actor, as we know. And he is known for "Let's win this" -- when he was an actor -- "Let's win this one for the Gipper." Let's win this one for the giver. And doing so will, in effect, really win it for the people served by American charities

\*Mr. Kelly. Thank you, Mr. Teitell.

Mr. Schrum.

\*Mr. Schrum. Chairman Camp, Ranking Member Levin, members of the committee, thank you for this opportunity to testify on behalf of the Council for the Advancement and Support of Education, CASE, and the National Association of Independent Colleges and Universities, NAICU, on the importance of preserving the value of the federal income tax deduction for charitable contributions.

Southwestern University, where I work, is a nationally-recognized private liberal arts college located in Georgetown, Texas. It is the oldest institution of higher learning in our state, and has a current enrollment of 1,400 students. Private support raised from individuals is an essential funding source for both private and public colleges and universities. According to the Council for Aid to Education, donors contributed \$30 billion to colleges and universities in 2011. Charitable gifts help institutions fund scholarships for low-income students, recruit top-notch faculty, and strengthen academic programs.

Like most private liberal arts institutions, Southwestern relies on private support to fund key institutional priorities. Each year our endowment covers a significant percentage of our operating budget. Endowment represents 25.95 percent of the current year education and general budget net of financial aid. Charitable giving helps us minimize tuition increases and provide a high-quality learning environment for our students.

In the aftermath of the recent recession, colleges and universities continue to face challenges. Endowment investment returns continue to be volatile, with the most recent data, as pointed out by President Huddleston, the average return was -0.3 percent in 2011 and 2012. At the same time, colleagues and universities are also seeing more and more cuts to their state and federal spending.

In Texas, schools experienced an 18 percent decrease in funding for the tuition equalization grant program for the last biennium. This represented a loss of over 37 million in grant funding for needy students seeking a higher education in the state of Texas. At Southwestern, this decrease in funding resulted in a loss of over \$600,000 to our students, 1,400 of them, over a 2-year period.

Many students and their families are struggling to afford higher education tuition costs. Unless institutions can convince donors to provide additional aid for deserving students, educational opportunity will shrink, even as the need for education grows. That is why we urge the committee and Congress to support policies like the federal tax deduction for charitable gifts, policies that incentivize giving to educational institutions.

While charitable giving is a voluntary act driven by a desire to do good, to have impact, and to give back, tax incentives do play a role in encouraging donors to accelerate giving. Major donors to our institutions often base the size and timing of their gifts, at least in part, on tax considerations. And major donors are exactly the taxpayers who would be most affected by proposals that limit the value of the charitable deduction. These are the donors who have the resources to give to charitable organizations consistently. And our tax policy should encourage them to continue to give generously.

Proposals that cap the value of the charitable deduction with a hard dollar cap or a percentage of income cap do the opposite; they reduce the incentive for donors to give additional dollars to educational institutions and other charitable organizations. High-income donors who give little or nothing to charity would be unaffected by a cap on a charitable deduction. Instead, a cap would target the most generous high-income donors, individuals, and families who want to make large gifts to educational institutions or other charitable organizations. Why would Congress want to penalize individuals who want to give more of their wealth away, particularly at a time of rapidly increasing wealth disparities?

Unfortunately, some have mislabeled the charitable deduction as a tax break for the wealthy. A cap on the charitable deduction would not hurt high-income donors, many of whom would likely decide to give less if a cap was enacted. Students and others served by charitable organizations would feel the brunt of this policy change.

Once again, we strongly urge the committee to preserve the value of the charitable deduction and support other incentives that encourage individuals to give more to their alma mater and other organizations. Now is not the time to fundamentally change a tax incentive that has contributed to a cherished tradition of charitable giving unmatched in the world.

Thanks again for this invitation. I would be glad to answer questions.

\*Mr. Kelly. Thank you, Mr. Schrum.

Ms. Aviv, you are now recognized for five minutes.

\*Ms. Aviv. Mr. Chairman, Representative Levin, and distinguished members of the committee, I serve as the president and CEO of Independent Sector, which is a national coalition of approximately 600 public charities, private foundations, and corporate giving programs, and, with their affiliates, total tens of thousands of charitable organizations across the country. I thank you for the opportunity to share with you some observations about the usefulness of tax incentives for charitable giving.

Every day, public charities and private foundations work to provide educational and economic opportunities to alleviate poverty, assist victims of disaster, advance knowledge, enhance the cultural and spiritual developments of individuals and communities, and foster support for our collective commitment to justice and individual liberty. These life-enhancing initiatives, as well as the nonprofit sector's 13.5 million jobs and \$670 billion in annual wages, are made possible by the generosity of Americans who contribute millions of hours and billions of dollars of support to the charitable causes that they care about.

Unfortunately, the economic downturn and sluggish recovery have made it harder for charitable organizations to fulfill their missions. Overall, sector revenue has been stagnant in recent years, in part because annual charitable giving is nearly \$13 billion less than what it was in 2007. At the same time, 85 percent of charitable nonprofits experienced an increase in demand in their services -- for their services in 2011.

As this Committee considers ways to reform the tax system to strengthen the economy, we urge you to oppose tax policies that would harm charitable organizations. And of particular concern are proposals that would reduce charitable giving even further by limiting the value of the charitable deduction.

Unlike tax incentives to purchase a home or save for retirement, the charitable deduction encourages behavior for which the taxpayer receives no personal tangible benefit. The deduction does not subsidize consumption or underwrite the accumulation of wealth. It simply and effectively encourages taxpayers to give away a portion of their income to benefit others. Limiting the deduction, therefore, would exact a sacrifice not from high net worth individuals, but rather from organizations whose express purpose, through their donation, is to serve the public good.

At the core of the concern about the charitable deduction lies a deep apprehension that there are not enough or not sufficient resources available to charitable organizations to meet their responsibilities. Thus, in addition to preserving the deduction, I urge Congress to extend permanently a number of important giving incentives in the tax package, including the IRA charitable rollover, and enhanced deductions of donations of food and conservation easements.

Additionally, I encourage the committee, either through a new working group structure or some other vehicle that includes experts from the private and charitable sectors, to examine new ways of capitalizing the sector. Specifically, I urge you to look into better use of existing funding streams, identify new potential streams of capital, explore obstacles to the flow of cash and non-cash contributions to charitable organizations, and review existing governmental structures and other financing vehicles.

Through enactment of the Revenue Act of 1917, which first made donations to charitable organizations tax-deductible, Congress, in its wisdom, embraced the entire range of social purposes and important causes that citizens, individually or collectively, might choose to pursue through charitable organizations. With a focus on the arts, social services, scientific research, or spiritual matters, this great American tradition has sparked innovation, saved lives, and enriched our communities.

Through the wisdom of this decision, Congress established a century-old policy that has stimulated charitable giving, and made it clear that our government and our society value the contributions made by every charitable organization.

Thank you for the opportunity to share these perspectives, and I look forward to any questions that you may have.

\*Mr. Kelly. Thank you, Ms. Aviv.

Mr. Faris, you have five minutes, please.

\*Mr. Faris. Mr. Chairman, Ranking Member Levin, members of the committee, committee staff, thank you for the opportunity to be with you today. Again, my name is Vinsen Faris. I am the executive director of Meals on Wheels of Johnson and Ellis Counties in North Central Texas. I also have the privilege of serving as the board chair of the Meals on Wheels Association of America, which represents local, community-based senior nutrition programs that are united and working to end senior hunger in America by the year 2020.

The incredible task ahead to reduce the deficit and reform the tax code so that it is more effective and efficient is very, very challenging. So let me begin by urging the committee to seek ways that will encourage more Americans to increase their philanthropic giving to valuable and impactful causes.

Almost \$300 billion is the amount of money that Americans generously donate to charities annually. This is a number that is important to our association, as well as to the Meals on Wheels programs in your states and your districts. But, like other charities, it is not enough to address the growing societal issues like senior hunger. That is why the charitable deduction is so important.

Meals on Wheels programs are perhaps one of the very best examples of successful public-private partnerships, because of their ability to leverage multiple funding sources to provide a solid return on investment. Nationally, only about 30 percent of total spending for Meals on Wheels programs comes from federal sources, with a significant number of programs receiving no government funding at all. This means that these programs must raise about 70 percent of their budgets from non-federal sources, most of which are charitable contributions.

Let me tell you about Emily, one of our over 2,800 clients we serve in Johnson and Ellis Counties, who has a similar story to the thousands of seniors in your states and districts who gather at senior centers or who receive home-delivered meals. A widow, Emily is 88, a retired nurse who worked for 40 years and brings in about \$700 a month in Social Security benefits. She suffers from advanced osteoporosis, and is physically unable to leave her home to go to a grocery store or cook her own meals. Now she relies on a Meals on Wheels volunteer to bring her a nourishing, hot meal every day. This, along with a caring smile, is her only direct daily contact with another person.

Keeping seniors in their homes and out of hospitals and nursing homes is critical to controlling health care costs. Please consider the fact that the cost of feeding a senior for one year through Meals on Wheels is roughly equal to the cost of just one day in the hospital, or six days in a nursing home. This is what Meals on Wheels does.

Yet, despite these benefits, Meals on Wheels programs are threatened. They are currently facing a quadruple whammy to a growing senior population facing the threat of hunger, state and local budget cuts, coupled with the threat of sequestration, higher cost for food and transportation, and, of course, challenging fundraising, due to a sluggish economy.

Ensuring the long-term viability and prosperity of charitable organizations like Meals on Wheels that can efficiently and effectively help meet many of the health and nutritional needs facing our vulnerable senior citizens is critical. More people joining together in philanthropic efforts will also build a greater community spirit, and a spirit of partnership with our Federal Government, which will enable everyone to do more for more people in need.

Seniors like Emily all across America will be impacted, should any negative changes in the charitable gift deduction go into effect. For us at Meals on Wheels, this debate is not about the intricate details of the tax code. Rather, it is about the seniors we serve every day. It is about the direct impact these decisions would have on the 8.3 million seniors facing the threat of hunger. It is about the doors our volunteers knock on, and the neighbors they nourish. It is about the hope our programs deliver to those who otherwise have little. Please help us to continue to reach out and help those in need, and to involve others as well, by maintaining the charitable tax deduction and finding new ways that will encourage more Americans to increase their philanthropic giving.

To the committee, thank you for the work you do. I would also like to thank the chairman for his long-standing support on Meals on Wheels programs, and for all of you in looking at this important topic. Thank you.

\*Mr. Kelly. Thank you, Mr. Faris.

Mr. Rieth, you are recognized for five minutes.

\*Mr. Rieth. Thank you so much, and howdy. Thank you for taking time to listen to us today. Mr. Chairman, Ranking Member Levin, Mr. Young, and Mr. Roskam, I really appreciate your time today. And I am the president and CEO of the United Way of Elkhart County in Indiana, and I am testifying in support of the charitable deduction.

Let me tell you a little bit about Elkhart County, Indiana. Our community of just under 200,000 residents is home of manufacturing and high-tech industries. We are also known as the RV capital of the world. Now, Elkhart County became a focal point during the height of the recession when our unemployment rate skyrocketed to over 18 percent in 2009. That same year, President Obama visited my community because, in his words, it was the place where the nation's problems are most acute.

Now, I am happy to report that we are recovering, and we are making progress, but we are still not there. In my community, our residents are generous. Folks give over \$74 million a year to local charities, of which we receive approximately \$2 million. Now, while we don't know which of these donors take advantage of the charitable deduction, I believe a number do.

For example, when we go out to raise funds to invest in our community, it doesn't matter whether I am on the factory floor, whether I am in the front office, whether I am talking to a blue collar worker or a white collar worker. Every single time I am always asked, "Is this tax-deductible," to which I can reply, "Yes." So, I believe this is a highly motivational force in people's lives. And as people invest in this, we are able to take that investment and bring back millions of dollars, impacting over 12,000 people in my community.



For example, we are able to do something in the area of income through our income initiatives. One of our programs helps hundreds of families every year learn how to budget, get out of credit debt, start their first-ever savings account, where we see 50 families graduate every year having met their savings objectives, most of them becoming first-ever homeowners. And when they become first-ever homeowners, it brings greater stability, puts strong roots in our community, and it breaks the cycle of poverty.

Our health initiatives. These assist hundreds of chronically ill people with no prescription insurance. That is a big problem in Elkhart County, people that lack prescription insurance. In 2012, we were able to give back to the community \$3.1 million worth of essential medicines, medicines such as cancer meds, insulin, blood pressure, heart meds. These medicines not only keep people healthy, but they enable them to continue to work, be productive, and keep them out of the hospital, saving all of us, as taxpayers.

Our educational initiatives impact thousands of students and help them succeed in school. For example, our reading camps, which target second graders who are a bit behind in their literacy skills, we see a 90-plus percent improvement in these second graders, enabling them to be ready to successfully enter third grade.

And these are just a few examples of many that I could share with you that are helping people to live better lives. The community and faith-based programs in my area are funded by individuals who take advantage of the charitable deduction. Just this weekend I was talking to a couple that said if they did not have the charitable deduction, it would dramatically decrease the amount that they give in my community.

A strong charitable sector helps local communities weather economic and employment disruptions, much as we faced during the disruption. And I am very fearful -- I have got to be honest -- very fearful that if the charitable deduction is eliminated, we are going to lose these programs, these programs that are helping take people out of poverty, these programs that are helping students succeed, these programs that are helping people to do better in the health area. If that would happen, that would be devastating for my community. Please, I encourage this Committee and Congress, please do not hinder us in advancing the common good. Please, please, on behalf of my community, maintain the charitable deduction. Thank you very much.

\*Mr. Kelly. Thank you, Mr. Rieth.

Ms. Michal, five minutes, please.

\*Ms. Michal. Thank you very much, Mr. Chairman, and thank you to the members of the committee for taking time to allow for this thoughtful conversation on what is an incredibly critical topic to all of us.

At a time when nonprofits are already being asked to do more for more with less, a cap on the charitable deduction is a crippling blow to the human services sector at the time when we need it to perform at its best. This sector is one of the very few sectors where the demand actually goes up when the economy goes down. During the worst recession any of us have ever known, 78 percent of nonprofits have seen an increase in the demand for their services. But we are at a breaking point. The elasticity of our country's safety net is gone. And if even a few more strands break, people are going to fall through it quickly, and they are going to land hard.

With reserves exhausted, employees laid off, programs cut, and the pressure to deliver results at an all-time high, there is no room right now for nonprofits to breath. And capping the charitable deduction is a choke-hold that isn't going to take long to have a serious impact.

I mentor a young girl back home in Philadelphia. And her 16-year-old friends are picking out baby names. And her neighbors are carrying guns to school. Her mom and her unborn baby brother were killed by a drunk driver. She walks two miles to get to the nearest grocery store with her dad, because there isn't

one in her neighborhood. And she was bullied in the public school system for being smart, so her dad works two jobs to put her in private school.

But she is going to be okay. And the reason I know that is because she is brilliant, and she loves to learn, she has got a father who will do anything in the world for her, but most importantly, because I know that they are not alone. She had the support of an amazing social service program in our community that helped her grow up as a young woman without a mother, and kept her from making the bad choices that would have been so incredibly easy for her to make, a school that was able to offer her subsidized tuition to escape the teasing and the torment, and organizations that support mentors like me, who will never let anything happen to her on my watch.

But the organization that she believes saved her, they had to cut their staffing, their salaries, and their programs in half over the past 4 years by over 50 percent, nearly bankrupting the organization. And it wouldn't have survived if it weren't for the tenacity of the board and the few remaining staff. And we are lucky that this amazing young woman made the cut, but I hate to think about all the other girls who won't be that lucky.

I know and I get that the numbers need to work. But I also know that there are real people behind these numbers. And while it is true that some people give solely out of the goodness of their heart, there is a reason that 20 percent of all online giving comes in on December 30th and 31st. There is a reason that 80 percent of the Americans who itemize their deductions have a contribution to charity on that list. And these deductions aren't the ones for their own mortgage. They are to pay for the first mortgage of somebody who might have been homeless just a year ago. These aren't the services that they are getting for their own children; this deduction is taking care of somebody else's children.

Placing a cap on charitable deductions reduces the incentive to do the one thing that Americans take a deduction for from which they get no personal gain. And you can read studies, and the studies will tell you pretty much anything you want to hear. But when I talk to real people about this impact, I am hearing anything but what I want to hear. What they are telling me is that it is going to have an impact. Whether it is people giving \$500 or people giving \$5,000, it is part of their decision-making process.

Our United Way raises roughly \$60 million a year, but we don't raise it from 60 millionaires. We raise it from nearly 100,000 people giving whatever they can give in whatever way they can give it. And I don't want them to have to think twice about it. I don't think you want them to have to think twice about it. And the family living in a homeless shelter whose kids could be hungry tonight, they definitely don't want them to think twice about it. Thank you for your consideration.

\*Mr. Kelly. Thank you, Ms. Michal, and thank you to the entire panel.

I will now go to the committee members. Mr. Young.

\*Mr. Young. I thank my esteemed colleague and interim chairman.

We just heard in the first panelist [sic] from Dean Tempel of Indiana University's School of Philanthropy, and he authored a 2011 report titled, "Impact of the Obama Administration's Proposed Tax Policy Changes on Itemized Charitable Giving." His conclusion, among other things, was that a cap on itemized deductions in higher marginal tax rates would lead to a 1.3 percent decrease in itemized charitable giving.

Now, we find ourselves -- the President of the United States has proposed a 28 percent cap on itemized deductions. And at the first of this year, Washington just implemented, at the President's insistence, higher marginal tax rates. So I would kind of like to localize and humanize this very important issue we are discussing here by asking Mr. Rieth of Elkhart County, Indiana exactly in those terms what the reduction

that we can expect in charitable contributions will mean. Who will get cut? Who will that impact? And what will be the larger impact on your community?

\*Mr. Rieth. Thank you, Mr. Young. Let me answer that with a true example. In 2011 we had a donor who donated \$3,000 through the United Way. They are very philanthropic, but they also wanted to take advantage of the charitable deduction. \$1,000 went to us and our programs, another \$1,000 went to the Salvation Army, and another \$1,000 went to a local homeless shelter. If that cap was there, I don't think we would have seen that \$3,000 that benefitted all of us.

So, I would imagine, as I think of our donor base, it would definitely decrease from some of our larger donors the amount that they are able to give and some of these programs that I have highlighted that are funded through them. For example, I don't know what I want to give up. Do I want to stop helping kids? Do I want to stop helping people break free from poverty? Do I want to stop helping people that need prescription insurance? It would be a tough one to know. We would probably have to cut all of them to some extent with that loss of revenue.

\*Mr. Young. Well, thank you for your feedback. I mean these are important decisions we have to make, as a country, and as we comprehensively look at the tax code, I think it is important to remember the impact on individual Americans, especially our at-risk Americans. Of course, I am particularly concerned about Hoosiers. And I think it bears reminding that the tax policies put forward by the President of the United States, and insisted upon, will result in those specific impacts that you have identified.

Thank you. I yield back.

\*Mr. Roskam. [Presiding] The ranking member, Mr. Levin.

\*Mr. Levin. I just want to say, Mr. Young, and to everybody, I really think it would be beneficial if we tried to keep what I think sounds like partisan politics out of this. Governor Romney suggested something much lower than was suggested by the President. And we need to look at the question of limitations in a very analytical, objective way, okay? We really need to do that. We have set up a working group to look at the facts.

There are differing opinions about the impact of various limitations and various ways to do it. And we now have some limitations. The reinstatement of the Pease Amendment, whatever its origin was, it lasted a number of years. And the impact of it, there are differing opinions. Many studies indicate the impact of it was very, very minimal.

If you look -- and I introduced a document that shows the income distribution of the charitable deduction. And it is true it isn't just the very wealthy. It is not a loophole. A very substantial portion of it comes from very wealthy people, though it isn't only very wealthy people. And so we really need to look at the impact, because a small number of very wealthy people give large amounts, and we need to take that into account, as well as looking at the huge numbers of people who aren't wealthy who contribute.

We also have had some testimony about the deduction when property is given. We have wrestled with the auto provision, right? We have really wrestled with that. And we have tried to make sense of it, and to avoid the abuses. Because there have been some.

So my only suggestion is that this is an issue that needs to be seriously considered. We need to, I think, avoid the rhetoric wherever we can because there are some serious issues here.

And I have already said one rhetorical slogan, that it is a loophole, I think it completely wrong. This is one of the policies that have been put into the tax code for reasons. There are provisions that came in because of lobbyists with a special interest that I think are loopholes. Maybe they didn't come from

lobbyists. I don't think that is true of this, and I don't think it is true of the mortgage interest deduction. I don't think it is true of state and local taxes. These large provisions -- it isn't true of education, it isn't true of how we handle health care.

These are provisions that are embedded in the code, and have been there for good -- for policy reasons. And we need to look at them and be careful that we don't place ourselves into a rhetorical position that will diminish our efforts to look at these issues.

So I just say that, Mr. Young. I understand the temptation, and I don't say you are the only one who hasn't resisted it. I think we need to do that.

\*Mr. Young. Would the gentleman yield me --

\*Mr. Levin. Sure.

\*Mr. Young. -- his remaining 15 seconds or so?

\*Mr. Levin. Oh, sure.

\*Mr. Young. I would say, first, your comments are very well received. My comments were designed to illustrate the very difficult trade-offs. There is no party that has a monopoly on empathy or sympathy here with respect to pursuing tax reform, and perhaps the unintended implications of a particular course, one way or another.

I would also say I -- my comments were designed to illustrate the importance of economic growth. That should be a very important goal with respect to tax reform. Anything that undermines economic growth will also impair the ability of Elkhart County, Indiana, to provide for its neediest citizens. So we should keep that in mind. Thank you so much for the dialogue.

\*Mr. Levin. Thank you.

\*Mr. Roskam. The gentleman from Arkansas, Mr. Griffin.

