

**CHARITIES ON THE FRONTLINE:  
HOW THE NONPROFIT SECTOR MEETS  
THE NEEDS OF AMERICA'S COMMUNITIES**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON SOCIAL SECURITY  
AND FAMILY POLICY  
OF THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE  
ONE HUNDRED NINTH CONGRESS  
FIRST SESSION

SEPTEMBER 13, 2005



Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 2005

29-778—PDF

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**TUESDAY, SEPTEMBER 13, 2005**

U.S. SENATE,  
SUBCOMMITTEE ON SOCIAL SECURITY & FAMILY POLICY,  
COMMITTEE ON FINANCE,  
*Washington, DC.*

The hearing was convened, pursuant to notice, at 10 a.m., in room SD-106, Dirksen Senate Office Building, Hon. Rick Santorum (chairman of the subcommittee) presiding.

Also present: Senator Conrad.

**OPENING STATEMENT OF HON. RICK SANTORUM, A U.S. SENATOR FROM PENNSYLVANIA, CHAIRMAN, SUBCOMMITTEE ON SOCIAL SECURITY AND FAMILY POLICY**

Senator SANTORUM. Good morning. Thank you for being here. I want to thank Senator Conrad for joining me here this morning for a hearing on charities on the frontline.

Obviously, we had planned this hearing weeks ago, not aware that we would be in the midst of a recovery and rebuilding effort in the Gulf as a result of Hurricane Katrina. But it is obvious for anyone who has followed the events of the last couple of weeks, the role of charities in the recovery effort has been absolutely extraordinary.

It has been stunning to see the acts of kindness and heroism on the part of the average American citizen, many of them motivated by their charitable commitments, whether it is through church and religious organizations, civic organizations, or other types of nonprofits that care and nurture those in trouble in our society, from the Red Cross, to the Southern Baptist Church. We have seen a tremendous outpouring of the American spirit through out charitable organizations.

It was very heartening to me to see America's good side amidst what was obviously not the greatest aspect of American society, in our governmental response and some of the activities that were occurring during the days immediately after the flooding in New Orleans, in particular.

We are seeing, again, these charitable organizations, such as the Baton Rouge Area Foundation partnering with LSU, to open field hospitals with a thousand people in an old K-Mart. We saw America's Second Harvest and the Florida Boulevard Baptist Church feed the hungry.

We have seen fraternal societies who are feeding and housing, providing supplies, clothes, toiletries, cash, and beds to those in need of shelters, both in Houston and New Orleans. I think we can all say the list goes on and on and on.

For years I have been working with Senator Joe Lieberman in trying to pass a piece of legislation known as the CARE Act to try to get more resources into the hands of these particular organizations through a variety of different measures: incentives for non-itemizers to make charitable donations; IRA charitable roll-overs; food donation provisions; corporate giving incentives, just to name a few of the items in the CARE Act, all of which were designed to strengthen the nonprofit sector.

We have seen over the last several years that charitable giving has leveled off and actually fallen in this country to where only a little over 1 percent of our overall GDP gets funneled toward charities, where 30, 40 years ago that number was 2.5 to 3 percent. So we have seen as a society, as we have, candidly, gotten wealthier, we have not been as generous.

One of the things that I have learned in my time here in Washington is, if you want more of something, subsidize it and create incentives for it; if you want less of something, tax it.

Well, I am a strong believer in creating incentives and subsidies, if you will, through the tax code to encourage the kind of donations to these organizations, many of whom we are going to be hearing from today.

The CARE Act is currently before us in the 109th Congress. Portions of it were included in a package that Senator Grassley and Senator Baucus announced yesterday as a temporary relief measure for those who have been affected by Hurricane Katrina. I am grateful to both Senator Grassley and Senator Baucus for the inclusion of many of the provisions of the CARE Act in that legislation.

I will certainly be working with them on a couple of minor changes, to hopefully include some additional provisions to help us better respond to those in need in our society, and also to pursue a piece of legislation that provides more of a long-term response, not just to the situation we're dealing with in the Gulf, but a longer-term response to the problems that we are experiencing with a flattening out and a decreasing amount of money going to charitable organizations.

We have other issues that I know are before us in the nonprofit area. We have had several hearings here in the Finance Committee about some abuses in the area of nonprofits.

I would commend the Chairman for the hearings that he has had, and suggest that the IRS has increased enforcement in the area of nonprofits, and I think we have seen a decrease, as a result of that, in some of the abuses that were noted during those hearings.

Much of that has been improved and cleaned up, and I think the Chairman and the committee deserve credit for focusing attention on these problems. Increasing enforcement has resulted in some improvements in the way nonprofits function.

So I am hopeful that, with any long-term solution, we can have a responsible set of reforms that Congress can put forward to further tighten up the accounting, as well as the management of our

nonprofit sector, without imposing undue burdens on that sector that would cause it to not have the efficacy that we have seen in so much of our nonprofit sector here just in the last few days.

With that, let me thank, again, Senator Conrad for being here, our Ranking Member on this subcommittee, and I would turn it over to him for his comments. Thank you.

**OPENING STATEMENT OF HON. KENT CONRAD,  
A U.S. SENATOR FROM NORTH DAKOTA**

Senator CONRAD. Thank you, Mr. Chairman. Thank you for holding this hearing. It has proven to be especially timely, given the catastrophic events surrounding Katrina. I think it is appropriate at this moment to say that all of us are very focused on that disaster and have in our thoughts and prayers the hundreds of thousands of people affected.

I do not think anyone can fail to be moved by the images that come into our homes every night of those families that have been so devastated, many of them moved hundreds of miles away from their homes, others who are still searching for family members who are missing.

I read in this morning's news, accounts of the extraordinary trauma of so many faced with this disaster. I remember very well my own State's experience in 1997 when we had what was at the time the largest city in American history since the Civil War to be mass evacuated, the city of Grand Forks, ND, some 60,000 people. Ninety-eight percent had to be evacuated.

Many of them did not get back to their homes ever, because hundreds and hundreds of homes were destroyed. So, I think we have some sense of what the people of the Gulf region are going through, and our hearts go out to them.

I remember very well that in the tragedy in North Dakota, where we had the worst winter storm in 50 years, followed by the worst flood in 500 years, followed by the outbreak of fire in much of the downtown area, that we did not experience a single fatality.

We know the results in the Gulf region are far different. We know there are hundreds and hundreds who have been killed. We read with horror this morning the story of 45 people being found dead in a hospital. It is hard to fully grasp the dimensions of this disaster.

But many of the people testifying here this morning grasp it because they have been on the front lines in dealing with and in helping the people so badly hurt, and we want to honor them here today and show our respect for them and get their ideas on what we can do to help them deliver the assistance that is so desperately needed.

I was told this morning by Major Hood that they have already served a million meals. I think that was what I was told. A million meals. It is really staggering to imagine the effort behind that. He told me of people sleeping on the ground, because there is no place else to stay, who are the caregivers, who are responding to this disaster. We appreciate their sacrifice and their service.

Generosity in the face of a catastrophe like Katrina characterizes the compassion of millions of Americans. I know the response has

been extraordinary. Everywhere I go, people are asking me, what can they do to help, where should they give.

Increasingly, I think it is clear that those organizations that have delivered help in the past are doing it again. But their ongoing missions cannot take a back seat while charities deal with extraordinary needs. It is important to make certain that we do no harm when we legislate in this area.

The Finance Committee has examined a number of options for encouraging charitable giving in recent years. We already have provisions in the Internal Revenue Code that have proven effective in stimulating charitable giving. Certainly, the itemized deduction for charitable gifts is well-established. We will also hear today the role that the estate tax plays.

I look forward very much to the testimony of those here, in some cases, to provide us an insight into what can be done immediately to help those that are suffering so grievously.

Again, Mr. Chairman, I thank you for holding this hearing.

Senator SANTORUM. Thank you, Senator. Again, I appreciate your taking the time to come and show your interest in the area of non-profits.

We will begin with charities who have been on the frontline, not just in Hurricane Katrina, but for many years in this country. First, we will hear from Luke Hingson, who is one of my constituents from Pittsburgh. He is the president of Brother's Brother Foundation, a 48-year-old Pittsburgh organization founded by his father.

Brother's Brother Foundation has received top honors from Charity Navigator, earning an overall rating of four out of four stars. Their administration and operating costs are below 1 percent of the value of the program services.

Just to talk about the work done in Hurricane Katrina, on Friday, September 2, they shipped 12 pallets of new clothing, kids' kits, and plastic drinking cups for Hurricane Katrina survivors. Additionally, they shipped 5,000 pairs of New Croc shoes, which leaves for Atlanta, I guess, later this week.

Finally, I also want to recognize Joe Geiger, who is from the Pennsylvania Association of Nonprofit Organizations. I am pleased that Joe could be here also today.

Mr. Hingson, thank you for being here.

**STATEMENT OF LUKE HINGSON, PRESIDENT, BROTHER'S  
BROTHER FOUNDATION, PITTSBURGH, PA**

Mr. HINGSON. Thank you, Senator Santorum and Senator Conrad.

As you mentioned, Brother's Brother Foundation is a 48-year-old organization based in Pittsburgh. We provided \$1.6 billion worth of medical supplies, textbooks, food, seeds, and other humanitarian supplies to those in need around the world in over 120 countries. We have done this with gifts from the general public, corporations, and the U.S. Government.

In 2004, we sent \$226 million worth of donated goods overseas, about 3 million pounds, most of it being medical items, to over 40 countries, including Argentina, Armenia, the Czech Republic, Ethiopia, Iraq, Poland, and even the United States.



We have received a number of national recognitions, the Charity Navigator being one. We were ranked as the top charity in Forbes magazine last year, of which we are very proud, along with other identifications by other institutions around the country.

Most recently we were involved with sending aid to the tsunami victims in South Asia. We raised \$2 million in cash and delivered \$41 million worth of our donated products, and helped ship 4,000 tons of donated goods from other charities to Indonesia, Sri Lanka, and India.

