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UNLOCKING CHARITABLE GIVING

HEARING

BEFORE THE

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HOUSE OF REPRESENTATIVES

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UNLOCKING CHARITABLE GIVING

THURSDAY, MAY 25, 2006

HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON RURAL ENTERPRISES, AGRICULTURE AND TECHNOLOGY
COMMITTEE ON SMALL BUSINESS
Washington, DC

The Subcommittee met, pursuant to call, at 9:45 a.m., in Room 2360 Rayburn House Office Building, Hon. Sam Graves [Chairman of the Subcommittee] presiding.

Present: Representatives Graves, Barrow.

Chairman. GRAVES. I will call the hearing to order.

And I would like to say good morning to everyone and welcome you to the Small Business Committee, the Subcommittee on Rural Enterprise, Agriculture, and Technology. Today's hearing is entitled "Unlocking Charitable Giving," and we are going to examine just what can be done to ease the burdens on people and businesses that wish to help their neighbors.

Americans are the most generous people in the world and have shown time and time again their willingness to reach deep into their pockets to help those in need. Americans contributed large sums of money to people halfway across the world when the tsunami ripped through southeast Asia. In fact, private sector donations doubled—almost doubled—what our government contributed. The U.S. Government pledged $857 million, and at the same time U.S. private sector and corporate donations totaled almost $1-1/2 billion.

Americans again opened their pockets, their hearts, to the victims of Hurricanes Katrina and Rita. Americans contributed $3.3 billion to help friends and neighbors. That in itself is an astonishing amount, in my opinion. According to a February 27 Washington Post story, 54 percent of donations are controlled—or 54 percent of the donations sent to those victims of Hurricanes Katrina and Rita were faith-based organizations.

This hearing is going to specifically look at H.R. 3908, The Charitable Giving Act of 2005, which is introduced by Representative Blunt and Representative Ford. The Charitable Giving Act aims to leverage new support and resources for a broad range of community and faith-based groups from the private sector. Many of the charities that help those in need are, in fact, faith-based. Seventy-five percent of food pantries are religious organizations, 71 percent of food kitchens are faith-based, and 43 percent of shelters in this country are funded by faith-based providers.

While Representative Blunt's bill is a tax bill, it is in concert with the President's faith-based and community initiative. H.R. 3908 is designed to rally the armies of compassion, as our President likes to say. The bill provides tax incentives and other measures to encourage charitable giving by individuals and corporations. This bill would also allow the 86 million Americans who do not itemize on their tax returns the opportunity to deduct a portion of their charitable contributions.

I would like to thank Representative Blunt for being here today and for introducing this legislation. I will now turn to Representative Barrow for his opening statement.

[Chairman Graves' opening statement may be found in the appendix.]

Mr. BARROW. Thank you, Mr. Chairman. You know, we have had some tough times in America over the last five years, from the terrorist attacks on 9/11 to some of the worst hurricanes we have ever seen. But America is a great nation, because we rally together in the face of adversity, and the generosity of Americans all over is evidence of this.

Charitable giving is essential to our economy and our welfare, and I am glad we are having this hearing to examine the current state of charitable giving. It is not only natural disasters and terrorist attacks that cause Americans to give to charities, organizations all around the world rally support for their causes, everything from curing cancer to educating children and fighting homelessness.

Anybody who believes in these causes understands the importance of contributing to charitable causes. Small businesses are now exception. Eighty-five percent of small firms regularly donate money to charitable causes, and another two-thirds contribute services for free to community charities. These small businesses are making a good investment in their communities, and they know best what local charities are worth supporting.

Our role in this Subcommittee is to see how these entrepreneurs are part of the charitable giving equation, and to make sure that America's charitable infrastructure is effective and efficient. A working charitable system helps those most in need, while also allowing and even encouraging all of us to reach out to our neighbors.

I want to thank Representative Blunt for his leadership on this issue and all the witnesses for coming in today. And I am glad to announce my intent to sign on as a co-sponsor of the Charitable Giving Act of 2005, and I am going to encourage all of my colleagues to do the same. Together we can ensure that our country is one of compassion and generosity.

Thank you, Mr. Chairman.

Chairman. GRAVES. Thanks, Representative.

All the statements of the witnesses and the members will be placed in the record in their entirety. I want to say that and again thank you, Representative Blunt, for being here. I appreciate it and look forward to hearing your testimony.

STATEMENT OF THE HONORABLE ROY BLUNT, CONGRESSMAN, U.S. HOUSE OF REPRESENTATIVES

Mr. BLUNT. Thank you, Chairman. I am pleased to be here. Mr. Barrow, thank you for your comments, and thank you for joining us on this bill.

Let me first of all give a little background. I do have a prepared statement and, as you suggested, Mr. Chairman, it will be in the record.

My good friend Harold Ford and I introduced this legislation at the beginning of the last Congress. The House passed the legislation at the—I think it was near the end of that first year of our introduction of this bill. I was actually very optimistic at the time. The Senate had passed a bill, not quite as good I thought but a good enough bill that we could certainly go to conference and talk to our friends in the Senate. And that got caught up in a number of struggles internally in the Senate and between the House and the Senate. We never had a conference on that bill, and so my optimism at the time has to—has been tempered over time.

I think it is sad that for three years now after the House passage this legislation has not moved forward. I was pleased when the Senate recently put most of the elements of our package in their tax bill for reasons of votes and limitations of how much we could do in the Reconciliation Act. That language wasn't maintained in the Reconciliation Act that we recently passed, but still has an opportunity to be part of a following tax package, I hope it is, and hope that our negotiators can find a way to make that happen.

Let me just hit two or three high points here of the legislation that Harold Ford and I introduced, and I would be glad to answer a few questions. I know you have got a great series of witnesses coming who are out there, both in the faith-based community and the charitable community generally every day. And something that you and Mr. Barrow and I all appreciate and understand is that money given to charities seems to go and obviously does go so much further than money given to government.

So whatever the tax consequences of this bill might be, the good of the community is benefitted dramatically by those consequences. If you want to see a dollar really stretched, give it to a charity that is effectively doing what it does, combining that dollar with volunteer help, other kinds of contributions. And that is one reason that Harold Ford and I were so pleased to be able to introduce that and still continue to believe that this needs to become a part of our Tax Code.

Two or three things I will mention. One, as you did, the non-itemizers, 86 million Americans, two-thirds of the people who pay taxes don't itemize their taxes. And the person that gives generously to church and charity gets no more benefit for that generous effort they make than the person that lives next door that gives nothing to church and charity. And so this bill would allow individuals who give more than $250 to be able to have a deduction as a non-itemizer of up to $500.

Couples would take a deduction of up to $1,000. It not only encourages charity, but it rewards those who give as opposed to those who don't. They get to go beyond the standard deduction that every

non-itemizer gets to a deduction that at least begins to reflect some of what they generously try to give.

There are $2-1/2 trillion locked up in IRAs today. Many people don't have in their IRA what they need from themselves. Others do—people who have got—who have for whatever reason made a good investment with their IRA, have other pensions and retirement benefits coming to them, and suddenly they realize that an awful lot of the wealth that they have accumulated is in this IRA that has significant negative consequences to try to give out of that IRA.

Our legislation essentially removes those negative consequences. If you are a university president like I was the four years before I came to Congress, or if you are doing what many of the next witnesses are part of every day out there raising money, everybody has got a story of somebody who came and said, "Here is how I would like to give," only to find out that the consequences of giving out of their IRA were so negative that they are not willing to do that once they really understand what is happening.