\*Mr. Griffin. Thank you, Mr. Chairman. I want to say that I am a huge supporter of this, of the charitable deduction. I have been involved with a lot of charities, was on the board of Big Brothers Big Sisters, and I understand the budgeting that you have to go through. And I understand how tight the money is.

And so, having said that, I frankly want to encourage more charitable giving. And I think that we -- when we are trying to better the law, we have got to remember that part of that is simplicity. There are a lot of great ideas out there that complicate the tax code. And so, every time I come up with an idea, even if it is a good one, I have to ask: Is this making the tax code too complicated? But I -- listening today I have heard several ideas that really don't: getting rid of PEP and Pease, possibly. That would be -- that would make it less complicated, certainly.

The other thing I would say is if we -- maybe we could put a line -- we could put an above-the-line option for people who don't itemize, and maybe put a floor of 500, or whatever, for enforcement reasons, or whatever. But there are some things we can do, and I think we -- there is a lot of agreement that -- from a lot of people I have heard, that we want to encourage more giving to groups.

So, my question is, when you are looking at saving some money, what sort of reforms do we need to be looking at? And a couple I would just mention, and then I will open it up to anyone who wants to comment,

is are there certain groups that are able to be 501(c)(3)'s now that maybe shouldn't be? Is that something we should look at?

Also, the government waste in funding I talked of at the earlier panel, about the dollar that starts in the state and goes all the way up here and accounts for a lot of the boom in this city, and then goes back to rural Arkansas as a dime. I just open it up. Do you have some ideas on reforms in this area that could save us money?

[No response.]

\*Mr. Griffin. Mr. Huddleston, anyone. Yes.

\*Ms. Aviv. With respect -- if I could talk also about how to increase giving, I think Conrad Teitell mentioned the extenders package, and in particular the non-itemizer. One of the realities that we find is that donors are very tentative about giving when they are not sure what the rules are going to be this year, and if they think the rules are going to change from this year to next year, and then change back again. In addition to the problems with the economy, they will hold back.

And I think that we see on the side of the organizations that gather money and then redistribute, or charities that receive this money directly, the degree to which there is uncertainty about some of these incentives is the degree to which there is less funding. So, one of the ways in which we can be very helpful, I think, is to make the tax extenders package permanent and clear.

Secondly, I think that on the side of -- in the previous panel some issues were raised about some people being in our sector who engage in bad practices, unethical conduct, and so on. And the point was made -- and I want to underscore it -- that we operate on trust. And if there is no trust in our sector, people won't give us money, because they think that what they are seeing is the tip of the iceberg. So the degree to which state oversight officials and federal officials can do the job of enforcing the laws, and then we are happy to look to see if there is a gap in a place that would save, so that there is no fraud or abuse, I think that that would be an absolutely essential part of the work.

And then, finally, I had mentioned in my oral testimony and in my written testimony as well, I think it would be a great opportunity, through the panels that have been created, for us to come together in partnership to think of new ways to capitalize the sector, and to see if -- what kinds of obstacles exist, regulations, or anything else that stops different kinds of people from giving funds because of the current structure.

Those three, I think, would be very helpful.

\*Mr. Griffin. Anyone else? Yes, sir, Mr. Schrum.

\*Mr. Schrum. I would just like to quickly add that I think consistency is really important with our donors. I have been raising money --

\*Mr. Griffin. Certainty?

\*Mr. Schrum. Certainty, right.

\*Mr. Griffin. From year to year?

\*Mr. Schrum. Yes. I have been raising money for 40 years. And every time something changes, donors step back, especially the wealthiest, you know, who really create the transformational gifts --

\*Mr. Griffin. Sure.

\*Mr. Schrum. -- for all of our charities.

\*Mr. Griffin. Sure. I will just mention -- I see I am running out of time -- but one of the things that has interested me as I have learned more and more is how quickly the light turns to red. Thank you, Mr. Chairman.

[Laughter.]

\*Mr. Roskam. Well, thank you all. I want to thank this panel for your time and your courtesy and your testimony and your expertise. And we look forward to interacting with you in the days and weeks and months to come. Thank you very much.

And with that I would like to welcome up our third panel.

Well, welcome to the third panel. First we are going to hear from Pamela King Sams, who is the executive vice president for development at Children's National Medical Center, here in Washington, D.C. Ms. Sams is responsible for managing the \$500 million Transforming Children's Health campaign.

Second we will hear from Nicole Busby, executive director of the National Association of Free and Charitable Clinics. She has been a featured guest on a number of television programs discussing free clinics. Welcome.

Then we will hear from Rand Wentworth, president of the Land Alliance Trust here in Washington. Mr. Wentworth has served on numerous boards and previously testified before this Committee, as well as the Senate Finance Committee.

We will also hear from Kim Morgan, the CEO of United Way of Western Connecticut. Ms. Morgan serves on several boards, and has worked in this field of nonprofits for over 20 years.

We will hear from Terry Mazany from Chicagoland, my home area. He is the president and CEO of the Chicago Community Trust. He is also a member of the board of directors of the Federal Reserve Bank of Chicago and the Council on Foundations.

We will hear from Brent Christopher, who is the president and CEO of Communities Foundation of Texas in Dallas. Mr. Christopher considers himself a reformed lawyer -- God bless you -- and has held several leadership roles in fundraising in administrations at a university and academic pediatric medical center setting.

And finally, we welcome Leslie Osche, who is the executive director of the United Way of Butler County in Pennsylvania, and is a constituent of our colleague, Mr. Kelly. And when it is her turn to testify, I will be pleased to yield to him for an introduction.

And again, thank each of you for your time and your testimony and your professional commitment on these issues. As you know, all of your written testimony is submitted for the record, and that is incredibly helpful. So our time today will be limited to five minutes each.

And, Ms. Sams, we will start with you.

\*Ms. Sams. Good afternoon. Mr. Chairman and committee members, I am Pam King Sams, as you mentioned. I am the executive vice president for development at Children's National Medical Center, here in Washington, D.C. We are a 303-bed not-for-profit academic medical center, and we have been around

for 140 years, taking care of sick children. We would love to invite you down for a tour if you haven't been down. It is only three miles up North Capitol, so please come on up.

I am testifying today on behalf of the American Hospital Association and its more than 5,000 member hospitals, health systems, and health care organizations. We appreciate this opportunity to comment on the importance of the charitable contribution to America's nonprofit hospitals.

Let me give you a brief sketch of the financial environment in which hospitals now operate. A recent Moody's report maintains a negative outlook for nonprofit healthcare for 2013. It cites federal and state cuts to healthcare spending, limited reimbursement increases from commercial insurers, and a tepid economy as some of the reasons. Since 2010, Medicare hospital payments have been reduced by \$250 billion over the past 10 years. As a result, hospital Medicare margins stand at an average -7 percent. In 2011, Medicare overall paid hospitals -- Medicaid paid hospitals 6 billion less than the cost of treating Medicaid patients.

At Children's National, we collect an average of about \$.44 on the dollar that is charged to all of our payers. Mr. Chairman, 100,000 children live in the District of Columbia; 90,000 of those children are enrolled in Medicaid. Children's National provides primary care for almost 40,000 of those children. Those primary care sites are called the Goldberg Centers. And they are called the Goldberg Centers because wonderful philanthropists Stephen and Diana Goldberg contribute to make sure that they have them.

Even in this environment, hospitals do more to assist the poor, sick, elderly, and infirm than any other entity in healthcare. Since 2000, hospitals of all types have provided more than 367 billion in uncompensated care to patients. Children's National, for instance, alone gave nearly 51 million in uncompensated care last year.

The benefits to our communities greatly exceed the revenue that the Federal Government forgoes by granting tax-exempt status to hospitals. We believe that the incentive of the charitable deduction is a key to providing continued access to hospital services in communities across the country. Children's National counts on contributions from the community simply to keep its doors open. Our operating budgets always assume philanthropy as part of our day-to-day operating funds. In fact, nearly 42 million in philanthropy directly funded our operations last year.

Nationwide hospitals allocated upwards of 50 percent of the funds they raise to operations for care, education, and research. Let me give you an example. We treat Hannah, who has cancer. She receives therapeutic drugs that were discovered with the help of philanthropy. Hannah had to have chemotherapy, so our child life specialist sat with her with a doll and played to teach her what that meant. That was funded through philanthropy. During her long weeks of stay for her treatment, she would wander down to the art room and visit with our art therapist and paint to cheer her days. And when she was too sick to come out of her room, our music therapist came into her room and played songs for her that made her smile, all funded through philanthropy. And then finally, when she could go home, her parents could not afford her outpatient medications, so we had a family fund, supported through philanthropy, that helped buy her medications for that first 30 days, until our social workers, also funded through philanthropy, could work out the situation to get her home safely.

America's hospitals are always open, serving our communities 24 hours a day, 365 days a year. But they are facing new challenges to maintaining access to high-quality care to everyone who needs it. We are seeing all forms of revenue shrink: Medicaid, Medicare, NIH, tightening reimbursements through insurance companies. Our only positive stream of revenue we may see is through philanthropy. Taking away the tax deductibility could cut that final avenue of funding dramatically.

Hospitals need the support they find from generous members of the communities they serve now, more than ever. At Children's National, our margin was less than 1 percent in 2012. Less than one percent. Without philanthropy, we would have lost \$39 million, jeopardizing the care of kids like Hannah.

As you work to reform the nation's tax laws, we urge you to continue to encourage private giving to hospitals, please exclude charitable giving from any limitations on deductions, and maintain the existing federal charity deduction. Thank you.

\*Mr. Roskam. Thanks, Ms. Sams.

Ms. Busby?

\*Ms. Busby. Mr. Chairman, members of this Committee, my name is Nicole Lamoureux Busby, and I am the executive director of the National Association of Free and Charitable Clinics. On behalf of our board, our members, and the 1,200 free and charitable clinics across the United States, I thank you for having me here today to give you our thoughts on how limiting the charitable deduction will dramatically and negatively impact our ability to provide quality healthcare to those who need it the most.

The mission of the National Association of Free and Charitable Clinics is to broaden medical access to the underserved, as well as to promote volunteerism, and to support the free and charitable clinics across the country. However, I believe that it is our broader vision that activates our donors, our volunteers, and the communities that we work with every day, and that vision is to build a healthy America, one patient at a time.

Many are surprised to hear that there are 1,200 free and charitable clinics across the United States who have been standing in the gap, providing healthcare to those who have fallen through the cracks of a broken healthcare system. Our clinics believe in giving a hand up, not a handout, and we are organized at the grass roots level, not at the government level. So what does that mean? That means that the charitable deduction is incredibly important to us, because we receive little to no state or federal funding. We are not federally-qualified health centers, so that means we do not receive HRSA 330 money. We are not rural health centers. And, as I said before, we rely heavily on the donations of individuals, foundations, and grants to keep us going.

Some interesting facts about our donors. We are split 50/50 between men and women. Our donors give \$1 to \$100. And we also have done a survey of our donors, and 44 percent of our donors have said that they will stop giving to our organization if the charitable deduction is gone.

Some interesting impacts and stats about our clinics: 44 percent of our clinics have an operating budget of under \$100,000; 83 percent of our patients come from a working household; and we have found, because of a recent Penn State study, that free and charitable clinics patients utilize the emergency rooms less, they don't overcrowd our emergency rooms because of colds or bumps and bruises. And because of this, we have proven to be a very good return on investment for our donors.

In fact, for every dollar that is donated to a free or charitable clinic, there are \$5 in services that are given to patients. Free and charitable clinics are volunteer-run. We activate an army of volunteers to provide the healthcare that, quite frankly, many do not get right now in this country.

One of the greatest misconceptions of the Affordable Care Act is that every single person in this country is going to have healthcare coverage after its implementation. And you and I know that, according to the Congressional Budget Office, there may be as many as 30 million people without access to healthcare. That includes documented, undocumented, and those people who are eligible for Medicaid but their states are not going to be expanding that. Because of this, free and charitable clinics will remain an important and critical part of the safety net.

And that is why we are urging you to not limit the charitable deduction. We are asking you to not put a damper on the generosity of the American people. And we are inviting you to join us in our vision and help us build a healthy America one patient at a time. Thank you.



\*Mr. Roskam. Thank you, Ms. Busby.

Mr. Wentworth.

\*Mr. Wentworth. My name is Rand Wentworth, and I am president of the Land Trust Alliance. Thank you for inviting me to testify today.

The Land Trust Alliance advances land conservation by serving 1,700 local citizen-led charities that are conserving land across America. They protect safe drinking water, farms, wildlife habitat, and places for children to play. Like any charity, a land trust needs charitable gifts to fund its operations. But a great deal of our work depends on a different kind of a donation: the gifts of land or of a conservation easement, which is a voluntary agreement to retire development rights. These donations provide big public benefits and protect land for a fraction of the market value. These are once-in-a-lifetime gifts that are usually valuable -- unusually valuable, compared to other charitable gifts.

The IRS says that the average value of a donated work of art is about \$7,000. The average value of a gift of land was \$170,000. And the average value of a conservation easement was \$460,000. So, we were alarmed to hear proposals last year to limit tax deductions at 17,000 or 25,000 or 50,000 per year.

Given the size of gifts of land, a cap on deductions would be catastrophic for land conservation in America. Because these gifts are so large, you might assume that they come from high-income people. But many are donations from family farmers, ranchers, and forest land owners with modest incomes, who inherited their land from their parents, which has now grown very valuable. The tax code generally limits these deductions for a donation of property to no more than 30 percent of the donor's income, with a carryover of no more than 5 years. For a working farmer or rancher, though, their income is not large enough to use these deductions. The math simply doesn't work.

This is why Representatives Jim Gerlach and Mike Thompson wrote the Conservation Easement Incentive Act. It allows conservation easement donors to deduct more of their income each year, and to carry over deductions for more years. Last year that bill, H.R. 1964, had 311 cosponsors, a majority of the Republicans, a majority of the Democrats in the House, including most of the members of this Committee. It makes permanent the provisions that Congress first enacted in 2006, and extended in 2008, 2010, and again last month.

Here is a story to illustrate why this bill is so important. Dennis Maroni is a rancher in Arizona. His cattle graze on desert grassland and mountain pasture, which is habitat for a dozen rare species, including the Mexican Falcon and the Jaguar. It used to be in the middle of nowhere, but the growth of Tucson and Sierra Vista changed that. In 2007, Dennis donated a 960-acre conservation easement to the Arizona Land and Water Trust, a generous gift of his development rights, valued at \$560,000.

Raising cattle and sheep provides only a moderate income. And under the previous law, Dennis would only get a small fraction of his donation. But, thanks to the Conservation Easement Incentive Act, he could deduct the entire value of his donation over time. That makes a big difference for land owners like Dennis.

His ranch is now protected, and that is good for wildlife. But the easement will also keep his land in productive agriculture. And Dennis sells grass-fed beef to farmer's markets, food co-ops, and restaurants. So this donation is a win-win-win for wildlife, for agriculture, for the economy.

We are grateful that Congress has extended the Conservation Easement Incentive Act for another year. But it takes more than a year for families to decide on the largest charitable gift of their lives. We don't want land owners to rush into conservation easements because of a short-term renewal of a tax extender. That is bad tax policy and bad conservation policy.

We need certainty in tax policy, which is why we encourage Congress to make the Conservation Easement Incentive Act a permanent part of the tax code. Thank you for this opportunity to testify.

\*Mr. Roskam. Thank you, Mr. Wentworth.

Ms. Morgan.

\*Ms. Morgan. Thank you, Mr. Chairman and members of the committee. My name is Kim Morgan. I am the chief executive officer of United Way of Western Connecticut, which provides services to 15 communities and 2 counties, including the town of Newtown, Connecticut, which has endured a grave tragedy on December 14th, as we all know.

I have just a few thoughts I would like to share with the committee today. First, I would like to acknowledge the tremendous outpouring of support that our community has received, and continues to receive from across the country and around the world in response to this tragic event. The remarkably generous response in all its forms is the foundation upon which the Newtown community will begin its process of healing.

Second, it is important that people understand the depth and the duration of the recovery challenge that we face. It will take many, many years, many millions of dollars, decades of mental health services, and an unending reserve of human compassion and support for this community to cope with the injury that it has suffered.

Third, it is important for this Committee to recognize the important role that the charitable tax deduction can play in helping a community to respond to such severe circumstances. While taking nothing away from the pure compassion that has motivated the generous response, we must acknowledge that many of the most substantial donations may have been less substantial, except for the existence of the charitable tax deduction. I know this to be true from conversations that I have personally had with donors.

And finally, I want to emphasize that, even prior to the tragic events of December 14th, it was the existence of the charitable tax deduction, in part, which enabled United Way to be in a position to provide immediate resources, services, and structure to the Newtown community. I am convinced that we would have not have been able to respond nearly as well, nor would our social service system, had our regular donors not been able to take advantage of that tax credit deduction.

United Way of Western Connecticut received help from United Ways across the country and across the state after this tragedy. They were able to do this because United Ways have worked to engage communities for decades on working together and raising the resources necessary to tackle tough community challenges. People know that they can rely on the United Way to help garner those resources and use them wisely and responsibly, and to coordinate efforts and offers of volunteer assistance to best assist the community.

United Ways in Connecticut also contribute to our United Way's 2-1-1 system, which has helped in the response to the Newtown tragedy, as well, taking calls and offers of assistance and providing crisis intervention and trauma resources to the many people looking for help in dealing with their grief and explaining the inexplicable to their children.

This community generosity is something we rely on at United Way. And, in turn, the charitable deduction certainly helps sustain and grow that generosity. I thank the committee for this opportunity, and would urge the members to consider these points during your deliberations.

\*Mr. Roskam. Thank you, Ms. Morgan.

Mr. Mazany.

\*Mr. Mazany. Thank you, Congressman Roskam. I also want to recognize Congressmen Schock and Davis, one of the newest members of this Committee, from my home state of Illinois. Grateful to the invitation from Chairman Camp and Ranking Member Levin for inviting us to provide testimony on the deduction.

I am joined here today by my colleague, Brent Christopher, of the Communities Foundation of Texas. Regrettably, Alicia Philipp of the Community Foundation of Greater Atlanta is unable to attend. But her testimony is in the record.

For the past nine years, I have had the privilege of serving the metropolitan region of Chicago, home to more than 8 million people and 12 congressional districts, as president and CEO of the Chicago Community Trust. In 2012, our assets totaled \$1.8 billion, we made grants of \$175 million, and received \$179 million in contributions from nearly 2,000 donors. The Chicago Community Trust is one of 11 community foundations started in 1915, a year after this powerful idea became an institution in Cleveland. Today there are more than 700 community foundations in the United States serving virtually every community -- urban, rural, and suburban -- in our country.

It is important to note that even though the Chicago Community Trust primarily serves congressional districts in and around Chicago, our grantmaking via donor-advised and endowed funds has benefitted every congressional district in the state. And when there is a national disaster, we backfill resources for the American Red Cross in Illinois, so that they can direct their resources to where they are most needed in other hard-hit communities.

One of the key things that Brent and I want to help the committee to understand today is that there are many different types of foundations, and that a community foundation is a public foundation, in contrast to private foundations like the MacArthur and Joyce Foundations, which are also based in Chicago. This is a very important distinction when it comes to tax law. A community foundation is a collection of charitable funds, contrasted with an endowment set up by a single donor. It operates as a 501(c)(3) tax-exempt public charity, and is focused entirely on improving the quality of life in that geographic area.

As a public charity, community foundations are bound by the strict rules of behavior and must meet the same requirements as other charities like the American Red Cross and the YMCA.

One of the most important differences between the trust and a private foundation is that community foundations accept both donations and make grants. This distinction is fundamental, when considering how change in the charitable deduction might affect the field of philanthropy. The idea of a community foundation fuses the capacity of a private foundation with the power of community philanthropy, connecting donors with opportunities to help the places and causes that they care deeply about, not only today but in perpetuity.

The charitable deduction is vitally important for us to deliver on our mission, especially with the growth of donor-advised funds. And collectively in 2012, the Chicago Community Foundation paid out 123 million in donor-advised grants at a payout rate several times that required of private foundations.

We serve as the heart of local philanthropy, working with large donors such as pharmaceutical magnate John G. Searle, who created the first Searle Fund in 1964, and has provided resources for a \$50 million 10-year commitment to establish Chicago as a global center for biomedical research, to more than \$100 million invested to improve education in Chicago schools.

But it is also the modest donor. During the great recession, we pulled contributions from more than \$400 to amass \$10 million above our regular grantmaking to support the food pantries, homeless shelters, winter coats for children, and other essential services for those neighbors most urgently at need. During the fourth

quarter, as rumors were rampant about the charitable deduction being scaled back, we received a record \$140 million in contributions, a strong reason to believe that this tax policy does matter.

If we had a level playing field, I would be on the opposite side of this argument, advocating that we all must do our part. Instead, what we see is the continuing reduction of government spending, a trend most likely to continue for the foreseeable future. Given the reality that we face, and the fact that the charitable deduction encourages a key behavior to our democracy, giving for the common good, I am here to advocate for the full preservation of this deduction. If we expect communities to respond to the needs of their residents, we must preserve their charitable capacity.

Thank you again for this opportunity to share what community foundations are able to do, and our perspective on this vital and important public policy.

\*Mr. Roskam. Thanks, Mr. Mazany.

Mr. Christopher.

\*Mr. Christopher. Mr. Chairman and members of the committee, including Congressman Marchant, whose district is in north Texas, thank you for this opportunity to testify today. My name is Brent Christopher, and for the last almost eight years I have served as the president and chief executive officer at Communities Foundation of Texas in Dallas.

When you hear the words "community chest," you probably think of the game Monopoly. That square exists on the Monopoly board because there once were community chests all over America, which supported local agencies addressing health, hunger, and other basic needs. My foundation began in 1953 as the Dallas Community Chest Trust Fund, and we evolved over time into Communities Foundation of Texas.