Over the past 2 weeks, we have had to respond to the sudden needs due to Hurricane Katrina. Because of our international disaster experience, we felt very comfortable with our emergency response in the United States.

Through our efforts, we have been able to deliver multiple tractor trailer loads with new clothes, shoes, and other items through the United Methodist distribution center near New Orleans. We have worked with the Church of Latter Day Saints in their distribution center in Atlanta.

We have provided air, land, and sea shipments of requested medicines and other supplies to charity clinics in Mississippi and Texas via the Southern Baptist Convention and its many parts, the Texas Association of Community Health Centers, and, I am told, as of this morning, the donated product value of our shipments exceeds \$1.6 billion.

We are currently resettling several families from New Orleans in the Pittsburgh area. We are providing assistance, including housing, education, daily sustenance, child care, and economic rehabilitation.

Brother's Brother Foundation is a member of the Pennsylvania Association of Nonprofits, or PANO. PANO is a membership organization of hundreds of nonprofits throughout Pennsylvania, and we are enrolled in the PANO Standards for Excellence Program as a way of demonstrating our commitment to the highest standards of ethics and accountability. I want to add that there are many State associations like PANO around the country doing exactly the same thing.

With respect to the provisions of the CARE Act, first, we support the non-itemizer tax deduction under Section 301. We feel this would increase incentives for charitable giving, as about two-thirds of taxpayers do not itemize their deductions.

Second, we support the IRA roll-over provision of Section 302, because we believe that would encourage charitable giving by middle-income Americans with secure financial resources.

Third, we support the tax deduction for donated food items, as this would provide further incentives to give. Fourth, we support the tax deduction for volunteer vehicle mileage for individuals who provide volunteer services, including transportation, as this would encourage more citizens to be involved with charitable activities. In our case, it would allow us to better receive and deliver donated medical goods to those in need.

Additionally, I would like to state that we recognize that there have been some abuses in the charitable sector, but only a tiny number of charities are engaged in this type of conduct. Most are run by honest, well-intended individuals.

They deliver essential services that the government is either unwilling or unable to provide. As such, I urge the committee to reconsider nonprofit reform legislation that will have certain consequences, some unintended, with respect to smaller charities. This is not the time to undermine a charity's ability to function in the name of reform.

At this time, our Nation is calling upon the charitable sector to do more, not less. It is my firm belief that had the elements of the CARE Act already been enacted into law, we would have had a greater ability to provide relief to evacuees seeking relief from Hurricane Katrina, and I am sure this is the case with the other charities represented here today.

I also endorse more rigorous use of existing laws to protect charities from those individuals in the private sector who abuse charitable intent by making false representation for private gain.

I want to thank you, Senators, for giving me the opportunity to express my concerns before the subcommittee, and I invite each of you to visit our facility in Pittsburgh. Perhaps in this way you can see how we work, and how other charities work, to provide essential relief efforts to our communities and those around the world. Thank you.

Senator SANTORUM. Thank you very much.

[The prepared statement of Mr. Hingson appears in the appendix.]

Senator SANTORUM. Our next witness is Major George Hood. Major Hood is the director of National Community Relations and Development for the Salvation Army. Major Hood was commissioned as an officer to the Salvation Army in 1968 and has had a diverse career: 20 years of nonprofit leadership and 15 years in corporate marketing and business.

Now you are doing that similar role of marketing and communications and public relations for the Salvation Army here in the United States. Major, thank you for being here.

**STATEMENT OF MAJOR GEORGE HOOD, DIRECTOR OF NATIONAL COMMUNITY RELATIONS AND DEVELOPMENT, THE SALVATION ARMY, ALEXANDRIA, VA**

Major HOOD. Thank you, Mr. Chairman, Senator Conrad. Thank you very much for inviting us here to allow us to be a part of this dialogue.

We are obviously on the front lines, there is no question about it. You have already heard some of the statistics relating to the work of the Salvation Army.

I want to tell you a very close and personal frontline story, and then I would like to talk about the merits of the CARE Act that we have supported since its inception several years ago.

In New Orleans, we have watched all of the media coverage of what took place in the city of New Orleans. I want to tell you about a facility there operated by the Salvation Army known as the Center of Hope. It was the last bastion for about 290 people, including four senior citizens on dialysis and 14 children ranging from the ages of 4 to 11 years of age.

Before Katrina hit the coast, the Salvation Army sent out word throughout the community that that facility was open to be a shel-

ter as they rode out together the Katrina storm, and people came to that facility seeking refuge and protection throughout the night.

Once the storm passed, the officers there decided that it was time to allow these people to go home. To their amazement and surprise, they were greeted on the ground floor with rushing flood waters, and they realized in an instant it was impossible to evacuate the 290 people.

As the first floor became consumed with water all the way up the walls, they took all these people up to the upper floors, floors two, three, and four. The last phone call we had from them was on the Monday of the event, to which they said, we have a supply of food for 1 day, we have limited water, there is no electricity, and the battery on this cell phone is going to die any minute.

For the next 5 days, we had no contact with those people, with the Salvation Army officers or the 290 people who were inside. We were fearing that those who were on dialysis would be lost and we were just worried to death as to what we could do to get them out of there. Fortunately, on the sixth day, the National Guard and the Coast Guard went in and airlifted 290 people out of that facility and not one person was lost.

It is a testimony to the commitment and the compassion of Salvation Army officers who are working on the front lines in that area, where the people who were protected are telling us: they prayed with us, they sang songs with us, they hugged us, they loved us, and they rationed out all of that food and water to feed every one of us for 5 full days. Those people, 290 very frightened, today are very grateful people and they call Majors Fay and Richard Brittle their heroes.

I share this story because it exemplifies what I believe is going on in that area, not just by the Salvation Army, but by a multitude of nonprofit organizations who are reaching out to people who are desperately in need of our help.

Many charities are down there. We partner with many, many of them in making sure that we address the immediate needs of those people, and we are, today, designing long-term social service care that we are already envisioning will last 3 to 5 years.

We could not do any of the work that we do if it were not for the donor public of the United States. Every penny that we spend at a disaster site is given to us, entrusted to us by the people of this country. They support our disaster work in ways that you just cannot even begin to comprehend; how they can keep giving from hurricane to hurricane, disaster to disaster, they continue to continue.

So that is why the language of the CARE Act, I believe, is so important, not just to the Salvation Army, but to all charities, to the nonprofit sector at large, because it has built into it all of the very practical, simple incentives that will allow people to continue giving not only 365 days a year, but, when there is a crisis of this magnitude, they reach out, they give lots of \$20 checks, they give lots of clothing, tremendous volumes of food that are routed down to that area, and it is a practical way by which these kind of people can give.

When we look at the CARE Act and the language that is there, it is designed to facilitate non-itemizers, low-income people, lower

middle-class people, young working professionals who will write out those \$20 and \$25 checks to respond at a point in crisis. We support the non-itemized element of the CARE Act, and we hope that it is soon put into law.

We also are interested in the IRA roll-over. You have already heard the rationale behind that. From the very inception, we have made it known that we believe in the IRA roll-over provision, and we think it is a very critical element to the CARE Act.

I also should point out to you that we operate, across the United States, 110 alcohol and drug rehabilitation centers. These facilities where we have a 60- to 70-percent success rate, serving 40,000 individuals suffering from addictions on an annual basis, are funded 100 percent through the sales of donated household items, clothing, furniture, and used cars.

The impact of tax law changes on used cars has already made a negative impact, and we are fearful that any reforms that will put caps on the value of donated material goods is going to be devastating to our ability to maintain a successful operation of those alcohol and drug rehabilitation centers.

I would like to conclude by pointing out that the nonprofit sector, the entire sector in cooperation with Federal, State, and local governments, has truly stepped up in light of the tragic human events that we are experiencing from Katrina. We have a sector that is willing and ready to respond to the critical humanitarian needs throughout the year, and especially at times of disaster like this.

It seems so inappropriate to me to divert the ability of the American public to respond in the compassionate ways they do by doing anything that would restrict their rights and their ability to make those gifts and to protect the tax incentives that come along with making those kind of contributions.

We appreciate, Senator, all that you are doing on behalf of the nonprofit sector and your endurance on pushing this CARE Act through the legislative process.

You will be happy to know that there are eight teams of Pennsylvania volunteers from the Salvation Army who are on the front lines down in the Gulf Coast region supporting our work, and working on behalf of the people who have been devastated.

Thank you again for this opportunity to be with you this morning.

Senator SANTORUM. Thank you, Major. Again, thank you for the tremendous work you and the Salvation Army are doing in response to our needs.

[The prepared statement of Major Hood appears in the appendix.]

Senator SANTORUM. Next is Dr. Bob Reccord, who is the president and CEO of the North American Mission Board of the Southern Baptist Convention. Bob became the first president of the North American Mission Board in June of 1997. Prior to leading the Mission Board, he served as a senior pastor of the First Baptist Church in Norfolk, VA, and Bell Shoals Baptist Church in Brandon, FL.

Dr. Reccord is a published author, including a book written with Houston Astros' pitcher Andy Pettit, entitled—and we are two baseball fans up here, just so you know, and we know who Andy

Pettit is—"Strike Zone: Targeting a Life of Integrity and Purity." He is also a featured speaker at PromiseKeepers.

Thank you very much for being here this morning. Thank you and the work of Southern Baptists in response to the hurricane disaster. You have been truly extraordinary also. Thank you.

**STATEMENT OF DR. BOB RECCORD, PRESIDENT AND CEO,  
NORTH AMERICAN MISSION BOARD, SOUTHERN BAPTIST  
CONVENTION, ALPHARETTA, GA**

Dr. RECCORD. Thank you. Thank you, Senator Santorum and Ranking Member Conrad.

I resonate with my colleagues. I have the privilege of representing 43,000 Southern Baptist churches who are proud to be a part of the solution. We are charged at the North American Mission Board with the missions arm of North American focus for Southern Baptist life.