This would remove those negative consequences, make that money in IRAs available for charitable giving, and have real impact to churches and charities who would like to have access to this money without tax penalties. We raised the cap on corporate charitable contributions from 10 percent of the company's taxable income to 20 percent. That would be particularly helpful with small, privately held corporations that are intensely active in often a specific thing in their community, and would love to give 20 percent of their taxable income now, can only give 10 percent.

We enhance deductions for food donations to where people who are not only—not only restaurants and grocers, but also farmers, ranchers, food producers could give money and would be encouraged to give food rather—in a way that they are not now.

As I said, next to the family unit, the local church or charity is really the best equipped to assist those less fortunate, and we are continually—we want to look for ways to do that. I think our bill includes many of those ways, and I am hopeful that even this year we still have an opportunity to work with the Senate and see these provisions become part of the law. And I am grateful to you, Mr. Chairman, for wanting to focus on this, because it does have significant impact on businesses, big and small, and on the communities those businesses are in.

[Congressman Blunt's testimony may be found in the appendix.]

Chairman. GRAVES. Thank you, Representative Blunt. I do have a question. I was curious, has there been any studies or estimates on what could happen to charitable contributions if we are able to implement—

Mr. BLUNT. Well, there was a—on our bill obviously there was a scoring of the bill, which was the scoring, $12 billion was the scoring of the cost of the bill over three—over 10 years.

So if that was the cost of the bill you would have to assume that something in the neighborhood of double that, more than double that, would have been the charitable impact. You know, I think this had a charitable impact of $25- to $30 billion of additional giving that would be there if, in fact, this bill would pass, at a cost—no question-to the taxpayers or to the Treasury of money.

But, again, I will go back to my initial comment that $30 billion would do so much more good, in my view, than $30 billion given to the government, let alone the $12 billion of tax incentives that the government would have to provide in order to put that money in the hands of the charitable community and serve a need in a more effective way than the government itself ever does.

Chairman. GRAVES. There is no doubt that you could get triple the bang through private organizations than you could through the government.

Mr. BLUNT. Right.

Chairman. GRAVES. Representative Barrow.

Mr. BARROW. Thank you, Mr. Blunt.

Thank you for holding the hearing, and thank you for calling attention to this bill. And, again, we are actively talking both with the Senate and with the Ways and Means Committee right now about what we can do to include this as part of a further tax package this year. There is R&D extensions. There definitely will be one more tax package this year that, frankly, on our side of the building we believe easily gets 60 votes in the Senate. So it didn't need to be part of Reconciliation. It becomes part of permanent tax law.

I would really like to see all of these provisions, and certainly some of these provisions, have an opportunity to be part of that package, and your calling attention to it is very helpful to help make that happen.

Mr. BLUNT. Thank you.

Mr. BARROW. So thank you.

Chairman. GRAVES. We will go ahead and seat the second panel and bring everyone up, and then I will introduce them as we move through. So come on forward.

Today on our second panel we have Benny Lee, who is the CEO of Top Innovations, Incorporated, in Kansas City, Missouri; we have Michael Halterman, who is the Chief Executive Officer at Catholic Charities of Kansas City and St. Joe, based out of Kansas City; Diana Aviv, President and CEO, Independent Sector, in Washington, D.C.; and Paulette Maehara, President and CEO of the Association of Fundraising Professionals here in Washington, D.C.

I appreciate everybody being here today, look forward to hearing your testimony. We will start with Benny. Thanks for coming in.

STATEMENT OF BENNY LEE, TOP INNOVATIONS, INC.

Mr. LEE. Good morning. Thank you, Mr. Chairman, Ranking Member Barrow, and members of this Subcommittee for inviting me to testify today. I am Benny Lee, Chief Executive Officer of Top Innovations, Incorporated, in Kansas City, Missouri. I also serve on the Board of Directors of the Greater Kansas City Chamber of Commerce, the Board of Directors of the Heart of America United Way, and the Board of Trustees of Park University.

I also want to thank Tom Dugard from Heart of America United Way for being here to support me today. Tom's hard work helps a lot of people in Kansas City and across the country.

Kansas City welcomed me with open arms when I came to the United States many years ago. And one of my top priorities has been to give back to my community. Over the many years I have

been involved with non-profit organizations, I have learned about the burdensome legal restrictions that discourage charitable giving by individuals and corporations.

I am here today to testify about the importance of charitable contributions and how the Charitable Giving Act of 2005 can help more Americans help their own communities. I have seen first hand the positive impact charitable contributions can have for those in need.

There are over 86 million Americans annually who file for the standard deduction on their federal income tax returns. Because they do not itemize, they receive no deduction for their charitable giving. While many of these 86 million donate to charity, they should receive a deduction for their contributions.

As an entrepreneur, I also know the importance of the charitable donations by businesses. Currently, the cap on corporate contribution charitable deductions is limited to 10 percent of the taxable income. The Charitable Giving Act of 2005 would increase the cap to 20 percent, promoting increased corporate support to faith-based and community organizations across America.

In addition, this bill will encourage more Americans to donate food to the hungry and technology to those who want to learn but cannot afford to buy computers, for instance. We need to change our current system, because the non-profit sector can usually provide better, more cost-effective services than the public sector.

At a regional level, Kansas City's Heart of America United Way's 2-1-1 service began operations in March 2006 after more than three years of planning. The 2-1-1 is a central clearinghouse for those in need and for those individuals and organizations that want to volunteer their time, resources, and services in a 23-county area of Missouri and Kansas.

With news of the 2-1-1 service spreading, the burden on the 9-1-1 service infrastructure should be significantly reduced. 9-1-1 will be able to provide Missourians and Kansans with better, more efficient service for police and fire emergencies because of the work 2-1-1 is doing.

The 2-1-1 is operational 24 hours a day, seven days a week, and is staffed by a team of trained specialists. The 2-1-1 program demonstrates the kind of benefits that the public sector and non-profit sector can provide to their communities when working together.

Americans are the most generous people in the world, but we can do more to encourage charitable giving. I urge Congress to pass H.R. 3908, The Charitable Giving Act of 2005.

Thank you.

[Mr. Lee's testimony may be found in the appendix.]

Chairman. GRAVES. Thanks, Benny.

Next, we are going to hear from Mr. Halterman. Thanks for coming in. I appreciate it. Look forward to hearing your testimony.

STATEMENT OF MICHAEL HALTERMAN, CATHOLIC CHARITIES OF KANSAS CITY—ST. JOSEPH

Mr. HALTERMAN. Honored Representatives, I thank you for the opportunity to testify today regarding charitable giving. Twenty-three percent of our agency's current revenues come from chari-

table giving. Thus, the generosity of our donors assists our agency in fulfilling its mission.

As partners with the government in meeting the needs of the poor and the vulnerable, we have strived to broaden our services in areas such as prison reentry, housing, senior care, child welfare, and many other much-needed services. We also have participated in serving evacuees from the recent hurricane disasters.

As a leader of a faith-based organization, I believe government policy should encourage charitable giving, since non-profit and faith-based organizations fulfill a public role that would otherwise need to be met by our larger social structures, including the Federal Government and the state governments. It is imperative that the government continues to support including adequate funding for non-profit and faith-based organizations who serve the poor and the vulnerable.

Faith-based providers' religious or ethical tenets must be protected in order for such providers to continue to provide services in partnership with the government. This kind of protection has been recognized as necessary by the President's Faith-Based Initiative. One of the most critical provisions of the Care Act of 2005 is the non-itemized deduction which would allow taxpayers who do not itemize to deduct their charitable contributions.

It has been suggested to limit deductibility to contributions over $250 annually. I would suggest that even smaller contributions serve an important purpose. Faith-based and non-profit organizations will address the many needs of our society, but we cannot do more with less. With the moral scandal of so much poverty in the richest nation on Earth, we must continue to seek ways to increase charitable giving, but also provide adequate government funding to meet the needs of the poor and the vulnerable.

