



**Testimony of David Wills
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**“Tax Reform and Charitable Contributions”
U.S. House of Representatives Committee on Ways and Means
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Good morning Chairman Camp, Ranking Member Levin and Members of the Committee. My name is David Wills and I am the President of the National Christian Foundation (NCF). Thank you for the opportunity to testify before you on the value of charitable giving across America’s communities and the potential threats to that giving.

Based in Alpharetta, Georgia, NCF has grown into the 19th largest charity in the United States and the largest Christian grant making organization in the world. Last year, NCF received over \$870 million in private contributions and gave out over \$600 million to more than 14,000 charities worldwide. Since our inception in 1982, NCF has received over \$5 billion in contributions and has distributed over \$3.5 billion in grants to charities.

Today, I am testifying on behalf of the Alliance for Charitable Reform (ACR). ACR was founded in 2005 as a project of The Philanthropy Roundtable, which represents over 600 private charitable donors and foundations across the United States. Specifically, ACR was formed to respond to legislative proposals here on Capitol Hill that directly challenged philanthropic freedom. Recently, the biggest challenges to philanthropy have been proposals to limit the charitable deduction in the midst of ongoing fiscal debates.

ACR is an active member of the Charitable Giving Coalition, which brought over 200 people to the Hill to meet with Members of Congress in December of last year. These participants represented a diverse cross section of charitable organizations from St. Jude Children's Research Hospital to the Ocean Conservancy to Disabled American Veterans to the Detroit Zoo. We told our personal stories about the importance of the nonprofit community in their districts, and asked that Congress protect the charitable deduction in the fiscal cliff negotiations. The charitable community was heard, and the deduction remains intact.

The charitable deduction plays a crucial role in the health and wellbeing of our society. According to Giving USA, in 2011 individuals donated nearly \$218 billion to charity, with donations coming from 117 million US households. These donations allow myriad charitable organizations to flourish all across the country. Individual philanthropy plays a major role in feeding the poor, housing the homeless, funding medical research and so much more. It is the charitable tax deduction that encourages giving and makes much of this possible.

First and foremost, the charitable deduction is unique and should be considered separately from all other tax benefits. It is the only tax benefit that encourages individuals to give away their income without personal financial gain. Every other tax benefit encourages individuals to consume more or save more for themselves. While Congress and many in the public will argue all these deductions are good for our country, it's clear that the charitable deduction is different.

Yet, policymakers and the President have proposed, and are considering, limits or caps on the value of the charitable deduction as a way to solve our nation's fiscal crisis.

But the charitable deduction is greater than just this moment. Giving to charity is at the core of our American values. The deduction was first enacted in 1917 along with higher tax rates to help pay for World War I. Understanding the unique nature of private, independent charitable organizations in American life, lawmakers exempted contributions to these charities -- in the form of the charitable deduction. Further, lawmakers worried that as tax rates rose Americans would have less to give to charities and without an exemption (or charitable deduction), those most in need would be hurt the most.

Although the crisis we face today is different, now is not the time to dismantle or diminish a core American value that encourages giving. If any kind of cut, cap or limit is imposed, giving will naturally decrease, irreparably harming a value that Americans have fought to keep alive, even during America's most trying times.

This fight began in earnest in 2009. Each of President Obama's budget proposals included a cap on the value of the charitable deduction -- to 28%. Estimates show the President's proposal to cap the charitable deduction at 28% would reduce giving by up to \$5.6 billion every year. This cut equals more than the annual operating budgets of Red Cross, Goodwill, the YMCA, and Habitat for Humanity, the Boys and Girls Clubs, Catholic Charities, and the American Cancer Society combined.

Last year another idea was floated which capped itemized deductions at a set dollar amount. That proposal would have been even more devastating if applied under the current tax code. Based on independent analysis, a flat \$25,000 or \$50,000 deduction cap would have been 2.5 to 3 times worse than the Administration's 28 % cap. Charities would lose even more gifts, especially in states with high income and property taxes, including those states with dense urban areas, pressing financial concerns, and great social needs.

While any cut, cap or limit on the charitable deduction is ill advised, so are back door tax increases aimed at the charitable deduction. Reinstating provisions like the overall limitation on itemized deductions (known as the "Pease rule") put us on a slippery slope to reduced giving. While it's too early to tell the full effect of reinstating Pease, preliminary feedback suggests that at the very least the timing of gifts will be affected, and we expect dollar amounts will follow suit. My experience has shown that even the suggestion of further cuts, caps, or limits to the deduction chill donations.

For example, one of our donors in central Florida saw this 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 with taxes likely going up and a fear of the deduction being limited, he needed to give it away in 2012. The total value of his gift was several million dollars and he now is very thankful he made this move because the Pease limitation would have greatly cut into his gift. And yet, he is still concerned that Congress might limit the charitable deduction in the future, which he told me 'would only hurt the charities.'

So again, it is not the taxpayer who is harmed. It is those who need charitable services the most.

Now, more than ever, nonprofits and those they serve need more support, not less. The ongoing sluggish economy has charities facing higher demands for services with fewer resources. Reductions in nonprofit budgets will also produce more joblessness in a sector that employs about 10% of America's workforce.

