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Written Testimony in Support of Charitable Deductions

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Hearing on Tax Reform and Charitable Deductions
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Good morning, and thank you for the opportunity to speak to this distinguished committee.

My name is Earle Mack and I live in Florida. It has been my distinct honor and privilege to serve the nation as American Ambassador to Finland from 2004-2005, and I have been involved as a leader of many non-profit organizations. I am Chairman Emeritus of the New York State Council on the Arts and of the Benjamin N. Cardozo Law School. I was also co-chairman and board member of the Dance Theater of Harlem and spent many years on the board of the New York City Ballet. I am also a former member of the New York Governor's Committee on Scholastic Achievement.

But I am here today as a private citizen, someone who has been fortunate enough to be able to give millions of dollars to charity over the years. And I am here to tell you that if the charitable deduction is reduced or capped, I, and people like me, won't be giving as much as we do now. It's not that we donate to charities of all kinds <u>because</u> of the deduction; we give where we see the need because it's the right thing to do. But it's inherent to human nature that we usually need a gentle tap, to make it at least somewhat in our own self-interest to do the right thing. You can take my word for that, but you don't have to. At least one study, reported in the October 2, 2011 *Chronicle of Philanthropy* bears me out. One conclusion reached by two professors who published the study in June of that year was this: ". . . all else being equal, if the tax savings for giving another dollar to charity goes up one cent, donors will increase their contributions by a bit more than 1 percent. And they will trim their giving by a similar amount if their tax savings fall. Put another way: If a donor gets a 35-percent tax break for her gift, she will donate about 35 percent more than she would have with no tax incentive."

The same 2011 article noted that "Taxpayers earning at least $200,000 represented 2.8 percent of all people filing tax returns in 2009, according to Internal Revenue Service data. However, they donated 37 percent of the $158-billion in itemized charitable gifts made that year." Many people who manage non-profit organizations have frequently told me they believe that the tax deduction is a strong motivating factor, not only for the largest donors but for the smaller contributors as well.

In other words, if the incentive of the deduction is gone, people won't stop giving, but they are likely to give much less. There is likely to be a noticeable attitude adjustment when people feel that the government is not encouraging charitable giving. People might find themselves feeling just a bit more selfish. They might save more of their money, or give more of it to their children and relatives. This certainly will reduce the velocity of spending and the ripple effect that curbed spending would have on the economy. But at the core is a question of when discretionary spending decisions are being made, every one of those decisions is evaluated on its own specific cost/benefit analysis. Consequently, these non-profits that perform vital services to our community and maintain our culture, our heritage, our education system, our hospitals, our scientific research, and our religious institutions are going to get the short end. In fact Independent Sector reports that without the deduction, annual giving is expected to drop by as much as 36 percent; and estimates are that a cap would cost charities as much as $7 billion a year and force cuts in their budgets of twice that amount because of their conservative nature. Please don't take away those incentives that make our country great.

Doing so will have a disastrous effect on the non-profits and religious institutions that are so vital in our society in their outreach to helping the poor, the homeless, the mentally ill, and troubled kids. Consider the United Way: less than one percent of United Way donors give $10,000 or more; but that makes up 15 percent of their $4 billion annual budget.

And let's not forget about the absolutely essential role of non-profits in medical research, health, education and the arts. For instance, since its inception in 1993, the Prostate Cancer Foundation has raised more than $520 million to fund groundbreaking research that has prevented as many as 40 percent fewer deaths of U.S. men from prostate cancer. It has also funded 114 grants to young investigators at a cost of $225,000 each, over three years. Venture philanthropy into high risk research amounts to approximately 3 percent of the U.S. dollars invested in medical research today, but this kind of philanthropy leads to hundreds of millions of dollars of research and to closer relationships with patient communities and enhancing the understanding of specific diseases.

Having chaired several of these kinds of nonprofit institutions, I can tell you that your number one responsibility is to raise money to keep necessary programs funded that serve the community or to run capital campaigns to build new wings. When I approach my peers to donate millions of dollars to these important causes, one of the first things they ask me is "Is it a 501(c)(3) and is it tax deductible?" These are good people who trust my judgment if I tell them that this is a worthy cause, but I still need the deduction incentive to close the deal.

A personal experience of mine illustrates not only our unique approach to charitable giving here in the U.S., but also the potential danger of fixing something that just isn't broken. In the late 1970s, I had heard from my friend Sir Joseph Lockwood, then the Chairman of the British entertainment company EMI, about his difficulties in raising money to rehabilitate the facilities of the Royal Opera and Ballet, both of which have been providing access to artistic excellence and educational resources for 75 years throughout their communities and schools. Sir Lockwood was chairman of the reconstruction fund, and the opera and ballet had fallen into such disrepair that they couldn't dance on the stage, and the few dressing rooms backstage were uninhabitable. It took him and his colleagues many years to raise the money for this leading British cultural institution. The wealthy potential British donors responded to urgent pleas for help by saying "I give enough money to the government; let them take care of it." That's what could happen to us. The burden of supporting these charitable organizations will come right back to the government.