Thank you.

[Mr. Halterman's testimony may be found in the appendix.]

Chairman. GRAVES. Thank you, Mr. Halterman.

Diana, thanks for being here today.

STATEMENT OF DIANA AVIV, INDEPENDENT SECTOR

Ms. AVIV. Thank you, Mr. Chairman. I come before you as President and CEO of Independent Sector, which is a national coalition of charities, foundations, and corporate giving philanthropy programs that collectively represent tens of thousands of non-profit groups across the nation.

I am here as the Executive Director of the panel on the non-profit sector, which is a collaborative effort by a broad segment of charitable organizations which offered over 120 recommendations in its report to Congress on the charitable sector last summer for actions that we can take together to independently strengthen transparency, governance, and accountability of charities and foundations.

The independent sector itself has worked for over 25 years to build ethical, effective organizations, and to encourage Americans to contribute time and financial resources to charitable organizations. We were active supporters of the Charitable Giving Act of 2003, which passed Congress by an overwhelming margin, as you

know, of 408 votes to 13, and we are proud to support the Charitable Giving Act of 2005.

We thank Representatives Blunt and Ford for their leadership in sponsoring a strong package of tax incentives in both of these bills, and we are pleased that this Committee and the House of Representatives is seriously considering these important incentives this year.

The tax incentives of the Charitable Giving Act would help Americans provide a more generous support to our nation's charitable organizations. And I want to highlight two provisions in that bill that would give tremendous impact on the ability of America's charitable non-profits to raise private funds to support the vital services they provide to communities throughout our country and around the world.

The first provision, commonly known as the IRA Charitable Rollover, would, as you know, permit tax-free distributions from individual retirement accounts for charitable contributions. Due to the strong economy and stock market gains over the last several decades, many individuals have sufficient funds in their IRAs to retire and make contributions to their favorite charitable organizations.

But under current law those individuals must include any withdrawals from their IRA in their taxable income, which may then be offset in part by a charitable contribution—by a charitable deduction. The size of the deduction—portion of a gift is limited by such restrictions as the percentage of adjusted gross income limitation on charitable deductions and the overall limitation on itemized deductions. As a result, very few individuals donate IRA funds to charity during their lifetimes.

The Charitable Giving Act would remove those disincentives by permitting a taxpayer who has reached age 70-1/2 to exclude from his or her income any IRA funds withdrawn and transferred directly to a charity. This proposal is widely supported in the charitable community and could unlock substantial new resources to support charitable organizations and their community programs.

Currently, about one-half of American households have IRA accounts, and the total value of these funds held in those accounts is approximately two and a half trillion dollars. If less than one-half of one percent of those funds were donated to charity over the next two years, donations could rise by as much as $12.5 billion, and we believe a lot more than that would be donated.

The second provision, commonly known as the non-itemizer deduction, would permit almost 85 million taxpayers who claim the standard deduction on the individual income tax returns to receive a deduction for a portion of their charitable contributions. Our nation's Tax Code has been, and remains, a powerful tool available to demonstrate that we Americans highly value and support charitable giving.

We believe that tax policy should strongly encourage giving by all Americans, not just by those taxpayers who itemize deductions on their annual income tax returns.

Charitable giving decisions begin with a desire to help others or belief in the work of a particular charitable organization, and that that organization is making the world a better place. But research has shown that tax incentives can strongly influence when and how

much we give. This new provision will encourage non-itemizers who already give to increase their donations, and it will provide an added push for those who don't yet make contributions to support the organizations that serve their communities.

House and Senate conferees are currently considering adopting a package of tax provisions as part of a broader tax package—of tax law changes that could be included with other legislation now moving through Congress. That package includes a number of giving incentives included in the Charitable Giving Act, as well as tax reforms which reflect in large part the recommendations of the panel in the non-profit sector to close tax loopholes that have permitted abuse of charitable resources.

I strongly encourage members of this committee to support the adoption both of the critical tax incentives of the Charitable Giving Act and the consensus tax reforms, which will discourage wrongdoers from taking improper advantage of our charitable sector for personal gain without harming the independence of charitable organizations that is so critical to their ability to contribute to the well-being of society.

Thank you so much for your time.

[Ms. Aviv's testimony may be found in the appendix.]

Chairman. GRAVES. Thank you, Ms. Aviv.

Ms. Maehara?

STATEMENT OF PAULETTE MAEHARA, ASSOCIATION OF FUNDRAISING PROFESSIONALS

Ms. MAEHARA. Thank you, and good morning. I am Paulette Maehara. I am the President and CEO of the Association of Fundraising Professionals. AFP's considerable expertise in the legislative field is really based on our combined experience of our 27,000 members across North America and around the world, including 800 in Missouri.

I want to thank Congressmen Blunt and Ford for their continued perseverance on this issue, and, Congressman Graves, I thank you for your leadership in this area as well.

We have over 180 chapters located in almost every state and metropolitan area, as well as internationally. Our members raise funds for a variety of different types of charities, some of which you have already heard from today. And we cover almost every conceivable issue, such as education, health care, religion, environment, just to name a few.

In the State of Missouri alone, we have four chapters with 800 members, representing organizations like the University of Missouri, Make A Wish Foundation, the Springfield Family YMCA, and the Archdiocese of St. Louis. These groups can all benefit from the provisions that are found in this bill, particularly the IRA rollover provision, which you have already heard some of the comments about.

AFP members are required annually to sign our code of ethics and our standards of professional practice, which were developed in 1964. The code of ethics is widely recognized in the sector as the leading guide to best practices in fundraising. The code is unique, because it is the only code in the fundraising profession that is enforced.

This background I think is cited only to emphasize the importance that AFP members place on ethical fundraising practices.

Provisions in the Charitable Act would create powerful new giving incentives that would greatly impact many organizations. Measures such as the IRA rollover and the enhanced deductions for contributions are all vital to our community. The charitable sector has experienced unprecedented growth over the last few years. With this increase in the number of charities comes a proportionate increase in competition for charitable dollars.

Because of this intense competition for charitable dollars, overall giving has not kept pace with the growth in the sector. At the same time the demands on charities and charitable programs are increasing, government cutbacks have compelled charities to fill the gap when it comes to servicing the disadvantaged.

The extra funding that H.R. 3908 would create, especially in this time of heightened demand on the limited pool of charitable dollars, would be considerable.

I want to focus just briefly on two things. In AFP's view, the most important and probably the most powerful provision is the IRA rollover. Currently, individuals may withdraw funds from a traditional IRA rollover without incurring any early withdrawal penalty, once they reach the age of 59-1/2, although these withdrawals will be taxed as ordinary income.

Under the so-called minimum distribution rules, an individual must begin making withdrawals by April 1st following the year in which he or she turns 70-1/2. In either case, when a donor withdraws an IRA and funds it to a charitable gift, he or she will pay income tax on that withdrawal, and although it is offset to some degree by a charitable deduction.

As a consequence, as you have heard, few people make contributions from their IRA rollover—from their IRA funds. And we have lots of examples that we could cite, but it is certainly an inhibitor to giving IRA funds. If the IRA rollover provision were enacted, the donor who would reach a defined age would be allowed to take a charitable contribution if they give funds from their IRA.

I want to emphasize that IRA rollovers would encourage charitable contributions of excess dollars, and many, many Americans do have additional dollars in their IRA. We estimate about $2-1/2 trillion. Interesting that all of our numbers are the same. And we also believe that it would increase giving by billions of dollars annually.

