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Tax Reform and Charitable Contributions

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Good morning, Chairman Camp, Ranking Member Levin, and members of the committee. Thank you for your leadership in assembling this hearing, and I want to thank my friend Congressman Gerlach for helping to make my appearance possible. The congressman is a strong partner in our work in the community.

My name is Kevin Murphy and I serve as president of Berks County Community Foundation, headquartered in Reading, Pennsylvania. Berks County Community Foundation was founded in 1994 to promote philanthropy and improve the quality of life for the over 400,000 residents of our county. My foundation is just one of over 730 community foundations serving urban and rural areas across the country. In addition, I am currently chairman of the board of the Council on Foundations, of which Berks County Community Foundation is a member. The Council on Foundations is a membership organization representing about 1,700 of our nation's grantmaking foundations.

I appreciate this opportunity to testify on the impact of Section 170 on philanthropic organizations and, most importantly, upon those we serve. My experience as president of a medium-sized community foundation gives me a firsthand view on how the charitable deduction—and proposed changes to it—may affect our neighbors who are most in need.

According to the 2010 census, our county's principal city, Reading, has the highest share of residents living in poverty in the nation. Yet the resources that our community has to meet our many pressing needs are very limited, both in the public and private sector. Berks County Community Foundation and other philanthropies provide essential help, both by providing material assistance and by developing innovative ways of maximizing the impact of our resources.

Our donors, too, must deal with very real financial considerations. Our community does not have aggregations of great wealth. Our donors are part of the business, civic, and philanthropic fabric of the Berks County community, who seek to make a real difference in the lives of their neighbors. The donors upon whom we rely are extremely sensitive to changes in the tax code, which can significantly limit what they are able to contribute.

We are proud of our community's tradition of pulling together to help each other. The people who live in our county are an economically diverse lot and have a long history of helping their neighbors in need through charitable giving. Of course, we're not alone. Charitable giving is a uniquely American tradition and is, in fact, one of the defining characteristics that makes this country exceptional.

I don't know of anything that more clearly illustrates that tradition than this backpack. Every Friday afternoon, the Greater Reading Food Bank delivers over 400 of these backpacks to schools in Berks County. The backpacks go home with elementary school students who otherwise wouldn't have food to eat for the weekend. We even had to get backpacks with wheels because some of the children were too small to carry a backpack this big. Before this program, many of those students would show up to school on Monday morning sick from hunger.

We should all take a second to imagine what it is like to be a six-year-old child and to know that this backpack is your only way to avoid hunger.

What's important for the members of the committee to understand about these backpacks is that there are no federal, state, or local governmental dollars invested in this program. This effort—these backpacks—are funded entirely by foundations, corporations, and individuals in our community through charitable contributions. And yes, some of those people probably deduct that contribution from their income tax.

Ladies and gentlemen, I submit to you that the charitable deduction and its encouragement of charitable giving is hardly a loophole or a benefit for the rich. To the contrary, it is a means to help ensure that we care for the poor. Because of philanthropy, the Bill and Melinda Gates Foundation projects that there will be no cases of polio in the world by the close of this current decade—and there hasn't been a case in the United States since 1979. The people who don't get polio are the ones who benefit from the charitable deduction.

The conversation within the Beltway about the charitable deduction has become remarkably unglued from the reality of the community I work in.

In communities across the country, donors are struggling to keep our libraries open so that people without Internet access can seek jobs and learn about health care. For example, McDonalds only accepts job applications online. We tested it, and sent a foundation staffer to apply in person. She was referred by the McDonalds to the public library where she could apply online. Philanthropic investment helps public libraries stay open, allowing people a chance at a job. The true beneficiary of the charitable deduction is the job seeker, and the community that still has this lifeline of information and access available to them.

We're fortunate in Reading that Terry McGlinn and his family were able to donate the money to build a cancer center at our local hospital. Mr. Chairman, I have 17-year-old twin boys. Like any 17-year-old boys, there are days where you wonder if they remembered to turn on their brains in the morning. But in their worst moments, Carver and McQuillin know that <u>they</u> are the ones who benefitted from the McGlinn's gift because their mother is still alive seven years after being diagnosed with cancer and being treated at the McGlinn Regional Cancer Center.

We need to remember that the charitable deduction is unique in two key respects.

First, the charitable deduction encourages behavior that benefits society, NOT the taxpayer. No matter how big the deduction is, it is a simple statement of economic truth that any charitable contribution an individual makes leaves them with less money than they had before they made the gift. Charitable giving, even with a federal incentive, does not leave our donors in a better financial position.

Second, charitable giving is discretionary. Taxpayers have to pay their mortgage. Taxpayers have to pay their state and local taxes. Taxpayers don't have to make charitable contributions. Thus, logic suggests that charitable contributions would be most sensitive to any changes to the deductions permitted under current law.

Further, the charitable deduction should not be viewed as a cost to the government. Philanthropy eases the burdens of government, and reduces taxpayers' costs, by meeting needs that otherwise would have to be met by government, and by pioneering more cost-effective and efficient ways to meet those needs. Charitable giving in this country often forms our final safety net, and we cannot afford to put at risk the people who rely on it.

Efforts to cap, limit, or even eliminate the charitable deduction would be a dangerous social experiment. I have heard economists argue both sides of the issue—which is what economists do. The whole discussion among tax economists brings to mind President Reagan's observation that "An economist is someone who sees something that works in practice and wonders if it works in theory."

In all my years of working with donors, I've never seen a donor make a gift because there's a charitable deduction. I have seen, on thousands of occasions, donors who have come to understand that the deduction allows them to make a bigger gift, to reach a little farther with their philanthropy, to dream a little bigger.

I'm not an economist, but the simple math shows that President Obama's proposal would result in the tax value of charitable deductions being reduced by 29.2 percent (the difference between 39.6 percent and 28 percent). I can't run numbers and quantify with precision what effect altering the charitable deduction would have on charitable giving, and I honestly doubt that others can either. What I can tell you is that the charitable deduction works in practice for this country. We should not undertake an experiment that is premised on the notion that maybe the current deduction is not so important after all. My experience in Berks County has taught me otherwise. My greatest fear is that, as a result of reckless policy, on some Friday we wouldn't have these backpacks to hand out. That would be an awful way to learn a lesson.

Our system of incentives for charitable giving is one of the great American success stories. It benefits millions of Americans who need help every day. We owe it to those Americans not to diminish those incentives.