House Committee on Revenue

April 12, 2013

Comments

on

House Bill (HB) 2456

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On behalf of the Association of Fundraising Professionals (AFP), I am pleased to provide a written statement regarding Oregon House Bill (HB) 2456 and the intrinsic value of the charitable deduction. AFP represents the individuals responsible for generating philanthropic funds, so we have a unique understanding of the impact of charitable giving and giving incentives.

As the committee contemplates tax policy changes, please remember that philanthropy is an extraordinary American tradition that is the envy of countries around the world. The charitable deduction and government funding for charitable programs are symbols of our commitment to the impact and change that philanthropy creates—communities coming together to help solve problems. Similarly, Oregon has upheld this tradition on the state level with its own charitable deduction. Altering that commitment is not something we should take lightly or do in the spur of the moment. We urge you to maintain that commitment by preserving the charitable deduction and considering ways to enhance philanthropy.

We hope our thoughts and perspective will prove helpful to the committee as it continues its examination of issues related to the nonprofit sector and tax policy.

Organizational Background

AFP is the largest association of charitable fundraisers in the world. In the U.S., we represent 25,000 individuals and organizations in all 50 states, representing causes of all kinds. Our members help to raise approximately $115 billion annually, which represents more than one-third of all giving that takes place in the U.S.

Fundraising serves as the engine that drives the charitable sector by developing and maintaining relationships with donors and philanthropists who provide the necessary funding for education, social services, healthcare, medical research and the many other altruistic functions provided by the sector. Fundraising complements governmental support for charities and ensures the survival of the charitable sector when state, local and federal governments lack the budgetary means to help. AFP, in turn, fosters the development and growth of fundraising professionals through training and education and promotes high ethical standards in the fundraising profession.

Through the breadth of our membership, we have first-hand knowledge and understanding of charitable giving and the impact of tax policy that incentivizes giving.

Sustain the Investment in the Charitable Sector

One of the defining characteristics of Oregon is its strength of community and the way in which communities across the state come together to address common needs and challenges. Communities act swiftly and decisively, based on an understanding of the environment in a way that those of us working at a national level sometimes struggle to do. It is this inherent sense of partnership and collaboration that drives successful charitable ventures.

Government is often a valuable partner. But Oregonians think of working with each other first, hand-in-hand with community groups and businesses, to solve a problem. That is the American mindset, which is then recognized and supported by government-created tax incentives, such as the charitable deduction. In this context, government is a supporting partner, and it can significantly help philanthropy, but it is NOT the primary player.

I have worked for the fundraising community for twenty years in the UK, Europe and now America. During that time I have seen many different communities incentivize giving in many different ways. The charitable tax deduction is unique and a tax structure that is the envy of the world. Charities in other countries are upset at the potential change in the charitable deduction because they look to this country as a model. A step backwards here is a step backwards for philanthropy across the globe.

The charitable deduction does not define the philanthropic sector. The defining characteristic of the charitable sector is what we achieve—impact in communities. The charitable deduction enhances that impact by encouraging and sustaining the culture of giving in our country.
We should be investing more in the deduction and encouraging additional philanthropy, not finding ways to limit or cap it.

Beyond the significant giving that it creates, the charitable deduction is a powerful symbol of the American tradition and system of philanthropy. In fact, its symbolic nature nearly outweighs its monetary values. The charitable deduction represents a gesture of confidence on the part of the people by way of their elected representatives, an acknowledgement of the effectiveness of nonprofit and community action and a commitment to the longstanding tradition of philanthropy in America. The deduction binds together the interests and concerns of all of us in the betterment of our society.

To drastically change that symbol—to limit the deduction—in Oregon is to alter that commitment. As noted below, changes to the deduction will have a potentially catastrophic result on giving and philanthropy in the state. At a time when we are still recovering from the worst economic period in generations, we must continue to support traditions, like philanthropy and the charitable deduction, that have served the state so well.

Limits or Changes to the Charitable Deduction Will Reduce Charitable Donations

Over the past few years, we have seen a number of proposals introduced on the federal front that would limit or change itemized deductions, including the charitable deduction. Each of President Obama's budgets has included a 28 percent cap on itemized deductions for high-income taxpayers. During the 2012 Presidential election, Governor Romney proposed a $17,000 cap on all itemized deductions, a figure that he later raised to $25,000. Other proposals included an adjusted gross income (AGI) floor for deductions and the use of tax credits instead of deductions.

