



THE NONPROFIT
ASSOCIATION OF
OREGON

Good works. Together.

Testimony of James White, Executive Director, Nonprofit Association of Oregon
HB 2456
June 24, 2013
Senate Committee on Finance and Revenue

The Nonprofit Association of Oregon (NAO) supports Minority Report A-Engrossed HB2456 with specific language that protects the charitable tax incentive, but opposes any language proposed for HB2456, such as is currently in Amendment 23, that would cap the tax incentive for charitable deductions.

NAO is a registered 501(c)3 nonprofit organization representing over 600 Oregon nonprofit organizations and affiliate members which provide assistance to the nonprofit sector. Our members are located throughout the state and come from all areas which serve our communities, including education, health and human services, the arts, and environmental protection. NAO's mission is to strengthen the collective voice, leadership and capacity of Oregon nonprofits to enrich the lives of all Oregonians. We do this by conducting training, offering executive transition and consulting services, and public policy advocacy. More information about our many programs and services can be found at www.nonprofitoregon.org.

The public, private, and the nonprofit sector work together throughout Oregon to create and maintain our vibrant communities. We work together as "three legs of a stool" to elevate our state and address the unmet needs of our citizens. We do this together. The nonprofit sector is well aware of how precious resources are in our state and in our communities. Our members, and the vast majority of nonprofits, acknowledge our responsibility to be good stewards of the resources we receive through tax-incentivized donations from the giving public. Oregon nonprofits accomplish incredible achievements with limited resources and despite increasing demand for services in these economically trying times. More than 70 percent of registered charities in Oregon operate with budgets under \$100,000 and many of those are exclusively run by volunteers. The Oregon nonprofit sector understands our unique role in the state and accepts the great responsibility that communities place in us to help them thrive and assist them when they are in need.

It is with this in mind that the Nonprofit Association of Oregon believes that Oregon House Bill (HB)2456 must not cap itemized deductions for the charitable contributions, effective December 31, 2013. NAO believes that the itemized deduction for charitable contributions is a vital incentive for charitable contributions to the nonprofit sector in Oregon and must be retained.

The charitable giving incentive should not be considered a "loophole."

There appears to be a broader plan in the Legislature to seek revenue for the state budget from caps or eliminations of itemized deductions, including the charitable deduction. Seeking revenue by treating the charitable contribution as a "revenue pool" for gains to state budgets has been tried before and had serious repercussions in other states. In Hawaii, the recession and its resulting budgetary shortfalls for the state necessitated that Legislature's passage and the Governor's signature of Act 97 in 2011, which placed a temporary limit on the amount of itemized deductions claimable by certain taxpayers. Hawaii Governor Neil Abercrombie recently came out in support of the passage of Hawaii HB 430, a measure that exempts charitable deductions from the temporary limit on the amount of itemized deductions imposed under Act 97. In his testimony on HB 430 (see attachment to this testimony), Governor Abercrombie stated, "...after having taken a close look at the impact this particular section of the law is having on charitable donations made to Hawaii's non-profit organizations, we support carving out this portion of the law. We recognize that support for nonprofit and charitable organizations is an important policy goal and priority as these groups perform critical services for and within our community." Charitable nonprofits have been emphasizing for years that the charitable giving incentive is not a "loophole" but an important policy decision that is vital to communities. Our own Senator Ron Wyden explained at a Budget Committee hearing on March 5, 2013 that the charitable deduction should not be considered a "loophole" in the tax code, but a "lifeline" that encourages individuals "to give more than they would otherwise give."

Curtailing charitable deductions hurts Oregon communities.

All charitable nonprofits in Oregon benefit from private giving to maintain or enhance the services they provide to their communities. The charitable incentive is the only deduction for which the taxpayer gets a partial tax benefit for making a donation and the community gets the *entire benefit of every dollar donated*. As economist and Harvard Professor Martin Feldstein explained in a March 12, 2013 Washington Post article, "The full deduction for charitable contributions should be retained, because the money that taxpayers give to charity benefits those organizations rather than the individual taxpayer." Eliminating charitable deductions will reduce available funding to nonprofits and that hurts Oregon communities.

In study after study it has been proven that limiting or disallowing deductions for charitable giving will have a permanent negative effect on giving to charities. In May 2011, the Congressional Budget Office studied the issue of modifications to tax law regarding charitable giving in the paper *Options for Changing the Tax Treatment of Charitable Giving*. That paper found that "although those various motivations may prompt different kinds of responses to incentives for charitable giving, studies have generally found that the amount of giving is responsive to changes in the after-tax price of giving." Additionally, a study published by Professors Jon Bakija (Williams College) and Brad Heim (Indiana University) in the National Tax Journal in June 2011 titled *How Does Charitable Giving Respond to Incentives and Income? New Estimates from Panel Data* (<http://web.williams.edu/Economics/wp/BakijaHeimCharity.pdf>) is a valuable tool for understanding the tax incentive for charitable giving. The Bakija-Heim study, which was

conducted over decades, concludes that "peoples' decisions about how much to donate to charity are influenced significantly by tax incentives." To ensure the relevance of this study to the current situation before the Oregon legislature, I checked with Professor Bakija and he stated to me that "the evidence in our paper suggests that charitable giving is responsive to state tax incentives as much as it is to federal tax incentives." I encourage the Committee to consider this study as a source of information. I have attached it to my testimony. Simply put, eliminating the charitable deduction in Oregon will reduce giving to nonprofits which in turn reduces important services to our communities.

Giving to the community is a value in Oregon.

Oregonians are incredibly generous to their communities through charitable gifts to nonprofits. According to The Oregon Community Foundation's Giving in Oregon 2012 report, Oregonians give more generously than national averages across every economic level, and the wealthiest Oregonians (those making over \$200,000/year) gave 3.29% of their incomes on average. By eliminating the incentive to give charitably, HB 2456 would divert money away from the work of churches, synagogues, food banks, domestic violence shelters, and so many more charitable nonprofits providing needed services. It is important to remember that many of the services that nonprofits perform are not offered by state and local government.

The Oregon House Revenue Committees will undoubtedly be considering cuts in state spending and reforms to tax laws. Those changes could undermine the ability of nonprofits to maintain--and expand--much needed programs and services, especially with the increased demands resulting from the still anemic economy. Additionally, policy choices being made at the federal level could significantly compound the damage to nonprofits if HB 2456 were enacted in Oregon without explicit protections for the charitable tax incentive. Charitable nonprofits across Oregon must be able to count on the current Oregon tax incentives for charitable giving if the expectation of policymakers is that nonprofit organizations will be there to fill the gaps.

In conclusion, the Nonprofit Association of Oregon support the passage of Minority Report A-Engrossed HB2456, with explicit language to protect the charitable tax incentive, but opposes language as contained in Amendment 23 that would curtail the tax incentive for charitable contributions. NAO believes that before any bill is passed to eliminate the allowance for charitable deductions further study is needed on the unintended economic impact of such a change.