We work like sort of a philanthropic GPS, helping to steer charitable dollars not only to human service agencies, but also to education, the environment, the arts, medical research, the whole range of public needs across the north Texas region, around Dallas-Fort Worth, and beyond. We have over \$800 million in charitable assets. We have worked with thousands of donors. And we have paid more than \$1.2 billion in charitable grants since we were founded in 1953.

But I like that our roots come from the old community chest, because, really, that is what a community foundation is. As my colleague, Terry Mazany, indicated, each of the over 700 community foundations in America is a 501(c)(3) public foundation. Really, a collection of charitable donations from many people. Community foundations operate through a mix of donor-advised funds, scholarship funds, funds that are designated to support one particular charity, and discretionary endowments that are entrusted to us to meet local needs over time. And by depending on donations, we are affected by the charitable tax deduction in a direct way that most private foundations are not.

One of the most commonly-used tools in a community foundation tool kit is the donor-advised fund. It is a public charity alternative to creating a private foundation that allows charitable assets to be managed more cost-effectively in a bigger pool, while also allowing donors to remain involved by recommending grants from that fund that align with their charitable interests.

Last year, donor-advised funds at Communities Foundation of Texas held a total of \$266 million, and they paid out 14 percent of that value in \$37 million worth of grants. These funds are important charitable vehicles that are being used more frequently by donors. And the current IRA charitable rollover provisions that allow people to make tax-free charitable contributions from excess funds in their IRAs should be strengthened by including donor-advised funds as eligible recipients.

Community foundations are a great democratizer of philanthropy. The different types of funds allow people to bring structure and strategy to their charitable giving, regardless of their backgrounds. Our first major gift was in 1955 from a woman named Pearl Anderson. She was the widow of an African American physician, and had grown up in rural Louisiana during the days of segregation. Mrs. Anderson was prohibited from going to school until the age of 12, when an African American school was finally built just a few miles from her home. She would often walk by a plaque that credited the Rosenwald Fund with establishing that school. Rosenwald referred to Julius Rosenwald, the great Chicago philanthropist, and the chairman of Sears Roebuck, who was inspired by Booker T. Washington to build schools in African American communities all across the rural south.

Pearl Anderson vowed that one day she would pay back the debt that she owed to the people who made it possible for her to get an education. She brought that dream, along with the remainder interest in property that turned out to be worth \$350,000 to the old Dallas Community Chest Trust Fund. All she asked was that the money be used to help youth and the poor, without regard to their race or religion. And today we are still using the Pearl C. Anderson fund to do just that, and to honor her promise to give back.

While you all were working on the fiscal cliff bill back at the end of December, Robert Shiller, the Yale professor and economist, wrote an op ed piece on the charitable deduction. And instead of a dry, academic rebuff to its significance, it is important to note that he began his op ed saying, "Whatever else we do about the tax code, we need to save the charitable deduction, which has done so much good in our country, and springs directly from some of our deepest values."

Most people give from their hearts. But I also know that, since 1917, the charitable deduction has been a vital thread in the fabric of charitable giving in this country. It may not be the primary motivation, but it definitely affects the size and the timing of charitable gifts. As Ranking Member Levin said earlier today, it is not a loophole that needs to be closed. It is a multiplier of generosity. It is unique in our tax code, an encouragement to act selflessly by spending money on the public good instead of ourselves. And we need the full force of that encouragement in this country today, more than ever. Thank you very much.

\*Mr. Tiberi. [Presiding] Thank you, sir, for your testimony. Mike Kelly had hoped to be here to introduce you. Unfortunately, he got tied up in a meeting and still may be back before you are finished. But, Ms. Osche, please --

\*Ms. Osche. Congressman, thank you.

\*Mr. Tiberi. -- testify today. Thank you.

\*Ms. Osche. Thank you, Mr. Chairman and members of the committee. On behalf of the thousands of donors and our many charity partners of the United Way of Butler County and our entire United Way network, I thank you for the opportunity to appear today and share concerns of our citizens on the impact on charitable deduction.

There has been much discussion, I think, this morning around the tax code and the high-level impact of charitable deduction. And I would like the opportunity to share with you what the real impact is at the local level, and what we are hearing from our donors at the local level.

Butler County is one of the fastest-growing counties in Pennsylvania. In population, job growth, and median income, our county residents made contributions of \$69.4 million in 2011, nearly 4 percent of their discretionary income. As a result of growth, our United Way in Butler County's annual fundraising campaign topped \$1.7 million last year, which was an increase of actually 33 percent. Nearly one-third of that increase, or over \$560,000, comes from leadership-level gifts of \$500 or more.

Over the last several years, as the proposed cap on charitable deductions has come to the forefront, I have heard from many donors whose gifts would be significantly impacted if tax reform means a limit on

charitable deductions. In fact, one major donor stopped me as I was on my way into the polls during the November election to say that he would be forced to make tough choices, and that his generous contribution would either decrease or perhaps be lost all together.

Losing his gift would mean that we would lose at least 25 days of after-school programming for nearly 100 children at our local elementary school, where 75 percent of those children are receiving free or reduced lunches, and where our partner agencies and volunteers are providing tutoring, teaching basketball and other exercise programs, providing healthy meals to those students and families, giving the students the opportunity to participate in Boy Scouts, Girl Scouts, 4H, and other community programs. The school district is so pleased with the results of the student academic performance, that they would like to expand that to other elementary schools. But we can't make that happen if we lose that donor's gift.

Just a few months ago I received a call from a financial advisor who -- and a volunteer with us -- who had indicated that he was working with a gentleman who needed to make a sizeable charitable gift, but wanted to be certain that it was going to have a real impact in somebody's life. He made a contribution to our child care scholarship fund that assists those who are either on a waiting list for federal child care assistance, or whose income makes them ineligible for that assistance. His gift assisted a young family with two children whose life was interrupted when the father suffered an injury. It was debilitating and was facing multiple surgeries and could no longer work.

The mother was working full-time to maintain the family's daily bills and healthcare costs, but her employer required her to work overtime, which made her ineligible for childcare assistance. And childcare would consume at least half of their monthly income. She was thinking about giving up, about staying home, and relying on public benefits. Imagine the cost that you and I would be paying for that, compared to the \$5,000 gift that kept her employed for another 6 months, and provided quality early care and education for her children.

Another concerned donor and fellow Rotarian provides an annual gift to our emergency relief fund that keeps the heat on for at least 30 families in our community. If these folks are shut off, those reconnect costs would be triple the amount that it took to -- with that little bit of assistance to keep the heat on.

Butler County's growth is largely due to the generosity and private support of citizens who give, advocate, and volunteer their time to ensure that those key building blocks of education, income, and health are solid, and that we can safely build on that foundation. Those \$1.7 million in charitable contributions last year allowed us to invest in programs and initiatives that build character, improve academic outcome, and equip our young people for the careers of the future.

We invested in initiatives and improved financial stability through employment services, free healthcare for underemployed, childcare tax assistance, and affordable housing. The investments were widespread across 40 programs and 21 different nonprofit providers. They are the programs that close the door on vulnerabilities that lead to dependence on more costly Band-Aid solutions.

We also distributed \$700,000 in designated contributions to over 700 separate charities across the country.

And so, the critical message I am honored to carry from my community and from our United Way network today is that these efforts are driven and funded by the private sector, by the citizens of this great country, who support their religious and charitable institutions, and who literally come to the table with us, even at 7:30 a.m. on Monday mornings, to advance the common good and resolve problems in our community.

Any effort to limit those charitable deductions strikes at the heart of the citizens and the community, who are moving beyond government support and solving problems here, at the ground level. These efforts should be supported. And the incentive to give and to volunteer their time must be preserved. We work

together with community institutions to solve problems and drive change. And they all rely on the generosity of our citizens and their charitable contributions that have long been exempt from taxation.

Limiting charitable deductions has a negative multiplier effect on our community and on families, and that widespread consequence could be devastating. This country was built on the charitable spirit of its citizens. And this core value is unmatched anywhere else in the world. Please preserve this value by protecting that deduction. And I thank you.

\*Mr. Tiberi. Thank you. Thank you all for your testimony. It will be part of the record.

Mr. Gerlach from Pennsylvania, you are recognized, if you would like to ask a question.

\*Mr. Gerlach. Thank you, Mr. Chairman. I don't have any questions for the panel, but I did read through your testimony. And let me just say thank you on behalf of those I represent, and on behalf of those that represent you in Congress that may not be here this afternoon with us, for all the great work you do in the communities where you serve. You do a tremendous amount of great work. And all across the board we want to say thank you.

And a special thank you to Mr. Wentworth for the great work the Land Trust Alliance has been providing to us. And Congressman Mike Thompson here of the committee on the conservation easement legislation for the fact we had well over 300 House Republicans and Democrats cosponsoring this legislation this last session as a testament to the importance of the good work that conservancies and land trusts do all across the United States. And we will continue to work with you on this issue during the 113th Congress. So thank you for that.

But, otherwise, all of you, thank you for the tremendous work you do in the various communities that you are involved in. We appreciate it very, very much.

\*Mr. Tiberi. Thank you, Mr. Gerlach. The gentleman from Texas is recognized for five minutes.

\*Mr. Marchant. Thank you, Mr. Chairman. I would just like to say -- add my thanks to the previous statement, and tell you that the chairman felt -- told our committee before we met today that it was very important the American people hear from all of you today. And so, this is an important part of our discussion of tax reform, but it was also very important that each of you got to add your voice to this debate and make your case.

I would like to say thanks to Mr. Christopher from north Texas. I grew up in the Dallas area, and the Communities Foundation has done an incredible job in Texas -- in Dallas, especially -- in helping donors manage their donations. And it has had an incredible impact on north Texas. And I know that I, for one, am very grateful for that, and grateful to all of you for what you do every day. Thank you.

\*Mr. Tiberi. Thank you. And last, but not least, Mr. Kelly made it. We -- you just barely missed your opportunity to introduce Ms. Osche.

The gentleman is recognized for five minutes.

\*Mr. Kelly. I thank you, Chairman. And Leslie, I am sorry I wasn't here for it. We were talking before the hearing, and I -- Leslie was in the back of the room. I said, "How would you like me to introduce you," and we had talked yesterday. She says, "Well, it is" -- something about Gidget Goes to Washington. So -- I have got to tell you, though, we go back a long way, because we are both lifelong residents of Butler, Pennsylvania.

I think the importance -- and I would like to associate myself with the remarks of the other Members -- you being here today is really your day in court. It is your day to put out the information, your life experience, truly, I think, the anecdotal message that you can bring, Leslie, when you talk about people back home. Because that is what we understand as members of the committee. We have to look at the whole country, but we really know what it is like back where we live, back where we work, back where we go to church, back where we have gone to school. And so it is critical to understand that relationship.

I have always thought that coming from the private sector my whole life that I know incentives work. And I know when you take incentives away, that it has a drastic effect. And I think as we look at -- we are trying to reform this tax code, and trying to navigate it -- and I don't know, quite frankly, how anybody does -- this is not a political thing for me, based on a Republican idea or a Democrat idea. This is about what is best for this country.

You and I talked a little bit yesterday. When you start taking things away from people that they had before, incentives for doing the right thing, then you start to see results that maybe go the other way. And I heard in our first panel about 97 percent of United Way's funding, where it came from in contributions and how critical that way. I think that has just always been unique about this country. I don't know of anyplace else in the world that people are more generous with their own money and their own time. And especially time, because you really can place no dollar value on that. You are giving up a day of your life to do something for somebody else, and I think it is phenomenal that we do that.

I don't -- haven't experienced anyplace else in the world. So as much as we sometimes wonder about the direction of the country, I -- when I look at America's heart, I know it is still the way it has always been.

You and I talked yesterday. Some of the people that you talked to, people that you and I know, and people that fund United Way and participate in United Way, the effect that it is going to have -- and I know you all know what that is going to do. So -- but, Leslie, some of the folks we know --

\*Ms. Osche. Yes. And I did speak to that a little earlier, just before you came in, about the donor who specifically stopped me during the election time and discussed what the impact would be on his gift, and again, outlined directly what that impact would have on programs in our community.

And so, when I go from Rotary meeting to church to all of these various organizations and talk with community members, many have called me in the last week, indicating the fear that, again, that the multiplier effect would have if those charitable contributions are capped in any sort of way. And that multiplier effect, again, because it is the same people that I see at all of those same charity events who are giving to multiple organizations. And those organizations are inextricably tied in providing that safety net in our community.

\*Mr. Kelly. I know -- and you have all given testimony, to a certain degree, of how that does affect it.

I am not going to use too much more time, Mr. Chairman, but I did want to thank you all for coming here. I know it would be great if we had a full panel. But I have got to tell you, this -- when it comes to personal time, this is the worst part of my life. I control absolutely nothing in my life. It is all based on appointments and times where I have to be. It is all sorted out for me, so it is a little bit difficult at times. But it is really important.

I think that there is a disconnect between when I go home people say, "People in Washington don't know what we are going through." The fact that the chairman called this hearing gives you an opportunity. We do want to hear from you. We do want to know the effect that it has on you. We do want to know the effect that it is going to have on our charitable giving aspect of the tax code. So thank you so much for being here. And I will just tell you there will be great consideration given at all levels.

So thank you so much, Mr. Chairman.



\*Ms. Osche. Thank you.

\*Mr. Kelly. I yield back.

\*Mr. Tiberi. Thank you, Mr. Kelly. I couldn't have said it better, myself. So I won't say anything. Thank you all for being here, and spending time with us today.

The next panel shall be seated as the third panel prepares to leave. And I will introduce our panelists as they settle in to their seats.

Welcome to the fourth panel. Thank you for sticking around. It is a busy day for a lot of Members.

First witness I would like to introduce is an old friend from Ohio, a former Ohioan, William Daroff, vice president for public policy of the Jewish Federation [sic] of North America. Mr. Daroff is the leading advocate for the American Jewish issues on Capitol Hill. Thanks for being here.

Second we will hear from Ruth Thomas, who is vice president of finance and administration of SAT-7 in Easton, Maryland. Ms. Thomas has extensive experience in human resources, accounting, and IT management. Thank you for coming today.

Third, we will hear from John Ashmen, who is president of American Gospel Rescue Missions in Colorado. Mr. Ashmen is the originator of an award-winning professional training CD series on Christian camp and conference leadership orientation and development. Thanks for coming such a long way.

Fourth, we will hear from John Berry, who is CEO and executive director of the Society of St. Vincent de Paul in Atlanta. Mr. Berry entered the nonprofit sector after a 25-year business and Federal Government career. Thank you for being here, sir.

Fifth, we will hear from Larry Minnix, who is president and CEO of Leading Age, here in Washington, D.C. Mr. Minnix has been an advocate for nonprofit aging services for over 35 years. Thank you, sir.

Sixth, we will hear from Scott Ferguson, who is president and CEO of the United Way of Chattahoochee Valley, in Georgia. Mr. Ferguson has led four other United Way organizations across the United States during his 24 career years with the United Way. Thank you for being here.

Last but not least we will hear from LaKisha Bryant, who is CEO of the United Way of Southwest Georgia. Ms. Bryant was previously executive director of Girls, Incorporated. Thank you for coming today.

Thank you all. The committee has received each of your written statements that will be made part of the formal hearing record. Each of you will be recognized for five minutes for your oral remarks.

And we will begin with the gentleman from -- originally -- Ohio. Mr. Daroff, you are recognized for five minutes.

\*Mr. Daroff. Thank you very much, Mr. Chairman. It is an honor to be here. It is an honor to be here with you, chairing this Committee, given our many decades of friendship, as well as your friendship with the Jewish community in your home state and across the country.

I would like to thank you and the committee for inviting me to testify. My name is William Daroff, and I am the vice president for public policy, and director of the Washington office for the Jewish Federations of North America. We represent 154 Jewish federations across North America, as well as 300 independent network communities which are the fundraising organizations, as well as the central planning bodies for an extensive network of Jewish health, education, social service agencies. And we raise and allocate funds for

almost 1,000 affiliated agencies that provide needed services to almost 1 million individuals across the country.

As the second-largest philanthropic network in North America, we know firsthand that tax incentives do result in increased charitable giving. We oppose proposals that would either limit the value of the charitable contribution deduction, or impose a dollar cap on the charitable deduction, as they would cripple our ability to provide needed social services to the most vulnerable among us.

Jewish federations conduct an annual fundraising campaign that raises almost \$950 million each year from over 400,000 donors. In addition, we raise \$1.2 billion each year through a variety of planned-giving vehicles. We are especially proud of the important role that donor-advised funds play, as well as supporting organizations, in making grants and building endowment assets. Jewish federations have combined endowment assets of approximately \$14 billion, and make annual grants from those funds that exceed \$1.5 billion, with significant distributions for both Jewish and non-Jewish charitable endeavors.

We ask both sides -- we see both sides of the charitable deduction equation: how donors react to tax provisions, as well as how philanthropic dollars flow to assist the most vulnerable. Perhaps the primary mission of JFNA is to assist Jewish federations as they inspire members of the Jewish community to fulfill our religious duty to be charitable -- in Hebrew, "tzedakah" -- and to fulfill our collective responsibility to build community and improve the world, "tikkun olam."

Although it is true that the importance of these principles transcend the tax code and incentives such as the charitable contribution deduction, we also recognize that such provisions lead to increased donations. These contributions truly are the lifeblood of the Jewish federation system.

Although the donor base of our annual campaign is large, over 400,000 donors, the overwhelming percentage of dollars raised come from a relatively small percentage of donors who are tax sophisticated and extremely sensitive to the vagaries of the tax code. It is this tax sophistication that permits donors to structure gifts so that the maximum amount of funds flow to Jewish federations and, in turn, to beneficiary agencies, and that this flow happens to charities today, rather than later.

This perspective convinces us that proposals that limit the deductibility of charitable contributions will lead to a significant decrease in donations to the Jewish federation system. As you know, the Center on Philanthropy at Indiana University published in 2011 a study stating that charitable giving would decline by over \$3 billion if the deduction was reduced, which is not an insignificant amount. For us, the debate by tax economists is largely an academic exercise, however. The true measure is the tens of thousands who benefit from our services every day. At a time when government funding at all levels is shrinking, charities are needed to fill the gap that government cannot address.

Some examples of the work on the ground by Jewish federations and partner agencies tell the story. In Chicago, the Jewish Federation provides food, refuge, healthcare, and emergency assistance to 300,000 individuals of all faiths. In Los Angeles, the Federation supports Bet Tzedek, an organization that provides free legal services to over 100,000 families. In Ann Arbor, the home of Chairman Camp, the Jewish Federation and the Jewish Family Services of Washtenaw County's world-class Partners in Care Concierge Program pairs volunteers with seniors to help them better navigate the medical system and decrease hospital readmissions that could trigger significant Medicare cuts.

Over the past several decades, the Jewish Federation System has fostered growth in charitable giving through donor-advised funds and supporting organizations known as participatory funds. They offer donors an ongoing partner with Jewish federations. These participatory funds provide a reliable pool of dollars to support the annual campaigns of Jewish federations, which is a primary financial source for ongoing operating budgets. Grants from these funds comprise up to 25 percent of the operating budgets of some federations.

As you consider changes to charitable deductions, we urge that participatory funds be allowed to flourish with a minimum of regulatory burdens. We applaud your deliberative process in addressing these very important issues. However, we believe it is crucial, particularly with the federal deficit -- in a thoughtful manner.

However, we believe it is crucial to recognize in the income tax law that the charitable deduction is the only place where an individual must give away income and assets in order to receive a deduction. This selfless act must be promoted by the tax code, and it is fundamental to the social contract that bonds individuals, charities, and governments.

Again, we applaud the committee for taking this action, and we remain committed, as the Jewish Federations of North America, to ensuring that federal tax policies continue to incentivize the flow of funds from individuals to public charities.

I thank the committee for the opportunity to present this testimony, and stand ready to answer your questions.

\*Mr. Tiberi. Thank you, Mr. Daroff.

Ms. Thomas, you are recognized for five minutes.

\*Ms. Thomas. Thank you, Mr. Chairman and committee members. I am honored to be here today and thank you for the opportunity. My name is Ruth Thomas, and I am vice president with SAT-7.

SAT-7 is the largest Christian satellite network in the Middle East and North Africa, with 5 full-time, 24/7 channels, with studios across the Middle East. For over 15 years, SAT-7 satellite broadcasts have bypassed rulers, religions, and regimes, bringing free Christian content directly to millions of individuals in the safety of their homes. We know that 9.25 million children are watching every day across the Middle East. One in four children in Saudi Arabia watch Christian programming.

SAT-7 North America is a 501(c)(3) nonprofit organization in the U.S. We raise funds and build awareness for our production teams. We neither seek nor receive any local, state, or government funding, but are fully funded by private donations, foundations, and churches.

I thank you for considering this important topic. America is the most generous country in the world. And I am glad to hear the prior testimony from your members speaking of enabling donations and not discouraging them. You would be surprised that the attitude around the world is that America is so generous. So we need to stand by that.

Many organizations will falter if the charitable deduction is limited or removed. By working with integrity and great efficiency, nonprofits are doing more with less. And I will give you one example. In the case of SAT-7, our viewing audience in the Middle East is over 15 million people. We have an annual budget of \$15 million. That equates to \$1 per viewer per year. That is truly cost effective. Others are doing remarkable work, as well, with very few dollars, by utilizing volunteers and the gifts of generous Americans.

Nonprofits are the many points of light spoken of by President Ronald Reagan, the Shining City on a Hill. Nonprofit employees are serving because they choose to do so, often giving up large salaries and generous retirement and benefits packages.

So, as you consider limiting or capping the deduction, an American institution of our tax code, you are considering cutting off our life blood. The majority of nonprofits receive the largest portion of their operating funds from people who itemize on their taxes, so they can receive the deduction. High net worth

donors are just as motivated by the tax deduction as the smaller donors. They are just able to give more, substantially more.