I want to just touch briefly on the University of Missouri, who is right now conducting a campaign for faculty, staff, and retirees. The IRA rollover would be a tremendous asset for the University of Missouri. And like many universities across the nation, the funds that have traditionally supported higher education are no longer there. In fact, today state appropriations provide only one-fifth of Mizu's total budget. Student fees contribute about 15 percent, and private gifts make up the difference. So private gifts become extremely important.

And just to touch briefly on the proposal that would allow individuals to not itemize their deductions, as written the non-itemizer would have to exceed the floor in order to claim a deduction. Legis-

lation was also proposed this year that would impose a minimum donation floor on both itemizers and non-itemizers.

AFP strongly opposes the application of any floor to charitable contributions for—and regardless of whether they itemize or they do not itemize. Such a policy change would be unprecedented and would essentially comprise a new tax on charitable donors who feel that they must meet those threshold requirements.

I appreciate the opportunity to come before you today and share some of these thoughts, and I particularly appreciate the support you have given.

Thank you.

[Ms. Maehara's testimony may be found in the appendix.]

Chairman. GRAVES. Thank you. Ms. Maehara alluded to it, but the three biggest items in this bill you have are being able to obviously deduct as a non-itemizer the IRA provision, and then also increasing corporate donations from 10 to 20. You alluded to the rollover—or the IRA as being the most important part of that.

I am throwing this out to everyone. What do you think would be the most important? What would generate the most donations or charitable giving, if we only had one or possibly two of these provisions instead of all of them? Because so many times in bills you end up compromising, and you lose some of your provisions, but I'd be curious to hear what everybody thinks would be the most important component of that.

Ms. AVIV. Mr. Chairman, may I suggest that there are several ways to look at that. One way is to say only support one provision. Another one is to take a number of provisions and see how they might be adjusted so that there are different audiences that benefit, because in the case of the IRA rollover the organizations, the charities that are able to tap into that, and the donors who are able to benefit from that, are different from the audiences or the donors who give to the non-itemizer.

And the problem is that if we want—or the challenge is that if we want to encourage charitable giving across our society, we don't want to limit it only to those who have enough in their IRA rollover, in their IRA account that they can rollover some of that money because they are fortunate enough and wealthy enough to do that.

The value of the non-itemizer is that it gets at much smaller donors as well and allows them to participate and encourages them to participate more. So I would hate to rob Peter to pay Paul, and I think that there's a way to do both. And if it has to be more modest, then we can look at that, but I would suggest to you that it is not an either/or proposition necessarily.

Chairman. GRAVES. Anyone else?

Mr. HALTERMAN. I would just say that I would agree with her. The needs are greater than the dollars out there. And whatever can be done, no matter if it is the IRA rollover or the contributions, I would like to see as many of the provisions as possible.

Ms. MAEHARA. And, Mr. Chairman, we would agree with that. I mean, obviously, we would like to have both. And as Diana has pointed out, if there is a way to compromise in some of those, we would certainly want to have that dialogue. And so if—you know, our desire would be to see both happen.

Chairman. GRAVES. Okay.

Mr. LEE. Mr. Chairman, also, as we all know, every year the contribution is more than $240 billion. Seventy-five percent comes from small individuals, and that is—will disappear from the, you know, deductible—you know, standard deduction will be not shown, and that is the area we need to encourage people to contribute.

Chairman. GRAVES. Thank you all. Does anybody see any opposition to this? Any of you, do you see any opposition coming from local communities or nationwide or organized opposition?

Ms. AVIV. I think our local communities are upset that we haven't been able to get this done sooner. It seems to them like a no-brainer, and that seems like a silly thing to say, because we know how things happen. But our communities are—we have had no opposition on these issues.

I think the big question that has been asked from time to time is the cost of these provisions relative to the money that it will generate. You know, that was the question that you asked Mr. Blunt in the previous panel. And I think that we have got strong estimates, but in the end we will have to see whether our estimates turn out to be true. But that is the only question.

From our communities, the more resources we can generate and the more we can stimulate giving, the better off they believe they will be.

Ms. MAEHARA. I would certainly concur with that, and I think the only other point I would add is that the considerable growth of the sector has far outstripped the ability for philanthropic dollars to fill those gaps. And so anything we can do to add to that—and our membership across the United States is totally in support of this. And as Diana said, we would like to see this get done sooner.

Mr. HALTERMAN. If you look at the donations for the hurricanes, just in our diocese of Kansas City-St. Joseph, we brought in almost $600,000. Some of that was used locally, and some of it was sent to Catholic Charities USA for the affected areas.

I don't think there would be opposition. I think the American people want to help other people.

Mr. LEE. As we all know, the only consequence is reduce of revenue. However, if we can increase the contribution and the contribution is used on public sector, and public sector usually can function much efficiently, as we all know, than the government. So that is—there is a balance, and then eventually the contribution will be more than the consequence of the tax revenue.

Ms. MAEHARA. Just one other thing I would like to add. I think the other issue that is on the table are some of the reform issues that have come forward. And so there are concerns related to those, at least some of those reform issues, so on the concern side that would be a concern, depending on what some of those reforms were. So—

Chairman. GRAVES. Okay. Do you all see any—the generosity of the American public just astounds me every time. And, you know, we continue to see disasters, and we end up throwing—the government ends up throwing a lot of money at some of these things. Hurricanes—both of the hurricanes always come to mind. And

there is always, you know, the inefficiency of the way government works.

And I have heard stories. We had a lot of folks from my district go down and try to help out and were either turned away or weren't able to—weren't utilized, you know, in their area. And the amount of money that goes in so many cases unaccounted for through the government sector is just unbelievable, and I believe the private sector is definitely—you know, does so much better job, because, you know, you are paying a lot closer attention. You have to stretch those dollars a lot farther.

But do you see any—in the aftermath of like some of the problems we had with Hurricanes Katrina and Rita, do you see any disillusioned contributors out there, donors out there, that just back away and aren't interested anymore? And we had this even—you know, it might even be touched on, too, because we had the tsunami and a lot of people donated to that. And then, bam, right after that we had the hurricanes that came along. I don't know if people were tapped out or a little disillusioned.

But do you see a little bit of that, or does the generosity just continue to flow through?

Mr. HALTERMAN. We have not seen any change. In fact, at our agency, even with the hurricanes and the tsunami and all of that, our charitable giving has went up. I think a lot of charitable giving is a local thing. I mean, people choose a specific program or a specific agency, or whatever, and I have not seen it go down at our agency.

Even the United Way, and I think he could talk more about this, we have been able to hit the goals that have been set by the Board of Directors there in the local area.

Ms. MAEHARA. There has been a lot of conversation about donor fatigue. And every year AFP does a survey of our members, asking them to compare their fundraising results from one year to the next. In our survey results that we did just for 2005, what we found is that 76 percent of our members are raising the same or more than they did in prior year.

And over 80-some odd percent of them are meeting their campaign goals, so it is certainly consistent with what Michael has said.

Ms. AVIV. Mr. Chairman, what we also found is that people tend, in the case of crisis, to dig deeper into their pockets and add additional rather than to take the same amount and redirect it just to the emergency. What we also know, in coming back to the incentives, is that if there are additional incentives people will then even give more.

Mr. LEE. The 2-1-1 really demonstrates the—in hurricane in Florida, I think it covered like—almost like 65 percent or 70 percent of the area. So it is really very, very useful, but that is the way to promote 2-1-1.

Mr. HALTERMAN. Mr. Chairman, I would also like to add that charitable giving is not just an urban approach. It is—our charitable giving in our rural areas, because of some of our programs and emphasis on rural community development, has increased our giving in the rural areas, which is surprising because the rural areas have not seen the economic boom that urban areas have.

