United States House of Representatives
Committee on Ways and Means
Hearing on Tax Reform and Charitable Contributions

Testimony of Brian A. Gallagher
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February 14, 2013

Chairman Camp, Ranking Member Levin, and Members of the Ways and Means Committee, thank you for allowing me to testify before the Committee on this matter of critical importance to the non-profit sector and our society in general, the charitable deduction.

On behalf of the United Way network in the United States, I urge the Committee to preserve the charitable deduction for all donors. Further, in light of the apparently inevitable cuts to government programs and the proven value of the nonprofit sector, I encourage the Committee to consider ways to further incentivize private charitable giving.

United Way Worldwide is the headquarters organization for a network of local United Ways across the world. In the United States, we have 1200 local United Ways, located in virtually every county, city and town. Altogether, United Way raises nearly $4 billion each year in the United States alone. The private donations to local United Ways are dedicated to improving people's lives in each respective community.

Today you will hear from the CEOs of 13 of those local United Ways. While we work together on broad national goals, you will hear how each local United Way responds to the unique needs of its community.

I hope the Committee will consider what would be lost by limiting the charitable deduction in the context of these United Ways. The most conservative estimates we have on the impact of a 28% cap on the charitable deduction indicate that donations to United Ways would be reduced by more than $100 million per year.

Imagine completely eliminating any 2 of the 3 biggest United Ways you'll hear from today . . . Philadelphia, Washington, DC, and Cleveland. Or imagine eliminating ALL of the remaining 10 United Ways you'll hear from today – eliminating all the good they do and the work they do to improve peoples' lives in their communities.

United Way helps improve the lives of tens of millions of people every year. Whether you are eliminating **all** the work of 10 or 20 United Ways, or the equivalent of that work across our entire network, the impact is the same on the millions of individuals and families who will no longer have access to the help they need.

We have calculated that a mere 2.5% reduction in donations to United Way would result in 1.3 million fewer times that we can provide job training services for an unemployed worker, home care for an elderly citizen, service supportive housing for a single mother, or a mentor or tutor for an at-risk young person.

For anyone who doubts the seriousness of the impact of the charitable deduction, I'd respond that I've spent my entire career, now 30-plus years, working with donors in the nonprofit sector. I know why people give and I believe that limiting the charitable deduction would have a far greater impact on charitable giving than many estimates, and would significantly affect our sector's ability to deliver social services.

I have spent literally thousands of hours getting to know people who donate to charity and why they donate. I've come to know the motives and financial limitations of all sorts of donors. We get contributions from Union workers who sacrifice to give $10 or $20 from each paycheck. We have 26,000 donors who give $10,000 per year or more, and 500 Americans that have donated a million or more to United Way.

A variety of proposals to limit the deduction have been circulated the last few years. Each proposal has two common elements: 1) they limit the value of the deduction for some group of donors, and 2) they will result in reduced giving to charity to the detriment of individuals and families who rely on our help.

The Administration's proposal is a cap on the percentage that can be deducted by high income donors. A proposal floated during and immediately after the election was a dollar cap on the amount that could be deducted. There are various proposals to convert the deduction to a flat credit and proposals to impose a percentage floor or a dollar floor before qualifying for the deduction. Each proposal limits the incentive for charitable giving for some class of donor. And each proposal would reduce our capacity to help people.

Americans give for a variety of reasons. I think it is rare that someone gives to charity only because of a tax incentive. But tax incentives are often a factor in how much someone donates. I can tell you from my experience, large donors are very sensitive to the tax code. In a recent study we conducted, 23% of high net-worth individuals indicated that receiving tax benefits for their charitable contributions was a "major" motivation for giving.

Please don't be fooled into thinking that limiting the charitable deduction will only impact wealthy-taxpayers. If this Committee reduces the charitable deduction, you should expect that many donors to charity will simply withhold the difference necessary to cover the tax from their donations. 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.

Americans from all backgrounds are generous by nature and are willing to give back to their communities. And Americans give to many causes. Arts and education are critical to our society and they merit equal support in the tax code. But United Way, at almost $4 billion last year, is the largest non-government funder of human services in the United States. We rely heavily on large donations from upper-income individuals. Contrary to the myth, large donors do not <u>only</u> give to their college, the symphony or the museum; the myth simply isn't true. Each year, United Way receives a half billion dollars from 26,000 individuals who give $10,000 or more.

In my view, the Committee should be considering ways to provide additional incentives for charitable giving. You cannot solve our nation's deficit by the relatively small amount of revenue to the government garnered by limiting the charitable deduction. Nor does limiting the charitable deduction improve our complex tax code. Under current law, essentially, the deduction rate simply tracks with the donor's tax rate. The effect of that is that income donated to charity is not taxed.

This connection to the tax rates is the strength and simplicity of the charitable deduction. Perhaps my biggest concern about proposed changes to the charitable deduction is that they would for the first time "decouple" the deduction from the tax rate. Once you have done that, then it is a simple matter to repeatedly return to the deduction as a source of more revenue. Even when tax reform is not on the table, perhaps a well-meaning Congress might see the charitable deduction as an offset for some priority government program. To raise a little more revenue, a cap can be lowered another fraction of a percent, a floor can be raised a few hundred dollars, an arbitrary tax credit can be reduced; until there is little left to resemble a tax policy that reflects our nation's philanthropic heritage. This would just be the beginning of a whittling-away at our charitable sector.

Of course, many tax incentives are designed to stimulate certain types of activities. In most cases, the conduct the tax code incentivizes is also beneficial to the individual tax payer. The conventional wisdom in our nation is that homeownership is good. So the tax code incentivizes homeownership. But of course, the taxpayer who gets the incentive also receives a benefit of owning a home.

The charitable deduction is perhaps unique among tax deductions. No personal gain or benefit is conferred to a donor by donating to charity. By allowing donors to deduct the donations at the same rate as their tax rate, you are simply not penalizing them for giving away income. And every cent of their donation is going back into their community. In other words, while the federal government may be losing some revenue from that dollar, the entire dollar is going to advance the common good. What could be a better use of that dollar?

Rather than limiting the charitable deduction, Congress should make the charitable giving incentive stronger, and perhaps even fairer. I propose expanding the deduction to taxpayers who do not itemize their tax returns. Moving the deduction "above-the-line" would stimulate significant new giving and would allow millions of taxpayers to access this incentive for selfless behavior. A non-itemizer deduction could have similar impact.

We are well aware that additional cuts to government funded social service programs are coming. We hope that the cuts are not in the form of sequestration, resulting in across-the-board cuts to good programs, as well as bad. But we acknowledge that a deal to avert sequestration will likely result in cuts to social programs. This reality makes supporting private nonprofits even more crucial.

At a time when all manner of government funded social service programs are being cut, decreasing the capacity of charities to provide services is the wrong thing to do. Those at the bottom of the economic spectrum have suffered the most through the four tough economic years. They are also the ones who would bear the brunt of reduced giving to charity because of a tax policy change.

I urge the Committee to preserve or expand the charitable deduction so we can continue our important work to improve the lives of millions of Americans.

Thank you.

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