That includes starting churches, enabling volunteers to serve as they are right now in Katrina, sending missionaries, of which we have approximately 5,200 across North America, everywhere from the inner cities of New Orleans, to the United Nations and Capitol Hill, and striving redemptively to influence our culture.

We are proud to be partners by Memorandums of Understanding with both FEMA, and the Salvation Army and the Red Cross. We are the third largest disaster relief entity in America after the Red Cross and the Salvation Army. As a result of the hurricanes in Florida last year, we served 2.4 million hot meals to those who were survivors, and took care of cleaning up 8,000 homes.

Right now, Senator, you would be interested that there are also teams in Southern Baptist life from Pennsylvania, along with 32 other States, serving. The one from Pennsylvania is, right now, in Biloxi, MS, in the heart of that. As of today, we are serving approximately 250,000 meals per day to those who have survived and who have been evacuated, including, in addition to that, hot showers, laundry units, clean-up and recovery, and chainsaw crews. I have actually been down there, and I just would say, the people who are stepping forward are amazing.

One of those is Freddy Arnold. He is the head of a disaster relief unit there in Covington, just outside of New Orleans. I spent a couple of hours with Freddy ministering to people, and then I put my arm around him in private, and I said, "Freddy, how are you doing?" At that point, Freddy Arnold said, "Well, I'm doing okay, but my home in New Orleans is 18 feet under water. Everything I had is gone."

Then I looked at him and said, "Then what are you doing here?" His response was, "I have the Lord, I have my wife, and I have my health. He has never allowed me to miss a paycheck or miss paying a bill, though there has not been a lot of money. Now, though I don't have much, I'm giving everything I've got to those who don't have anything." That is the passion of faith-based ministries who step forward and say, we are going to make a difference.

The Southern Baptists have also asked all of their churches to become houses of hope, to house evacuees, both in church facilities and homes, and to adopt churches that have been destroyed or severely damaged, and take over getting them back on their feet.

Some amazing things are happening as a result of that. For instance, Fairview Baptist Church in Jackson, MS took in 68 members of an extended family so that they did not have to be separated. All 68 went to one church.

In addition, Greenwald Street Baptist in Baton Rouge, in 50 years, has not had an African-American member or marriage in that church, but as a result of the evacuees, just this week they performed their first African-American marriage in a white Louisiana church. To that, we say, "Praise God" for the reconciliation that is going on in this process as well.

We, in addition, support the CARE Act and its emphases. We support any effort by the Federal Government that will encourage people to give and reward that generosity. With the bill that has been authored by you, Senator Santorum, we say a hearty "amen."

Because of that, as has already been mentioned, non-itemizers will be able to participate more importantly in giving. That is important, in my view, because, frankly, in the State of Texas, 80 percent of the dollars of relief and gifts are given by somebody 50 years of age and older.

You get that trend graphed out, and there is going to come a time when, who is going to be doing the giving? If we do not include the younger and less affluent to be more effective and able to give, we are going to be in trouble when these kinds of things happen down the road.

In addition, the tax-free contributions from individual retirement accounts, we applaud. The ability to give food stuffs, we would determine, according to America's Second Harvest, would allow 878 million meals to be given in the next 10 years. As an industry that does about 3 million meals ourselves per year, that is critical to keep the fabric of this Nation strong and undergirded.

In addition to that, I would want to say the individual development accounts, I think, are very important. That would allow 300,000 low-income working Americans to be able to build assets that are matched with saving accounts to do things like purchase homes, expand their education, and start businesses, and in the recovery of Katrina, that kind of legislation will be absolutely critical.

In addition to that, in providing \$150 million per year for a compassion fund, that will greatly assist small communities and faith-based organizations.

In closing, I want to say we applaud, at Southern Baptist, the bill's provision allowing corporate deductions for charitable donations to increase, because we are hearing, and I am sure all of us are right now, we would give more if we could.

As I close, I would say that we do oppose linking charitable reforms to the CARE Act. Many of those reforms would prove, we believe, to be onerous and burdensome to the very charities that make the quick response possible.

For the very, very large, they may be able to incur the cost, perhaps. But for many, the onerous and burdensome reforms would possibly put them literally under the ground and stop their effective response. We at the North American Mission Board are thankful for Southern Baptist churches, all 43,000, that keep our administrative costs covered.

Our overhead has been decreased to only 11.1 percent, and, because of that efficiency and because of the churches, 100 percent that is given to disaster relief through Southern Baptist goes directly to the field. We need even more to make a difference in the days ahead, so we want to say to you: 16 million Baptists stand ready to support, encourage, and help with the CARE Act and the legislation that is needed to help us go forward in the future and continue to serve those in need when the bottom drops out.

Thank you so much.

Senator SANTORUM. Thank you very much, Bob. I appreciate it. I appreciate all three of our panelists who have been out there on the front line, and out there for many, many years in meeting the needs of our society.

[The prepared statement of Dr. Reccord appears in the appendix.]

Senator SANTORUM. So we go from the practitioners to the policy makers, or at least the policy suggesters.

We have with us Dr. Bill Gale, who is a senior fellow at The Brookings Institution. He is deputy director of the Economic Studies program and co-director of the Tax Policy Center, a joint venture of Brookings and Urban Institute.

He is actually the co-director with Dr. Steuerle, who happens to be sitting right next to him. Before joining Brookings, Dr. Gale was an assistant professor in the Department of Economics at the University of California at Los Angeles, and an economist at the Council of Economic Advisors.

Dr. Gale, thank you for being here.

**STATEMENT OF DR. WILLIAM G. GALE, SENIOR FELLOW,  
THE BROOKINGS INSTITUTION, WASHINGTON, DC**

Dr. GALE. Thank you very much, Mr. Chairman. Let me just say, this is a hard group to follow. The tales of trauma that we have all witnessed the last few days have been heartbreaking.

The tales of heroism that we have heard in the public and here are uplifting. I, and I know others, are moved by and applaud the efforts of these gentlemen and their organizations.

It is also a little humbling to be speaking after them, and I feel a little apologetic about turning to the rather dry topic of tax policy and charitable giving. But if anything, the events of the last few weeks remind us of how important policy is and how important it is to get policy right.

So the main reason to talk about the more general issues of tax policy and charitable giving now in the middle of a crisis can be thought of in the following ways.

Just as policymakers are rethinking policies toward physical infrastructure, urban redevelopment, and so on, we need to rethink what we do for charitable giving so that our charitable infrastructure is ready to go the next time something like this happens, and to counter the long-term decline in giving that you noted in your opening comments.

So I have been tasked with talking about one piece of the infrastructure that helps support giving in this country, and that is the estate tax. The main point of my testimony is simple: repealing the

estate tax or cutting the top rate would have a significantly negative impact on giving in this Nation.

This is the result of several research projects that people in a variety of research institutions across the country have done. The basic logic is that the estate tax encourages giving at death by giving a deduction for bequests that go to charitable causes.

Less obviously, the estate tax also encourages giving during life, because, if you give the money when you are alive, you not only reduce your income tax, you reduce the size of your estate, and therefore reduce your estate taxes, so you get a double tax subsidy for giving during life.

Now, aggregate giving from living individuals far exceeds giving at death, but that means that, even if the estate tax has a minor impact on giving during living, that effect can be as big as the effect on giving at death.

Most studies show that if you repeal the estate tax, charitable giving at death would fall by a quarter to a third. Total giving would fall by about \$10 billion a year; roughly between \$7 and \$13 billion a year. That is a 5-percent cut in overall giving nationwide.

Another way to think about it is, it is about the magnitude of the combined giving of the largest 110 foundations in the United States. So think of essentially every foundation you have heard of, and probably another 50 or so, their combined giving is what would disappear. That is a way of gauging the impact of repealing the estate tax on giving.

Now, those estimates leave out an important factor. They're based on dry statistics. What they do not capture is that, if you repeal the estate tax, you could very well change the culture of giving in a way that would reduce giving even more.

Right now, charitable groups use tax deductibility of giving as a selling point, as a hook. Financial planners use it as a hook to get people to start giving earlier in their life rather than waiting. Repeal would also convey an implicit message that giving at death was no longer encouraged by the Federal Government.

So, the impact could actually be larger than the dry statistical estimates suggest, and impacts of these magnitudes dwarf the likely effect, for example, of allowing non-itemizers to make deductible contributions.

Regardless of the merits of that policy, the magnitude of the effects we are talking about there are an order of magnitude smaller than the magnitude of effects from repealing the estate tax. So if we want to build the charitable infrastructure, we need to recognize that the estate tax has been an important element of that for almost 100 years now.

One other item I will mention, and then sum up. The pattern of giving suggests that giving is very highly concentrated among estates that face high tax rates. In 2001, 300 decedents with gross estates in excess of \$20 million gave almost \$7 billion to charity.

These decedents accounted for 1 out of every 8,000 people that died in that year, but they accounted for 42 percent of all giving at death in that year. Now, those decedents faced relatively high tax rates in the estate tax and therefore, even in the absence of repeal, dramatically reducing the top rate would get you most of the contribution loss that repeal would do.



In contrast, raising the exemption in estate tax would have a minimal effect on giving because up to the levels that are being discussed, \$3 million, say, that would have a minimal effect on giving because it does not affect the marginal tax rate, the marginal incentive for giving for most decedents.

So let me just summarize. I think there is an important link between the underlying structure of tax policy and the very important lifesaving events that you have just heard about.

As we move forward, it is important to build in elements of the tax system that help support the nonprofit sector, and the estate tax is certainly one big piece of that exercise. Thank you.

Senator SANTORUM. Thank you, Dr. Gale.

[The prepared statement of Dr. Gale appears in the appendix.]

Senator SANTORUM. Finally, Dr. Gene Steuerle, who is a senior fellow, as mentioned before, of Urban Institute, and is co-director of Urban Institute-Brookings Tax Policy Center. In addition, he is a columnist for Tax Notes, and the editor of 11 books and more than 150 reports and articles.

Under President Reagan, he served as the economic coordinator and original organizer of the Treasury's tax reform effort, and later as the Deputy Assistant Secretary of Treasury for Tax Analysis.