Without reservation I can tell you that if the deduction is reduced, capped, or limited in any way, our donors will give much less, even though they like to give more. Donors even call us in January, anxiously awaiting their tax-deductible receipts. We know how much that tax deduction is a part of their thinking. The urgency to give at the end of the year is also important. And stock gifts are often received on the last few days of December.

Nonprofits have struggled since 2008 because of the recession. To hamstring the public's generosity at this point would severely impact the good work of thousands of nonprofits. In our case, we would be forced to lay off staff and cut broadcasting. To change the law in such a way that limits the ability of nonprofits to do the good they do with well-established efficiency and effectiveness will mean that needs will go unmet.

I thank you for the time today, and I appreciate the opportunity to be here.

\*Mr. Tiberi. Thank you, Ms. Thomas.

Mr. Ashmen, you are recognized for five minutes.

\*Mr. Ashmen. Thank you, Mr. Chairman. And I want to thank the committee for making charitable giving a priority, and bringing all these folks in to testify. I told my colleague here I feel a little bit like we are all band members, cover bands playing the same tune. But I think we all have a very different rendition, and I think it is good to hear all these perspectives.

So, a week ago today I was at the National Prayer Breakfast and heard President Obama's remarks when he spoke about Jesus and the two very important commandments. The second commandment we all know and heard many times: Love your neighbor as yourself. And for many years, many Americans have lived out that commandment by giving money in large and small amounts to trusted institutions that they believe are doing life-saving work. I represent 300 of those associations. It is called the Association of Gospel Rescue Missions. And we are North America's oldest and largest network of independent, faith-based crisis shelters and rehabilitation centers that do what we call radical hospitality for the poorest of our citizens.

This testimony I am giving was submitted earlier in writing. And in it there is a list of 37 of those 300 missions that provide services that are represented in 24 of the districts represented by members of this Committee.

I want to focus my testimony on four realities that we stand by in the Association of Gospel Rescue Missions. I hope they will be instructive points as you make some important decisions, going forward.

The first reality is kind of a backdrop for the other three, and it is simply this. Rescue missions are busier than they have ever been at any time in our 100-year history. The stream of people is endless. I have been to a lot of these missions, and I see it. Whether it is a chronically homeless man dealing with addictions or mental illness, or a young woman with her child who is shocked, embarrassed, devastated to be homeless for the very first time, what I am telling you is every available space and every contribution that comes in provides critical care services.

One of your colleagues just this past week went to the rescue mission that is right here in Washington, D.C. Standing in the middle of this room with 180 beds, the question was asked, "How many nights throughout the course of the year are all these beds filled?" And the director, without hesitation, said, "Every single night."

One of our directors told a volunteer -- to sum up this point I will use his saying: "If serving the poor and powerless brings you joy, hang out at our mission and you can be joyous for the rest of your life."

The second reality is that missions are not fee-for-service entities. That is very important. That means they are extremely dependent on the generosity of private donors. Let me say that another way. Private donations do not supplement the income that rescue missions receive; they are the primary source of their income.

For example, Crossroad Center Rescue Mission in Congressman Smith's Nebraska district says that 99 percent of its annual funding comes from individuals. And that is echoed throughout our association. Rescue missions for years have counted on the current charitable deduction as an effective incentive. And, frankly, they dread what might happen if that incentive is reduced.

To sum up my second point, rescue missions are extremely dependent on donations and the charitable deduction, probably more so than most charities.

The third reality is that because rescue missions rely so heavily on private giving, they are especially vulnerable if there is even a small drop in contributions. Every drop impacts services. It costs two dollars and a nickel at Rescue Missions of Mid-Michigan, in Chairman Camp's district, to feed someone a hot meal. So, for every \$2.05 that doesn't come in, that is one less meal to serve. Imagine yourself in a long line, waiting to get that first meal of the day. Get up to it, and the food runs out because the money has run out.

In Congressman Becerra's Los Angeles district, our director there, Andy Bales, said what they are currently experiencing is a 21 percent drop in donations, but a 35 percent increase in people seeking services, which goes back to my first point. Those kind of numbers ultimately affect people in need.

In my opinion, as everyone here so eloquently has said before me, this is a time in our history when government should be offering the fortunate among us more incentives to give generously, not suggesting and experimenting with disincentives. To sum up that point, any drop in donations has a human cost.

Thank you very much for your time.

\*Mr. Tiberi. Thank you, Mr. Ashmen.

Mr. Berry, you are recognized for five minutes.

\*Mr. Berry. Thank you, Mr. Chairman, and thank you for the opportunity to testify here today.

Since 2009 I have chaired our national vehicle donation program, which supports the work of more than 4,500 St. Vincent de Paul offices nationwide. I also chair our national charity coalition working to stem the sharp decline in vehicle donations.

Let me start by saying that we strongly support retention of the overall charitable deduction. To change the tax treatment of individual donations would undermine our capacity to serve the community. But my testimony to you today focuses specifically on the deduction for vehicle donation.

Over 5,000 charities rely on vehicle donations to underwrite their services to the needy. And most of them are testifying today. Often the nonprofit sector deliver these services instead of the government. In these times of budgetary challenge, we fill gaps to ensure that those in need are helped. Many charities like ours receive little or no government funding, and rely on the donations of noncash assets, especially vehicles.

However, since a 2004 change in the tax treatment of vehicle donations, there has been a sharp decline in them, with a staggering impact on charitable services. At that time, Congress changed the valuation method as part of a package of reforms to address abuses in the process under the rules that then existed. Those changes strengthened tax reporting and enforcement and were excellent. The valuation provision was well-intended, but misjudged the psyche of the donor. The changes were meant to eliminate abuse, but have had the effect of also chasing away donors, actually undermining private philanthropy.

Most of you and your colleagues already agree that this is a problem. I say that because last session legislation to address the problem attracted 333 House cosponsors, including 26 members of the current House Ways and Means Committee, including the chairman and Mr. Kelly.

Sitting in this hearing room today it may seem like a small matter. But for charities like ours, the impact is enormous. To share my own experience, in 2004, just in Atlanta, we received 533 donated vehicles, the sale of which yielded over \$237,000 in revenue. In 2005, the first year the new rule took effect, donations dropped to 382 vehicles, yielding on \$143,000. By 2012, we had seen a 72 percent decline in revenue. Small numbers, maybe. But those numbers literally are the difference between having -- families having food on their table or a roof over their heads. For us, for \$100, we can feed a family of 4 for a week, or provide light and heat for a month.

A food recovery and distribution program we operate in Georgia partners with local retail food chains to collect food that is beyond store shelf date, but is still perfectly good to eat. That program today redistributes over 10 tons of food per month through our 38 food pantries. The vehicle donation revenue we have lost each year since 2005 would have more than fully funded that program every year with money left over for other programs. You can hear similar testimonials from thousands of other charities across the county.

The national impact is also staggering. According to the IRS, in 2004 charities received over 970,000 donated vehicles, with a total value of over \$2.6 billion. In 2005, that dropped to 325,000 vehicles, with a value of \$610 million, an overall decline of 77 percent in only 1 year.

We do not seek repeal of the 2004 reforms. They have worked well to curb tax abuses. Charities have no desire to restore the black eye that vehicle donation had earned prior to the changes. Our goal is to restore the timing of the valuation to the beginning of the donation process, so prospective donors can make an informed decision about the gift.

As Mr. Reichert alluded to earlier today, valuation of donated vehicles over \$500 threshold is based on the gross sale price. So donors don't know the value of a donation until after the charity sells the car. This requires they hand over the car without any idea of the consequences. Even the most altruistic donor is reluctant to play roulette with the tax ramifications of the donation, particularly with a vehicle of significant value.

Last session Representatives Reichert and Larson introduced legislation, H.R. 860, to solve the problem. It wouldn't touch the tracking enforcement reforms, but it would address the valuation timing issue. We encouraged that so many Members of Congress recognizes the problem last session in cosponsoring H.R. 860. For me, someone whose focus is more on the streets of Atlanta than the halls of Congress, it sends a powerful bipartisan message. Thank you very much.

\*Mr. Tiberi. Thank you, Mr. Berry.

Mr. Minnix, you are recognized for five minutes.

\*Mr. Minnix. Thank you very much, sir. We appreciate the opportunity. Leading Age represents 6,000 not-for-profit aging and other kinds of providers throughout the country. In the 19th century we were your widows and orphans homes. We were the homes for old women and widows of veterans of the Civil War

and the old soldier's home. Today we are things like Ecumen and Jewish Home Life Care and the Bivens Foundation in Amarillo and National Church Residences in Columbus. We are part of a philanthropic sector that we believe is now so embedded in our culture that we may be in danger of taking it for granted. Otherwise, we wouldn't be talking about threats to the charitable deduction.

Charity is in our gene pool. Benjamin Franklin started the tradition by establishing the Leather Apron Society to help sick and wounded soldiers, a major concern that is arisen in spades today. De Tocqueville commented on America's unique penchant for enlarging the hearts of communities, which I think is a wonderful way to think about the American charitable spirit.

Peter Drucker commented that America has three distinct sectors that make it great and different: government, whose job is protect and defend; business's job to generate an economy; and the not-for-profit sector, change lives.

Dr. Lester Salamon at Johns Hopkins, who is probably arguably the most knowledge expert today on the importance and the resilience of the sector, says that we have four duties: one, guardian of values; two, meet difficult unmet needs that are not profitable; three, advocate for those who do not have advocates; and four, create social capital.

The not-for-profit sector is surprisingly large in size. It is the third-largest employer in America, behind manufacturing and retail -- 13.5 million jobs. So, threats to the charitable sector mean threats to jobs, simply because that is where most of the money goes.

So, as government reins in its spending, as we know that it must do to get our financial house in order, philanthropy will be asked to fill gaps that ordinary people and families cannot cover themselves. And it is the poor, yes, but it is also the middle class poor. In our sector we see a number of people that need various types of long-term care services that have a little too much to qualify for Medicaid, but cannot sustain themselves on their own resources.

Example. Golden Years Home in Indiana had to demolish their old nursing homes. We have a lot of old nursing homes in America. And they had to have a capital campaign to do that. They have a new state-of-the-art facility. Seventy-five percent of their residents are Medicaid, Medicaid does not pay the full cost of care, so there are two gaps that they fill there. TELACU in Los Angeles, low-income senior housing, but they also have an academic program where they tutor disadvantaged students. They have a 100 percent graduation rate for participating high school and college seniors in a county where the graduation rate is 40 percent.

In aging services, a low-income elderly housing with services is an emerging new model where, if they are allowed to provide non-medical services, can help seniors age in place and keep them out of hospitals and nursing homes. A downstream effect on healthcare costs is beginning to emerge. Bethany Center in San Francisco reports they don't remember the last time one of their residents had to go to a nursing home. So these outcomes are possible only with philanthropic contributions.

Our retirement communities serving largely middle-income people, keep people off of Medicaid. And we are seeing results where they are staying out of hospitals and nursing homes unnecessarily.

The power of the not-for-profit sector. Dr. Claire Gaudiani at Yale offers a very provocative perspective in her book, "The Greater Good: How Philanthropy Drives the American Economy and Can Save Capitalism." I commend it to you. It is well done. She asserts in there, "America is not generous because it is successful; it is successful because it is generous." In my own folksy way of putting it, I would say philanthropy is the seed corn of American progress.

And I urge us not to forget that, and messing around with threatening the tax deductibility of charitable contributions, and encourage people to give, not discourage them. Thank you very, very much for this opportunity

\*Mr. Tiberi. Thank you, Mr. Minnix. I can't help but tell you that I was with the National Church Residency folks a month ago in Columbus, Ohio in a project that they built with a low-income housing tax credit to house, in transitional housing, homeless veterans.

\*Mr. Minnix. Homeless veterans, yes.

\*Mr. Tiberi. Working with the nonprofit community to provide services, and then working with the for-profit community to place them in permanent jobs and get them into permanent housing. A great organization.

\*Mr. Minnix. Thank you. We are trying to work with them with HHS and HUD to show that there is a national model here.

\*Mr. Tiberi. It is a great --

\*Mr. Minnix. So -- yes.

\*Mr. Tiberi. It is a great concept.

\*Mr. Minnix. So thank you for that comment.

\*Mr. Tiberi. No, you are welcome. Thank you for what you have done.

Mr. Ferguson, you are recognized for five minutes.

\*Mr. Ferguson. Thank you very much, Mr. Chairman and the committee. I am Scott Ferguson, president and CEO of the United Way of the Chattahoochee Valley in Columbus, Georgia -- the other Columbus. It is a real honor to be here with a distinguished panel and many colleagues. And I am honored to be the leader of a United Way that has over 20,000 individual contributors every year, many of which use that incentive as a deduction.

The United Way is committed to providing essential funding to local nonprofit organizations that will assist over 100,000 families this year. United Way volunteers invest money in local programs that demonstrate need, results, and good stewardship. Our United Way has also been entrusted to oversee and incubate and implement the City of Columbus's 10-year plan to end homelessness. Working with many partners in our community, and specifically with our Columbus housing authority, they recently got HUD designation to work on permanent supportive housing.

In that -- we also have an Army base there, and we have a lot of homeless veterans, as well. And we do have an anonymous donor that is considering a seven-figure donation to jump-start this program for housing. And I am sure that this charitable deduction is going through their mind. They are generous, but there is also that tax implication.

The United Way is also focused on teaching youth giving back. We are in our second year of having a youth United Way. We have juniors and seniors from all area high schools that learn leadership skills, they learn how to raise money and how to give it back to the community. We also tomorrow launch our fourth annual Live United Youth Camp, which is with 20 seventh graders, and that is funded by Aflac Insurance, which is headed in Columbus, Georgia. And they are learning about our focus areas, which are basic needs,



income, health, and education, through volunteering, lectures, and tours. We have to get the young folks to learn about giving back of their time and their own money.

We are also an active partner in the area for the volunteer income tax assistant program, which last year brought in \$3 million of tax refunds and credits to people that needed the money. We currently fund 50 programs through 26 nonprofit agencies. It is what we are all talking about. It is local people. It is things as basic as food, clothing, and shelter, or keeping kids in school, tracking their grades, making sure that they are successful in life.

In a recent study, the Columbus, Georgia area actually ranked as the 23rd highest charitable giving area out of 366 metropolitan areas. And we are only about a population of about 300,000 people, 7 counties in Georgia, 1 in Alabama. And our folks support charity. And I am really afraid that -- everybody gives for the right reasons, but it still affects, when you talk about charitable deductions.

Our United Way is on track to raise the most money ever, and we will announce the results next week: \$7.7 million. And we are proud of that. And we are the second-largest funder of social services behind government. And I think that is the whole United Way system, not just in Columbus, Georgia. And I am absolutely convinced that we must preserve the charitable deduction as it is in the Federal Tax Code.

I would like to believe that people do give for the right reasons, and I know they do, but we had an executive committee meeting on Tuesday and we were talking about my appearance here. And many of those people give to a lot of different things in the United Way, and most of them are high-net-worth individuals. And they are concerned about this, and how it affects them. I am sure they will continue to give, but it still affects our ability to raise money.

So, we oppose any limitations. I don't have the answer for you; I am glad that you are in that leadership role. And we will -- right? We got to help you. I don't know how to do that, but we are here to say that it is important, and it helps all of us raise more money and take up the difference for what government may have to cut in health and human services or education. It is an important fabric of our community, and I thank you for the time.

\*Mr. Tiberi. Thank you, Mr. Ferguson, for what you do.

Ms. Bryant, you are recognized for five minutes.

\*Ms. Bryant. Thank you, Mr. Chairman and other members of the committee, for allowing me to speak with you today. Again, I am LaKisha Bryant, and I am the president and CEO for United Way of Southwest Georgia.

In recent years, the United Way of Southwest Georgia has undergone dramatic shifts on how we work to serve our community. The historic community chest that was started in 1954 with a broad charitable mission has transformed into a community agent that focuses measurable impact in the areas of education, income, basic needs, and health. We focus our efforts on building partnerships and collaborations, engaging our citizens on the common good and focuses on what matters the most to donors: fiscal stewardship and a return on their investment.

And as an agency that represents 27 partner agencies in our 13-county geographic territory, we feel that it is imperative that the charitable deduction be preserved as it is currently written in the federal tax code and not be limited in any way.

Southwest Georgia is comprised of pecan groves, pine trees, farms, and plantations, yet nestled in the hub of many major manufacturers like Procter and Gamble and Miller Coors. And although the Marine Corps Logistics Base and the educational and health sector make us the foundation of southwest Georgia's

economy and the hub for their commerce, we are still in one of the more poorest congressional districts in the state of Georgia, and we are at the bottom tier of economically disadvantaged districts in the country. According to recent Census figures, our geographic territory has an alarming poverty rate by counties ranging from 22.6 percent to 36.4 percent.

With these extremely low poverty rates, our citizens rely on the services provided by our partner agencies to help them live independent lives and provide things for their children. Without the generosity of countless philanthropic gifts that we are given annually, many of these services would be obsolete in our rural communities. And many of those gifts are given at certain levels based on the current codes. Without these deductions, many of these funds would be lessened, if not eliminated all together. And for a geographic community as mine, that elimination of funds could simply be detrimental to agencies, and they would be faced with decisions such as closing their doors, serving smaller populations, and families are forced to make difficult decisions about food, clothing, and shelter.

The single-most important action that I feel the committee can take is to ensure that the preservation of the charitable giving incentives that exist today remain in the code. We strongly oppose a cap on charitable deductions as a means of financing other programs. A cap would reduce charitable giving and undermine our ability to ensure that individuals and families have access to food, housing, safe after-school programs for children in need, services for seniors and disabled during these challenging economic times.

I would like to share a story with you. There was once a little girl about to embark on a journey in her life. School was out for the summer and both of her parents had to work. She had to find something to occupy her time and mind during the day. So her parents asked around about a program that they could take her to, and they discovered a particular United way-funded program that had activities that matched her personality.

So, with a lunch box in hand and her book bag on her back, she embarked upon a new adventure and -- that took her away from her extremely modest cinderblock home on the south side of town. As she entered the building, her nervousness soon vanished. She saw familiar faces, and she was greeted by hugs and strong supporting arms of teachers and staff that built and cultivated the characteristics within her. She learned many valuable lessons, new skills in education, learned about careers, and how to plan for her future. And before she knew it, the summer was over.

But each year she went back to that United Way-funded program. She did this for five or six consecutive years before moving on to high school, and then furthering her education in college. But she never forgot the lessons that she learned and the molding that she was given by that funded program.

But life has a way of getting more out of you. With the leadership skills that she learned in that program, and the many professional roles that she held in a number of years afterwards, she returned to become the executive director of that organization. And now she continues to give back to her community in an even bigger fashion.

I am that little girl in that story. I know firsthand that funding support that we provide our programs work. I know the values are irreplaceable. I know the message that we take to our consumers take them to higher heights and deeper depths in this world. And none of that would be possible without charitable contributions.

A United Way program played a major role in my development as a woman and as a leader. And there are countless faces of other girls, boys, men, and women that have benefitted from programs and services of the United Way of Southwest Georgia and the United Ways in other communities.

I implore to you please keep the current codes as they are, or expand them to foster more giving. Encourage more giving so that others can have the same opportunities that I had. Thank you.

\*Mr. Tiberi. Thank you for your story and your testimony today.

Mr. Daroff, President Obama, back in 2009, first proposed limiting the charitable deductibility of contributions, or the contributions -- limiting the deductibility of charitable contributions to fund, in part, Obamacare, has proposed it in each of his budgets since then. And you have, since that time, been a national leader on trying to stop those proposed changes.

Why are you and your organization so concerned about the changes that he has proposed?

\*Mr. Daroff. Thank you for the question, Mr. Chairman. In my seven-and-a-half years at the Jewish Federations of North America, there has been no other public policy issue in the domestic sphere that has brought as much attention by both our volunteer leadership and our professionals than these proposals to reduce the tax-deductibility of charitable contributions, and that is because we are all donors, we are all fundraisers.

We recognize the importance that the charitable deduction has for us to have the ability, as a Jewish community and as a Jewish federation system, to be at the forefront of the fight to feed the hungry, clothe the naked, and heal the sick.

We recognize that while folks give contributions for many reasons to try to make the world a better place, on the margins changing the tax code can have a tremendous impact on the ability of those folks to dig deeper into their pockets and to give substantial contributions to help us do the good work that we do every day. So this is an issue that really tugs at us, talks directly at who we are, as an organization and as a Jewish people, and that is why we have been so focused upon it.

\*Mr. Tiberi. Back in Ohio the Cleveland Foundation and the Columbus Foundation have expressed the need and the importance to me of planned giving. I know planned giving is something that is and has been important to your organization. Can you help expand on that issue, as to why it is important to you all?

\*Mr. Daroff. Yes, sir. Mr. Chairman, planned giving is a process where donors, their advisors, and our endowment professionals collaborate to structure gifts to our system in vehicles such as gift annuities, charitable trusts, donor-advised funds, and supporting organizations.

By definition, the charitable deduction plays a significant role in this process, as the parties try to maximize the flow of dollars to federations, as well as to assure that those funds flow to help real people with real issues sooner, rather than later, to help fund those social service programs.

The vast majority of our planned giving dollars come from donors who have great tax sophistication. And so it is that, again, that group of sophisticated donors who are very sensitive to the vagaries of the tax code who itemize their deductions where the -- reducing the deductibility of charitable contributions can just have a tremendous impact on their giving. And so it is incredibly important to us, as we look to the future, among this group of people.

We said -- as I said in my testimony, the vast majority of the funds that come in to our federations come from the top 10 percent of donors. And it is that group who, again, are very sensitive to the tax code. It is that group, again, who are very involved in planned giving, both within the federation system and with the organizations you have mentioned, and with our Jewish federations in Ohio that are incredibly important to maintaining the operating budgets of those organizations that really help to support agencies across the country.