Chairman. GRAVES. Well, again, it never ceases to amaze me, the generosity of the American public. And the purpose of this hearing is to try to bring some more attention to 3908 to push it along. We are going to try to give as much support as we possibly can to Representatives Blunt and Ford and continue to try to get this done.

We are very optimistic that we can hopefully get it done this year on the tax bill. I think it would have a tremendous impact if you all testified on charitable giving in the United States, and it is just going to provide that many more opportunities. And, again, I think the private sector can do a lot better job than the government can when it comes to directing the resources that need to be directed.

I want to thank everybody for coming today and appreciate it. This is, again, very important. It provides more attention and obviously more support towards this bill. You served a great purpose today, and I thank you for coming in.

[Whereupon, at 10:33 a.m., the Subcommittee was adjourned.]

Good Morning and welcome to this hearing of the Rural Enterprises, Agriculture and Technology Subcommittee. This hearing, entitled "Unlocking Charitable Giving" will examine what can be done to ease the burdens on people and businesses that wish to help their neighbors.

Americans are the most generous people in the world and have shown time and again their willingness to reach deep into their pockets to help those in need. Americans contributed large sums of money to people halfway across the world when a tsunami ripped through Southeast Asia. In fact, private sector donations almost doubled what our government contributed. The U.S. Government has pledged $857 million. U.S. private sector and corporate donations totaled at least $1.48 billion.

Americans again opened both their hearts and their checkbooks to the victims of Hurricanes Katrina and Rita. Americans contributed $3.27 billion to help their friends and neighbors. That, in itself, is an astonishing amount. According to a February 27, 2006 Washington Post story, "54 percent of remaining donations are controlled by faith-based organizations."

This hearing will specifically look at HR 3908, the *Charitable Giving Act of 2005* introduced by Representatives Roy Blunt and Harold Ford. The *Charitable Giving Act* aims to leverage new support and resources for a broad range of community and faith-based groups from the private sector.

Many of the charities that help those in need are in fact faith-based. 75 percent of food pantries are religious organizations, 71 percent of food kitchens are faith-based and 43 percent of shelters in this country are funded by faith-based providers.

While Representative Blunt's bill is a tax bill, it is in concert with the President's faith based and community initiative. HR 3908 is designed to "rally the armies of compassion" as our President says.

The bill provides tax incentives and other measures to encourage charitable giving by individuals and corporations. This bill would also allow the 86 million Americans who do not itemize on their tax returns the opportunity to deduct a portion of their charitable contributions.

I commend Representative Blunt for re-introducing this important legislation and I look forward to hearing more about it in his testimony. I now turn to my colleague, Ranking Member Barrow for his Opening Statement.

Testimony of Roy Blunt, Member of Congress, Missouri 7th District

US House of Representatives Committee on Small Business,
Subcommittee on Rural Enterprises, Agriculture, and Technology
2360 Rayburn House Office Building

Hearing: ***Unlocking Charitable Giving***

May 25, 2006, 9:45 a.m.

I am pleased to testify today as the lead sponsor of the Charitable Giving Act, and I would like to thank the committee for inviting me to testify about this important legislation. The Charitable Giving Act contains key provisions to expand charitable giving and to strengthen faith-based and grassroots charities to help them better serve Americans in need. The bill also provides relief to taxpayers who are making contributions to charitable programs.

It has been more than three years since Harold Ford and I introduced the Charitable Giving Act. We were not surprised when the bill passed the House with a near unanimous vote in September of 2003. Companion legislation was passed in the Senate the same year with the support of all but five Senators. Despite garnering the support of seldom-seen overwhelming bipartisan majorities in both Houses, the bill was never enacted. It was blocked from going to conference in the Senate.

But before I discuss the political future of the bill, I would first like to take a moment to discuss its merits. The following are some of the larger incentives contained in the bill:

- **Non-itemizer deduction for Charitable Contributions:** Provides the 86 million Americans who do not itemize their taxes the opportunity to deduct a portion of their charitable contributions. Non-itemizers, who are typically lower and middle income earners, represent more than two-thirds of American taxpayers. They are also the most generous as a percentage of their income. The bill allows individuals who give more than $250 to get a deduction up to $500; and couples who give more than $500 can take a deduction up to $1000. The deduction is structured this way so as to encourage new giving, rather than merely giving a tax break for existing giving.

- **Tax-Free Charitable Contributions from Individual Retirement Accounts**: The Individual Retirement Account (IRA) rollover provision would significantly increase donations to charities by eliminating the current tax penalties. It is estimated that more than $2.5 trillion is locked up in IRAs. Under the bill, donors

over a certain age who find that they have excess retirement account funds would be able to give those funds directly to churches or charities—including social service organizations, educational institutions, and disaster relief agencies—without incurring any tax penalties. Current law penalizes withdrawals from IRAs and rewards charitable deductions only up to a percentage of a donor's income.

- **Raise the cap on corporate charitable contributions from 10% to 20%:** Corporations could deduct charitable donations until their value exceeds 20 percent of the company's taxable income, instead of the 10 percent limit under current law. The change would be particularly helpful for small, privately held companies that often have deep roots in their communities and give generously to local causes. It would be phased in over ten years.

- **Enhanced Deductions for Food Donations:** The proposal would allow all taxpayers to claim an enhanced deduction for donations of food inventory, an enhanced deduction currently given only to some businesses. This change would encourage farmers, ranchers, restaurants, food producers, and grocers to donate surplus food inventory that would otherwise go uneaten.

Sadly, in the nearly three years that our legislation has languished, a number of natural disasters have struck people who were then forced to depend on the charity of others. The tsunami in Southeast Asia left tens of thousands homeless and without food and other basic needs. Hurricane Katrina struck our own Gulf Coast, creating great human needs of which we are all aware.

We have a great history of giving in this country. Time and again, the American people have responded to victims of tragedy with unparalleled generosity. America's great tradition of private charitable giving includes the massive relief efforts for Europe during World Wars One and Two, famine relief for starving Russians after the Bolshevik Revolution, and aid for starving Africans in the 1980s.

> In the words of Herbert Hoover:
> *The success and the character of nations are to be judged by the ideals and the spirit of its people. Time and again the American people have demonstrated a spiritual quality, a capacity for unity of action, of generosity, a certainty of results in time of emergency that have made them great in the annals of the history of all nations. This is the time and this is the occasion when we must arouse that idealism, that spirit, that determination, that unity of action, from which there can be no failure in this primary obligation of every man to his neighbor and of a nation to its citizens, that none who deserve shall suffer.*

Individuals, families, churches, and charities have long seen it as their duty to care for those in need. It is this humanitarianism that we seek to encourage. The Charitable Giving Act is about helping more Americans support those charitable institutions they

care about—and in turn empowering those charities to help more Americans. The tax code should not be an obstacle to charitable giving; the tax code should reflect the willingness of Americans to give to those in need.

Charitable groups do essential works in dire circumstances, whether responding to natural catastrophes or to everyday poverty. They need all the encouragement we can give them. We remain committed to the passage of the Charitable Giving Act as a common-sense step to marshal private resources for organizations that do charitable work, including providing critical support for disaster victims. Next to the family unit, the local church or charity is best equipped to assist the less fortunate. It's the American way to help the needy, and this bill will reward those foot soldiers for their generosity.

Recent months have provided new opportunities to examine the merits of enacting the Charitable Giving Act. I was pleased that the Senate was able to include most of the provisions I discussed in its tax reconciliation measure last month. Although they were not included in the final package, there is cause for optimism. Currently both Houses are considering other vehicles for charitable incentives to be enacted this Congress. I applaud these efforts, and I look forward to sending this bill to the President's desk.