Dr. Steuerle, thank you for being here.

**STATEMENT OF DR. C. EUGENE STEUERLE, SENIOR FELLOW,  
URBAN INSTITUTE, WASHINGTON, DC**

Dr. STEUERLE. Thank you, Senator Santorum and Senator Conrad. Indeed, I am both honored and humbled to be on this panel with this amazing group of witnesses.

As witnessed in response to Hurricane Katrina, our many charities show that they are a tremendous source of strength to this country, not just because of what they are doing now, but because of the infrastructure that they had in place to which we could turn in this time of crisis.

On a personal note, I have been involved with charities as a recipient, as a contributor, as a founder, and as a researcher, so I have been involved at all levels.

Still, a lot is at stake, and I believe that impels us to constantly examine whether incentives can be improved. I believe that is a major motivation behind the CARE Act that you support, as well as behind the other efforts of the Senate Finance Committee to try to remove waste and corruption within the sector.

Now, my role is a somewhat narrow one, but I do not think it is an unimportant one. In some ways, it even has its own moral dimension. That is to offer advice on how you really might be able to get the maximum bang per buck out of every tax dollar you spend in this area.

In many cases, that means I favor expanding incentives; in some cases it means that I would suggest that you consider options to limits ways in which there is waste or abuse in the charitable sector or in which the dollars which you spend are not providing much in the way of incentive.

As you well know, in recent months and years you have held testimony on bills both to expand incentives and to reduce inefficiency within the nonprofit sector. To me, these are two sides of the same

coin. A combined legislative package could really be a clear win-win package.

Some existing incentives in the tax system are not well-designed. They are not really increasing giving. In addition, a fair amount of cheating takes place when it comes to charitable giving.

For the amount of revenues foregone, therefore, much more charitable giving could be generated—much more charitable giving that could go to the very efficient types of charities that you have represented here at the table today.

The net result, it seems to me, can be a better tax policy, better tax administration, a stronger charitable sector, and one that better represents the public that it is serving.

What are some of the elements that I suggest in my package? I have time only to summarize them very briefly here.

I believe you need to allow a deduction that is the same for itemizers and non-itemizers alike. I believe you need to stop phasing out itemized deductions of charitable contributions and remove some of the limits on charitable contributions, such as in the IRA proposal that you have. I would add to that IRA proposal, allowing a complete deduction for contributions of lottery winnings.

Several suggestions I make are beyond what is in the CARE bill and would actually cost revenue. I would raise and simplify the various limits on charitable contributions that can be made as a percentage of income. There is no reason we need to stop at 50 percent of income.

I have a suggestion that I believe would substantially increase giving, which is to allow deductions to be given until April 15, just as we allow for IRA and KEOGH contributions. I would reduce and dramatically simplify the excise tax on foundations, which would end up going to charity. But, as I say, I would also do things that I believe would strengthen the sector in other ways.

I would devote more IRS resources to monitoring the charitable sector, and I would especially try to help donors get the same type of information on charities that they can now get with respect to publicly traded companies.

The information system that donors now receive is somewhat abysmal, and it leads to a lot of money, even in the case of money going for Hurricane Katrina, not going to the best of the charities.

I would change the foundation payout rule so that it does not encourage giving to be done in a pro-cyclical manner, but in a way that is a counter-cyclical response to needs. I would provide an improved information reporting system to taxpayers for charitable contributions.

I would limit deductibility of in-kind gifts for cases where the revenue cost to government is greater than the net value of the gift given. I can give you examples where people might give a thousand dollar car to charity, \$100 goes to charity, and the government spends \$300 to pay for it. That is not an efficient way to spend the money that you provide in incentives.

I would place limits on the deductibility of pure cash contributions where there are absolutely no records and IRS has no means of enforcement whatsoever.

Now, I believe that this broader legislative package, where you combine things together, would be win-win for a variety of reasons.

For instance, the additional reporting requirements make it easier to allow giving until April 15th.

A tighter restriction on cash contributions is likely to be more than offset by the extent to which the revenues you would raise from that change would allow you to expand the deduction you want to provide to non-itemizers.

In summary, I believe that we have an ideal trade-off possible before us. The money that could be derived from improved incentives, improved compliance, and a better system of information reporting could be spent on enhancing charitable incentives. It could be spent on providing incentives where they are most likely to be effective at the margin, increasing giving.

Now, one need not agree with every item I have suggested. The Senate Finance staff is working closely with the Joint Committee on Taxation, with the Independent Sector, and others to offer ways, both public and private, of improving the behavior and operations of nonprofit organizations.

Others are working closely in areas, as in the CARE bill, on how to create incentives that would really work best at the margin to improve giving. My principal suggestion is that you develop a legislative package that gives you the most bang per buck, maximizing giving per dollar of revenue cost, while recognizing legitimate concerns for good tax administration.

I recognize that this is hard work, but if you do maximize giving per dollar of revenue cost, you will do more to help those charities that are on the front line. Thank you.

Senator SANTORUM. Thank you very much, Dr. Steuerle.

[The prepared statement of Dr. Steuerle appears in the appendix.]

Senator SANTORUM. Let me just review a couple of questions on the CARE Act, and then move to some other issues.

I did not hear any of you mention the deduction for vehicle mileage. Anybody have any thoughts about that as to whether that would be something that you would find important or helpful? Any of you?

Dr. RECCORD. Senator Santorum, I would say, definitely, because our people who respond to the volunteer issues of disaster are all people who drive themselves, and therefore any benefit they get in the impact of their mileage costs is huge, especially when you see it dropped against the backdrop of what we are finding in fuel costs today. So that would be a huge help for any of us who have volunteers who have to expend mileage to get there.

Senator SANTORUM. On the food donation side, just quickly—and you all have been supportive of that—can you give me a sense as to where we are? As far as in the current relief efforts, do you think that enough food is being donated to meet the needs that are currently before us in the Gulf area?

Major HOOD. We have had numerous offers for the distribution of food. The problem is the infrastructure down there. We cannot find enough warehouse space right now to store that food.

But I would tell you, if it was not for Operation Blessing and the Southern Baptist men, we would be really strapped to deliver the kind of meals that we are delivering. It is through that collabo-

rative partnership that we keep the back-end processing of food coming in to the front lines.

It is through the donations that other organizations have made of trucks and vehicles and refrigeration and massive storage areas in their base operations that they can truck that food in so that we can use it upon demand.

But the big problem with Katrina is finding available warehouse space on-site to store the massive volumes of food that people want to ship down there. It is needed, but it does not need to be wasted. So, we are very meticulously trying to establish warehouse networks so that we can begin to receive more of that food.

Dr. RECCORD. I would agree with that. We are, right now, as I mentioned, at 250,000 meals a day. We have been asked to ramp up to 500,000 a day. So one of the challenges that we have not assessed yet is if there would be enough food in the pipeline to provide it.

We have had a number of places, one of which I had the privilege of being at, that had 1,000 people that had not eaten in 6 days. One of our challenges, as George so well said, is there is the infrastructure issue, and there is also the food availability issue. Sometimes on the field, it is tough to know exactly which is causing the problem. As a result, it is not an either/or, it is a both/and.

Senator SANTORUM. Just in listening to this conversation and your testimony, you talk about the coordination that is occurring. Is there anything that we can be doing from a structural point of view, a legal point of view, here in Congress to aid in your coordination? Are there any thoughts you might have?

Major HOOD. I will tell you, in the first 48 hours we could have used anyone's help, because the devastation was so intense that the infrastructure was demolished. But in the last week, we have been in intimate dialogues with FEMA. The infrastructure at FEMA has come together. We are getting wonderful support.

They embedded a FEMA employee in our office for about 10 days. We are sitting at the table in Baton Rouge, which has become the primary command location down there. There is dialogue every day between the Salvation Army, FEMA, the Red Cross, and all of our MOU partners. I truly believe it is coming together. There has been an obvious shift from the immediate crisis.

We are still feeding people who are without homes, but we are now thinking of the social service impact for the next 3 to 4 months, and already looking down the road at how do we design the most responsive social service plan to spend the money that the public has entrusted with us in the most proper way where we can do the most good for the most people who have the greatest needs. Those are the kinds of conversations that are going on today.

I do think that we have fixed the immediate problem of getting supplies, product, and volunteers in to keep the people well-fed and hydrated—it is enormously hot down there—on top of having no place to go, no place to bathe. These things have now come together and we are functioning extremely well.

Dr. RECCORD. I would add, in addition to that, that we are talking and asking ourselves a lot, would it have helped had there been some military capacity to help get some supplies there very fast. There are often bases close by that could get things in and out

quicker than we as civilians can. Had that been available to us, I think all of us would have benefitted greatly.

Because, as the hurricanes were coming in, I know we as Southern Baptists, Salvation Army, Red Cross, and others, on Sunday, when it hit Monday, we were already focused and mobilizing. On Monday we were in place, and on Tuesday we were feeding. That is a pretty good response.

One of the challenges, though, was getting the supplies there quick enough. So we had mobile units, of which we have 230 now, deployed in 37 communities who are sometimes sitting there with no supplies to do anything with.

So one of the questions that I think needs to be asked is, are there capacities to move, by military transport, quickly to aid those folks who are already, by infrastructure, geared to respond so quickly and rapidly, but need the materials, like food, there to get going that fast?

Senator SANTORUM. There are no problems with the government interacting with faith-based organizations in this response. Are there any barriers there that you are encountering where the government says, well, because you are a faith-based organization we cannot work with you, we cannot give you things?

Major HOOD. From our perspective, there is no communication problem whatsoever. We are working extremely well with government and designing long-term response partnerships where we will be a support organization to the much larger government response to this disaster.

Dr. RECCORD. Yes. It was not so much a problem of, well, you are faith-based and we are government as it was a lack of decision and implementation. It was just sort of frozen and was not acted on quickly.