\*Mr. Tiberi. Thank you. Thanks for being here today.

\*Mr. Daroff. Thank you, Mr. Chairman.

\*Mr. Tiberi. Mr. Berry, thank you for testifying on an important issue that 300-plus Members of Congress also think --

\*Mr. Berry. Three hundred and thirty-three.

\*Mr. Tiberi. -- are very, very important. And thanks for testifying on behalf of, as you said, thousands of organizations, including many in my hometown, including Ronald McDonald House and Goodwill of Columbus, who have really had a huge drop-off in their donations.

Aside from the House bill that you mentioned, I know Mr. Reichert is really itching to get this moving and be helpful. Can you just explain to us in plain English real quick what you think would be helpful?

\*Mr. Berry. The provisions of H.R. 860 were a relatively simple fix. And what it did was move the valuation number from \$500 to \$2,500, which was half of where it was in 2004, at 5. It is a good number, because it brings in most of the vehicles that are coming in donated that are operable vehicles that have questionable value. There aren't too many that are over 2,500. The ones under 500 are pretty simple. They don't have any wheels and they sit on blocks. So that middle ground is really where it is important.

Today, in the advancements in technology and information, the ability to value a vehicle is so much easier than it was in 2004. So you can go to four or five Internet websites and easily come up with a list of approximate values of the vehicle. You go into any Carmax in the country and walk out 20 minutes later with a valuation. So it becomes a very easy and also a very auditable and enforceable process.

Earlier today there was testimony about how can the IRS enforce some of the provisions around non-cash assets to ensure they are not being over-valued. And I think, as a nonprofit executive who has to file an IRS 990 form every year, it is not a very difficult process. The IRS already requires you to report on your fundraising dollars, your fundraising percentages, your overhead expenses. Those reporting requirements could be expanded to include what percentage are you paying for your car donation vendor, what percentage are you paying for your thrift store operator, and then put some guidelines on it. So --

\*Mr. Tiberi. Great.

\*Mr. Berry. I think that is the --

\*Mr. Tiberi. Thanks for coming up today.

\*Mr. Berry. Thank you.

\*Mr. Tiberi. Mr. Davis is recognized for five minutes.

\*Mr. Davis. Thank you very much, Mr. Chairman. And I was just in the back, meeting with the executive director of the Community Trust of Chicago. And, Ms. Bryant, I was kind of struck as I got a chance to look at your testimony and hear about it. Your personal story kind of intrigues me. And I wonder if you could explain to us the impact of your direct involvement and contact with one of the type agencies that we are talking about, and what it may have been, had you not been able to have those experiences.

\*Ms. Bryant. For me, my parents married young. However, they understood the need for hard work to be able to provide for their families. So both of them had to work. So I had to have somewhere to go during the day. However, they could not afford child care over a certain amount. So they were told about this particular United Way program, which was Girl's Club, now Girls, Incorporated. And I was able to go there for a very nominal fee. But it gave me an opportunity to expand my academic skills, as well as learn about a world outside of where I lived. And at that particular time I did live in the south side of my community, which was considered one of your lower-income areas.

And throughout time, my family -- through the hard work -- was able to utilize these programs to get to a more independent level of living, and work their way up to what is now -- would be probably considered the upper middle class level. However, the impact of that program made sure it reinforced what my parents were giving me, but it made me see that I had to go to school, get a viable education, but also be able to give back to my community, because that is what the program taught us.

And, like I said, God has a way and life has a way of getting more out of you, and I ended up being the executive director of that program, and for seven years was able to impact other children that still come from that lower-income bracket. Sixty-seven to seventy-two percent of my children at that time lived in the poorest areas of Albany. And Girls, Inc. is still a United Way-funded program.

So now, as a United Way CEO, I am working hard to leverage the dollars that we get in our community to help programs such as Girls, Incorporated, but countless other nonprofit agencies that we know -- without that funding, without the charitable donations that we are giving, that we can then give to these agencies to make community impacts.

A lot of the kids would not survive. A lot of families would not have food, clothing, and shelter. And a lot of children would not turn out and have the life that I have been blessed to have.

\*Mr. Davis. And you can say without hesitation or reservation that there is a good chance that you might not be doing what you are doing today, had not you had the experiences of that program.

\*Ms. Bryant. That is definitely true. My parents had a very strong impact in me. But the partnership that they got from these programs to keep me occupied, to expose me to things that they couldn't afford to expose me to at that time, really helped to build the person that I am today.

\*Mr. Davis. Well, I certainly thank you for your testimony and for the answers. And I think it reinforces for anyone who have any doubt of the impact, that the program, through the utilization of resources that came from the United Way and other places, played a significant role. I thank you and I yield back, Mr. Chairman.

\*Ms. Bryant. Thank you.

\*Mr. Tiberi. Thank you, Mr. Davis. The far superior co-chairman of the Philanthropic Caucus, Mr. Lewis, is recognized for five minutes.

\*Mr. Lewis. Well, thank you very much, Mr. Chairman. It is very kind of you to -- I don't know where you get the word "superior" from, but I am just --

\*Mr. Tiberi. Well, you are --

\*Mr. Lewis. I am from Alabama, and I live in Georgia, just trying to help out and make a little contribution. What have you been drinking today?

\*Mr. Tiberi. Well, it is my attempt to sooth my Big 10 feelings for an SEC guy.

[Laughter.]

\*Mr. Lewis. Well, thank you so much.

\*Mr. Tiberi. You are welcome.

\*Mr. Lewis. I appreciate it. I want to thank each member of the panel for being here. I listen and watch most of your testimony from the monitor. And Mr. Berry, it is good to see you again. And --

\*Mr. Berry. Good to see you, too, Mr. Lewis.

\*Mr. Lewis. Why, thank you. Ms. Bryant, let me ask you a question. Now, you mention in your testimony that the charitable deduction should not be eliminated, reduced to fund spending. Do you think it should be reduced or eliminated to fund a tax cut for the wealthy?

\*Ms. Bryant. I think the current code that we have cultivates a level of giving that allows citizens to feel good about giving to organizations that are going to make an impact in their community. I think the code, as it stands now, should probably just simply be expanded to foster more giving, so that we can do more work in our communities.

I don't want to get too much into the discussion in regards to whether or not that tax cut goes to somebody else to help somebody that is wealthy. But I know for me, in my community, we need those charitable deductions to help the people that need it the most. And it is not just the donor that has the deep pockets that I am concerned about. I am also concerned about those donors that has maybe the slimmer pockets that are giving that \$100, that \$500, that \$1,000 gift that this tax code change could affect, as well.

So, like some of my colleagues have actually mentioned earlier, I think cultivating a larger system of giving and enhancing the code to encourage more giving is what would help us all.

\*Mr. Lewis. I have lived in Georgia for almost 50 years. I think I know the state pretty well. You live in southwest Georgia, in Albany.

\*Ms. Bryant. Yes, sir.

\*Mr. Lewis. And I know Mr. Berry know a great deal about the state. And unbelievable unmet needs in our state, like in many other region of our country. And you still see these unmet needs, and there is still a role for foundation and nonprofit organization to play in helping to meet some of these unmet needs.

Any other member of the panel want to just respond to what I tried to suggest?

\*Mr. Daroff. Yes, I --

\*Mr. Lewis. Not trying to lead the witness, now.

\*Mr. Daroff. I would say, Mr. Chairman, it is a pleasure being here. We spent Passover seder together last year. You know, based on your constituents, based on your life story, the incredible role that nonprofit charities play in the lives of millions of Americans. We heard from Ms. Bryant about the incredible role that United Way played in her life.

So the answer is, definitively, yes, that there is an unmet need that the charitable sector fills every day of every month of every year. And we respectfully just ask that, as this body seeks to figure out the federal deficit issues, the fiscal cliff issues, the sequestration issues, that you look elsewhere for those solutions. The charitable sector is being hit hard by the economic downturn. It is being hit hard by a reduction in governmental assistance that flows to our agencies. And we are here to help. We are here to help fill that gap. And we suggest that we want to continue to fill that gap.

And so, there are unmet needs, and we are here to help real people with real problems every day.

\*Mr. Lewis. Well, thank you. It is very good to see you again.

\*Mr. Daroff. Thank you, sir.

\*Mr. Lewis. Thank you for being here.

\*Mr. Berry. I would also, Mr. Lewis, just to address the unmet need, we are the number one or two referral source for United Way of Greater Atlanta, and we have been for the last 10 years. Last year we helped, in the north Georgia area, over 202,000 people. But the sad side story to that is that we turned away over 300,000 people, because we didn't have the money or the human resources to handle it.

So, the unmet need is there, and I agree, to try to do anything to minimize the ability of the nonprofit sector to deal with that need would be tragic.

\*Mr. Minnix. I would like to add to that, Mr. Lewis. And, by the way, I am from Atlanta. And there is no greater advocate for senior housing and things like that than you, and we are grateful for that.

But I would say that while seniors are getting along better financially, the growing need for lower-income -- especially women, we still have a generation of women that are going to be poor -- there is a growing need of younger people with disabilities who are living longer, who will be living with those disabilities a long time. You add to that veterans that are coming back from this war that are going to have to be tended to. And the needs for charity in this country will continue to grow.

And you are going to expect the not-for-profit sector to meet those needs because they are difficult, because they don't pay for themselves, and so don't hamstring us with that. Sorry.

\*Mr. Tiberi. The gentleman's time has expired. We have two more panels. Thank you, Mr. Co-Chairman.

Thank you all for testifying. Thanks for your contribution today. The next panel will be seated.

Thank you all. We have a vote coming up, so we are going to try to get all of your testimony in. I am going to go ahead and just begin as you get settled in.

I would like to welcome our fifth panel officially. First we will hear from Michael King, president and CEO of the Volunteers of America in Alexandria, Virginia. Mr. King has more than 35 years of experience as a leader in the nonprofit sector.

I am going to yield to Mr. Davis, who has a constituent who he would like to introduce personally. Mr. Davis.

\*Mr. Davis. Thank you very much, Mr. Chairman. And I am indeed, as a strong supporter of the arts, I am pleased to welcome Jimalita Tillman, the executive director of the Harold Washington Cultural Center in Chicago. The mission of the Harold Washington Cultural Center is to preserve and protect African American culture, using the performing and media arts. Harold Washington engages youth and community members in the arts, and using their time constructively, rather than on the streets.

Ms. Tillman graduated from DePaul University with a degree in theater management and international marketing. She received training in theater operation from North Shore County Day School, the Black Ensemble Theater, Pontifical Catholic University of Rio de Janeiro, and the ETA Theater. She is a member of National Association of Theater Owners, International Association of Theater for Children, Young People, Black Storytellers Alliance, National Association of Youth Theaters, Sigma Gamma Rho, Incorporated Sorority, African American Arts Alliance. She is also the executive producer of the Off-"Broadway in Bronzeville" series at the Harold Washington Cultural Center, one of the many programs that enrich the lives of Chicagoans.

We are pleased that she is here. I welcome her. And I also must make a disclaimer, that her mother served with me in the Chicago City Council. And one of the heroes of Chicago. And her mother also worked with the Honorable John Lewis when she was 16 years old on the staff of Dr. Martin Luther King.

Welcome, Ms. Tillman.

\*Ms. Tillman. Thank you for having me. It is an honor and a pleasure to be here. I caught that flight when the opportunity came, and Mr. Camp's team sent me that letter. I said, "A hundred fifty copies? How am I going to get 150 copies together?" So I got it together --

\*Mr. Tiberi. Thank you --

\*Ms. Tillman. -- we overnighted it, same-day'd it, and we are very, very proud --

\*Mr. Tiberi. Thank you --

\*Ms. Tillman. -- to represent our great congressional district, the seventh congressional district --

\*Mr. Tiberi. Thank you.

\*Ms. Tillman. -- in Chicago.

\*Mr. Tiberi. Thank you. We need to continue on with our introductions before we vote. Thank you so much.

Mr. Delaney is our third witness today. Tim Delaney is president of the National Council of Nonprofits, here in Washington, D.C., was previously solicitor general of Arizona. Thank you for being here.

Fourth, we will hear from Bill Kitson, who is president and CEO of the United Way of Greater Cleveland. Mr. Kitson has over 24 years of experience in the United Way network. Thank you for being here.

Fifth, we will hear from Naomi Adler, who is president and CEO of the United Way of Westchester and Putnam in New York. Ms. Adler is an attorney with a great deal of experience in both the legal and nonprofit sectors. Thanks for coming.

Sixth, we will hear from Cynthia Gordineer, who is president and CEO of the United Way of Forsyth County, North Carolina, and she was previously a regional executive with the American Red Cross, and was named Executive of the Year in 2011. Thanks for coming out.

Finally, we will welcome Karen Rathke, president and CEO of Heartland United Way of Nebraska, a constituent of our colleague, Mr. Smith, who wanted to introduce you today, but is probably late coming from another meeting. Hopefully he will get here to say hello. And we welcome you, and I know he was excited that you were here, as well.

So, thank you all. We will begin with Mr. King's testimony.

You have five minutes.

\*Mr. King. Okay. Thank you, Mr. Chairman, and all your fellow members. I am Mike King, CEO of Volunteers of America, located here in Alexandria. But I am like many of you, I hop on a plane about every other week to come up here, and I kept my home in Dallas, Texas when I took this job three years ago,



because I have three gorgeous granddaughters that I want to watch grow up. So I understand what you give to this, and appreciate what you give to this.

Earlier today Representative Rangel was asking a question about how much of the money gets to those agencies that serve the truly needy and are doing the hard-core work with the poverty folks. Well, you can look right at Volunteers of America and answer that question. That is exactly what we do. We are in 400 communities. We have 16,000 employees. We serve 2.5 million people a year. And we transform the lives of America's most vulnerable citizens.

We are talking about seniors in the twilight of life that are looking for affordable housing. We are the largest provider of affordable housing for low-income seniors in America of any nonprofit. We do that night and day, and we love doing it. And we love them. We are a faith-based nonprofit, and that is our love, that is our work.

In addition to that, we serve homeless veterans. Same kinds of services, serving them in the kind of project you described earlier. We have done many of those with transitional housing, permanent housing, shelter, homelessness, treatment for addiction and PTSD. We are partners with the Veterans Administration and that, just as we are partners with HUD in the housing that we do for seniors.

In addition to that we serve addiction across the board for women with children who can't bring their children with them to an insurance-paid rehab center, but they can with us, and we will take care of their children while they get into recovery and restore their lives. We will also even take care of children whose parents are incarcerated, and take care of the care giver. We are dealing with the most vulnerable Americans that there are.

No one is real excited to have us move into their neighborhood, to bring a program there, to be quite candid with you. I have been thrown out of more neighborhood meetings trying to find new site locations for drug rehab centers and affordable housing than I can remember. But what we do is absolutely at the core of the fabric of America.

Let me share with you what we have been through the last few years, because I think it is directly relevant to this conversation that we are having today -- and thank you for having the conversation today.

You know, it hasn't been a picnic the last four or five years. Whenever we go into recession in our nonprofit world what that does to us is our needs go up. As you know, our needs go up. As you described earlier, Representative Lewis, our needs go up. We have less resources to meet those needs because of the recession. At the same time, in just the last couple of years, we have had to do adjustments in rates. And we understand what you deal with there. We understand the gravity of that challenge and of that problem.

Just last year we had an 11 percent cut in Medicare rates, which cut us across the board for the skilled nursing care that we provide to the low-income seniors I just described. So, on the one hand, you have increased demand for services. On the other hand, you have reduction in charitable giving because of the recession. You are also getting hit with reduction in rates, because there is just too much need and not enough resources.

And so, what is the last thing you need to do at that point in time? The last thing you need to do at that point in time is say, "You know what? We are going to disincentivize private giving. We are going to discourage people from sharing part of their bounty to go to those who need it most."

We are absolutely here -- if you are wondering why this woke the nonprofit world up -- and I heard that question floated out today -- well, this is why it woke us up. We have been doing everything we can in the last five years to hold on. And I am a nonprofit lifer. Okay? This is all I have ever done. So I have seen all the trends come and go. Let me tell you what nonprofits have been doing the last 10 years. They have restructured more times than any auto company you will ever find, okay? They have cut and cut and cut

and restructured and restructured and restructured. And I see heads nodding. We have all been there. You have got everybody now doing two and three jobs. There is no place else left to cut.

So, literally, why you have got everybody's attention is we are scared to death that we are going to have to start shutting down programs. And you see it is not because that is us, it is because of the people that we are engaged with that we don't want to see on the street. That is why it has our attention. That is our customer. That is who we work for. We are just stewards. All of us here are stewards of that. That is why we came to you. That is why you have been flooded on Capitol Hill. Thank you. Thank you for asking us our opinion.

You know, I once heard the highest form of recognition you can give someone is to ask their opinion. You have done that, and we thank you for that. We trust you will do the right thing. Please incentivize giving and, frankly, caring for our fellow man. Thank you.

\*Mr. Tiberi. Thank you, Mr. King.

Ms. Tillman, you are recognized for five minutes.

\*Ms. Tillman. Thank you very much, and thank you for that beautiful introduction, Congressman Davis. He has already summed up my credentials, my background, and much about our facility that is inside of the great congressional district of seven in Chicago.

This position that we are taking at the Harold Washington Cultural Center is not an indictment on the current Administration, but an honest voice of advocacy for theater, music, and the arts. We utilize media and performing arts to deter at-risk behavior in youth. That borderlines on the quality of life as well as human resources and human services.

The Harold Washington Cultural Center, we have a 1,000-seat theater, a state-of-the-art computer resource lab, a studio, a full-service recording studio, a video-editing lab, and we service over 25,000 youth without federal support, state, or local. It is the individual little old lady down the street, it is the neighbor, it is the local philanthropist, such as Mr. John Rogers, that will come from time to time, or that person who purchases that handle on the seats in the theater. We rely on the individual donor and the community to support what we do at the Harold Washington Cultural Center.

We have reviewed the 10-page NEC report on charitable discussions and the fiscal cliff. Though we are not economic experts, we believe that all possible measures have not necessarily been taken to resolve the debt matter without cutting the charitable deduction percentage.

We believe that the fact that Chicago that has recently received much media attention on the rash of crime and murders perpetuated highly in our black community is a direct result of funding that has been cut in the arts and in constructive creative programs throughout our community. We provide young people with an opportunity to get off the streets and on the stage. And we tell our young people, "Put down the guns and get on the stage."

We have an alternative charter high school within our school that deals with the class of students ages 16 to 22 that are getting back into the school system. And we don't just do job training there. We actually do on-the-job training there, because they learn light tech and design, they learn set design, they learn acting, directing, and they are actually able to apply it right there at the theater.

Our "Broadway in Bronzeville" program has been acknowledge just recently -- this is our inaugural year for "Broadway in Bronzeville". We kicked it off with "Imitation of Life", "Ain't Misbehavin' ", "Purlie", "Tap Dance Kid". These are classic American Broadway Tony Award-winning shows that we are introducing our community to, and we are proud to bring that tie together.

Every day more than 100,000 nonprofit art and cultural arts organizations act as economic drivers, creating an industry that supports jobs, generate government revenues, and acts as a cornerstone of our respective cities' tourism industry. This study that is into my written document that I have submitted, it goes into the key roles that are played by nonprofits in the art and cultural industry with their audiences, and how we strengthen our nation's economy. This cut within the nonprofit sector that affects the arts directly has an immediate effect to the economy, not just in Chicago, not just in Illinois, but throughout this country.

As a junior senator from Illinois, President Obama attended many events at the Harold Washington Cultural Center. He gave us glowing remarks on our exceptional work within the community. And that work is currently in jeopardy, due to the unavailability of federal and state funding.

During our -- during the 2000 economic downturn -- 2008 -- we were hit, our facility was hit with a foreclosure suit by our bank at the rate of a \$1.5 million mortgage. Our building is valued at \$15 million. It became difficult to pay the note without funding, and we stood in jeopardy of losing this community gem. However, due to community support and faithful individual donors buying those handles, putting their names on the wall, we are able to continue to operate our programs while we are battling the foreclosure.

We do need help. We do need support. I am looking at all the CEOs, I have been shaking hands and collecting cards, because these are the ones that have the funds to give to us. When it rains on mainstream and well-endowed arts organizations, black arts organizations like us, we drown. So it is very -- I implore -- all those that are on this panel and those that have come before me, I agree. We need to not cut the tax -- the charitable deduction of what they are able to get.

But we need to look into the 60653, the low-income areas, to see who is actually doing the work, not just theory, who is in action. We have boots on the ground. We are pulling ourselves up by our bootstraps. We need your help that is on this panel, those that have spoke before us.

And Congress, we need you to not cut it, because we are just getting our engines revved up with "Broadway in Bronzeville" -- I have got 10 seconds -- and we need everyone to support what we are doing, because with us just starting, if the cuts happen we won't even get in the game of getting money. Thank you.

\*Mr. Tiberi. Thanks for your passion. I wouldn't be here today if it wasn't for art and music. So thanks for what you are doing.

Mr. Delaney, you are recognized for five minutes.

\*Mr. Delaney. Thank you, Mr. Chairman and members of the committee. I also want to thank staff who is stuffed back across the back row there, and those who are watching from your offices. Thank you for your patience listening today, and thank you for all the hours of preparation and the thousands of hours ahead, as we come together to try to solve this community problem.

I talk about "we" coming together, because government and nonprofits, we serve the same constituents and we serve the same communities. We are teammates joined as one. We need to be operating together as one. And so, out of respect, what I want to do is to just share three different points, very quickly, so that you can move on with the panel.

My first point, as your teammate, is we cannot have a meaningful discussion about charitable deduction without first looking at community needs and understanding how fragile the nonprofit community is right now. We have been asked to do so much more with so much less for so much longer, we are being stretched out of shape.

