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United States House of Representatives
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Mr. Chairman and Members of the Committee,

Thank you for the opportunity to testify today.

I am the Founding Dean of the Indiana University School of Philanthropy.

The School of Philanthropy is the nation's only school devoted solely to research and teaching about philanthropy. It is built on the foundation of its predecessor organization, the Center on Philanthropy at Indiana University, which was founded in 1987. The School is dedicated to improving philanthropy to improve the world by training and empowering students and professionals to be innovators and leaders who create positive and lasting change. The Indiana University School of Philanthropy offers a comprehensive approach to philanthropy through its academic, research and international programs and through The Fund Raising School, the Lake Institute on Faith & Giving, and the Women's Philanthropy Institute.

My colleagues at the School of Philanthropy are frequently recognized as among the nation's most respected sources of objective research on U.S. charitable giving and the factors that influence it. It is in this capacity that I offer testimony on behalf of the School today that I hope will provide insights that will help inform the Committee's discussions.

The importance of charitable giving and the nonprofit sector

Charitable giving has been a cornerstone of American society since before our nation was founded. In fact, one of the first formal fundraising appeals for an American organization was conducted in 1641 for Harvard University by a delegation from the Massachusetts Bay Colony. Giving is an important way for citizens to exercise democracy, by supporting causes and organizations that they believe make a meaningful difference in our communities and offer solutions to addressing societal problems. Giving is a tremendous force in our society.

Each year, 65 percent of Americans give to charity. The percent of people who give is higher than the percent of people who vote (57.5 percent in the 2012 election, according to a November 2012 report from the Center for the Study of the American Electorate).

Americans gave an estimated $298.42 billion to charities in 2011, according to our research for *Giving USA: The Annual Report on Philanthropy.* Living individuals accounted for the vast majority of the amount given, providing 73 percent of total giving.

When giving by bequests and family foundations is added to that, the total share of giving provided by American households increases to 88 percent, or nearly $9 out of every $10 donated.

Because of charitable giving's enormous scope and impact, I urge the Committee to carefully investigate the various effects tax policy can have on giving before deciding whether and how to change policies in ways that may have significant consequences—positive or negative—for the nation's more than one million charities.

Tax policies' impact on charitable giving

Federal tax policies have a significant effect on charitable giving. Our research shows that the "cost of giving," that is, the amount it actually costs taxpayers to make a gift after taxes, affects how much they contribute to charity. Our analysis of proposed tax policy changes related to charitable giving included in the Administration's 2011 budget proposal and our research for *Giving USA*, as well as studies about how giving is affected by changes in tax policy conducted by our faculty members and by colleagues at other institutions, tell us that tax incentives significantly affect how much people give, as well as the timing of their donations and to what causes they give.

Several of those studies examine how various modifications to federal tax policies impact giving. Raising the marginal tax rates reduces the amount of after-tax income available for giving to charity. However, raising the rate also lowers the cost of giving by increasing the value of the tax deduction, so raising rates alone—without making other changes in tax policy affecting giving—usually is seen as a net positive for charitable giving.

Conversely, capping or eliminating the charitable deduction—again without other changes in tax policy—generally negatively affects charitable giving.

If rates increase and the charitable deduction is capped, this would result in a double whammy for giving because it reduces the amount of after-tax income that households have available for giving and it increases their cost of giving.

Tax policy changes that reduce the value of the charitable deduction reduce households' incentives to give to charities, or to give as much as they might have.

The role of higher income households in charitable giving

Reducing incentives for giving is particularly likely to affect charitable giving by higher income households. This is significant because those households account for a disproportionate share of U.S. household giving.

Giving is increasingly concentrated as you move up the income ladder. IRS data show that the top 10 percent of income earners (those with incomes of $100,000 or more) gave almost two-thirds of all itemized contributions in 2009. The top 1 percent of income earners gave 37 percent of the itemized contributions, with the top one-tenth of one percent giving 18 percent of itemized contributions.

Contributions of all sizes are important to charities and help them sustain their missions. But many charities rely on major gifts – gifts of $100,000, $500,000 or $1 million. These larger gifts and the donors who make them will be most affected by the combination of raising marginal tax rates and limiting, reducing or eliminating the charitable deduction. That would have a detrimental effect on the services provided to our communities through philanthropy.

The School of Philanthropy conducts a biennial study designed to increase understanding of the giving habits, levels, motivations and practices of high net worth households. In our 2012 survey, we learned that wealthy donors are almost evenly divided on whether or not they would reduce their giving if the charitable deduction were eliminated. Fifty percent said their giving would stay the same, 49 percent said they would decrease their giving somewhat (39 percent) or dramatically (10 percent), and 1.7 percent said they would somewhat (1.2 percent) or dramatically (0.5 percent) increase their giving. In this study, we define high net worth households as those with $200,000 or more in annual income and/or $1 million or more in assets, not including their primary residence.

To gain additional understanding of how tax changes related to charitable giving might affect giving, the Indiana University School of Philanthropy conducted an analysis of two such changes included in the Administration's 2011 budget proposal. The Administration's proposals would have reduced the value of itemized charitable deductions from 35 percent to 28 percent for taxpayers with an adjusted gross income of over $250,000 for couples or $200,000 for individuals and would have increased the top marginal tax rate from 35 percent to 39.5 percent for those taxpayers. Our analysis found that those proposals would have resulted in a decrease in charitable giving.

Our research shows that, had the proposals both been enacted, total itemized household giving would have fallen by 1.3 percent, and that giving by the households specifically affected by the changes would have fallen by 2.4 percent.

Considering tax policy in light of other factors affecting charities and giving

These decreases in overall giving may not seem huge on the face of it, but they could have greater effects for individual charities. Most importantly, in the current environment in which virtually all sources of nonprofit revenue—including federal, state and local government funding, earned income, endowment income and charitable giving—are under duress, policies that reduce or remove incentives to give would result in additional financial hardships for charitable organizations.

Our research shows that charitable giving is closely tied to the economy and to consumer confidence. Charities are still striving to recover from the impact of the Great Recession. Charitable giving fell by more than 15 percent in 2008 (-7.2 percent) and

2009 (-8 percent) combined, after adjusting for inflation, according to our research for *Giving USA*.

Although giving began to grow again in 2010 and 2011, its relatively slow growth reflects the country's slow economic recovery. The average rate of growth for giving in 2010 and 2011 is estimated to be 1.8 percent. If charitable donations were to continue to grow at that rate, it could take more than five more years for charitable giving to reach the level it was at in 2007 (the last year before the recession).

Our School tracks and analyzes publicly reported gifts of $1 million or more. More than a third (35.7 percent) of the dollar amounts of gifts of $1 million or more made between 2000 and 2011 were given to foundations and just under a third (31.7 percent) went to higher education. The next highest shares were given to health and the arts (5.7 percent each). Individuals were the primary source of million-dollar-plus gifts made to foundations and to higher education institutions.

Finally, it is important to understand that the health of charities depends on the health of the economy. Our research shows that, ultimately, changes in household economic circumstances have a greater impact on increases in charitable giving than do tax rate changes. Finding ways to address the nation's economic challenges without curbing the growth of the nonprofit economy will encourage voluntary giving and strengthen the role of civil society organizations.

Thank you for the opportunity to testify today. I will be happy to respond to any questions you may have.