Senator SANTORUM. One final question. That is, you heard some of the comments of the gentlemen here about charitable reforms, and some of the reforms that have been suggested by the committee. Can you give me a sense of how those reforms may affect your ability to be able to operate your organizations and to respond to emergencies?

Major HOOD. I can find no fault with an overriding premise that we need to improve incentives and eliminate waste and illegal operations by some nonprofits. There is no overriding premise that says that is a bad thing.

As I have looked at some of the recommendations, I do think that we are realizing, as I have stated earlier, the impact of the cap put on used car donations has had a negative impact.

I am fearful that caps on donated household goods will create some financial pressure for our organization, and I know that Goodwill, Catholic Charities, St. Vincent de Paul, and many of the other operations that depend upon thrift store income are very concerned about that.

I think if there is an overriding element to all of the charity reform, if I am understanding it accurately, it is that fulfillment of the reform is going to add administrative costs to nonprofit organizations.

There is going to be a burgeoning of new paperwork that charities are going to be required to undertake in order to meet the ful-

fillments of some of the language of this law. When that happens, there is less money going directly to people in need and more money going into administrative costs.

So in trying to fix a problem, we have to be very careful that we do not place more paperwork and administrative burden on nonprofits in order to make that happen, because it defeats our ability and it minimizes our ability to continue directing the bulk of our funds into direct assistance to people in need.

Dr. RECCORD. I would say a hearty "amen" to that. I think anything along the line of a full-blown Sarbanes-Oxley kind of approach would be so onerous by the very things that George said about the needed time, the needed safeguards, the needed people, the needed hours, et cetera, that it would be huge and burdensome to so many entities. But I think that has to be balanced with the fact of accountability, as Dr. Steuerle said.

I think if you cannot be accountable, if you cannot prove by top-rate audit firms that you are living according to law, then I think you ought to be held responsible for breaking that law or compromising that law to the fullest extent of that law.

I think that is true for any nonprofit, faith-based entity, or even nonprofit that does not even deal with faith, because you are representing a steward of things people are putting into your care. If you are not being a good steward, then you need to be held ultimately and tightly responsible for it.

My concern, and our concern, is just the huge administrative load of a Sarbanes-Oxley kind of approach that could be absolutely devastating. I would say that we who now are able to give 100 percent to the relief effort immediately would no longer be able to do that. We would have to pull some of that in administratively.

Senator SANTORUM. You two gentlemen represent large charitable organizations. Luke, you represent smaller charitable organizations, certainly small in comparison to these gentlemen's organizations. Do you have any comments on how it would affect a smaller charitable organization?

Mr. HINGSON. Well, I think that there are a number of regulations already in place by a variety of regulatory agencies that just simply need to be enforced. It is not just pressing the charities, the philanthropic sector itself to do better.

We do have people out there who attempt to take advantage of us. They will take advantage of the smaller organizations, or at least attempt to, because we do not have the collective experience as, say, some of the larger ones, or at least that is the perception.

You can have a new group that is suddenly created because of a Hurricane Katrina, or suddenly has two, three, four, five times the amount of resources that it did the year before.

That organization becomes a target for someone who just wants to take advantage of those resources that are being generously given by the American public, and in some cases quite suddenly given.

So I think that there should be continuing emphasis on strengthening the ability of our government to enforce existing laws to protect the charities and what we are trying to do, as well as to make us do better ourselves.

Senator SANTORUM. Senator Conrad?

Senator CONRAD. Thank you, Mr. Chairman, and thank this panel. It has really, I think, been an outstanding panel. Each of you have brought something that has certainly broadened my understanding, so I appreciate very much your taking the time to be here.

First of all, I would like to say, Dr. Reccord, you said something that really resonated with me. I was at a meeting with a group of farmers last night from my State. We produce a lot of food in North Dakota.

The broadest-based farm organization in my State has started a major food drive. One farmer alone just brought in an entire semi-load of lentils, just donated 44,000 pounds of lentils. It is amazing. They just told me the response that they are getting is amazing. These are from farmers in North Dakota. They are ready to drive it down there themselves.

But what you said is exactly what I have been told, that the ability to transport, to get it where it was needed, was a big problem here and a lack of decision-making on getting it to where it was needed.

I have also been told, as you know, because we went through this terrible disaster in North Dakota, we have a lot of contacts with your wonderful organizations. You people were superb. Church groups came and mucked out hundreds of homes in Grand Forks, ND. Boy, that is not pleasant work. You are not just mucking out water.

Senator SANTORUM. That is right.

Senator CONRAD. And the need to have military involved, for several reasons. One, to bring order, to have people who are seen who are authority figures, and to be able to have transport that responds quickly to get things where they are needed. So that is very important. That is not on the subject that we are dealing with here today, but I did not want to miss the point because I thought you made it very well.

I would be interested to know, Major Hood, do you know, what is the average size of the contribution to your organization?

Major HOOD. Well, it is a fascinating study, because if the gift comes over the telephone it ranges probably in the \$50 to \$75 range. If it comes over the Internet, it is ranging at a \$100 to \$150 range. If it comes through the mail, there are just literally hundreds of thousands of \$20, \$25, \$30 checks. So the medium that people choose to make the contribution will pretty much mandate what is the typical average size of the gift.

Of course, when you look at the checks, you know this is a lot of lower middle-class, elderly women, people who are sitting in their homes who have not become comfortable with technology.

There we have 17 to 20 buckets of mail, light mail that has been unsolicited, that has come to our office. We now have a team of people just sitting there, opening and responding and receipting every one of those checks.

So the importance of the CARE Act is that there are millions of people out there who will write out a small check at the moment of crisis. They need to have that tax break, the same as the person who sends us more. One check we opened was for \$20,000.

So, there is a disparity in the equality of who is allowed to take these deductions. People who have higher incomes and have tax accountants and people that do their returns for them, they are well taken care of.

The small person, the lower middle-class people who want to give, do not have that advantage, so that is why the non-itemizer is so important for that element of the population.

Senator CONRAD. To give them some incentive.

Major HOOD. Right.

Senator CONRAD. Let me ask you this. There have been all kinds of academic studies done that say it does not change behavior to give an incentive, to give a tax incentive for a charitable contribution. What do you think?

Major HOOD. I think in times of disaster like this, the American public will give from their heart and they are not worried about the tax break. It is the ongoing operational expenses 365 days of the year where the problem will begin to set in.

Senator CONRAD. How big an organization do you have? Can you give us some idea?

Major HOOD. That was part of the longer testimony that I shortened. We have our footprint in 5,000 communities across the United States. We have 5,000 commissioned Salvation Army officers, 65,000 employees, 165,000 lay members, and 3.5 million volunteers who are actively involved with the Salvation Army.

On an annual basis, we respond to the needs of in excess of 34 million people, and they are typically the poorest of the poor. That is who we are called to serve.

Senator CONRAD. You know, one Thanksgiving my staff and I went to one of your centers in North Dakota and served meals. I will tell you, it was really an eye-opener. The people that are dedicated to your operation—and they are paid very little—it was amazing, the work that they do.

I would like to go to Dr. Steuerle, if I could, for a moment. You had a series of recommendations there in your testimony. Could you tell us, what are the most important of them in terms of bang for the buck? Because that is what we are interested in here. What is going to work?

What is going to encourage people, in the most efficient way, to contribute? Of your recommendations, if you could give us some idea of what you think are the real keys, both in terms of an incentive to give and in terms of tightening things up. It is like everything in life: there are a few rotten apples that spoil the barrel.

We have already had reports of some of these shops opening up, and they are calling elderly people, telling them to give to Hurricane Katrina relief, and it has nothing to do with Hurricane Katrina relief. They are just pocketing the money. We have already gotten reports of these bucket shops opening up.

Tell us, what are the keys, from your standpoint, after studying this issue for many years?

Dr. STEUERLE. Well, Senator Conrad, the ones I listed in my testimony were the ones that I knew the most about, where I really thought you could have a major impact on giving.

I should say that I have not got a really thorough knowledge of every proposal in the Senate Finance list. Even though I am on one



of their advisory groups, there is an enormous range of issues, so I just wanted to indicate the ones that I had thought a lot about.

For instance, I very much favored Senator Santorum's and other Senators' efforts to try to extend a deduction to non-itemizers. But it should be done in a way that can maximize, get the most bang per buck.

For instance, the more we do not create a cap or ceiling on the deduction, the more likely we will be providing an incentive at the margin. Economists think that your incentive for the last dollar you give is a lot greater than for the first dollars you might give anyway. So the more you can remove ceilings and put on floors, the more contributions you can get out of your allowance of a deduction.

Senator CONRAD. So that is an important principle that you believe as to what we do here. Does anybody disagree with that? [No response.]

Dr. STEUERLE. And by the way, then, there would be more that we would get back in the way of removing abuses. I have to admit, because I did have a revenue estimating staff, that the revenue estimating staff is going to have a very hard time estimating some of this. Still, the more that they estimate that you could get back in terms of curbing back abuses, the more we could spend on this non-itemizer deduction.

Senator CONRAD. Yes.

Dr. STEUERLE. Now, you might say we could give it to everybody among non-itemizers, but the fact is, IRS really does not, and cannot, enforce the law as it is now, so we have to figure out a way to put the resources where they are best used.

So to the extent we put a floor on (so we cut out modest amounts of giving for which there is very little incentive), expand incentives for non-itemizers who give a substantial amount, or remove some of the caps like the 50-percent cap on giving, the more we can apply these incentives at the margin.

I have also suggested, as you know, that we should allow giving until April 15th, which, by the way, does not cost anything unless people give more, because if people just switch their giving or their timing of giving a little bit, then there is really little or no net effect on the overall cost.

Senator CONRAD. As I understand it, what you are doing is, instead of giving it at the end of the calendar year, you give it right up to the time you file your tax return, and people pay a lot more attention the closer they get to filing. Is that the idea?

Dr. STEUERLE. That is right. Because when do people advertise? They do not advertise 4 months before you go in the store. When you walk into the grocery store, they show you the advertisement.