That's just not how we want things to be. The U.S. is boldly unique among developed countries in having its cultural, educational, scientific and religious institutions supported not primarily by the government but by philanthropic largess. That was why the tax deduction for charitable contributions was created in the first place – very soon after the income tax itself was enacted early in the 20th Century. And it worked brilliantly. More than in any other country in the world, Americans understand that making our communities healthier and stronger is a partnership between the private sector and government, and that they, as citizens belong to both groups.

This unity of purpose between taxpayers and charitable givers is at the heart of the tax deduction that has been a central part of American philanthropy for generations. It has led to a system where people who are in the trenches and see an opportunity to make something better come up with ideas that work. These are hands-on, bottom-up people who care and are dedicated. They are smart people offering solutions to problems that they know quite a lot about. No one goes into a nonprofit with anything but the best of motives: the expectation of a lot of work and little or no financial reward. Imagine all that thinking and experience that you get for free. The United States' strength is that we are problem solvers, and we find a way to do things better, and nonprofits are the best way to take advantage of that and encourage new approaches when financial reward is not the main incentive. It seems to me that we're getting a lot of bang for our buck from charitable contributions.

Take for example my friend Laurie Tisch, who has personally given and raised millions of dollars to support public education in New York City public schools. As Chair of the Center for Arts Education, she led a campaign which resulted in an investment of nearly $40 million in public and private support to ensure every child in every New York City public school has access to a well-rounded education that includes the arts.

Parks and libraries are also example of how the charitable efforts of a few philanthropists can make a big difference to literally millions of people. In 2008, my friend Stephen Schwarzman jump-started a $1 billion expansion campaign for the New York Public Library by personally donating the first $100 million. And just last year, hedge funder John Paulson donated the largest gift in history to a public park when he contributed $100 million toward the preservation of Central Park.

Another example of personal commitment to philanthropy and civic responsibility is the Fisher family, the three brothers who not only built five million square feet of office space in New York, but also sponsored the construction of 58 Fisher Houses throughout the country. What is a Fisher House? It's "a home away from home" for families of wounded soldiers receiving medical care at major military and V.A. medical centers. The homes are usually located within walking distance of the treatment facility or have transportation available. Since its founding in 1990, more than 160,000 families have been served, providing 4.7 million lodging nights, which has saved military families $200 million in lodging costs. But it doesn't stop there; these three brothers also provided the funds to build the largest naval museum in the world, the Intrepid Sea-Air-Space Museum. Approximately one million individuals visit the Intrepid Museum each year, which most recently featured the Enterprise Space Shuttle. Can you imagine what this does for our economy, the hotel nights, dining, travel, shopping? The Intrepid is both preserving our history and bolstering our economy, not to mention the pure sense of patriotic pride and joy in being an American.

We simply cannot risk these kinds of bottom-up initiatives going away. I don't think the many charities that support our veterans could have raised millions of dollars without the combination of a compelling cause and the incentive of a charitable tax deduction.

It is also important to remember that the nonprofit sector we are talking about is an important U.S. economic industry in its own right, creating and maintaining many millions of jobs and billions of dollars in tax revenue to local, state and the federal government -- primarily through income tax on employees and sales taxes.

According to studies by Independent Sector, non-profits and foundations employ nearly 13 million people or approximately 10 percent of the country's workforce, which accounts for 5.5% of our GDP. They have more than 62 million volunteers providing more than 8 billion hours of service – the equivalent of another 4 million jobs, worth more than $170 billion. Non-profits spend approximately *$1.9 trillion* annually, including investments in every state in the union.

Changes to the charitable deduction could mean that cultural institutions won't be able to expand their community outreach; new hospital wings won't be built; new research centers won't be created; new professors, teachers and physicians won't be hired. And for every building that isn't built, every expansion that is put on hold, every research project that is abandoned, you have a corresponding loss of momentum, velocity of transactions, and a sizeable ripple effect in the economy. You may lose millions of jobs, in the institutions themselves and in all the ancillary businesses that support them. The construction workers who won't be putting up the new building; the carpet-layers who won't be putting in the new carpet; the food services workers who won't be providing additional meals; and the computer companies that won't be setting up new systems. Those lost jobs will mean fewer houses and/or apartments built and purchased, and loss of expansion and revenue everywhere.

It's not that I object to people like me paying our fair share. But there are better ways to go about it than abandoning a system that has worked so well for us for almost a hundred years. Our taxes have just been raised from 35 percent to 39.6 percent; and then there are the new healthcare add-ons of an additional 0.9 percent payroll tax on wages and self-employment income and a new 3.8 percent tax on dividends, capital gains, and other investment income for high earners. Alternatively, there are some abusive loopholes like the bonus depreciation allowance on things that could be considered luxury items that we can close immediately. Let's also get rid of the founders stock and carried interest loophole, currently taxed at 20 percent as capital gains, which in reality should be ordinary income.

But hands off charitable deductions that help the poor, the sick and the troubled, or that contribute to our stellar research, education and art institutions. We don't want to end up like England's Royal Opera and Ballet, begging for government to fix their dance floor.

Happy Valentine's Day, everyone!