I encourage you to look at page three of my written testimony, where I lay out -- and the research shows -- in 2008, 73 percent of nonprofits saw their workloads increase. In 2009, 71 percent more saw it increase. In 2010, a 77 percent increase. In 2011, an 85 percent increase. It is going up and up and up. And you heard from the earlier panels today about how the revenue is going down and down and down. And we have been doing this for too long.

And we are, unfortunately, seeing a lot of government policies that are aggravating this at the federal, at the state, and the local levels, that are making this unsustainable. So, any discussion about the charitable giving incentive must begin with looking at the fragility of the health of the nonprofit community.

My second -- and to that, I am hoping that the working group will bring nonprofits to the table and work with us and look at the health of the sector itself, and not just look at what a tax benefit might do to the donor, but let's look at what the needs are in the local communities. That is where the right attention needs to be focused, is on the community, not on the donor. Because it is the communities that are having great needs right now.

The second thing I would do is invite you to stop listening to me for a second, kick back and relax, and look at my written testimony that I submitted. And you will find in the appendix at the back the voices of 130 different nonprofits in your states who were -- I am here simply relaying their voices, and lifting them so that you can see in your own districts, in your own states, how people are suffering. These are not the words of wealthy donors saying, "We want our tax breaks." These are not the words of elite institutions saying, "We want to name another wing." These are the voices of local people in your local communities, your constituents who are in pain.

And so, please, if you want more information about what is going on in your individual states, reach out to your state association of nonprofits, because they are the champions who can help connect you with real boots-on-the-ground information.

The third thing I want to do in closing is share a story. And that story is about our nation's founding president. And we were hearing earlier today a lot of people offering theories of what might happen and what if. And perhaps we could redesign and totally wholesale change the charitable giving deduction. But I want to share with you what happened when other people relied on theories.

President Washington had retired. He was in Mount Vernon. And it was a dark and dreary day in December when he was out on his plantation. And he was surveying. And a rainstorm hit. It turned to sleet and then snow. He caught the chills. He then went in at home and he worked all night, and then he got up in the morning and he knew that he was sick. They called in the doctors who, on a theory, said, "We need to bleed him. We need to bleed him to get rid of bad blood." And so they took more than three liters, three liters of his blood. And he died.

Now, their theory was, "If we bleed him of the bad blood, then he will recuperate. But in point of fact, they hastened his death by bleeding him." Please do not rely on theories. Please understand that theories alone can be dangerous. We know that the charitable giving incentive is real. It is reliable. It is proven to be effective in getting resources into local communities where there are great needs.

So, as you are looking at different proposals, remember: First, do no harm. First, do no harm. Look at the great needs in communities across America. Thank you, Mr. Chairman.

\*Mr. Tiberi. Thank you. Those buzzers you heard mean there is a vote. And that is a 15-minute vote. And we have got 20 minutes of testimony left. So I would encourage you to go as quickly as you can.

Mr. Kitson is recognized.

\*Mr. Kitson. Yes, thank you very much, Mr. Chairman and members of the committee. And thank you for providing me with the opportunity to testify today on behalf of the 450,000 Greater Cleveland residents who benefit from United Way of Greater Cleveland's work.

In my almost 25 years with United Way, I have witnessed the important role that the nonprofit sector plays in our community and in our great nation. Our work relies on the generosity of donors and volunteers. And, without question, the charitable deduction is an effective and important incentive to stimulate support for the thousands of health and human services that we work on.

For example, the charitable community is the single largest supporter of United Way 2-1-1, which covers 90 percent of the state of Ohio. Our Cleveland United Way 2-1-1 provides coverage for 7 counties, or 1.9 million people. And we answered a quarter-million calls last year for help, a 33 percent increase in the last 5 years.

And, as you know, many Americans today find it difficult to afford prescriptions. Our Med Refer program found \$2.5 million of prescription benefits for people in need in the last 5 years. Without question, a cut in the charitable tax deduction will result in a loss of support from donors to the nonprofit sector, and would devastate our ability to continue to provide these services, and ultimately the responsibility could fall back on government.

The New York Times reported last year nearly 60 percent of Cleveland's poor, once concentrated in its urban core, now live in its suburbs; 40 percent of United Way's 2-1-1 calls come from those very same suburbs. And their number one call is for food. Nationwide, 55 percent of the poor population in metropolitan areas is now in its suburbs. The charitable community is coming to the need of these new poor.

The Cleveland Food Bank has doubled its food distribution in the last five years. The earned income tax incentive in Cuyahoga County is providing free tax preparation for some 10,000 families, and it returned \$13 million to our community last year to help the working poor. And United Way partners with many folks in our community, including the Siemer Family Foundation and the Cleveland Foundation, to aid young people who so unfairly suffer when family finances jeopardize housing security.

Not preserving the charitable deduction creates a disincentive for giving to charity. And millions of poor Americans will pay the price. Without the generous support of America, nonprofits will be forced to abandon their work. We lose our ability to provide food. We lose our ability to provide shelter, to graduate kids, to help families become financial stable. This also limits our ability to help with healthcare services to the most vulnerable in our population.

And while I am here today representing United Way, I would also like to speak for just a moment on behalf of my alma mater, Hartwick College in Upstate New York, where I serve on its board of trustees. Independent colleges in New York State graduate more students than their public peers. And those future leaders have benefitted from scholarships given by generous donors. The charitable deduction really matters in our country, and it matters for our future.

I stand upon the 125-year history of the United Way system, with thousands and thousands of large and small nonprofit partners to advocate for the charitable deduction. While the generosity of Americans is not solely based on tax incentives, it is part of the equation for many. On behalf of the millions of Americans who rely on the kindness and strength of the philanthropic community, please preserve the charitable tax deduction. Thank you.

\*Mr. Tiberi. Thank you.

Ms. Adler, you are recognized.

\*Ms. Adler. Thank you, Mr. Chairman, members of the committee. I am honored to testify here today, and I will try to go as quickly as I can.

As you may know, there is a United Way in every one of your districts. Each United Way works collectively with all the community leaders about whom you have spoken and heard about from today. Health and human service providers need for you to listen to all of our testimony, for we are providing quality education for every child, sufficient income to sustain the needs of every family, and what is needed to create a foundation for a healthy life for all.

United Way is seen as a community collaborator, as well as an advocate for everyone, from the smallest child to the most senior adult. As president and CEO of United Way of Westchester and Putnam, New York, located in the Lower Hudson Valley of New York State, just a few miles north of New York City, I am extremely familiar with the important role that non-governmental organizations serve in our community, as well as the issues that impact their abilities to fulfill their mission work.

The preservation of the charitable deduction is a critically important issue in my community, as well as within the sector I represent. We work with thousands of not-for-profit organizations within a population of approximately 1.1 million people. In this role, our United Way is a major provider of training for nonprofit executives and staffs, and we hold the largest gathering of not-for-profit leaders throughout the region for this purpose.

To put this into context for you and your staff, in 2010 there were 5,709 registered nonprofits just in Westchester County alone. This is representing \$11.7 million in assets and \$7.3 billion in revenue. The economic impact of the Westchester not-for-profit community was estimated to be \$23.5 billion. This means there are more than 100,000 people that are employed by nonprofits in just this one county.

In addition to our role as a partner and advocate with a diverse number of nonprofit organizations that provide health and human services, our United Way also provides millions of dollars of funding, expertise, and gifts in kind to all of them every year. In addition, we facilitate the coordination and placements of over 18,000 volunteers to help the not-for-profits keep personnel costs down, as well as to enhance the level of efficient service given in the community.

Finally, as we heard, we operate United Way's 2-1-1 help line, and our United Way does it for 33 percent of New York State, connecting the public to the help that they need. This includes referrals to more than 25,000 services that are provided in our region. Just a few days ago, on February 11, 2-1-1 Day, Governor Cuomo and other public officials recognized that our states' United Ways work extremely hard to consistently provide round-the-clock information and referral and, in particular, during Superstorm Sandy, where we helped more than 1.4 million people in just a few weeks.

In our community there are huge disparities, including great wealth and significant poverty. Some of the best and worst schools in the nation are within miles of one another. Therefore, it is our imperative to keep those residents who are in a position to give focused on supporting the work.

As the entity that responds to thousands of donation receipt requests every year around this time, as it is tax season, our United Way experiences firsthand how the charitable tax deduction is such an incentive to giving in our area. These are not donors that give large chunks of money beyond the tax cap that exists in New York State. Instead, they are part of a group that donate in the range of \$250 to \$1,000 a year through payroll deduction within their workplaces, as well as attending fundraising events and online giving.

For example, in our community there are 18,000 children who are hungry within 21,000 households. This year, the demand from residents who have never requested food from a food pantry rose 30 percent, just in our community. The local food bank and community food pantries receive food to feed our families through various sources, mainly through corporate donations and food drives. However, the personnel and the other resources that are needed to properly inventory, house, transport, and distribute food to those in

need is mainly funded through charitable donations. I cannot fathom how our food safety net would survive if one of the major incentives to give to those who feed our hungry is taken away.

In conclusion, given our challenged economy, the recent natural disasters, and all that is impacting our not-for-profit sector, now is not the time to get rid of the charitable tax deduction. Thank you.

\*Mr. Tiberi. Thank you.

Ms. Gordineer, you are recognized.

\*Ms. Gordineer. Thank you, Mr. Chairman and members of the committee. Thank you for the opportunity to talk about the importance of the charitable deduction, and to share the critical work that United Way is doing in Winston-Salem, North Carolina.

Traditionally, nonprofits have delivered intervention services. That is, they help those who are facing a difficult time or in a crisis situation. We address many of those issues in our community because we know that it is important to have a safety net to turn to. However, our focus has increasingly transitioned to prevention strategies. By addressing the root causes of our community's most pressing needs, we can prepare people for a better life, and the need for intervention assistance later will be ameliorated.

We believe people will be successful if they have an education, financial stability, and good health. And much of our investments are focused on these goals. Our highest priority is to increase the high school graduation rate in our county. Our economic viability depends on having an educated and prepared workforce.

In 2008, when we launched our initial program at Parkland High School in Winston-Salem, the graduation rate in our community was 70 percent; 30 of every 100 students did not graduate. After starting ninth grade, four years later were not graduating. The program included tutoring, mentoring, family engagement counselors, graduation coaches, and more. We have since expanded to two additional high schools. Since 2008 I am pleased to report that our graduation rate has increased from 70 to 81 percent. And our community goal is 90 percent by 2018.

Our women's leadership council supports this goal through their focus on three middle schools which feed the high schools we work with. They fund projects such as the two-week summer Success Academy, designed to help rising sixth graders make the transition to middle school. One of the middle schools is a feeder to the high school that is most challenged in our community. And this middle school, Philo-Hill, the number of students who are -- who test at grade level in math and reading has more than doubled since 2008, when our partnership began.

More than 1,000 women contributed \$650,000 in 2012 to this work because they believe it is important. But we know that a factor in their decision and their contribution is the charitable deduction.

Our second priority is financial stability. And to address this we opened our first Prosperity Center in 2008. The center offers a holistic array of services to help individuals increase their income levels through job training, career counseling, job search assistance, while providing classes to help participants improve their financial literacy, build credit and assets for future success, and other free financial services, including tax preparation. It was so successful we opened our second Prosperity Center in 2011, and we are preparing to introduce our first mobile Prosperity Center. The goal is to help families build stronger, more stable lives and achieve their dreams.

We did not realize these accomplishments alone, but through convening our community to form collective partnerships, including both the public and private sector. Just as we can't accomplish our

community change on our own, we also know it would be impossible to do without the necessary resources.

My community is extraordinarily generous. It ranks in the top one percent of per capita giving in the country. We know that many of our most generous donors are influenced by the charitable deduction, and that was evidenced by the number that rushed to pay their 2013 pledge by December 31, 2012 in the face of uncertainty around the charitable deduction. We know that some donors who contribute large gifts would not continue or would reduce their gifts in the future. This would diminish our ability to continue the level of strategic investments needed to create stronger lives through education, financial stability, and better health.

I would also ask the committee members to consider the additional economic repercussions that would be caused by a decrease in our services. In the short term, the cost of basic and emergency needs would increasingly have to be assumed by the government, because we would lack the funds to do so. In the long term, our work to address root causes of poverty will create additional contributing members of our community, since we are preparing people to obtain higher levels of education, be financial stable, and lead healthier lives.

A decision to eliminate or limit the charitable deduction would provide immediate budget relief, but the cost would surely outpace the savings in the long term. Thank you for your attention.

\*Mr. Tiberi. Thank you so much. And I apologize. We have to go vote. If you could stay, your congressman would like to give you a flattering introduction before your testimony. There are some questions for some of the members if you have the ability to stay.

We are going to reconvene in about 15 minutes or so. So, if you can, hang on for a little bit while we recess for about 15 minutes, more or less. Thank you.

[Recess.]

\*Mr. Reichert. [Presiding] Can I ask the witnesses to return to their seats, please?

The committee will reconvene. And we have one witness left to testify, I understand, in this panel. So we welcome Karen Rathke.

And Karen, you are going to be introduced by my colleague, Mr. Smith.

Mr. Smith, you are recognized.

\*Mr. Smith. Thank you, Mr. Chairman. Thank you. Pleased to welcome Karen Rathke from Grand Island in Nebraska's third district. Karen is president and CEO of the Heartland United Way, which serves Hall, Hamilton, Howard, and Merrick Counties, and raised \$1.6 million in its most recent annual campaign. Karen has served in her current position for 13 years and doubled Heartland United Way's annual fundraising in that time.

Karen also serves on the Nebraska Governor's Commission on Housing and Homeless, 2012 recognized as Woman of Distinction by the Grand Island YWCA, and as Woman of the Year by the Grand Island Independent Newspaper.

It is a pleasure and privilege to have a constituent before this Committee. Karen, welcome.

\*Mr. Reichert. Welcome. Thank you, Mr. Smith. And you are recognized for five minutes.



\*Ms. Rathke. Thank you. Thank you, Mr. Chairman, committee, and certainly Congressman Smith, for that introduction. And I am honored to represent not only the Heartland United Way, but also the United Way network, and to testify in support of preserving the charitable deduction in the federal tax code, and in opposition of any limitations on the charitable deduction for any taxpayers.

At a time when government is constricting and contracting, it is critical that the nonprofit sector be as healthy and as resourced as possible. Any action that has negative impacts on the nonprofit sector only puts further demand on an already stressed system.

In our community, charitable donations fund free medical and dental health care, emergency and transitional shelter, rent utility assistance, free education courses, mentoring in after-school programs, food, clothing, and disaster assistance. Our 16 partner agencies, which are provided in my written testimony, deeply rely on our United Way funding from thousands of small and private donations to provide help and hope for over 52,000 people.

As discussed in some of the earlier meetings, a floor, as a possibility, would greatly impact donations, especially in small United Ways and nonprofits, as one gift, combined with the gifts of others, add up to our \$1.6 million annual campaign. The Good Life, which we were called before Nebraska joined the Big 10, our -- in Nebraska our state benefits from \$735.4 million in charitable contributions to our state. Most of these funds are locally raised, locally invested, and locally beneficial.

I doubt you will remember statistics at the end of the day, so I want to share some stories that will put a face to the impact of charitable giving.

Hunger is an issue in our community, with 67 percent of kids qualifying for free and reduced school lunches in Grand Island public school. There is nothing more painful to look in the eyes of a hungry child and know that the next meal is not a guarantee, and to watch as students stuff leftovers in their pockets.

So, in October we mobilized over 400 volunteers to package 100,000 meals purchased totally by private donations. These fortified macaroni and cheese dinners are now in the hands of multiple food programs. But, most importantly, for teachers that now are able to discreetly slip a bag into a child's backpack, comforting to know that the child will now have a hot meal at night.

Private donations were collected to purchase new books, which our recruited volunteers took out to summer academic catch-up programs. The readers created excitement for reading. And then every student was able to pick out a book of their choice. One fourth grade boy carefully deliberated over which book to pick, and was so proud to finally be able to write his name in that book, and insisted on using a pen, instead of a pencil, because that was the first book that he had ever owned.

To respond to that on a larger scale, we are ramping up efforts to get more books in the hands of more children. On Monday I received a check for \$35,000 from a generous donor. The donor's gift will provide over 1,000 children with a brand new book to be delivered to their home every month, thereby increasing their chances to be successful in school. Interestingly, I was preparing for this testimony and I asked him, if the charitable deduction was eliminated or capped, would his donation change, and his response was it would. Please don't take these books out of the hands of children.

Our community has one of the few free medical and dental health clinics that is totally funded by private donations. The clinic sees hundreds of patients each year, and -- facing many multiple challenges, often times chronic disease. We had one mom that was rationing out her blood pressure medicine to afford shoes for her kids, and not realizing that, without that medicine, she might not be there to be the mom in the future.

We had one little girl who came in, her face so swollen with infection and tooth decay, and in, obviously, a lot of pain, but not complaining of pain, because she had been in that situation for so long that

she didn't even know what life without pain felt like. She was treated, and the reports came back in from school that this little girl was now a healthy, vibrant student that was participating in class.

Private donations help limit every day how poverty defines people's lives. You see this in a single dad who is relieved that his daughter has an after-school place to go where healthy choices are taught to avoid risky behaviors, a grateful mom watching her young child excitedly walk down the hall to his preschool classroom, knowing this was an opportunity that she otherwise would not be able to afford. A fifth grade boy has someone, his mentor in his bleachers, cheering him on, first time ever.

These are just a few examples of what charitable contributions are doing in Grand Island, Nebraska. It is a risk of not being able to do these things, in addition to innovative programs we are rolling out, that brings me here today, as one example of hundreds of United Ways across the country providing vital services, as I have shared.

Please protect the charitable tax deduction to give children a chance, and families a future. And I wouldn't be a good fundraiser if I didn't leave without encouraging you to find more ways to extend and to increase tax incentives.

My dad always said that you can't go wrong when you always do the right thing. The right thing today is to preserve the charitable tax deduction and support our efforts to inspire hope and create opportunities for a better tomorrow in communities across the country. Thank you.

\*Mr. Reichert. Mr. Davis is recognized for five minutes.

\*Mr. Davis. Thank you. Thank you very much, Mr. Chairman. And I want to thank all of the witnesses, not only for their patience, but for their testimony.

Ms. Tillman, let me begin with you. I know that the Harold Washington Cultural Center is located in what would be described a low-income community, in terms of the economics of the environment. And yet you indicate that you have been able to generate resources that have kept you alive, open, functioning, and going without substantial public government support. How have you been able to do that?

\*Ms. Tillman. Thank you for the question. We initially received funding when we first opened in 2004 to build the building, to construct the building, but not funding to operate the programs. In many of the generous donors, such as the Joyce Foundation or the McArthur Foundation, or some of the foundations that were represented earlier, they only give to you after you have three or four years of experience and operating.

And so, by the time the third or fourth year came in, the economy was making a downturn. So we had to appeal to our local community residents. We have a -- there is a radio station that is on iHeartRadio, as well as locally, in Chicago, WVON. And we would turn to WVON and the listeners and say, "Hey, this is what is going on. Light bill needs to be paid. We are having a light bill theater show. We are having a movie night." We literally knocked on doors. It was a major canvassing campaign to preserve the arts, because we utilize arts as a form of grief counseling for young people, as well as theater therapy.

We believe that theater can rock someone to their soul, not just for the person that is performing on the stage, but the person that is in the audience, having that theatrical experience. And when a young man has an opportunity to put down a gun and pick up a hammer and build a set, something that he is able to create with his own two hands, he has a whole other respect for what is going on around him.

The young lady, Hadiya, that recently fell to gun violence, was a young person that participated in programs at our facility. And our facility is open, on average, from 7:00 a.m. almost to 11:00, midnight, and we have had some parents say, "Hey, can you all roll out the sleeping bags on the stage today, because

there is gunfire going on in Englewood." And because of things like that, we load in with our churches, we load in with our local community groups. We load in to the individual donor, be it a nameplate on a handle, a name on the wall, whatever it is, it is almost for sale.

So, it might be a Playbill, but that is the way we have been able to do it, one handle at a time. And we need more help. We are on BroadwayandBronzeville.com. We need to raise \$1.5 million on a capital campaign. And if they cut this funding, if they cut this, we are just totally cut out of the game when we are just getting started.

\*Mr. Davis. Thank you very much.

\*Ms. Tillman. Thank you.

\*Mr. Davis. Ms. Rathke, let me ask you. I have had some experience with free clinics. Health clinics are expensive to run. How do you manage to raise the money and coordinate the activities that you have been able to accomplish?

\*Ms. Rathke. You know, we are very fortunate to have a fabulous director of our third city community clinic, and we have an amazing group of volunteer doctors and volunteer dentists that come in and provide all the services. They have, like, a dental hygienist, but -- and one nurse that they pay for. And we often joke that she is one of the best drug dealers in town, because she can leverage drugs like no other from pharmaceutical companies.

And the really unfortunate thing for families is that they will -- I know, right? They will come in and they qualify for some of these pharmaceutical programs that they are unaware of. And just by us making that linkage, these families can continue on.

\*Mr. Davis. Well, thank you very much. I can see why you have been Woman of the Year, and I suspect you will continue to be Woman of the Year. I appreciate your testimony, and I yield back.

\*Ms. Rathke. Thank you.

\*Mr. Reichert. Thank you, Mr. Davis. Mr. Smith is recognized for five minutes.

\*Mr. Smith. Thank you, Mr. Chairman. Ms. Rathke, welcome again. Can you share a bit about the percentage of your donors who itemize their taxes on -- their income taxes? And what percentage of the funds you raise come from those donors?

\*Ms. Rathke. You know, we don't necessarily track how many of our donors itemize. You know, we send out their tax deduction letters to them. But beyond that, we aren't able to track that in our system.