When you are filing that tax return and you are dealing with your accountant, that is when the accountant says, "Hey, if you give a little bit more here, I can cut your taxes today and get you this money right back right away." So, that is an incentive.

Now, if you accept that proposal, there are administrative aspects to it, because you need to know what dollars are given. So you need a good recordkeeping system, which would then add, admittedly, to your administrative burden—which, by the way, the deduction for non-itemizers also does, because now you have a lot

more people for whom you have to keep records, and people have to keep records.

I am trying to figure out how to create a balance between expanding the incentives, and at the same time keep down the administrative burdens for taxpayers, IRS, and for charities, alike.

Senator CONRAD. Could we just quickly get the reaction of the three that are in organizations? In terms of extending until April 15th the time to contribute, is that something that you think would be helpful?

Major HOOD. If I understand the mind-set of the American public, it probably would be a nice incentive, because as they are sitting there trying to figure out, how do I cut my tax liability, I will write out a check to charity right now and get that benefit.

Again, I would want to take time to understand what would be the administrative burden of that. I do think it would be a wonderful incentive for the donor public. How the charities would manage that in terms of our own accountability to donor management would be the thing that I would want to study then.

Senator CONRAD. Mr. Hingson?

Mr. HINGSON. I think we have already had some experience with that. Earlier this year we had the extension because of the tsunami appeals. That caused a lot of money to go to international charities that were involved with the tsunami. So that was a one-time arrangement.

Senator CONRAD. And you were very involved in that.

Mr. HINGSON. That is right. That is right. We certainly had more people give to us as a result of that one-time arrangement. So I can imagine, by extension, that you are going to have more people be interested in giving in March and April. That typically, incidentally, is the time when it is quiet for many charities.

Senator CONRAD. Dr. Reccord?

Dr. RECCORD. I would say the same thing. I do not see it inadvertently being an onerous kind of burden. Do you gentlemen? I mean, it would not add to us a lot more than we already do to try to be really on top of the records.

Senator CONRAD. I am sure you keep very good records.

Dr. RECCORD. Yes, sure. We sure do.

Senator CONRAD. It is very important to your operation.

Dr. RECCORD. Absolutely. Because the credibility and integrity of all of us depend on that.

Senator CONRAD. If the Chairman would allow me, if I could go back to Dr. Steuerle one more time. Are there any other of your proposals that you think would be especially important for us to adopt in terms of getting bang for the buck?

Dr. STEUERLE. Well, Senator, let me go to the other side of the ledger here a little bit, too. I have been working with groups that, for a decade or two, have been trying to move towards making tax returns available to the public.

We think if we could get electronic filing of these returns—I am not even sure that Congress has to spend money as much as ask IRS to do this (which, by the way, would not affect some of the people here because they are churches)—we could have a much better information system made available to the public.

The public is really kept in the Dark Ages with respect to a lot of charities as to the information they get. If you buy a stock, you can get information. You can find information or your broker can find information on the company you are buying.

If you want to find information about a charity, it is very hard today. There are a variety of ways of moving towards electronic filing of information, for instance, that would enormously help our ability to monitor the sector.

As I also mentioned, in the case of automobiles and some in-kind donations, there remain abuses. We hear advertising on the radio every day, a lot of times, for charities that do not make good use of these donations.

For a \$1,000 automobile, some charities are spending \$900 in intermediary costs and advertising costs; \$100 is going to charity, the government is spending \$300. The donation, by the way, is not going to Salvation Army, which does not spend huge amounts on advertising for automobiles, but basically accepts them. So, we have these types of problems: how can we get the donations to those charities that make best use of them?

Efforts towards better information reporting, even though I realize in some cases it is going to add some administrative burden, can help us enormously in getting the money where we want it to go.

Senator CONRAD. I will tell you, I just had a personal experience. I had an organization that somehow got my name, and they would call me about every 3 months wanting to know if I would donate a car. I looked into it and I found out this particular organization was largely a scam operation. There was virtually nothing going for charity. Really, \$100 would be well in excess of what they were doing for \$1,000.

Dr. STEUERLE. This is true for some of the organizations that also call us for clothes donations as opposed to, again, the Salvation Army, where I often make donations. So these issues are there. To the extent we can help deal with them, I think we have a better chance not only of getting more money to charity, but getting more money to the right charities.

Senator CONRAD. Yes. We want to get money to charities that really are charities. People represented here today have sterling reputations. Mr. Hingson, we look at your operation. It is phenomenal, the reviews of how you operate and what an extraordinary job you do of having minimal administrative expenses and delivering so much of what you receive directly to the intended recipients. We all know the record of the Salvation Army. It has really quite a history. And Dr. Reccord, what you are doing is most impressive.

But there are some people who want to get out, and if they would expend all this energy doing something legitimate, they would probably make a great success of themselves. But they, for some reason, have a larcenous heart, and we have to deal with those people, too.

I thank you.

Senator SANTORUM. Thank you, Senator Conrad.

Just to follow-up on a couple of things that Senator Conrad was questioning on. You mentioned, Dr. Steuerle, the non-itemizer and

you suggested a floor. Can you give me a sense of what floor you would suggest for a non-itemizer?

Dr. STEUERLE. I would go to the Joint Committee on Taxation. I would figure out how much money you would want to spend on this deduction. I would ask them, give me a floor that gives me the most bang per buck that is liable to increase incentives the most.

Now, there is a debate over what the size of this incentive is, but quite honestly there is almost no debate over whether putting a floor on and removing a ceiling adds to the incentive.

The reason, as I say, is the ceiling, such as in the CARE bill now. Is it \$1,000? I do not know what the latest one is. It was \$1,000 at one time. It basically gives no incentive for people who are already giving \$1,200 to give \$1,300, or \$1,500. And these are among your most important givers.

So I would ask the Joint Committee, what can we do in removing ceilings and putting on a floor so we can spend that money better? Now, I do not know whether the floor is \$100, \$200, or what.

I have one complication, and I admit, this is politically difficult. You can really simplify the tax return if you make it a common floor for itemizers and non-itemizers alike. A floor for itemizers actually could take away a tiny bit of what they have, but a common floor allows this deduction to go on one part of the tax return only. If you have a non-itemizer deduction and a separate itemizer deduction, there is an enormous amount of confusion, paperwork, and administrative costs for taxpayers and their preparers to figure out, where is it better to take the deduction? You get all sorts of weird calculations that can result that you can remove, by the way, if you put on a common floor.

Also, by the way, if you put on a floor, I think indirectly you will be able to get rid of the phase-out of the charitable contribution. The charitable contribution is now phased out with the phase-out of itemizable deductions.

I think if you get the deduction out of the itemizable category, then that is going to help charities too, especially if, for revenue reasons down the road, you end up retaining the phase-out of itemizable deductions, which is turned off for 2 years and then goes back on.

So without resolving that debate, if you put the common floor on and get the deduction out of the itemizable category, you can expand incentives also because you are going to get rid of that phase-out.

I cannot tell you the exact dollar amount of the floor, but I could work with your staff or the Joint Committee staff on how to do an estimate, given the amount of money that you feel that you are going to be able to come up with as a Congress.

Senator SANTORUM. On the e-filing, I am supportive of the idea of e-filing. A couple of issues. Number one, as you know, there are organizations out there who, for religious reasons or others, will not electronically file, do not use the Internet, and will not, so I believe in a good-cause exemption to that electronic filing.

The other complaint I have heard is, the IRS basically says they are not ready to do this, and this is impractical for them. Do you have any comment on that?

Dr. STEUERLE. Well, this is one of our many difficulties. The exempt organization function of IRS has always been an unwanted stepchild. It does not raise revenues. Once in a while, when you call them to task, they end up saying, well, we will try to do a little bit more, and then they go back to old habits.

Quite honestly, it is part of a balance. Probably because Congress might pressure IRS now to do more on auditing people, it might start putting this e-filing effort aside. It has the capability of allowing this. It does have some electronic filing.

There is an existing minor legal rule that I believe is addressed in some of the bills of Congress, too, that prevents mandated e-filing for individuals or preparers who have less than 250 returns. It is basically preventing IRS from even requiring e-filing.

Michigan has now undertaken to try to require mandatory e-filing, so it is giving an example. Some other States are considering it. I should indicate that the e-filing, by the way, would be, for many charities, a great simplification, because if we could get the e-filing with the IRS, most States will then accept that tax return for the State attorney general's functions. We could get a much simpler system of filing.

I should mention, by the way, another problem which I have not even brought up here. Technically, a lot of small charities that receive gifts from multiple States are supposed to be filing with every State. If we go to e-filing and have common e-filing with those States, we might be able to get rid of that potentially onerous requirement that is really not, in practice, adhered to.

Senator SANTORUM. One final question for you, Dr. Steuerle. That is, you talked about some reforms you would suggest, but in looking at the broader charitable reforms that are being discussed here in the committee, do you have concerns about the impact on smaller charities and their ability to deal with some of the requirements that are being suggested?

Dr. STEUERLE. Definitely. I think every comment made by my fellow panelists is exactly correct. The dilemma is, we cannot just say that any new administrative burden is necessarily bad. In some cases, if charities, for instance, take on a better system of reporting, as they did, for instance, with the existing \$250 requirement, it actually helped individual taxpayers and removed some administrative burdens for them because they had better records.

I really think that the statement (required for gifts of \$250 or more) that is sent to individuals, by the way, should start being filed with the IRS, maybe starting with the larger charities.

You know, when we are dealing with charities, it is the same issue we have with small businesses. The small businesses are often the most entrepreneurial, the most dynamic part of the economy.

They are also a part of the economy where often we have a lot of abuses and cheating, because the recordkeeping is worse. You sort of have the same issue with charities. You are trying to strike a balance.

Some of the smaller charities are among the most dynamic, entrepreneurial, and innovative of the entire charitable sector, and so we really like that part of the charitable sector. They are often the

part that pays their staff people the least, so they are among the most efficient.