Good morning. Thank you Mr. Chairman, Ranking Member Barrow, and members of this subcommittee for inviting me to testify today. I am Benny Lee, Chief Executive Officer of Top Innovations, Incorporated, in Kansas City, Missouri. I also serve on the Board of Directors of the Greater Kansas City Chamber of Commerce, the Board of Directors of the Heart of America United, and the Board of Trustees at Park University. I also want to thank Tom Dugard from Heart of America United Way for being here to support me today. Tom's hard work helps a lot of people in Kansas City and across the country.

Kansas City welcomed me with open arms when I came to the United States many years ago, and one of my top priorities has been to give back to my community. Over the many years I have been involved with non-profit organizations, I have learned about the burdensome legal restrictions that discourage charitable giving by individuals and corporations.

I am here today to testify about the importance of charitable contributions, and how *the Charitable Giving Act of 2005* can help more Americans help their own communities. I have seen first hand the positive impact charitable contributions can have for those in need.

There are over 86 million Americans annually who file for the standard deduction on their federal income tax returns. Because they do not itemize, they receive no deduction

for their charitable giving. While many of these 86 million donate to charity, they should receive a deduction for their contributions.

As an entrepreneur, I also know the importance of charitable donations by businesses. Currently, the cap on corporate charitable deductions is limited to 10% of taxable income. The *Charitable Giving Act of 2005* would increase the cap to 20%, promoting increased corporate support for faith-based and community organizations across America.

In addition, this bill will encourage more Americans to donate food to the hungry and technology to those who want to learn but cannot afford to buy computers, for instance.

We need to change the current system, because the non-profit sector can usually provide better, more cost-effective services than the public sector.

At a regional level, Kansas City's Heart of America United Way's 2-1-1 service began operations in March 2006, after more than 3 years of planning. 2-1-1 is a central clearinghouse for those in need and for those individuals and organizations that want to volunteer their time, resources, or services in a 23 county area of Missouri and Kansas. With news of the 2-1-1 service spreading, the burden on the 9-1-1 service infrastructure should be significantly reduced. 9-1-1 will now be able to provide Missourians and Kansans with better, more efficient service for police and fire emergencies because of the work 2-1-1 is doing. 2-1-1 is operational 24 hours a day, 7 days a week, and is staffed by

a team of trained specialists. The 2-1-1 program demonstrates the kind of benefits that public sector and non-profit sector can provide to their communities when working together.

Americans are the most generous people in the world, but we can do more to encourage charitable giving. I urge Congress to pass H.R. 3908, the *Charitable Giving Act of 2005*.

Honored Representatives:

I wanted to thank you for this opportunity to testify today regarding charitable giving. Charitable giving is a crucial source of funding for non-profit and faith-based organizations as they fulfill their missions. Twenty-three percent of our current agency revenue comes from charitable giving.

Catholic Charities of Kansas City-St. Joseph, Inc. began it's mission in 1879 when Father Bernard Donnelly started an orphanage within the downtown area of Kansas City, Missouri. Our organization has grown over the years to an operation of many services for the poor and vulnerable in our urban and rural areas. We now provide various services throughout the state of Missouri except the area served by Catholic Charities of the Archdiocese of St. Louis. We have provided services directly or through collaborative community and faith-based partnerships to a total of 161,330 (unduplicated) people in 2005. We are also a member of Catholic Charities USA whose 1,789 members provided services for over 7,200,000 (unduplicated) people in 2004.

The role of non-profit and faith-based organizations has changed over the years. For many years, these organizations have been an integral partner with the government in meeting the needs of the poor and vulnerable. An example of this partnership is the role of these organizations and their performance in the recent hurricane disasters. Since August, our agency has served 275 evacuees from the hurricane areas. Organizations like Catholic Charities have also assisted the government at all levels in fulfilling their role in child welfare, prisoner re-entry, senior services, housing and many other service areas. Our organization provides

foster care case management services to 126 children within the foster care system in Missouri. We also provide services to over 1,000 ex-prisoners each year through our Turnaround Prisoner Re-Entry Program. We provide in-home homemaking services to 245 (unduplicated) senior clients each year through our Senior Care Services. Our organization oversees nine senior 202 housing corporations where hundreds of seniors have adequate housing through our Bishop Boland Institute For Housing and Community Development.

Without charitable giving, our agency would not be able to fulfill its mission. Forty-seven percent of our current agency revenue comes from local, state and federal government funding. I support the President's Faith-Based and Community Initiatives proposal as a means that recognizes the importance that faith-based organizations contributes to our society. At the same time this initiative establishes and expands public/private partnership that effectively utilize the resources of the federal government and the private sector in addressing the devastating societal impact of poverty. It is imperative that the government continues to provide support, including adequate funding, for non-profit and faith-based organizations who serve the poor and vulnerable. Government policies should encourage charitable giving since non-profit and faith-based organizations fulfill a public role that would otherwise need to be met by our larger social structures, including federal and state governments.

As a faith based organization, our Catholic faith and teachings strengthen all our efforts to provide preferential treatment to the poor and vulnerable. Yet, as we provide these services, we are sometimes challenged to provide services in a manner

that violates our moral and religious values. Faith-based provider's religious or ethical tenets must be protected in order for such providers to continue to provide services in partnership with government. This kind of protection has been recognized as necessary by the President's Faith-Based Initiative.

In recent years, Congress has considered important legislation known as the CARE Act which provides a number of incentives to increase private donor giving. One of the most critical provisions of the Care Act is the non-itemizer deduction which would allow taxpayers who do not itemize to deduct their charitable contributions. According to research data from the United Way of America, allowing taxpayers who do not itemize to deduct their deductions could result in a additional $180 million in contributions for United Way, and assist the non-profit sector as a whole by raising an additional $1 billion. This proposal would limit deductibility to contributions over $250 annually. In evaluating this proposal it should be noted that even smaller contributions serve an important purpose. Our organization receives many $1.00, $5.00 and similar small contributions, especially from contributors in rural areas. These revenues assist us in providing rental and utility assistance, food, clothing, counseling and other services. Allowing non-itemizers to deduct their charitable contributions would also encourage seniors to continue charitable giving on reduced incomes, and would help start younger donors on the path to supporting charitable organizations. Revenues from such small donations has been used to provide assistance for rural economic development, where Catholic Charities of Kansas City-St. Joseph pooled small contributions from Missouri farmers to construct two ethanol plants in Craig and

in Malta Bend. This helped farmers and residents of these areas improve their economic conditions by providing a market for their crops.

In conclusion, faith-based organizations are increasingly asked to do more to address the many needs of our society, and we must be mindful of our capacity to take on these responsibilities. We cannot do more with less. We must have adequate resources that reflect the generosity of our nation, while utilizing the tax code to encourage private giving. It is absolutely essential that critical resources be provided by the federal government to organizations that provide social services. Private donations cannot be substituted for declining investment by the federal government in the needs of our nation's most vulnerable. In the words of Cardinal Theodore McCarrick, Archbishop of Washington, "We need to strengthen the partnership between government and religious and other community groups to meet the basic human needs of all in our country, a partnership that is demanded by the moral scandal of so much poverty in the richest nation on earth." Charitable giving is very important to meet these needs, but so is adequate government funding.

Again, thank you for allowing me to testify on this important topic.