But we have over 500 leadership donors, and we have about 500,000 of our 1.6 million that are raised by our leadership givers. And so, you are aware of our community, a manufacturing community. And so, the really great part of what we do with the people we [sic] do the work is that if somebody has benefitted from our services, and they are able, in a manufacturing company, to now do a workplace campaign and give back, they do. And whether they own a home or they qualify for some of those deductions -- you know, some of those are really good-paying jobs, it is just really hard for us to scale that and figure that out.

\*Mr. Smith. Sure. But you would suspect, then, that perhaps your leadership donors would benefit from itemizing their deductions.

\*Ms. Rathke. Absolutely.

\*Mr. Smith. Sure. Mr. Kitson, we heard this morning that the Cleveland United Way may face elimination, should there be a cap on the -- at the 28 percent rate. I mean hypothetically. Would that be likely or unlikely to happen?

\*Mr. Kitson. I think total elimination would be unlikely. We still have a charitable community. But at the end of the day, the mix of the donors that are necessary to bring in the \$41 million that drive our work in the community, it involves lots of different donors at lots of different levels. Eighty thousand donors contribute to the United Way in Greater Cleveland. Two thousand of them are leadership donors. A number of them are significant donors. And so, all of those go into play.

And when you start to move those numbers around and get them thinking differently about where those charitable deductions might go, it becomes very dangerous for a United Way like ours.

\*Mr. Smith. Sure, sure. I certainly understand that, and I know that charitable organizations do an incredible amount for our entire country and even beyond. And so I am very grateful, and certainly I want to reflect on that a bit So, thank you for your testimony.

And, Mr. Chairman, I yield back.

\*Mr. Reichert. Thank you, Mr. Smith. Mr. Lewis, you are recognized.

\*Mr. Lewis. Thank you very much, Mr. Chairman. I want to thank each one of you for being here today, participating.

Mr. Delaney, your testimony described the grim economic reality that face charitable organization. It appears that there is a lot of unmet need. How does this charitable contribution deduction help to fill this unmet need, to fill this gap?

\*Mr. Delaney. Thank you, Mr. Lewis. Right now, as laid out in our written testimony, we are at a tipping point. And the nonprofit sector is just doing so much more for so many more with so much less, you take away just a little bit of that, as people talk about tinkering around some with the charitable giving, it then makes everything slide downhill.

Let me just give you two examples of some of the pain that is being felt, and that is some research that The Urban Institute did in 2010, landmark research looking at government contracts with nonprofits, and found that they there were five major trends showing that nonprofits are actually subsidizing government activities, because governments are not paying the full cost. Governments are paying late. Governments are changing the contract terms midstream. Governments are putting so many demands up front for application processes and for reporting processes that are obscene. And these are at the federal level, the state level, and the local level.

And as a consequence, what do nonprofits do when we don't have the resources to get the work done on behalf of government and the communities? According to the research -- and this is on page 8 -- or footnote 15 of my written testimony -- the first thing that nonprofit boards do is that they freeze or reduce employees' salaries. Fifty percent of them do that. Thirty-eight percent reduce the number of employees. And then twenty-three percent reduce their health, retirement, or step benefits. And as the very last thing they do is they reduce services to the community, because job one is mission. And so that is what they do.

Another example is from your own district, Congressman, and that is in page three in the handout. And again, just one example. We have attached over 100 different comments from your constituents from across the country. But in Georgia, for example, the Atlanta Community Food Bank points out that in the last four years they have seen food distribution increase by 85 percent, 85 percent in the 29 counties that they serve,

and that over 28 percent of Georgia kids, more than one in every 4, live in food-insecure households. People are suffering, and they need to get these.

And again, I am just lifting the words there at Atlanta Community Food Bank, where they go on to say -- and I quote -- "It seems quite ironic that at a time when government is cutting human service programs, they are also considering disincentives for the private sector to take up that important work."

And so, that is really why I think the 44 of us are here today to testify, is that we are being asked to do so much more by our teammates in government, who are taking things away from us. And now, on top of that, we are standing here feeling like Rome is burning. Rome is burning, and we are standing with our tiny fire hose, and Congress is threatening -- Congress and the White House -- threatening to perhaps take our fire hose away. And we are saying no, not at this time. Let's come together and solve these community problems together.

\*Mr. Lewis. Mr. Delaney, I appreciate your responding. Know the Atlanta Food Bank very well, and they have many unmet needs.

Mr. King, when you get a proposal or a -- maybe a request, you cannot respond in a positive manner. What do you do? What do you say to the applicant?

\*Mr. King. Well, that is a great question. We have to form waiting lists in those circumstances, you know, when all our beds are filled. You know, when we have no more room at the inn, literally, because most of what we do is -- 24/7, is residential. And so we have to put them on waiting lists, or look for another place where we might be able to refer them. But to be candid with you, there is a big difference putting somebody on a list and putting somebody in a bed, you know. And that is the alternative we are left with, Representative Lewis. It is a very difficult circumstance.

And I want to second what was said just now by Tim. He is exactly right no what happens when you have gone through a series of budget reductions, as far as the cuts, because we have done that. And you start cutting and holding off on staff increases, and salary increases.

And let me tell you what. The quality of care that happens in those residences is directly attributable to the quality of employee you have that hasn't gotten a raise in three years, and now you are paying them hourly wage for the graveyard shift. And the quality of that wage impacts the quality of care that you give. That is the fear we go to bed with, okay? That is the one you go to bed with.

\*Mr. Lewis. Thank you. Thank you.

\*Mr. Reichert. The gentleman's time has expired. I want to thank the panel for your time today and your patience. I know you were interrupted by votes and it has been a long day for Members and also for you.

And also a special thank you for what you do each and every day in our communities across this great nation. I know it is not easy at times. But I was in the law enforcement arena in my previous career, and I know some of the struggles that you go through, worked with some of the groups that you have worked with on the streets. And if you can touch just one life, you know that that makes a difference, change one life, one day at a time. So we all in this Committee very much appreciate what you do each and every day. So, thank you for being here today, and thank you for what you continue to do for our people.

And we will call the last panel up for their testimony, please.

Well, welcome. You are the last panel of the day, and we are excited about that, but we are also excited to see you.

[Laughter.]

\*Mr. Reichert. You will be the most exciting panel, too, I am sure. But I would like to welcome you here today.

First on the panel is Earle Mack, chairman emeritus of the New York State Council of the Arts. Mr. Mack is retired ambassador to the Republic of Finland.

Second, we will hear from Andrew Watt, who is president and CEO of the Association of Fundraising Professionals in Arlington, Virginia. Mr. Watt is an honorary fellow of the Institute of Fundraising.

And third, we will hear from John Palatiello, who is president of the Business Coalition for Fair Competition in Reston, Virginia. Mr. Palatiello is also the owner of his own public affairs and marketing firm.

Fourth, we will hear from Anthony Ross, who is president of the United Way of Pennsylvania. And Mr. Ross began his career as a staffer with the Pennsylvania State House of Representatives. I want to sympathize with you, on behalf of my staff.

Fifth, we will hear from Lisa Ireland, who is executive director of the United Way of Orleans County in New York. Ms. Ireland has a long history of community service in her community.

And sixth, we will hear from Tory Irgang, who is executive director of the United Way of Southern Chautauqua, and constituent of our colleague, Mr. Reed.

Mr. Reed, you are recognized.

\*Mr. Reed. Well, thank you very much, Mr. Chairman. And it is my great pleasure to welcome one of my constituents, Tony [sic] Irgang, who is going to be testifying last, but that means she is the best of all the witnesses today. So I welcome her here today, and a fellow western New Yorker, Ms. Ireland, from an adjoining county to our district. I look forward to your testimony, and I really do appreciate you being here and offering the important testimony you will provide today.

So, with that, I yield back. Thank you, Mr. Chairman.

\*Mr. Reichert. And finally, I will add that William Hanbury, who is president and CEO of United Way of the National Capital Area was scheduled to appear today, but was unfortunately -- and had to unfortunately withdraw due to illness. His testimony will be entered into the record.

\*Mr. Reichert. So, thank you all again for being here today. The committee has received each of your written statements, and they will be made part of the formal hearing record. Each of you will be recognized for five minutes for your oral remarks.

Mr. Mack, we will begin with you. You are recognized for five minutes.

\*Mr. Mack. Good afternoon, everybody. It is a pleasure to be here and to speak today before this distinguished committee. All day long we have been talking about donor behavior. Well, I am a donor. And I am here today as a private citizen and a philanthropist, someone who has been fortunate enough in his lifetime to give millions to charities.

So, I can tell you definitively that if the charitable deduction is reduced or capped, I and people like me may not be giving nearly as much to charities. It is not that we donate to diverse charities because of the

deduction; we need where we need to give, because it is the right thing to do. It is inherent in human nature that we usually need a gentle tap to make it at least somewhat in our own self-interest to do the right thing.

The tax deduction is a strong motivating factor, not only for the largest donors, but for the small contributors, as well. In other words, if the incentive of the deduction is gone, people won't stop giving, but they are likely to give much less. There is likely to be a noticeable attitude adjustment when people feel that government is not encouraging the giving. It could cast a pall over giving. People might find themselves feeling somewhat more selfish. Maybe I will give more money to my family. Maybe I will give more money to my relatives. Maybe I will save the money. And this certainly will reduce the velocity of spending, and the ripple effect that curbed spending would have on our economy.

Consequently, these nonprofits that perform the vital services to our community and maintain our culture, our heritage, our education systems, our hospitals, our scientific research, and our religious institutions, they are going to be the ones that are going to get the short end. Please don't take away these incentives that make our country great. Doing so will have a disastrous effect on the nonprofits and religious institutions that are all so vital to our society. And the outreach to helping the poor, the homeless, the mentally ill, and the troubled kids. And let's not forget about the absolutely essential role of the nonprofits in research, health, education, and the arts.

For instance, since its inception in 1993, the Prostate Cancer Foundation has raised more than \$520 million to fund groundbreaking research that has prevented as many as 40 percent fewer deaths in U.S. men and women. And what about breast cancer?

Venture philanthropy is a high risk, and it amounts to approximately three percent of the U.S. dollars invested in medical research today. However, this kind of philanthropy leads to hundreds and hundreds of millions of dollars of research to closer relationships with patient communities and enhancing the understanding of specific diseases.

Having chaired several of these kinds of nonprofit institutions, I can tell you that your number one responsibility is to raise money for programs to serve the community or to run capital campaigns to build new wings. When I approach my peers to donate millions of dollars in these important causes, they say, "Is this 501(c)(3)? Is this a tax deduction?"

A personal experience of mine that I feel illustrates this point in our unique approach to charitable giving in the U.S., but also demonstrates the potential danger of fixing something that has worked for nearly a century, in the late '70s I heard from my friend, Sir Joseph Lockwood. Then he was chairman of the British conglomerate entertainment company called EMI. And he was telling me about his difficulties in raising money to rehabilitate the facilities of the Royal Opera and Ballet, both of which have been providing access to artistic excellence and educational resources for 75 years throughout the communities and schools. Sir Joseph was chairman of the reconstruction fund of the opera and ballet, and it had fallen into such disrepair that they couldn't dance on the stage. And the few dressing rooms backstage were uninhabitable. It took him and his colleagues many --

\*Mr. Reichert. I am sorry, Mr. Mack, but could you wrap up your testimony, please?

\*Mr. Mack. Thank you. Well, the construction workers who were putting the new buildings up, the carpet layers, the computer workers, won't have that privilege if we cut capital spending.

\*Mr. Reichert. And thank you for your --

\*Mr. Mack. It is not that I object to fair share. But please, hands off capital giving. We don't want to end up like England, where we have to go to the government to repair nonprofit institutions. So thank you very much, and Happy Valentine's Day.

\*Mr. Reichert. Happy Valentine's Day to you, sir. Thank you, Mr. Mack.

Mr. Watt, you are recognized for five minutes, please.

\*Mr. Watt. Mr. Chairman, members of the committee, thank you for the privilege of allowing me to testify. And as you will probably recognize, I am not a U.S. citizen, and I do come from the UK. So I recognize the picture that Mr. Mack is trying to draw.

I have the privilege of leading the largest community of fundraisers in the world. Our members, between them, raise approximately 100 billion a year. That is nearly a third of the philanthropic dollars raised in this country.

You have heard a lot of data and statistics today, so I am going to cut that out of my comments. It is in our written remarks. The numbers are important, because they underscore the value of the deduction and what it means to us. But I think that there are things that are more important than that. The deduction is more than a revenue source. So, let me explain.

As a non-U.S. citizen, it is a particular privilege to work in this field. For me, the defining characteristic of the United States is the strength of its community, the way in which communities across America come together to address the common need. Communities act swiftly, decisively. They are based on an understanding of the environment in a way that those of us who work at a national level often struggle to do.

I think it is a uniquely American way of looking at problems. Americans don't instantly think of looking at the government. We think of working with each other first, with community groups and businesses, to solve a problem. And that is an American mindset which is recognized and supported by government incentives, such as the deduction.

I have worked for fundraisers for over 20 years in the UK, Europe, and now America. And during that time I see many different communities incentivize giving in many different ways. But the charitable tax deduction is unique in being established for nearly 100 years. And it has withstood the test of time. Its symbolic nature almost outweighs its monetary value. It represents a gesture of confidence between the people, by way of their elected representatives, and the effectiveness of nonprofit and community action. It binds together the interests and concerns with all of us in the betterment of our society.

But the deduction doesn't define who we are and what we do. Tax deductions are not what we are about. The defining characteristic of what we are about is impact, impacting communities. I look and sound like a banker. But like every single one of us in this room on both sides of it, I chose a career in service. I know what that means, you know what that means. And that is what we are talking about today.

That mindset and structure is envied in other countries. Charities in other countries are desperately upset at the potential changes here, because they look to America for an example. They look to this country as a model. And a step backwards here is a step backwards for them. That is why the deduction is so important. It is a powerful symbol of the American tradition and system of philanthropy, and it is a symbol of the continuing commitment to the impact and the change that nonprofits create. It is government, working together with individual donors, for-profit organizations, businesses, and foundations.

To change that symbol, to limit the deduction in any way, is to alter that commitment, especially a commitment that we know works. You have heard it repeated several times today. For every dollar of tax revenue foregone, you are seeing a value of \$3 in the community. I think that is a phenomenal rate of return, and one that any of us would be happy to see in our businesses.



When my wife and I sit down at the beginning of the year to calculate what we can afford to give to charity, we don't see this as a tax break or a tax deduction. We calculate what, with tuition fees and everything else that we have to pay, we can afford to invest in communities. And then we see the uplift that this brings. It is a 35 percent uplift on what we can afford to give. It is not a tax break. It benefits many, rather than the individual, and that is a really powerful message to send.

Tim Delaney and many others have given passionate -- made passionate remarks about the crisis that we face at the moment. But through it all, nonprofits continue to deliver service, deliver service at great expense to themselves, efficiently, effectively, and well.

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

But I truly believe that to put the charitable deduction in this conversation is a red herring. It is effective, it is proven to work. In the general context of things it is not expensive. But, most importantly, it is that symbol of the tradition of philanthropy in the United States. It is part of the culture of this country. And I firmly believe

that you cannot simply limit or replace the deduction without losing something very vital. So thank you for your time.

\*Mr. Reichert. Thank you, Mr. Watt.

Mr. Palatiello is recognized for five minutes.

\*Mr. Palatiello. Thank you, Mr. Chairman, members of the committee. I am John Palatiello, president of the Business Coalition for Fair Competition, BCFC.

Don't feel bad; it took me four years to learn how to pronounce it.

There are thousands of legitimate charitable organizations that do exemplary work in American society, and you have heard a lot -- from a lot of them, and heard a lot about them today. The tax treatment of these charities and those who donate to them is not an issue for BCFC. What is an issue is when nonprofit organizations operate in direct and unfair competition with private, for-profit, tax-paying businesses, including small businesses, by engaging in commercial activities, but not paying taxes.

Billions of dollars a year in economic activity occurs that is untaxed. This results in lost revenue to the Federal Government, as well as state and local government, and it creates an unlevel playing field for the private sector, and particularly small businesses.

Entities organized under various provisions of section 501© of the Internal Revenue Code are provided a special tax-exempt treatment which were clearly intended to perform activities and provide services that are otherwise considered governmental in nature. It was not intended that they use this privilege to engage in activities that are commercially available. The exemption for charitable and other purposes is based on the assumption that such organizations are providing general welfare services, and part of -- and be part of our social safety net, and that government would otherwise have to provide those services with appropriated funds.

So, in its wisdom, the congress traded off the requirement to spend tax money directly with a tax benefit to offset what these organizations legitimately provide. It was never the intention of Congress that these organizations should be engaged in providing commercially-available products and services.

The nonprofit organizations provided special treatment under section 501© are required to pay an unrelated business income tax, or UBIT, on their commercial or nonexempt activities. The problem is that this policy has not been adequately codified by Congress, nor effectively and efficiently implemented by the IRS. In our testimony we provide a number of resources that we would encourage the committee to explore.

Under the chairmanship of Congressman Jake Pickle of Texas in the 1980s, this Committee conducted an exhaustive investigation of this issue and the lack of enforcement of UBIT. The Small Business Administration, the Government Accountability Office, and the Philadelphia Inquirer all have done exhaustive studies, and we have those cited in our testimony, and commend them to your attention.

What am I talking about with regard to commercial activities performed by nonprofit organizations? Well, it is the YMCAs competing with private health clubs. YMCAs perform extraordinary services, services for at-risk youth. Those are legitimate. Those should have the benefit of special treatment for their contributions to society. But when a local small business gym or health club has to compete with a tax-subsidized or a specially treated YMCA, that is unfair competition.

Credit unions, compared to community banks. Same situation. Rural electric and telephone cooperatives competing with invest-your-own utilities and small business energy firms. We have seen situations where nonprofits have been created to compete with private bicycle rental companies, laundry services, and a variety of other activities. We see universities venturing outside of the classroom and into owning and operating and running hotels, mapping services, and testing laboratories. It occurs in dozens of other industries and professions.

It is only when we move beyond hidden subsidies and ineffectual regulations of UBIT that both consumers and producers and all taxpayers will be able to enjoy the benefit of a level playing field and even-handed competition. We would urge the committee to look at implementing a commerciality clause, and thus implement the Yellow Pages test. If there is something that you can find from private business in the Yellow Pages, then you probably shouldn't have government doing it, and you probably shouldn't be providing special tax treatment for a nonprofit to do it. It is a very simple, common sense test.

So, we commend the very charitable and social welfare activities that most charities provide, but we would urge your attention to commercial activities, where the system is being abused and resulting in unfair competition with private enterprise, and particularly small business.

Thank you very much, Mr. Chairman, for the opportunity.

\*Mr. Reichert. Thank you.

And, Mr. Ross, you are recognized for five minutes.

\*Mr. Ross. Mr. Chairman, members of the committee, thank you for the opportunity to testify today about the importance of the charitable deduction. I am Tony Ross, I am president of the United Way of Pennsylvania. Our organization is the state association representing 54 local United Ways that serve every community in the Commonwealth of Pennsylvania.

In my view, it is most appropriate that we gather today on Valentine's Day to have a dialogue about the importance of charitable giving. In my view, one of the most meaningful ways that Pennsylvanians and all Americans demonstrate their caring and concern for their communities, friends, and neighbors, is through

donating to charities of their choice. United Way of Pennsylvania and our members are unified in our support in preserving the charitable tax deduction, which is vital to our ability to serve our commonwealth's most vulnerable citizens.

And if you know anything about United Way, we are all local and independent organizations. So, to get 1,200 organizations -- and 54 in Pennsylvania -- to agree on anything is quite remarkable and quite a challenge.

Throughout the day you have heard about several proposals that might limit or eliminate the charitable deduction, so we won't go too much into that. But the simple reality is without the support of our donors the important work by United Way and our partners in the charitable community which positively impact all of our community simply would not occur.

Earlier today you have heard from a couple of my colleagues from Pennsylvania, Jill Michal from Philadelphia and Leslie Osche from Butler County. But let me share a few other examples from Pennsylvania of some outstanding work done by United Way and our community partners: the United Way of Berks County in Reading, Pennsylvania has started a Ready, Set, and Read initiative which brings together schools, businesses, organizations, and individuals to improve early grade reading success; Erie Together, an initiative of the United Way of Erie County, which develops comprehensive, community-wide responses to alleviate the impact of poverty on their community; United for Women, which assists newly-struggling women who are one step away from crisis in Allegheny County, which is in the Pittsburgh region of Pennsylvania.

Simply put, policies to cap or limit the charitable deduction would make these efforts impossible and be devastating to the human service organizations and the people that they serve.

Just consider the impact on charitable giving during the recent economic downturn. From 2005 to 2010, charitable giving in Pennsylvania has declined from 181 billion to 169 billion, a 6.2 percent decrease. Do Pennsylvanians use the charitable deduction? Absolutely. In 2010, the year which the latest data is available, 1.9 million Pennsylvanians, some 31 percent of those who filed tax returns, filed itemized returns with over \$5.8 billion in charitable deductions. And I think this is really important, this next point. The average contributions from those that itemized using the deduction was \$3,048. And it is important to note that the non-itemizer contribution, the average contribution, in Pennsylvania was \$2,181. So you certainly can see a financial impact there.

Simply put, the proposals to cap or eliminate the charitable deduction present a triple threat to charities: reduced federal and state funding, increased demand for services, and fewer donations. Our organization undertook a survey to ask different organizations about the impacts of some of these budget cuts. And to underscore what Mr. Delaney said, the last thing that we saw in our survey, as well, the last thing that people do is eliminate services to community. They do all kinds of other things, eliminate staff, reduce hours. But the last thing they do is cut services. And so, certainly we have seen that impact in Pennsylvania, as well.

Additionally, I think it is very important to note that nonprofits really assist the government, in terms of reducing the need for government services. Rest assured that the reduced capacity of charities to meet community needs will result in increased demand for public assistance from the public sector.

