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Enhancing Trust

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BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS & MEANS

HEARING ON TAX REFORM AND CHARITABLE CONTRIBUTIONS
FEBRUARY 14, 2013

Chairman Camp, Ranking Member Levin, and Members of the Committee:

Thank you for giving the charitable community this opportunity to share our perspective on the charitable contribution deduction in the context of comprehensive tax reform. We commend the House Committee on Ways & Means for holding this hearing on charitable contributions in an open and transparent manner that recognizes the crucial roles charities play as faithful providers of vital programs and services to our communities and as employers to millions of hardworking Americans.

The Evangelical Council for Financial Accountability (ECFA) is an accreditation agency for Christ-centered nonprofit organizations committed to the highest levels of excellence in the areas of governance, financial transparency, integrity in fundraising, and proper use of charity resources. Founded in 1979, ECFA currently provides accreditation to more than 1,700 religious organizations and 1,200 related entities across the United States. Collectively, these organizations represent nearly $20 billion in annual revenue from an estimated 20 million donors. ECFA's mission is simple: enhance donor trust to increase giving to Christ-centered nonprofits which demonstrate integrity.

Tax reform and charitable contributions

ECFA is deeply concerned by any tax reform proposals that would reduce or eliminate the value of the charitable contribution deduction under section 170 of the tax code, which has traditionally been regarded as the most effective policy tool at the government's disposal to encourage individual charitable giving.

Since the economic crisis beginning in 2008—the worst since the Great Depression—charities of all types have been stretched to provide more goods and services to the public, but with less financial support from donors who are feeling the effects of the struggling economy. Goods and services provided by charities during this time have been essential in reducing the government's burden to otherwise meet these needs. Reducing or eliminating existing charitable giving incentives as part of comprehensive tax reform would deal a devastating blow, forcing organizations to reduce or eliminate program services and layoff nonprofit workers.

The in-person testimony during the Committee's February 14 hearing focused little on the issue of how proposed reforms to the charitable deduction would specifically impact *religious* organizations, which every year receive the greatest share of charitable contributions and, as such, serve as the leading non-government provider of social services in this country. Through the lens of its 1,700 plus member organizations across the country, ECFA is in a unique position to offer this Committee perspective on how the charitable contribution deduction effectively benefits these outstanding charities and others like them from all faith communities.

Brief history

When Congress passed the Revenue Act of 1913, the basis of our current federal income tax system, it exempted religious and other charitable corporations and associations, in part because of the vital benefits that these organizations provide to society. Shortly thereafter, in 1917, Congress took another step forward in providing the charitable contribution tax deduction for individuals as a way to incentivize giving and grow the nonprofit sector.

Like the present day, Congress was then raising income tax rates on wealthier taxpayers in search of revenue for the federal government. In their wisdom, however, these political leaders also recognized that, as taxes increased, individuals would have less disposable income and they should be provided with incentives to continue giving to the causes advanced by charitable organizations.[1]

From 1917 to the present day, Congress has remained steadfast in its commitment to provide these important incentives to religious and other charitable organizations.

Who are these religious organizations?

While the 1,700 plus Christ-centered nonprofit organizations accredited by ECFA are just a small segment of the thousands of religious organizations across the country, they do serve as a representative example of the great diversity within the religious nonprofit sector. They also demonstrate the tremendous value these organizations provide to society, which more than justifies the giving incentives currently provided in the tax code. Additionally, ECFA’s accredited charities represent very small nonprofits to many of the largest religious organizations in the United States, including The Salvation Army, World Vision U.S., Compassion International, and Samaritan’s Purse.

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[1] Centuries prior, England had a similar economic crisis to which it responded with the Statute of Charitable Uses of 1601. While the English laws from that time are known primarily for rescuing the country from near economic disaster, it is sometimes forgotten that they also served as the catalyst in the years to come for the formation of some of the most highly influential charitable organizations and movements of contemporary history, including the prison reform movement, the Sunday School movement, William Wilberforce’s efforts to abolish slavery, the formation of the Y.M.C.A., Florence Nightingale’s creation of the nursing profession, the founding of the International Red Cross Society, the creation of the Salvation Army, and the development of the Boy Scouts, among others. The laws also went on to influence modern American thinking as to what should and should not be considered “charity” in the legal sense.