But at the same time, because they are small, they are also groups that are very hard to monitor, for IRS to track. And so, at some level, we have to impose some administrative burdens. Reaching a balance is something that is difficult, but something that has to be addressed.

Senator SANTORUM. Thank you.

Senator Conrad, do you have any more questions?

Senator CONRAD. Mr. Chairman, I want to again thank you for holding this. I thank the panelists. I think it has just been excellent. I apologize. I wish we could go further. I have a whole series of other questions that I would like to put to this panel, but I have another obligation at 11:30.

Again, my thanks to this entire panel. We appreciate very much your taking the time to be here.

Senator SANTORUM. Let me, first, thank you, Senator Conrad, again, for your interest and your stick-to-it-iveness, staying here for this entire hearing. I appreciate your interest in this and your participation.

Again, I want to echo his comments in thanking all of you for your testimony, and particularly the three service organizations here, for the tremendous effort that you do on behalf of those in need in our society.

Thank you. We are adjourned.

[Whereupon, at 11:23 a.m., the hearing was concluded.]

## **A P P E N D I X**

### **ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD**

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**STATEMENT FOR SENATOR BUNNING  
SENATE COMMITTEE ON FINANCE  
*Charities on the Frontline: How the Nonprofit Sector  
Meets the Needs of America's Communities*  
13 September 2005**

Thank you, Mr. Chairman.

I am pleased that the sub-committee is examining charitable institutions today. Previously, the full Committee has examined areas of abuse in the charitable arena and discussed proposals for reform. It has become obvious that there are some bad actors taking advantage of the charitable community. That cannot continue.

In order to ensure that the above-board organizations are able to continue to raise the funds and gather the volunteers that they need to continue to make life-saving contributions to our society, we need to work to make sure that public confidence is not eroded.

I am very pleased that today we are taking some time to talk about some examples of the good that is being done through charity work. Particularly, today we will be making an examination of the response of the charitable community to the recent Katrina Hurricane tragedy – a response that appears to have been heroic.

I support the efforts that this Committee is undertaking to ensure that charitable contributions go toward the charitable purposes which the donor intended and which the public expects.

We must also keep in mind, however, that we must not impede the millions of individuals and organizations who are providing necessary services to our country and its citizens.

Thank you.

**Charitable Giving and the Taxation of Estates**

Testimony Submitted to  
United States Senate  
Committee on Finance  
Subcommittee on Social Security and Family Policy

September 13, 2005

William G. Gale<sup>1</sup>  
Brookings Institution  
Tax Policy Center

Mr. Chairman and Members of the Committee:

Thank you for inviting me to testify today. My testimony focuses on the ways in which estate tax reform or repeal would affect charitable giving. This written testimony briefly summarizes two articles I have co-authored on the topic. These articles are attached as appendices to the testimony.

The main point of my testimony is simple: Repealing the estate tax or cutting the top rate in the estate tax would have a significantly negative effect on charitable giving. This conclusion is the product of several important facts.

First, the estate tax encourages charitable giving at death by providing a deduction for charitable bequests. Less obviously, it also encourages giving during life. Charitable contributions made during life gain a double tax advantage: They reduce income taxes and they remove the assets from the estate and so avoid estate taxes as well. Aggregate giving from living individuals far exceeds aggregate charitable bequests. As a result, even if the estate tax is only a relatively minor determinant of charitable giving while alive, the impact of repeal on giving while alive could be a large component of the overall impact.

Second, a variety of different kinds of research implies that estate tax repeal would reduce charitable bequests by between 22 and 37 percent, or between \$3.6 billion and \$6 billion per year. Previous studies are consistent with this finding, and also imply that repeal would

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<sup>1</sup> Arjay and Frances Fearing Miller Chair, Economic Studies Program, and Co-Director, Tax Policy Center. The views presented are my own and should not be taken to represent the views of the Brookings Institution or the Tax Policy Center.



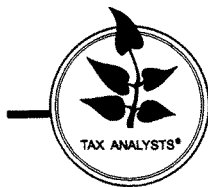
reduce giving during life by a similar magnitude in dollar terms. To put this in perspective, a reduction in annual charitable donations in life and at death of \$10 billion due to estate tax repeal represents a 5 percent decline in overall charitable giving and implies that, each year, the nonprofit sector would lose resources equivalent to the total grants currently made by the largest 110 foundations in the United States.

Third, none of these estimates take into account any possible change in the “culture” of giving that might accompany outright repeal of the estate tax. Repeal would convey an explicit message that charitable giving at death is no longer encouraged. The elimination of the charitable deduction would eliminate a major selling point for charities. As a result, the aggregate effects could be larger than previous estimates suggest.

Fourth, the estate tax could in principle reduce charitable gifts by reducing the amount of wealth decedents can allocate to various uses. However, the net tax rate on charitable bequests is already zero, so the estate tax does not reduce wealth accumulations intended for charity. Moreover, the qualitative conclusion that estate tax repeal would significantly reduce giving holds even if repeal raises aggregate pre-tax wealth and income by plausible amounts.

Fifth, both the likelihood of giving and the share of estate given rise significantly with wealth. These patterns are consistent with the incentives created by tax rates that rise with wealth. Of course, people may be willing to give larger shares of wealth to charity as their wealth rises for reasons other than taxes. In any event, charitable bequests are heavily concentrated among the wealthiest estates. In 2001, 301 decedents with gross estates in excess of \$20 million gave \$6.8 billion to charity. These decedents represented fewer than 1 out of every 8,000 deaths in that year, but accounted for 42 percent of all charitable bequests and made average bequests of \$23 million. Likewise, 64 percent of all charitable bequests came from roughly 1,900 gross estates above \$5 million.

These patterns suggest strongly that raising the estate tax exemption within the ranges currently under discussion would have only a minor effect on charitable giving, but reducing the top estate tax rate would have a significantly negative effect.



# tax break

by Jon M. Bakija and William G. Gale

## Effects of Estate Tax Reform On Charitable Giving

Jon M. Bakija is an assistant professor of economics at Williams College and the Okun-Model Fellow at the Brookings Institution. William G. Gale is the Arjay and Frances Fearing Miller Chair at Brookings, and codirector of the Tax Policy Center. The authors thank Annie Davis, John Irons, and Peter Orszag for helpful comments; Barry Johnson and Jeff Krehely for providing data; and Brennan Kelly, Chris Lyddy, and Robert Moore for outstanding research assistance. The opinions expressed are those of the authors and should not be attributed to any of the organizations with which they are affiliated.

### I. Introduction and Summary

Since 1916, the United States has imposed a tax on the estates of the wealthiest individuals. The 2001 tax cut reduces the estate tax over time, and then repeals it as of 2010, only to reinstate it in 2011. Because politicians are unlikely to allow this pattern of changes to occur, estate tax reform will return to the policy agenda in the near future.

One of the most important issues in assessing reform options is the effect on charitable giving. The estate tax encourages charitable giving at death by providing a deduction for charitable bequests. It also encourages giving during life, as explained below. But the tax reduces charitable gifts by reducing the amount of wealth decedents can allocate to various uses. The net impact of these effects is ambiguous in theory.

Our previous research implies that estate tax repeal would reduce charitable bequests by between 22 percent and 37 percent, or between \$3.6 billion and \$6 billion per year. Previous studies are consistent with this finding, and also imply that repeal would reduce giving during life by a similar magnitude in dollar terms. To put this in perspective, a reduction in annual charitable donations in life and at death of \$10 billion due to estate tax repeal represents a 5 percent decline in overall charitable giving and implies that, each year, the nonprofit sector would lose resources equivalent to the total grants currently made by the largest 110

foundations in the United States.<sup>1</sup> The qualitative conclusion that repeal would significantly reduce giving holds even if repeal raises aggregate pretax wealth and income by plausible amounts.

### II. Background

In 2001, charitable contributions totaled \$212 billion, of which living individuals gave 76 percent, bequests accounted for 8 percent, and foundations accounted for 12 percent (AAFRC Trust for Philanthropy 2002). Estate tax changes can plausibly affect giving through all of these channels. The remaining 4 percent was donated by corporations. Charitable bequests figure most prominently as a source of gifts for educational institutions, medical research institutions, museums, and the creation and maintenance of private foundations.

The federal estate tax currently applies to net estates in excess of \$1 million. The net estate equals gross assets at death less deductions for debts, spousal bequests, charitable bequests, expenses of administering the estate, and a few other miscellaneous items. The marginal estate tax rate varies between 41 percent and 49 percent, with the rate rising as wealth does. The exemption is scheduled to increase in steps, reaching \$3.5 million by 2009, while the top marginal tax rate is scheduled to fall to 45 percent, before the tax is temporarily eliminated in 2010.

In recent years, about 2 percent of decedents have had to pay federal estate taxes. Table 1 provides information on charitable bequests and wealth reported on federal estate tax returns filed in 2001. Most of these returns represent people who died in 2000, for whom the effective exemption was \$675,000. Charitable bequests appeared on one-sixth of estate tax returns, and amounted to \$16.1 billion, or 7.5 percent of the value of gross assets.

Both the likelihood of giving and the share of estate given rise significantly with wealth. These patterns are consistent with the incentives created by tax rates that rise with wealth. Of course, people may be willing to give larger shares of wealth to charity as their wealth rises for reasons other than taxes. In any event, charitable bequests are heavily concentrated among the wealthiest estates. In 2001, 301 decedents with

<sup>1</sup>Private communication from Jeff Krehely, National Committee for Responsive Philanthropy, based on analysis of data from the National Center for Charitable Statistics 2001 Private Foundation file.