I was very struck earlier today by the comments from the gentleman from Meals on Wheels who talked about the fact that feeding someone for one year was equal to the cost of one day for someone being in a nursing home. And I think that underscores another reality that all of us on this panel, or our colleagues who have spoken earlier today, that prevention is actually the most cost-effective way, in terms of policy. You know, we are talking about this in some respect because we have a fiscal policy issue. But the most fiscally responsible and conservative action the government can take and nonprofits can take is to be preventative. So I think that example relays that.

Simply put, people -- the money may go away, but the people and need do not. So, while many in our government partners often applaud us for helping us serve people in

need, we simply ask don't handcuff us, and enact policies to help us positively impact the community that we both serve. Thank you.

\*Mr. Reichert. And thank you, Mr. Ross.

Ms. Ireland, you are recognized for five minutes.

\*Ms. Ireland. Thank you, Mr. Chairman. Good afternoon to Mr. Chairman and the members of the committee. Thank you for providing me the opportunity to testify at today's hearing on behalf of both the United Way of Orleans County, as well as the United Way network here in the United States.

New York State, as you are well aware, has suffered two years of devastating storms, concerns over a very challenging economy, as well as both state and federal cuts to the ultimately important human service programs. All of these have put a tremendous amount of pressure on the charitable sector to address community needs. Any effort to limit the charitable deduction sends the wrong signal to the donors at the time that their gifts, especially our large donors, are needed the most.

As an executive director of a smaller United Way that is situated in a mostly rural area, we rely heavily on a few major donors to continue to support our mission and the programs that we sponsor in our local area. We currently sponsor over 20 programs from a very wide variety of service areas, including support for children, the elderly, those in poverty, and those with disabilities.

As an example, we fund the only youth mentoring program in our local community. Entitled Just Friends, it has successfully created over 100 relationships between children and adults. The children in this program have what we call and can be seen as difficult home lives. In many cases, they are from either a single-parent home, or they are being raised by a grandparent, an aunt, an uncle, and, in some cases, a next-door neighbor. Many of them also come from households with transient members, where on a daily or weekly basis these children have different family members, different people living in their homes with them.

As the name of the program implies, our Just Friends youth mentoring program matches at-risk youth with an adult figure who really wants to just be their friend. This allows for a constant positive role model in their lives, who will take the time to build a special, one-on-one relationship with them. In many instances, the mentor and the child spend their time together doing simple things. We don't ask our mentors to go out and spend hundreds of dollars on them every time they see them. They are asked to give life back to this child. They take the time, on a daily basis when they see these kids, doing such activities as fishing -- because in our area we are the number one fishing area, so that is really important -- baking cookies -- which you and I may see as a regular daily thing, but to some of these children, no one has ever taken the time to bake cookies with them -- to teach them how to plant a garden and to watch it come to fruition, where they have got flowers or fruit or vegetables that they have grown themselves.

Imagine a child the first time they walked into a county fair, learning about the animals they have only ever seen in books, and having the opportunity to walk around with someone holding their hand, caring about them. And maybe they could just spend some time having some ice cream.

We live in a region in our area that has two state facilities, two state prisons. And we had a child in this program who came from the inner city of New York City. Her mentor, the first time they went out, they went to a local place out by Lake Ontario called Brown's Berry Patch. And what they did is they walked around, they picked apples, and they just spent the day together. The only time this child had ever seen an apple was in the local supermarket on the street in Manhattan. They didn't know what an apple tree even looked like. These are special one-on-one opportunities given to these children.

The activities that these children are going through and with these mentors are simple, things that, in our daily lives, that we take for granted. You may have a child, a grandchild. I have little children. Every single day when I tuck my children to bed, I don't take that for granted, because these children don't have that.

In building these relationships, our mentors are able to build the child's self esteem, and are able to offer encouragement to aspire to them to achieve a better tomorrow for themselves.

As an outcome to these relationships, we have seen an increase in school attendance, higher graduation rates, and more involvement in school activities. One of our greatest moments is when our mentor was able to watch her mentee walk across the stage at graduation, because that child had no one in their lives that had ever graduated college.

Our local United Way is very concerned that any limitation on charitable giving will have a detrimental effect on our ability to raise funds and support these programs.

In closing, I have had the privilege of working in the nonprofit sector in Orleans County for the past 12 years. I have worked with a variety of programs and an array of people whose lives have been directly impacted by the work of United Way. I have seen firsthand the success of these programs and the individual successes of the people whose lives have been changed by these programs. I cannot begin to put into words how important it is that we do whatever we can do to enable our major donors to give. I encourage you to preserve the charitable deduction as it exists in the tax code.

Again, thank you for the honor and the privilege of being here with you today, and thank you for everything that you do.

\*Mr. Reichert. And thank you.

Ms. Irgang, you are recognized for five minutes.

\*Ms. Irgang. Thank you very much for your patience and for your stamina. I think I am the last thing holding you here today.

So our United Way is located in the southwestern corner of New York State, and we have a service area of approximately 72,000 residents. Our is a traditional community, where the United Way has an impeccable reputation as the charity of choice. And I inherited that when I came there, not bragging about myself.

In 2012 we invested just over \$1 million into community-based programs that impact 31,000 lives. And here are just a few examples of how those dollars are translating to outcomes.

Students participating in school-based mentoring at Jamestown High School are remaining in the same match with an adult for an average of 30 months, versus the national average of only 9 months. In 2011, 80 percent of these students pursued post-secondary education or job training upon high school graduation. During the last school year, all of the teenage mothers enrolled in a combination education and parenting program graduated on time, and their children had received all recommended immunizations.

The number of older adults receiving home-delivered meals in 2012 in our community increased by more than 10 percent. This \$4-per-day remedy kept more people in their homes and saved us thousands in Medicaid expenses associated with facility-based care.

Families filing their taxes through our volunteer income tax assistance program received \$330,000 in a combination of earned in earned income and child care tax credits last year. Nearly 50 percent of those who filed with us expressed an intent to use their refunds to purchase a home or car or establish a savings account.

These programs are administered by community-based organizations that remain nimble. What I mean by that is they can respond to emerging needs quickly, and adjust their service as demand shifts. Our United Way is at the heart of this, annually utilizing a team of 40 individual volunteers to compile and monitor program outcomes and make recommendations that lead to efficiency and improvement.

What is behind this system of investment, review, and improvement in our community? It is charitable giving. The United Way of Southern Chautauqua County's 2012 campaign raised just over \$1.3 million. Approximately 17 percent, or \$221,000, came directly from individual donations of \$1,000 or more. Yes, these gifts came from the hearts of good people who care about the community. But it would be foolish to believe that these donors were not also motivated by the tax incentive that they received.

The Chronicle of Philanthropy reports \$21.9 million in charitable giving annually in Chautauqua County, which is quite impressive. With a median household income of only \$41,000, I believe we need all the incentives available to encourage this high level of charitable contribution to continue. For lower-wage earners, the itemized deduction is a modest incentive.

For the highest wage earners, those with the greatest capacity to give, the ability to itemize is a huge incentive. And without this incentive, the United way of Southern Chautauqua County stands to lose a significant portion of its campaign revenue. This would devastate the 44 programs that receive funding currently. And these are exactly the types of programs community members and donors want to support, those that keep their administration simple and low-cost, those that adapt to a changing landscape, those with whom they have a personal connection.

Just to give a face to the type of programming that changes lives and benefits from United Way support, I will conclude by telling you about Len and Armando. Len serves as a mentor to Armando, and has for over four years. They meet for lunch at school once a week. Over the time they have been in a mentoring match, Armando has been moved to three different schools. Each time, Len has been there to help him cope with the transition. He keeps Armando focused on his schoolwork, even when other things seem more important. Most of all, Len listens to Armando in a way that a friend or a parent just can't do.

On the other hand, Len has found the relationship beneficial. Armando has helped him become more accepting and patient with others, including his own children. Len's visits with Armando are the bright spot in his week, and he can see the time he has invested is already paying dividends.

There are thousands of stories like this one from southern Chautauqua County. What they all share in common is that they wouldn't be possible without the generosity of caring individuals. Protecting the charitable deduction is a critical piece to ensuring that this generosity continues in communities like mine. Thank you.

\*Mr. Reichert. Thank you for your testimony. Mr. Davis, you are recognized for five minutes.

\*Mr. Davis. Thank you. Thank you very much, Mr. Chairman. And again, I certainly appreciate the witnesses who have been here for a sustained period of time.

I would appreciate it if each one of you who are affiliated with a United Way organization would answer this question for me. I have always wanted to know more about who the people were who donate to the United Way. Some people think that you have got to be wealthy. Some people think that wealthy people are the individuals who do it. So, if you could, give us a description of who you think your donors are,

whether they are a mixed group, low income, high-level donors, and what motivates them. I think we heard from Mr. Mack considerable information relative to what motivates him and other people like him.

So, if perhaps we would just begin with you.

\*Ms. Irgang. I think they nominated me. In southern Chautauqua County, we are a very small rural community. The vast majority of our campaign comes from regular, everyday people who are donating 26 or \$52 a year. So a dollar a paycheck or a dollar a week. We have about 150 donors who make up that leadership circle, that highest level of giving. But certainly if we were looking at the volume that comes in, it is really from people just like you and I, everyday people who are working and contributing at a sacrificial rate for themselves.

I heard Brian Gallagher say earlier today in our meetings that the average gift across all of United Way worldwide is \$300. So we really are looking at donors who are giving -- many donors are giving smaller amounts of money. And what we are looking at is that a portion of our campaign -- in my case, 17 percent -- comes from those large donors.

\*Ms. Ireland. Thank you for the question. We in Orleans County are an extremely rural county, as well. And I would answer you in saying that we have what you might want to call a mixed bag of donors. I am fortunate enough to have in our one area a large manufacturing company who is currently based out of Chicago. But with their foundation, every dollar that the employees match, they double that to 500, and then they, you know, match above and beyond that. The employees themselves this year raised \$26,000. The company matched by \$26,000, which is generosity beyond belief for us.

On the other hand, I have the \$75 donors that send that in. But one of my favorite, favorite donors is a lady that, since I started a year-and-a-half ago, comes in every single month and gives me \$5. It is all she can afford, but she said, "It is what I can give to make a better tomorrow after I am not here." So I have both ends. But they give because they care, and they give because they know that, although today might be a good day for someone, somebody might need that money tomorrow.

\*Mr. Ross. From a statewide perspective, I would just echo what my colleague Jill Michal said a little bit earlier. She talked about their United Way raised \$60 million, but they don't raise it from 60 millionaires. What I like to say in Pennsylvania, we raise \$175 million across every United Way in the state, which is great. But when you look at our state budget, it is \$28.7 billion.

But what I like to tell donors in Pennsylvania is that every donor, whether you gave the \$52 or whether you gave the \$10,000 or the \$1 million, every donor is a \$175 million donor in Pennsylvania. Because without all of those aggregate donations, we don't get to that \$175 million.

So I think another way of looking at it, as well, is look at how United Way campaigns are organized. I often have divisions. So you have schools, you have labor, businesses. Actually, one of the things I think is most impressive is the fact that the agencies that we often support often do fundraising campaigns to support the United Way. So the agencies that actually get the funds actually raise money from their employees to contribute to the campaign. So it really is a comprehensive community effort.

And this one last point regarding the type of donors, we do have 26,000 donors that give over \$10,000 a year. And that equals about \$500 million, nationally.

\*Mr. Davis. Thank you very much. And thank you, Mr. Chairman. I yield back.

\*Mr. Reichert. Thank you. The gentleman's time is expired. Mr. Reed, you are recognized for five minutes.

\*Mr. Reed. Thank you, Mr. Chairman. And I would like to thank the entire panel, and especially Tony [sic], for your testimony, and for all the hard work that you do in our district in Chautauqua County and our neighboring county of Orleans, Ms. Ireland.

One question I have for you is if you are not in business -- say the charitable deduction, whatever happens to it, jeopardizes your very existence if it goes away -- who would do the work that you do now, in your mind?

\*Ms. Irgang. I think you would have a lot of calls to your office, probably. But in truth, there are 19 agencies located in the greater Jamestown area that receive support from the United Way. And their collective revenues are around \$20 million. So it is a big chunk of our community. United Way is a small piece of that, obviously, but we are kind of the lynch pin. We are the leverage point. We are what they need to bring in other dollars, the foundation that they can count on.

And so, I don't want to say we are irreplaceable, but I think that we play an extremely critical role. And I am not sure there is a replacement for it.

\*Mr. Reed. Well, I appreciate that, because some of the discussions I have had with Members on this issue, some have kind of played devil's advocate and had the argument of, well, if we got rid of the charitable deduction, that would produce more revenue to the government, and then the government could step in and provide the services.

And one of the things I am concerned with in regards to that, for every dollar that is given to you -- for example, a United Way -- how much of that dollar is utilized on the front line, versus if the dollar was a taxpayer dollar that went to the government -- say to Washington -- and then back to provide the service, how much of that dollar would make it to the service of the people that you are intending to serve?

Anyone on the panel, if -- Mr. Mack eagerly jumping forward. Thank you, I appreciate it.

\*Mr. Mack. Thank you. I go along with President Obama and his concept. Instead of top-down, bottom-up. The people that are on the bottom that are on the bottom of the start-ups, they could be wealthy people, they could be poor people. They have great ideas. And if they feed from the bottom up, instead of feeding from the top down, where the government tells you where to give, it would wipe out the whole creativity, it would wipe out all the dedication of these people that work because they are dedicated. They make sometimes little money or no money, but they believe in what they do.

\*Mr. Reed. Good point. Mr. Watt?

\*Mr. Watt. Mr. Mack touched on something earlier on, which is coming from the UK, where you are used to having government pick up the tab for education, health care, a wide range of things. It means that the philanthropic incentive in the UK is focused very differently: overseas aid, cuddly animals, children. It goes to different causes. The problem with that is that at times like this, when things are very tight, budgets are being balanced, we are about to move to the sequester -- we will see the same thing here -- the first thing that gets cut is government commitment to co-funded projects with nonprofit organizations.

So, the kind of approach where government becomes responsible, you take away something like the tax deduction, which puts the responsibility on the community to deliver service, and transfers it back to government, it is a very, very slippery slope to go down.

I have lived here for long enough to recognize where I think the merit of the balance lies, and I have to say that I don't think that government should assume the responsibility of nonprofit activity.

\*Mr. Reed. Appreciate that. Did you want to offer something, Ms. Ireland? Please --



\*Ms. Ireland. Just one example of what would happen. We have a what's called Camp Rainbow, and it is run by the ARC, and it is a camp up in Lyndonville, New York. And it was started years ago for children with disabilities because these parents started it saying, you know, "There was no camp for my child who has disabilities." It has since been open to children without disabilities to teach children to learn together, and to be inclusive, not exclusive. And we fund heavily into that program.

And their executive director, when she does presentations with me, lets everyone know that if funding from United Way were to be cut to that program, that that program would have to stop, because they do not receive any funds. They lost a federal grant for transportation, and transportation alone, to get the children back and forth to camp for the summer, is \$17,000.

So, that is an example of your question if it were to go away, what would happen. And these children, this is the only camp that they have. It is specially designed for wheelchair access and children with leg braces. And it is the greatest time they have. So there is an answer of what would happen.

\*Mr. Reed. Well, I appreciate that. I see my time is expiring. And Lyndonville is up on Oak Orchard Creek, and I think I have caught a few salmon and brown trout there.

\*Ms. Ireland. I am sure.

\*Mr. Reed. Appreciate the reference to the fishing. Thank you all.

And with that, Chairman, I yield back.

\*Mr. Reichert. Thank you, Mr. Reed. Mr. Lewis, you are recognized for five minutes.

\*Mr. Lewis. Thank you very much, Mr. Chairman. And I will be very brief. I want to thank each of you for being here, and thank you for being so patient.

This is a question for all of the United Way organizations that are on the panel. I want to know more about the people you do not have the resources to serve, to help. Do you have to turn people away from your program? How does the charitable deduction help your organization to provide these services?

\*Mr. Ross. Oh, I am going first this time? Thank you for the question, Mr. Lewis. I think there is a couple of ways to answer that question.

First of all, I want to make the point that serving people in need does not occur in a vacuum. It really takes an infrastructure to make that happen. So it is not just the philanthropic sector or the government sector. Because when someone needs a need, they don't care where the particular help might come from. So it may be a government program, it may be a nonprofit program. So we all work in concert. So that is one answer to the question. So, certainly, when there is a cut in services that -- from our government partners, then often United Way has come to -- to try to fill that gap.

There is always more need than dollars, no matter how much money you raise. And I think part of that is because, you know, human beings evolve. The challenge that we had in the '70s and the '60s are not the ones that we have today. So certainly there is always an unmet need. I think most United Ways undergo a process called community needs assessment, in which they try to prioritize what are the most critical needs in the community. And -- because the resources are limited, so you have to be sort of strategic about this. But my colleagues at the local level I think can talk a little bit more in depth about that process.

\*Ms. Ireland. Thank you, Mr. Lewis, for that question, the opportunity to speak about it. There is always going to be more need than we can take care of. And again, we are a small rural community with limited resources. The number one thing that I have encouraged our agencies and our community to do is to

collaborate together. And we have, in our community, a large need for literacy. And that is something that we are working on right now.

For example, we have so many programs that we work on in getting literacy into the family and to the children. But if the parents can't read, then what is that helping? So we -- for example, we had all these kindergarten forms that came home, and the parents were just signing them and sending them back. They didn't know what they said. So we are working as a collaborative unit to kind of say, "I can do this; what can you do?"

And in a case where there is a need that we can't meet, we go back to the local community that supports us so well, and we just say, "Here is the need. What can we do together?" And our community is so small and so rural, but so amazing and so giving that there is never a circumstance that they won't rally around. A sick child without medical insurance? They will, you know, run a chicken barbecue, do whatever they can.

So, any incentives such as, you know, the charitable tax giving, all of those, you know, tax codes -- which is so far removed from my expertise -- but anything that we can do to, you know, keep our donors, encourage our donors, and go to that donor that gives us \$1,500 a year and say, "This is the stories. Can you give us \$2,000 next year?" So we work with our community to meet the needs as best as we can.

\*Mr. Lewis. Thank you.

\*Ms. Irgang. And I think something just to bring up that -- I think what they have said is wonderful. In conclusion, United Way is in a position to help hold the programming and the agencies in our community somewhat accountable for the funding that they receive.

We also, as was mentioned earlier, we often do community needs assessing. So we are able to direct agencies and programs that maybe are not as necessary as they once were to evolve and follow the needs, so that we can try to meet the needs that are most pressing and most important, not necessarily legacy programs and keep them going forever. So I think that is an important role for United Way in almost every community that it is in.

\*Ms. Ireland. I agree.

\*Mr. Lewis. Thank you. Thank you, Mr. Chairman. Yield back.

\*Mr. Reichert. Thank you. Well, thank you for your time today and thank you for your testimony. And even though this has been a long process for everyone today, almost 7 hours and 41 witnesses, 6 different panels today, it really has been, I think, a very worthwhile exercise. And again, thank you for hanging in there and staying until the very end. And we have got a number of witnesses -- or Members here with us still, people moving in and out throughout the day.

But the process here is going to be one, as we move forward, is going to be very open, as was today's hearing. And I am proud to say -- and I don't know if some of you were in the audience earlier in the day when I said that I have been chosen as the chair of the charitable organization working group. And Mr. Lewis is the co-chair. And he and I together, I think, are very excited about working with all of you in finding a way that we can keep working to help those people that need help, and also make the system fair.

And I know I am going to ruin your name again, but I think Mr. Palatiello --

\*Mr. Palatiello. John.

[Laughter.]

\*Mr. Reichert. That works, too. I will call you JP, how is that? John, I think you pointed out a very interesting thought in making sure that there are organizations out there that aren't in it to create revenue for themselves and compete with private businesses, but they really are truly there to help folks who really need help. And that is one of the things that we will be looking at, too, as we have our working groups.

But I also want to say that to the question that Mr. Davis asked on who donates and who contributes, I know that United Way and Special Olympics are very innovative in their fundraising events. I have participated in those events as the sheriff back in Seattle and King County. People get a great deal of fun out of watching a full-grown sheriff with 1,100 people working for him riding a tricycle in a tricycle race. They will come to see that and pay a lot of money. Or a Saturday jump in Lake Union in the Polar Plunge.

So those are fun events, but -- and they bring the community together in a way that I know you recognize, you see. It is not only about the money, it is about the unity of the community and working together to provide for those people that really need our help.

We are going to move forward again with this open process, and look forward to your continued input. And thank you all for what you do for those people in need each and every day. We really appreciate your efforts.

So, with that, the committee stands adjourned.

[Whereupon, at 4:51 p.m., the committee was adjourned.]

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[A Mother's Wish Foundation](#)

[Alexander Reid](#)

[American Academy of Pain Medicine Foundation](#)

[American Alliance of Museums](#)

[American Camp Association](#)

[American Health Care Association](#)

[American Lung Association](#)

[American Red Cross](#)

[Americans for Fair Taxation](#)

[Amy Fitterer](#)

[Association for Healthcare Philanthropy](#)

[Association of Art Museum Directors](#)

[Association of Baltimore Grantmakers](#)

[Association of Christian Schools International](#)

[Association of Fundraising Professionals](#)

[Audrey Meyers](#)

[Barbara Bilton](#)

[Barbara J. King](#)

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[Convoy of Hope](#)

[Council of Michigan Foundations](#)

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[Cynthia Pellegrini](#)

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[Easter Seals statement](#)

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[Evangelical Council for Financial Accountability](#)

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[Ford Bell](#)

[Forgotten Harvest](#)

[Girl Scouts of the USA](#)

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[Goodwill Industries International](#)

[Goodwill Industries of the Columbia Willamette](#)

[Grant Oliphant](#)

[Great Kansas City Community Foundation](#)

[Habitat for Humanity International](#)

[Hope Community Resources](#)

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[James Ledoux](#)

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