First, there are churches of all sizes—from small local congregations to emerging multi-site campuses with thousands of members. These houses of worship offer religious and moral instruction to millions of Americans across the country on a weekly basis. As President John Adams observed, "Our Constitution was made only for a moral and religious people. It is wholly inadequate to the government of any other." Religious congregations provide an environment for discipleship and instill strong virtues necessary for democracy.

The value provided by churches extends, though, beyond religious and moral instruction to meeting the wide spectrum of human mental, physical, and emotional needs. Churches provide meals to the hungry and clothing for the poor, education and leadership training for people in all stages and walks of life, opportunities for the community to connect and serve together, care to the sick and bereavement for their families, financial support and community development in America and overseas, assistance to those recovering from alcohol, drugs, and other addictions, and countless other ministries. Truly, there is no way to measure all of the impact of the hundreds of thousands of religious congregations in the United States.

Beyond churches, ECFA also consists of Christ-centered ministries dedicated to those with disabilities, alcohol and drug recovery, the arts, education (from pre-school to post-graduate), community development, racial reconciliation, human trafficking, and relief and development. Then there are adoption agencies, child sponsorship organizations, national and international missions, camps, conferences, and religious denominations. While this is by no means a comprehensive list, it does illustrate just how much faith-based organizations impact our society in virtually every aspect of life.

How would recent tax proposals harm religious organizations?

Americans are a very religious and giving people, and often there is a strong correlation between these attributes. This can partly be explained by the fact that Christianity and other faiths teach moral values and encourage believers to turn from their natural focus on themselves to their fellow man.

Consider the following:

- Recent studies by the Pew Research Center and Gallup indicate that more than eighty percent of Americans are affiliated with or identify with a religion; and
- Year after year, religious organizations and causes receive the greatest share of individual giving to charity, estimated by Giving USA at thirty-two percent ($95.88 billion) in 2011—a figure that would be even higher if the calculation included all religion-related organizations as part of the "religion" subsector.

At the same time, studies also confirm that the sluggish economy has slowed or reversed growth within religious and other charities. Giving USA estimates that overall giving to religious organizations has declined by nearly five percent since 2010 when taking into account inflation.

The charitable contribution deduction provides an incentive for individuals to give to religious and other charitable organizations by reducing the after-tax cost of giving. While it is impossible to predict exactly how much giving to charities will suffer if dollar caps, percentage caps, floors, or other tax credit substitutes are instituted to decrease the value of the charitable deduction or replace it, any proposal to reduce or eliminate the charitable deduction would cost charities billions of dollars as already noted at length in Committee testimony.

No doubt there would be a devastating effect on the religious nonprofit community as the largest recipient of charitable contributions, if reductions in charitable giving incentives were implemented. Overall, religious organizations have already seen decreasing or stagnant levels of giving during the last several years of economic crisis, while at the same time having to provide more outreaches and services to meet the increased needs of society.

Why should Congress reject these proposals?

Proposals to reduce or eliminate the charitable deduction threaten the good work that religious and other charitable organizations are able to accomplish across our nation and around the world. While the basic aim of these proposals in the short-term is to provide a modest increase in government revenue to curb the nation's staggering deficit and debt, there is a misconception that implementing these proposals would result in an overall gain for the government. Common sense, on the other hand, suggests that these proposals to reduce giving incentives would actually cost our nation when viewed from a broader, long-term perspective.

Indeed, the charitable deduction is not a loss to the government—it is wise tax policy. Not only do religious and other charities meet countless needs of their communities each and every day in lieu of the government, but studies have shown that they do so in a much more efficient manner.

Charities are able to provide their services so efficiently because they depend heavily on volunteers and, in many cases, workers who are so dedicated to the organization's cause that they are willing to take a lower salary to support the charity's mission. Additionally, because these organizations are also dependent on private giving from year to year, they must carefully manage their funds or risk losing critical support from donors.