Various studies indicate that we would see a decrease in giving if the charitable deduction were capped or limited or replaced by other provisions on the federal level. An Indiana University Center on Philanthropy study found that charitable giving would decrease by $0.82 billion in the first year but would jump to a loss of $1.31 billion the following year if the Administration's 28 percent cap were imposed on itemized deductions.[1] In comparison, the Tax Policy Center estimated that charitable giving would decrease between $1.7 billion and $3.2 billion a year under this plan.[2] These figures are conservative compared to the study done by Joseph Cordes, an economics professor at George Washington University, which estimated a loss in charitable contributions between $2.9 billion and $5.6 billion per year.[3] These estimates are based upon the previous top marginal tax rate of 35 percent. The actual loss in charitable contributions could be worse in light of the new 39.6 percent tax rate.

The effect of Governor Romney's proposed hard dollar cap on the charitable deduction could be even more devastating, as research suggests that many taxpayers would exceed the $17,000 cap before ever claiming a charitable deduction. According to analysis by the National Association of Home Builders, the average married, joint-filing taxpayer who itemized in 2009 claimed $20,464 in itemized deductions, $17,319 of which was consumed by deductions for home mortgage interest ($10,365), state and local income taxes ($3,667), and real estate taxes ($3,287).[4] But even if the cap were raised to $25,000 or even $50,000, a hard dollar cap effectively eliminates the charitable deduction from the equation—taxpayers would be forced to prioritize their deductions and choose between the charitable deduction and the other deductions that provide a more direct benefit.

There are equally immense consequences to implementing other changes to the charitable deduction—$3 billion per year if a two percent adjusted gross income (AGI) floor were imposed[5] and $9.17 billion per year if the charitable deduction were replaced with a 12 percent tax credit.[6]

We believe that similar impacts would be seen proportionally on the state and local level if the Oregon State Legislature caps, limits or eliminates the state deduction. In the context of the state budget, the money gained by the state government from limiting or eliminating the charitable deduction would be relatively paltry, but those amounts represent a significant loss to the sector in terms of impact and mission. These dollar amounts must be viewed in the context of the state government's investment in the charitable sector and their philanthropic missions.

The Charitable Deduction Encourages a Culture of Selfless Giving

The charitable deduction is unique in that it rewards people for giving their money away. It is not a tax cut; it is an incentive to give away income to organizations that serve America's communities and those in need. The charitable deduction is the only deduction where the money

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[1] The Center on Philanthropy at Indiana University, "Impact of The Obama Administration's Proposed Tax Policy Changes on Itemized Charitable Giving," Oct. 2011.
[2] C. Eugene Steurle, "The Tax Treatment of Charities & Major Budget Reform," Testimony before the Senate Committee on Finance, Hearing on Tax Reform Options: Incentives for Charitable Giving, Oct. 18, 2011.
[3] Joseph J. Cordes, "Re-Thinking the Deduction for Charitable Contributions: Evaluating the Effects of Deficit-Reduction Proposals," *National Tax Journal*, Dec. 2011.
[4] Rob Dietz, Ph.D. and Natalia Siniavskaia, Ph.D., "A Tax Profile of a Typical Mortgage Interest Deduction Beneficiary," Sept. 4, 2012.
[5] Statement of Frank J. Sammartino, Assistant Director for Tax Analysis, "Options for Changing the Tax Treatment of Charitable Giving," Senate Committee on Finance, Oct. 18, 2011.
[6] Joseph J. Cordes, "Re-Thinking the Deduction for Charitable Contributions: Evaluating the Effects of Deficit-Reduction Proposals," *National Tax Journal*, Dec. 2011.

you spend does not benefit you directly. Unlike other deductions, the charitable deduction is unique in that it is driven by a selfless, generous motivation.

Martin Feldstein, chairman of the Council of Economic Advisers under President Ronald Reagan, a professor at Harvard and a member of *The Wall Street Journal's* board of contributors, acknowledges this fact regarding the federal deduction in a Feb. 20, 2013 article in *The Wall Street Journal* where he proposes limiting the tax savings from all deduction and two major tax exclusions to a two percent cap on an individual's adjusted gross income to reduce the deficit. However, he specifically exempts the charitable deduction from that calculation and states, "The existing charitable deduction in particular deserves to be maintained. Unlike other deductions and exclusions, it does not benefit the taxpayer but provides important private support for universities, religious and cultural institutions, and hospitals."[7] This statement applies to the state charitable deduction as well.

