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Date: April 10, 2013

To: House Revenue Committee Chair Barnhart
and Members

From: Laurie Wimmer, OEA Government Relations

Re: *HB 2456 [Revenue Recovery Package]*

As chair of the Oregon Revenue Coalition and on behalf of Oregon Education Association's 42,000 teachers, education support professionals, and community college faculty and staff throughout Oregon, I am happy to support HB 2456, which offers a modest package of revenue reforms to assist Oregon in balancing its budget and to begin to reverse many years of harmful cuts.

Though we would have hoped for a larger revenue recovery proposal – in the neighborhood of equity with the sacrifice being asked of retired public servants, perhaps – we do embrace the approach taken by the dash 2 amendments, because it was built with fairness and sustainability in mind – values that we believe Oregonians share.

We have long supported innovations in tax compliance, and this bill offers a way to repatriate offshore tax haven money that rightfully belongs to the citizens of Oregon.

We also believe in the innate fairness of asking those whose resources place them in the top 5 percent of earners for a greater contribution to the public good, particularly after five years of devastation to the services that all Oregonians revere – our public schools, community colleges, and services to the most vulnerable.

OEA also supports proposals that redirect money from Washington, DC to Oregon, as this bill will, due to the fact that larger deductions on federal tax returns will in effect keep more money in state, rather than being exported out of state.

Finally, we appreciate that this proposal will have no deleterious tax effect on 95 percent of Oregon taxpayers.

Some will argue that charitable giving will be negatively impacted by the incremental reduction for the wealthy on personal tax deductions. Our research on the topic shows that this is unlikely to occur, particularly because most of the charitable tax benefit is the much larger federal deduction, and also because tax policy has minimal effect on giving. Indeed, according to the Chronicle of Philanthropy, it is, by percent, the taxpayer with $50,000 to $99,999 in income whose giving is highest – and these taxpayers are not affected by the dash 2 deductions proposition. My research on this topic is attached to this testimony.

Others may argue that small businesses will somehow be impacted by this bill, or that the economy will suffer. Again, research does not bear this out. The level of the corporate increment is tiny – one-tenth of one percent – for those whose revenues exceed $100 million, and that rate is applied only for that excess. Few small businesses here have that kind of annual revenue and therefore are unlikely to be impacted by lifting the cap on the corporate minimum.

What has slowed Oregon's recovery from its recent deep recession is a heavy loss of jobs in the public sector due to disinvestment in education and other vital services, which offset private sector job gains and continued to depress state resources. Oregon's public schools have lost, for instance, more than 5,000 educators in the past three years, resulting in untenably large class sizes, shortened school years, and damage not only to our schoolchildren, but also to our economies. According to ECONorthwest, every 10 education jobs in Oregon builds nine more in the private sector. By passing this measure and reinvesting in our education system, you will make significant impact on job creation and economic stimulus.

You will hear from many voices today who will urge you on as you take this well-thought-out step forward. They are here to document the expectations of Oregonians that you will not leave Salem in June without doing the right thing for students, for vulnerable Oregonians, and for our economy. HB 2456, with the dash 2 amendments, can be that step forward. We urge passage and thank you for your support for Oregon's future.

From the Chronicle of Philanthropy

$50K-$99,999 average giving:	
Percent of income given	5.3%
Average contribution	$1,814
Average discretionary income	$34,068
Total returns	298,889
$100K-$199K average giving:	
Percent of income given	4.2%
Average contribution	$3,241
Average discretionary income	$77,268
Total returns	145,125
$200k and up, average giving:	
Percent of income given	4.5%
Average contribution	$12,405
Average discretionary income	$276,769
Total returns	38,815
All income levels, average:	
Percent of income given	4.6%
Median contribution	$2,163
Median discretionary income	$47,450
Total returns	482,829

$1.5 billion in total giving in Oregon per year

http://www.stepbystepfundraising.com/what-are-the-impact-of-tax-incentives-have-on-giving/

What are the impact of tax incentives on giving?

Expert Advice, Q&A

by Sandra Sims

Awhile back I got a great question by email about the tax benefits for charitable giving:

Are you aware of any data or where one might find data, on comparing how much people donate when tax deduction is and isn't available....that is, data that would quantify the impact tax incentives have on giving?

~ Jane Bowers

A research study from the Urban Institute examines the impact of tax credits (which is different from tax deductions) using data from 1998-2000: Charitable Tax Credits Boon or Bust for Nonprofits?

The most recent data available from the Arizona Department of Revenue show that the tax credit seems to have added some new money to the nonprofit sector, although the downtrend in the economy confounds the picture. In 1998, 2,856 filers claimed $475,438 in tax credits. One year later, the numbers increased (6,712 filers claimed $1,161,162 in tax credits).

For the wealthy, tax benefits seem to be a significant factor in giving. This quote comes from a Portfolio.com article, Tax-Avoidance Trifecta:

For high-income taxpayers seeking to shelter income, philanthropy can be the gift that keeps on giving. Instead of writing checks, though, savvy investors are signing over appreciated securities.

In my experience the *majority* of donors, those not in high income brackets, give to causes they believe in and tax benefits are secondary. Telling someone that a donation is tax deductible doesn't go very far in convincing them to make a donation. Most charities offer this benefit so never think that this alone will convince someone.

Many 501c4 organizations, such as those that participate in lobbying activities, do not offer tax benefits to donors and they still manage to raise money for their causes.

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The administration and supporters of proposals to limit or cap the charitable deduction argue that the effect on donations to educational institutions and charities will be minimal. They believe that donors will continue to give to charities, particularly since studies show that donors' motivation to give for a cause outweighs tax incentives for giving.