Testimony of Diana L. Aviv
President and CEO
Independent Sector

U.S. House of Representatives
Small Business Committee
Rural Enterprises, Agriculture and Technology Subcommittee

Rep. Sam Graves, Chairman

May 25, 2006

Mr. Chairman and Members of the Committee:

Thank you for this opportunity to speak with you today about efforts to encourage more charitable giving by all Americans. I am Diana Aviv, president and CEO of Independent Sector, a national nonpartisan charitable organization with approximately 550 members, including public charities, private foundations, and corporate philanthropy programs. We collectively represent tens of thousands of charitable groups as well as millions of donors and volunteers serving a wide range of causes across the nation. For the past 20 months, I have also served as the executive director of the Panel on the Nonprofit Sector, a significant collaboration by representatives of charitable organizations of all types and sizes from every part of the country to strengthen the transparency, governance, and accountability of charities and foundations. Its work has resulted in a strong, carefully integrated package of recommendations designed to discourage those who would use the charitable sector to enrich themselves and their associates or otherwise engage in unethical conduct. The recommendations focus on actions that both government and our sector can take to improve the governance and accountability of charitable organizations.

Since its inception in 1980, Independent Sector has worked to build ethical and effective charitable organizations and to encourage Americans to contribute time and financial resources to charitable organizations, which are essential to maintaining vibrant communities and strengthening democracy in our nation and around the world. A key element of our efforts has been working with Congress to ensure that federal laws support the desire of Americans to improve their communities by giving to and volunteering for charitable organizations.

I come before you today to express our appreciation to Representatives Roy Blunt and Harold Ford, Jr. for their leadership in sponsoring the Charitable Giving Act of 2003 in the 108th Congress and the Charitable Giving Act of 2005 (H.R. 3908) last September. As you know, the Charitable Giving Act of 2003 passed the House of Representatives in the 108th Congress by an overwhelming margin of 408 votes to 13, but time ran out before the House and the Senate could meet to develop a final bill that could be sent to the President. We are encouraged that the House of Representatives is seriously considering those important tax incentives in the 109th Congress.

The Charitable Giving Act contains a number of important tax incentives that would help Americans provide even more generous support to our nation's charitable organizations. I particularly want to highlight two provisions in Title I of H.R. 3908 that would have a tremendous impact on the ability of America's charitable nonprofits to raise private funds to support the vital

services they provide to communities throughout our country. The first of these provisions would permit tax-free distributions from Individual Retirement Accounts for charitable contributions, thus removing a barrier that prevents many older Americans from making substantial charitable gifts during their lifetime from retirement holdings. The second would permit the almost 85 million taxpayers who claim the standard deduction on their individual income tax returns to receive a deduction for a portion of the charitable contributions they make.

The first incentive, commonly known as the IRA Charitable Rollover, would remove a significant disincentive for older Americans who wish to give back to the community from their accumulated earnings held in IRAs. Due to the strong economy and stock market gains over the last several decades, many individuals have sufficient funds to retire and also have discretionary funds to make contributions to their favorite charitable organizations. Under current law, those individuals must include any withdrawals from their IRA in their taxable income, which may then be offset in part by a charitable deduction. The size of the deductible portion of their gift is limited by such restrictions as the percentage of adjusted gross income (AGI) limitation on charitable deductions and the overall limitation on all itemized deductions. As a result, very few individuals donate IRA funds to charity during their lifetimes.

Section 102 of the Charitable Giving Act would remove those disincentives by permitting a taxpayer who had reached age 70 ½ to exclude from his or her income any IRA funds withdrawn and transferred directly to a charity. This proposal is widely supported in the charitable community and could, if enacted, unlock substantial new resources to support charitable organizations and their community programs. Currently about one-half of American households have IRA accounts, and the total value of funds held in those accounts is approximately $2.5 trillion. If less than one-half of one percent of those funds were donated to charity over the next few years, donations could rise by as much as $12.5 billion.

Our nation's tax code has been and remains a powerful tool available to demonstrate that we Americans highly value and strongly support charitable giving. We believe that tax policy should strongly encourage giving by all Americans – not just by those taxpayers who itemize deductions on their annual income tax returns. We all know that charitable giving decisions begin with a desire to help others, a belief in a particular cause, or a conviction that the work of a particular charitable organization is making the world a better place. Yet research has provided clear and compelling evidence that tax incentives can strongly influence when and how much we give to support the causes we believe in. The charitable tax deduction for non-itemizers will encourage those non-itemizers who already give to increase their donations, and it will provide an added push for taxpayers who don't yet make contributions to support the organizations that serve their communities.

Since the Charitable Giving Act was introduced by Representatives Blunt and Ford last September, the Senate has also moved forward with a similar package of tax incentives to encourage charitable giving. The Senate's bill also includes a number of reforms to the tax laws which will deter and penalize individuals that exploit charitable organizations for their personal gain. Those proposed changes to the tax laws reflect in large part the work of the Panel on the Nonprofit Sector and its recommendations for preventing potential abusers from using the sector to benefit themselves, while safeguarding the independence of charitable organizations that is critical to their ability to contribute to the well-being of society.

House and Senate conferees are now considering the adoption of a package of charitable tax provisions as part of a broader package of tax law changes that could be included with other legislation now moving through Congress. As the president and CEO of Independent Sector and the executive director of the Panel on the Nonprofit Sector, I strongly encourage Members of this Committee to support adoption of both the critical tax incentives of the Charitable Giving Act and the consensus reforms recommended by the Panel and approved by the Senate that are designed to discourage wrongdoers from taking improper advantage of our charitable sector for personal gain.

I thank you for your time and consideration, and would be pleased to answer any questions that you might have.

On behalf of the Association of Fundraising Professionals (AFP), I am pleased to present our comments on ways to unlock charitable giving and H.R. 3908, the Charitable Giving Act of 2005. As an organization that represents individuals responsible for generating philanthropic resources, AFP has first-hand knowledge and understanding of charitable giving. We that hope our thoughts and perspective will prove helpful to the House Subcommittee on Rural Enterprises, Agriculture and Technology as it continues its examination of these issues.

Organizational Background

For over 45 years, AFP has provided guidance and standards to those engaged in the fundraising process. AFP's considerable expertise in the legislative field is based upon the combined experience of our more than 27,000 members across North America and around the world, including almost 800 in Missouri. We have over 180 chapters located in almost every state and metropolitan area, as well as internationally. Our members raise funds and other resources for a wide variety of charities, from large, multinational institutions to local grassroots organizations on every conceivable issue – education, healthcare, religion, and the environment, to name just a few.

AFP members are required annually to sign our *Code of Ethical Principles and Standards of Professional Practice*, which were first developed in 1964. The AFP Code is widely recognized in the nonprofit sector as the leading guide to best practices in fundraising. The Code is unique in the field since it is one of only a handful of standards which are formally *enforced*. AFP's strong ethics enforcement procedures are intended to emphasize to our members and to the sector the importance of strict self-governance. Violation of the Code can result in the revocation of credentials and expulsion of members who engage in prohibited behavior.

AFP instituted a credentialing process in 1981 – the CFRE, or Certified Fund Raising Executive designation—to aid in identifying for the giving public fundraisers who possess the demonstrated knowledge and skills necessary to perform their duties in an effective, conscientious, ethical, and professional manner. This was followed in 1990 by the ACFRE for advanced fundraisers.

This background is cited to emphasize the importance that AFP and its members place on ethical fundraising. Much of our work is spent educating and training our members and the public in ethical fundraising practices while working with federal and state regulators to improve regulation and to identify wrongdoers who don't belong in the charitable sector.

In addition, since its founding, AFP has championed donor rights. AFP was the driving force behind the creation of the *Donor Bill of Rights* and provides information to potential donors about how to select, evaluate, and give wisely to charities. AFP encourages all donors and nonprofit volunteers to investigate and become engaged with charities of their choice before making financial commitments. A copy of the *Donor Bill of Rights* is attached.