The American public understands the unique value of the charitable deduction and strongly supports its continued existence. In an April 15, 2011 Gallup poll, 71 percent opposed eliminating the charitable deduction to lower the overall income tax rate, and 68 percent opposed eliminating the charitable deduction to reduce the federal budget deficit.[8] More supported the charitable deduction than the home mortgage interest deduction or state and local tax deduction.

In addition, according to a 2013 Dunham+Company national study conducted by Wilson Perkins Allen Opinion Research, 75 percent of Americans continue to say they value the deduction as it currently stands.[9] And 61 percent say that they feel strongly about maintaining the current deduction, up from 56 percent in January 2012.[10] Only nine percent strongly disagree.[11]

These findings are echoed by the November 2012 public opinion poll commissioned by the United Way which who found that nearly 80 percent of Americans believe reducing or eliminating the charitable tax deduction would have a negative impact on charities and the people they serve.[12] Of those who indicate they would reduce charitable giving, the majority (62 percent) would have to reduce their contributions by 25 percent or more.[13] Two out of every three Americans (67 percent) are opposed to reducing the charitable tax deduction.[14]

Although these polls address the federal deduction, we believe that similar results would be reflected in polling on the state level.

The Charitable Sector is Vital to Economic Growth and Recovery

Charities have an immensely positive impact on the economy. We need to remember the significance of nonprofits—something that is consistently overlooked in all of the sweeping

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7 Martin Feldstien, "A Simple Route to Major Deficit Reduction," *The Wall Street Journal*, Feb. 20, 2013.
8 Jeffrey M. Jones, "Americans Oppose Eliminating Income Tax Deductions," Gallup Poll, Apr. 15, 2011.
9 Dunham+Company study (Wilson Perkins Allen Opinion Research's January 2013 Omnibus Study).
10 Ibid
11 Ibid
12 United Way Worldwide, "The Charitable Deduction Poll," Nov. 2012.
13 Ibid
14 Ibid

statements that are being made about the sector and charitable giving. The data is conclusive: $800 billion through the economy (5.5 percent of GDP), 13.7 million individuals employed (roughly 10 percent of the workforce), 15.2 billion volunteer hours and nearly $300 billion raised every year.[15] The charitable sector represents a significant cog that drives economic recovery.

However, the sector is also extremely vulnerable during economic downturns. The economic challenges of the past few years have had a powerful, negative impact on America's charities. According to Giving USA reports, annual giving has declined by almost $13 billion since 2007.[16] We have only recently begun to see modest increases in charitable giving, at the current rate of growth, giving will not return to 2007 levels for almost a decade.

Yet, while charitable giving contracted over the past few years, the need for charitable services and programs increased exponentially during the economic downturn. Nonprofits provide vital necessities such as food, shelter, clothing, job training and placement and so many other services during such a great time of need.

These charitable services are called upon even more when local and state governments slash their budgets and reduce their own social services and other programs. These reduced state and local budgets, along with a decreased federal budget, negatively impact the charitable sector as much-needed grants and other government assistance are reduced or eliminated altogether. Over the past few years, it is clear that charities have been called upon to do much more—with much, much less.

To alter the framework of charitable giving now, just when charitable contributions are finally rising again, is untenable. The Oregon State Legislature would cut the state's nonprofits at the knees just as they are trying to regain their footing.

Conclusion

The charitable deduction is effective and proven to work. But most importantly, it is a vital symbol of the tradition of philanthropy in Oregon and across the country. It is part of the culture of the state. It is a rare example of government coming together with the people to invest in a better future for all. And I firmly believe that you cannot simply limit or replace the deduction without losing something very vital in Oregon.

Thank you for the opportunity to share our comments regarding HB 2456 with the committee. We look forward to working with the committee and its staff on this issue and any others affecting the charitable sector.

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[15] Katie Roeger, Amy Blackwood and Sarah Pettijohn, *The Nonprofit Almanac 2012*, The Urban Institute 2012.
[16] Giving USA Foundation 2012, Giving USA 2011 The Annual Report on Philanthropy for the year 2011.