Substantially limiting the charitable deduction at a time when people are still reeling from the recession, unemployment is high and charities are facing government cutbacks simply makes no sense. It's not a way to avoid the latest "cliff," but moves the burden onto charities and communities that depend on them.

Historically, the government has relied upon the nonprofit community during times of need. Not only are nonprofits vital to everyday life, but private giving is also essential during disasters. Never was this case made more abundantly clear than during the devastation brought by Hurricanes Katrina and Sandy. During Hurricane Sandy, NCF was able to effectively and efficiently distribute aid to victims through many on-the-ground organizations. In both of these incidences, NCF's role was vital in reaching places the government couldn't, and getting to those in the most

need more quickly. Additionally, we had donors who created significant matching grants to help our fellow citizens at their point of greatest need.

Foundations and charities alike – from the biggest to the smallest – gathered up resources and nimbly and effectively leveraged them to provide assistance to those in need. Congress must not hamper the ability of charities to fill in the gaps, especially in dire times. In fact, understanding the importance of charitable giving, Congress has in the past enacted part-time tax incentives for targeted giving. The latest example of this was a bill introduced in this chamber, which enhanced the charitable deduction for Hurricane Sandy disaster relief contributions.

Furthermore, the deduction works. Data suggest that for every dollar a donor gets in tax relief for his or her donation, the public typically receives three dollars of benefit. No other tax provision generates that kind of positive public impact.

But most importantly, donors rely on a constant tax incentive for charitable donations as they plan their annual and legacy gifts. And what impacts giving from donors, directly impacts those receiving charitable services.

While NCF's donors are varied, there is no doubt that the charitable deduction affects their behavior. For example, at the end of last year we saw just how monumental that effect is. We estimate that as much as \$50 million was donated to NCF in the last month of 2012 by donors who feared this crucial deduction would be cut or capped in some way.

For example, a donor from Detroit, Michigan who works at an investment management firm decided to make several years' worth of charitable contributions in 2012. This amounted to almost \$300,000. He did this because he understood that if the deduction was limited, the cost of giving would go up and the organizations he cares about would receive fewer and smaller donations.

Another one of our donors is from the Los Angeles area and is a CPA. He decided to give away the balance of his profit sharing plan in 2012, almost \$80,000. He had previously planned to give it away over the next several years, but the reason for donating in 2012 was simple: he knew what the current tax rates and the charitable deduction were, but those rates for 2013 were unclear. He ended up giving 50 % of his AGI to make sure he took full advantage of the charitable income tax deduction in 2012. He wanted to maximize what he gave to charity and felt this was the wisest way to do so.

So clearly the deduction not only affects how much they give, but also the timing and the number of organizations to which they give.

Some may argue that the deduction only helps the wealthy. However, this simply isn't true. A recent United Way study found that the charitable deduction is used by people of varying income levels, not just high-income individuals. The % of people indicating they use the charitable deduction is the same for households with incomes between \$50K-\$100K; \$100K-\$150K; and \$150K+.

To put it simply, the charitable deduction provides no financial gain to the donor. All of the financial benefit goes to the charity because the donor is giving away money –he does not receive anything in return. Whether it costs 65 cents to give a \$1 as it did in 2012, or 61.5 cents to give a \$1 as it does in 2013, the donor's balance sheet declines. The charitable deduction does not inure the financial benefit of the donor, it simply incentivizes the person to give it away and benefits the charities that need it most.

Simply put, a decrease in the charitable deduction affects what charity will receive.

Additionally, a United Way poll found that the vast majority of Americans (79%) believe reducing or eliminating the charitable tax deduction would have a negative impact on charities and the people they serve. Of those who would reduce their giving, a majority (62%) indicate they would have to reduce their contributions by a significant amount.

Now, more than ever, is the time to ENCOURAGE philanthropy. To do this, we respectfully request that Congress preserve the charitable deduction in its current form.

On behalf of both NCF and the Alliance for Charitable Reform, I believe any proposal to cut, cap or limit the deduction is a step in the wrong direction, especially at a time when the government and Americans are relying more – not less – on the nonprofit sector.

I would like to close with this -- historically, philanthropy has served as an indispensable laboratory for innovation and entrepreneurship, addressing many of society's greatest challenges. Foundations, nonprofits, and charities offer creative solutions to meet the multitude of unique and diverse needs of America's communities. From the environment that is protected to beds for the homeless... From the medical attention for those that cannot afford it to the warm meal and a blanket for the needy....From the house of worship around the corner to the inner city program that keeps kids safe... philanthropy is and will continue to be a vital part of our society and our economy.

I want to extend my deepest thanks to the Committee for conducting this hearing. It is an important forum to deepen understanding among policymakers and the public at-large about what is at stake for communities.

I appreciate that you all have to make tough decisions, especially given our current fiscal challenges. I believe that policymakers, on all sides, recognize the indispensable value of the charitable sector, and we look forward to working closely with this committee to avoid any unintended consequences.

Thank you for the opportunity to appear before the Committee and share my thoughts on these issues. I would welcome any feedback or questions that the Committee may have for me.