On Jan. 2, 2013, President Obama signed the American Taxpayer Relief Act of 2012 (H.R. 8) into law. Under the new law, the marginal tax rate for individuals earning more than $400,000 ($450,000 for households) is 39.6 percent. Marginal tax rates for taxpayers earning under $400,000 remain the same. Lawmakers did not cap the charitable deduction in the new law, which means a taxpayer's charitable deduction rate remains equal to his or her marginal tax rate.

While the charitable deduction was not capped, the new law does reinstate the "Pease limitation," a provision that reduces itemized deductions, including the charitable deduction, for high-income taxpayers. Taxpayers must reduce their itemized deductions by 3 percent of the difference between their income and $250,000 ($300,000 for households). Itemized deductions cannot be reduced by more than 80 percent and the thresholds are annually indexed to inflation. Since the limitation is tied to income level and not the amount of deductions, the provision will likely have a minor impact on charitable giving.

Updated Jan. 15, 2013

http://triblive.com/news/allegheny/3226941-74/tax-charities-giving#axzz2Q1vDuyLo

Fiscal cliff law brings mixed news to charitable organizations

By Bill Zlatos

Published: **Sunday, January 6, 2013, 8:16 p.m.**

"Tax deductions for charitable giving are nice, but they're not the main motivator," said Fay Morgan, executive director of North Hills Community Outreach in Hampton.

Lydenberg noted, however, that studies show a small amount of nationwide charitable contributions comes from estates.

A Giving USA study by the Center on Philanthropy at Indiana University showed donations to charities totaled $298.4 billion in 2011, he said. Of that, $24.4 billion, or 8 percent, came from bequests. About 73 percent, or $217.8 billion, came from individuals.

http://www.urban.org/taxandcharities/upload/Rethinking-the-Deduction-for-Charitable-Contributions-Cordes.pdf

Research on the tax effect on charitable giving.

Charitable Giving Linked to Higher Stocks, Not Lower Taxes

U.S. Trust managing director says advisors should not shy away from discussing charity

By Gil Weinreich, AdvisorOne

January 24, 2013 • Reprints

The stock market has risen 5% year to date, and that helps drive philanthropic giving than fears over ending the charitable deduction discourage it, a U.S. Trust wealth strategies advisor told AdvisorOne.

With a slew of tax law changes taking effect in the new year, and lingering questions about ending tax expenditures like the charitable deduction as Washington comes to grips with its fiscal difficulties, many discussions about philanthropy focus on the tax angle.

But U.S. Trust managing director Ramsay Slugg (left) says tax matters are subordinate to the performance of stocks and the health of the overall economy.

"Charitable giving is not as tax-motivated as we conventionally think it is," Slugg says. "We know that 65% of Americans give to charity each year, which is a lot more people than pay taxes or itemize deductions.

"Of people who make a half-million dollars on average or above, 95% of that group give to charity each year," he continued. "Not all of them take itemized deductions or pay taxes.

"For people who don't itemize, they don't get any tax benefit for giving. Even for people who do itemize, it makes it a little cheaper, but you don't come out with more money in the end.

"People give because they're charitable first," Slugg says.

The motivation for giving has policy implications, of course, but it also may serve as a signal of investor sentiment about the economy.

Slugg cites a biannual survey that Bank of America (owner of U.S. Trust) conducts with Indiana University's Center on Philanthropy. The 2012 survey, released in November, suggested bullishness about the economy, since 76% of high-net-worth investors intended to maintain or increase their charitable giving through 2016.

"These [high-net-worth] people drive charitable giving. They feel bullish about the economy overall," Slugg says.

Just under a third of the 700 wealthy donors surveyed viewed the favorable tax treatment of donations as a primary motivator for giving, and 50% said they would maintain or increase their donations if tax deductions were eliminated.

While the U.S. Trust executive sees the stock market and economy as having more impact than taxes on high-net-worth giving, he says increased taxes—not the tax deduction—have a large impact on middle-class donors.

Slugg says the restoration of the Social Security payroll tax, which is now taking 6.2% of workers' paychecks, up two percentage points from last year, will likely have a negative impact on charities.

"~~Not all deductions are created the same,~~" he says. "~~Practically speaking, mortgage interest or real~~ estate taxes have to be paid or a bad thing is going to happen to you. But charitable donations, if you don't make them, nobody's going to kick you out of your house."

Nevertheless, he adds, "if we see market growth and economic growth, that will more than offset the tax hit" of diminished middle-class discretionary spending.

Slugg observes that many financial advisors don't pay as much attention to their clients' charitable giving as they might.

"They shy away from it because they feel it's too personal," he says. "But clients want to talk about their philanthropic giving."

Advisors “ought to be having philanthropic conversations with their clients. If advisors themselves are not conversant, they should encourage their clients to talk with someone who is—whether it’s a community foundation or a friendly trust group who have philanthropic experts, so they can [give] in the best way.”

Slugg says his own U.S. Trust serves as a trustee and offers credit, banking and alternative investment services to which many independent brokers lack access. “There are a lot of different ways to go that an independent investment advisor’s not going to spend time on that they may want to partner with somebody,”

He cites as one key concern a client’s desire to give efficiently. Writing a check to a charity, for example, “is the easiest way but not the most tax-efficient way.” Slugg says a qualified charitable distribution from an IRA to a charity or the presale of a business or other asset are among the many possible ways clients can execute their desire to maximize the efficiency of their giving.

The level of charitable giving is currently estimated at $300 billion a year. Slugg, who works on the biannual Bank of America high-net-worth survey, says any reduction in that level of giving as a result of ending the tax subsidy would not likely be as significant as conventional wisdom suggests.