Charitable Incentives

AFP strongly encourages the Subcommittee on Rural Enterprises, Agriculture and Technology to support enactment of the Charitable Giving Act into law this year.

Provisions in the Charitable Giving Act would create powerful new charitable giving incentives that would greatly assist the altruistic endeavors of charities throughout the country. Measures such as the IRA rollover and enhanced deductions for contributions of food inventories and books are vital to ensure the continued viability of charities. The ups and downs of the nation's economy have hit charities just as hard as, if not harder than, the corporate sector. Total giving across the country over the past several years has barely kept up with inflation and, in some cases, actually decreased. Some organizations have been forced to scale back programs, and a few have closed their doors permanently.

At the same time, the demands on charities and charitable programs are increasing. As the needs of our growing population multiply, the government and the public are asking charities to do more. This demand is in addition to the services charities provided in response to natural disasters such as the Gulf Coast Hurricanes of 2005 and the Southeast Asian tsunami. If, as the National Oceanic and Atmospheric Administration predicts, 2006 is another active hurricane season, many charities will be pushed to the limit.

Make no mistake, charities can provide many of the services that our society needs, but it is imperative they be given the necessary tools and resources to meet changing economic and other operational circumstances. The extra funding that H.R. 3908 would create—especially in this time of heightened demand on the limited pool of charitable dollars—would be instrumental in ensuring that charities can continue to respond to future needs in a timely and effective manner.

Charities of every size and mission are supportive of the bill. Overall, this bill is relatively inexpensive, especially considering the billions of dollars it will generate for the charities.

As you know, the previous version of the Charitable Giving Act had strong bipartisan support and passed 408-13 in the 108th Congress.

The IRA Rollover Provision

The charitable giving provisions in the Charitable Giving Act would allow our nation's charities to thrive. In particular, the IRA Rollover provision would be a powerful incentive, allowing donors to transfer funds directly and tax-free from an IRA to a charitable organization. This provision would encourage potential donors to draw upon a new source of assets in support of charitable organizations that serve the public good. Tax incentives play a vital role in encouraging donors to make gifts, especially as the contribution amounts become larger, as can be the case with IRA rollovers.

Currently, individuals may withdraw funds from a traditional Individual Retirement Account (IRA) without incurring an early withdrawal penalty once they reach age 59½, although the

withdrawals will be taxed as ordinary income. Under the so-called minimum distribution rules, an individual must begin making withdrawals by April 1st following the year in which he or she reaches age 70½. In either case, when a donor withdraws IRA funds in order to make a charitable gift, he or she will pay income tax on the withdrawal, offset to varying degrees by a charitable deduction for the gift. As a consequence, very few individuals donate IRA funds to charity during their lifetimes.

Also under current law, any amounts left in an IRA when an individual dies may be taxed as income to the beneficiary, and are also considered assets for purposes of calculating that individual's estate tax liability.

If the IRA rollover proposal were enacted, a donor who had reached the defined age would be allowed to exclude any IRA funds withdrawn and transferred to a charity from his or her income when filing a tax return for that year. The donor would be eligible to claim a charitable deduction only to the extent that the IRA was funded with after-tax dollars.

The amounts transferred to the charity could be in the form of an outright gift or used to fund a deferred or life-income gift (e.g., a charitable remainder trust, gift annuity or contribution to a pooled income fund). If the IRA funds are rolled over as a life-income gift, the donor will pay taxes on the resulting annual income payments from the charity.

It is estimated that there is more than $2.7 trillion in retirement funds like IRAs. The individuals and communities served by the nation's charitable sector will benefit from the proposed change because it will encourage a significant amount of new contributions from individuals who would no longer have to pay tax on a charitable gift of IRA funds. These contributions will support programs for those less financially well off through important services, such as those provided by health, education, social service, and cultural organizations.

Many in the charitable sector believe that this single provision alone would have the greatest positive impact for all charities of the many proposals currently under consideration in either the House or Senate.

The Non-itemizer Deduction

AFP would like to briefly comment on the proposal that would allow individuals who do not itemize their deductions the opportunity to deduct a portion of their charitable contributions. Although the overall concept of this provision has merit, it is counterintuitive to ask non-itemizers to keep records.

In addition, the creation of a minimum level—a floor—for donations is one of the most significant and potentially damaging changes in the rules relating to charitable contributions and could have a very detrimental effect on giving.

This year, legislation was proposed that would have imposed this minimum donation floor on both itemizers and non-itemizers. AFP strongly opposed the application of any floor to the charitable contributions of individuals regardless of whether they itemize or don't itemize their

deductions. Such a policy change would be unprecedented and would essentially comprise a new tax on charitable donors who fail to meet the threshold requirements.

Charitable Reforms: Balance is Essential

While Congress must remain vigilant in curbing abuses in the charitable sector, it appears that some in Congress have lost their way. A few of the proposed charitable reforms seek to raise revenue from the charitable sector. For instance, it has been proposed that new "user fees" be imposed on the sector together with the drastic modification or complete elimination of deductions for charitable contributions of property—so called noncash contributions. Such proposals turn the concept of tax exemption on its head.

Moreover, an overlooked fact is that the IRS already has the statutory authority, rules, regulations and enforcement mechanisms to monitor the charitable sector. However, the Service has never been given the Congressional budget appropriations necessary to engage in the reasonable level of enforcement activity necessary to fulfill its statutory mandates.

AFP does not oppose demonstrably necessary nonprofit sector regulations. Legitimate fundraisers understand the need for regulation, and AFP has strongly supported initiatives on both the federal and state levels that have increased regulation of charities and fundraising.

But in every case, the regulations that AFP has supported have been balanced with the charitable sector's need to raise funds for the critical programs it provides. AFP is concerned that some proposed reforms, like unprecedented user fees and floors for itemized deductions, will prove extremely burdensome to many charities, resulting in loss of funds, while doing little to accomplish their stated goal of curbing abuses.

The Elimination of Percentage-Based Compensation

One change that Congress could make to preserve the precious balance of protecting the charitable sector's ability to raise funds while drastically reducing abuses is the elimination of percentage-based compensation.

Under a percentage-based compensation arrangement, a fundraiser accepts a percentage of all of the funds raised for the charity. AFP believes that percentage-based compensation is flawed for several reasons:

- Charitable mission often becomes secondary to self-gain;
- Donor trust can be unalterably damaged;
- There is incentive for self-dealing to prevail over the donor's best interests; and
- Percentage compensation can produce reward without merit.

Media stories about high fundraising costs appear with increasing frequency, and naturally, public trust in charities decreases as the donors become more worried about how their money will be used and how much a charity is spending on fundraising costs. Donors *should* be concerned about how their donations are spent.

One of the most important actions Congress can take to increase public confidence and crack down on unjustifiable fundraising costs in particular, and nonprofit abuses in general, is to prohibit--*to explicitly outlaw*--the use of percentage-based compensation schemes for fundraisers. Doing so would inspire donor trust while ensuring that more dollars were provided directly for charities' altruistic endeavors.

Conclusion

AFP appreciates the opportunity to comment on the Charitable Giving Act of 2005. We strongly support this important legislation. Over the past few years, the tsunami and hurricane disasters have shown that now is the time to focus on ways to bolster charitable giving. Charities rose to the occasion, now it is Congress' turn.

AFP applauds the subcommittee for seeking input from a variety of sources in the charitable sector. Although AFP is proud to be one of the public policy leaders in the nonprofit community, there is no single organization that can credibly speak for the charitable sector. We respectfully offer our assistance to the Subcommittee on Rural Enterprises, Agriculture and Technology as it proceeds with further consideration of these and similar proposals.

Sincerely,

Paulette Maehara, CFRE, CAE
President & CEO

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