While taxpayers who itemize deductions do receive some individual tax benefit from the charitable deduction, it is evident that the real loser under any proposal to reduce or eliminate charitable giving incentives would be members of the public who benefit from the goods and services provided by religious and other charities. As Brent Christopher with the Communities Foundation of Texas aptly testified, the charitable deduction is not a taxpayer “loophole” that needs to be closed: “It is a multiplier of generosity. It is unique in our tax code—an encouragement to act selflessly by spending our money on the public good instead of ourselves.”

Almost seventy percent of Americans agree that Congress should not reduce or eliminate the charitable deduction, according to United Way. Even more telling, sixty-two percent of Americans who do not even claim the charitable deduction told Gallup that they would oppose eliminating this important giving incentive to charities.

Without the charitable deduction, individuals would inevitably decrease giving, and charities would be forced to cut back. Government could not fill the gaping holes left by charities under this scenario or provide the lost services in a more efficient manner. This demonstrates how reductions in charitable giving incentives would actually result in a long-term net loss to the government.

Other recommendations

While the focus of these written comments has been on the preservation of the charitable contribution deduction as an important and effective giving incentive for religious and other charitable organizations, I would like to conclude by addressing a few of the specific ideas and recommendations that were made during the in-person testimony of the February 14 hearing.

1. Expansion of current giving incentives

ECFA encourages the Committee to closely consider any opportunities to expand current giving incentives as part of comprehensive tax reform. Examples include allowing a charitable deduction for non-itemizers and making permanent and expanding temporary tax extenders like the IRA charitable rollover. One major benefit of the existing IRA charitable rollover provision is that it incentivizes giving for all taxpayers regardless of whether they itemize deductions. On the other hand, this provision is temporary and must be extended by Congress from year to year, making it difficult for taxpayers to plan their donations. It is further limited in that only taxpayers who are age 70½ and older can make the tax-free transfers, and even then only up to $100,000 per year. The Committee should consider making the IRA charitable rollover permanent, lessening the age limitation, and increasing the contributions individuals are able to make tax-free from their hard-earned retirement savings to religious and other charitable organizations.

2. Preservation of charitable deduction for noncash gifts

One troubling aspect of the in-person testimony was the suggestion that the Committee should consider eliminating the charitable deduction for noncash gifts. There are strides to be made in donor education and enforcement of existing laws to prevent suspected abuse of the deduction for noncash gifts. However, the Committee should be careful to weigh the potential harmful effects of any reforms that would lessen the incentive for individuals to make noncash gifts to charity, especially gifts of clothing and household goods that provide basic living essentials for individuals and families met with poverty or crisis.

For example, within the twenty-nine major segments (classifications) of ECFA membership, giving data reveals that some of the organizations most affected by any reduction in noncash giving incentives would be medical, relief and development, rescue missions, foundations, and community development.[2] On average, these segments of ECFA membership receive twenty to forty-five percent of their total charitable contributions in the form of noncash gifts. These organizations provide critical services and support to our communities, and Congress should avoid any proposal that could affect up to a quarter or nearly half of the funding these ministries rely upon to carry out their charitable missions.

Conclusion

We urge Congress to preserve, if not expand, the charitable contribution deduction—not only for its time-tested value as a key charitable giving incentive but also for the often-overlooked benefits that the incentive provides to the government through religious and other charities.

The charitable deduction should be viewed as an effective tax policy for our nation because the government stands to gain—not lose—from the current charitable giving equation. Especially during tough economic times, it benefits the government and the American people to have a thriving charitable sector.

Government should continue to encourage individuals who, rather than consume more, decide to sacrificially serve and give to improve their communities. Instead of reducing or eliminating the existing charitable contribution deduction, Congress should explore additional ways that it could further incentivize giving to the charitable community in undertaking comprehensive tax reform.

Thank you.

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[2] Based on 2010 and 2011 audited, reviewed, or compiled financial statements prepared by independent CPAs for ECFA members.