## COMMENTARY / TAX BREAK

Size of Gross Estate (\$ millions)	Charitable Bequests				Avg. Tax Rate (Estate Tax as Percent of Net Worth)	Marginal Tax Rate at Mean Net Worth in Category	Share of			
	Percent With	As Share of Estate	Per Decedent (\$ thousands)	Per Giver (\$ thousands)			All Returns	Returns With Charity	Gross Estates	Charitable Bequests
All	17.3	7.5	149.4	863.1	11.3	45	100.0	100.0	100.0	100.0
0.6-1.0	14.2	2.4	19.2	135.1	2.0	39	42.0	34.5	17.1	5.4
1.0-2.5	16.6	4.1	61.2	369.1	8.1	43	43.8	41.9	32.6	17.9
2.5-5.0	25.1	6.1	209.9	836.0	15.3	50	9.2	13.3	15.8	12.9
5.0-10.0	32.4	7.6	516.8	1,594.1	18.6	50	3.3	6.2	11.2	11.4
10.0-20.0	36.5	9.7	1,301	3,563.5	18.9	55	1.2	2.5	8.0	10.3
20.0+	47.9	20.6	10,831	22,598.4	15.4	50	0.6	1.6	15.3	42.1

Source: IRS Statistics of Income division, April 2003 (<http://www.irs.gov/pub/irs-soi/01es01gr.xls>).  
 Note: Data represent returns filed in 2001, most of which are 2000 decedents. Marginal tax rate is calculated based on law in effect in 2000.

gross estates in excess of \$20 million gave \$6.8 billion to charity. These decedents represented fewer than one out of every 8,000 deaths in that year, but accounted for 42 percent of all charitable bequests and made average bequests of \$23 million. Likewise, 64 percent of all charitable bequests came from roughly 1,900 gross estates exceeding \$5 million.

### III. Some Illustrative Examples

Some simple examples show the channels through which estate tax repeal would affect giving and why it is plausible to believe that repeal would reduce giving. Holding pretax wealth constant (an assumption we relax below), the estate tax directly reduces the price of charitable bequests and the level of after-tax wealth that decedents can allocate to various uses. The effect of estate tax repeal depends on (a) the relative magnitude of the changes in price and after-tax wealth; and (b) the relative responsiveness of charitable bequests to changes in each. Because the estate tax is highly progressive, the marginal tax rate (that is, the tax rate applying to the next dollar of wealth or deductions) is higher than the average tax rate (total estate tax liability divided by net worth) for most decedents. This difference implies that repeal would reduce the marginal tax rate — which determines the price of giving — by more than the average tax rate — which influences the after-tax level of wealth. As a result, repeal would generate a relatively large increase in the price of giving and a relatively small increase in the after-tax wealth of decedents. Therefore, repeal will reduce charitable bequests as long as the responsiveness of bequests to changes in after-tax wealth is not substantially larger than the responsiveness to changes in price.

Consider an individual with a marginal estate tax rate of 40 percent and an average tax rate of 10 percent. (These figures represent the averages for people who died in 1998 and filed an estate tax return, weighted by their charitable bequests.) For this representative estate tax filer, a \$1 charitable bequest reduces contributions to heirs by 60 cents. If the estate tax were

repealed, a \$1 contribution to charity would reduce contributions to heirs by \$1, so the price of charitable bequests (measured in terms of bequests to taxable heirs) would rise by 67 percent (from 0.6 to 1). If the individual's average estate tax rate were 10 percent, repeal would raise after-tax wealth by 11 percent (from 0.9 to 1).

Suppose a 1 percent increase in after-tax wealth always raises charitable bequests by 1 percent, and a 1 percent increase in the price always reduces such bequests by 1 percent. If so, repeal would reduce charitable bequests in this example by about one-third. These calculations hold pretax wealth constant. But even if estate tax repeal raised pretax wealth by as much as 10 percent, charitable bequests would still decline by 27 percent.<sup>2</sup>

Estate taxes also encourage giving during life. Charitable contributions made during life gain a double tax advantage: They reduce income taxes and they remove the assets from the estate and so avoid estate taxes as well. For example, assume the marginal income tax rate is 30 percent and the marginal estate tax rate is 40 percent. A donor giving \$100 to charity while alive could instead have kept the \$100, paid \$30 in income tax and bequeathed the remaining \$70 to heirs, who would receive a net inheritance of \$42, once estate tax was paid. With no estate tax, foregoing a \$100 charitable contribution during life would leave \$70 for heirs. That is, estate tax repeal would raise the cost of making charitable contributions while alive (relative to the cost of giving gifts to heirs).

<sup>2</sup>If a 1 percent increase in price (P) or after-tax wealth (W) causes charitable giving (G) to change by -1 percent or 1 percent, respectively, then  $G = aW/P$ , where  $a$  is a constant. In the example in the text,  $W/P = 0.9/0.6 (= 1.5)$  under the estate tax. If pretax wealth is held constant,  $W/P = 1/1 (= 1)$  under repeal. So the percent change in  $G$  is  $[(1 - 1.5)/1.5] \times 100 = -33$  percent. If pretax wealth rises by 10 percent,  $W/P = 1.1$  under repeal and a similar calculation shows a 27 percent decline in giving.

Aggregate giving from living individuals far exceeds aggregate charitable bequests. As a result, even if the estate tax is only a relatively minor determinant of charitable giving while alive, the impact of repeal on giving while alive could be a large component of the overall impact.

#### IV. Evidence

Several kinds of evidence exist on how estate taxes affect charitable giving. Each type indicates that repeal would significantly reduce charitable giving. In particular, each type suggests that charitable giving is as sensitive or more sensitive to its price than to after-tax wealth. This result, combined with the fact that repeal would raise the price of giving more than after-tax wealth, implies that repeal would reduce giving.

Figure 1 illustrates, by decade, the share of gross estates given to charity and the marginal tax rate on the average estate for all estate tax filers.<sup>3</sup> As tax rates rose, so too did the share of wealth given to charity. This evidence is consistent with the notion that the estate tax's stimulative effect on charitable bequests (due to improved incentives) outweighed its depressing effect (due to reduced after-tax wealth).<sup>4</sup> Econometric analysis that relies on time-series variation like that depicted in figure 1, undertaken by economists Wojciech Kopczuk and Joel Slemrod (2003), also finds charitable bequests are sensitive to price. By itself, the time-series evidence is not decisive, though, because it is difficult to separate the impact of tax rates from other factors that vary over time.

A second type of study uses cross-sectional information — data on decedents from a single year. These studies almost universally find that estate taxes raise charitable bequests. Recent work by Treasury Department economist David Joulfaian (2000), based on a sample of 1992 decedents, exemplifies this line of research. His preferred estimates suggest that a 1 percent increase in the price of a charitable bequest reduces such bequests by 1.7 percent, and a 1 percent increase in after-tax wealth raises charitable bequests by 1.2 percent — that is, he finds that charitable bequests are more sensitive to price than to wealth. Cross-sectional studies are sometimes difficult to interpret, though. Table 1 shows that wealthier people give more of their estate to charity — perhaps because they face higher marginal tax rates or perhaps because they are wealthier. But in a cross-section sample, the main reason tax rates vary across decedents is that wealth varies,

<sup>3</sup>For additional discussion of the historical evidence, with special attention to changes in reported charitable bequests in the early years of the estate tax, see Doti (2003). Charitable bequests were first made deductible from the estate tax by the Revenue Act of 1918, effective for decedents dying after December 31, 1917. A place to report these bequests first appeared in the August 1918 revision of the estate tax form.

<sup>4</sup>Average pretax wealth reported on estate tax returns also changed over time, in a u-shaped pattern, which would have affected charitable bequests as well. The share of wealth given to charity by people at fixed real wealth levels produces a rising pattern over time similar to that shown in Figure 1.

too, so it is difficult to disentangle the separate effects of each.

A third kind of evidence exploits the fact that estate and inheritance tax rates have changed in different ways over time for people in different states and at different real wealth levels, and examines whether differences in the time-pattern of charitable bequests across groups matches up with the differences in time-pattern of incentives across these groups. Unlike time-series analysis, this approach makes it possible to control for any factors, whether observed or unobserved, that changed in the same way for everyone over time. Unlike cross-sectional analysis, this approach makes it easier to disentangle the effects of incentives from the effects of wealth, because the variation in tax rates comes from differences in tax law across time and states, rather than from the fact that at a point in time wealthier people are in higher tax brackets.

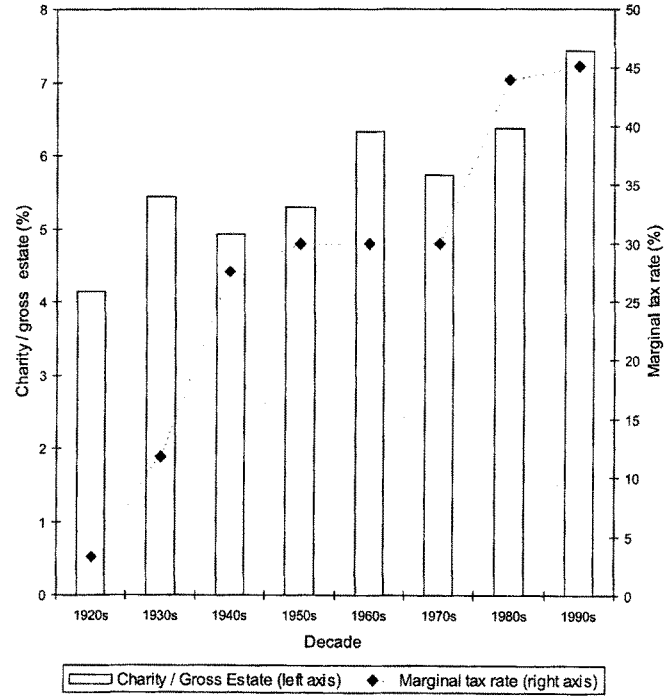
In collaborative work with Slemrod, we have undertaken a research project relying on this approach (Bakija, Gale, and Slemrod 2003). We employ a tax calculator that computes combined federal and state inheritance and estate taxes for any year, state, or wealth level, using a unique data set of federal estate tax returns from 1924 through 1998. Early estimates from this project focus on estate tax return data aggregated by real wealth range, marital status, state, and year and examine the behavior of widowed decedents, who provide about 61 percent of all charitable bequests. We estimate that among this population, a 1 percent increase in the price of giving reduces charitable bequests by 2.1 percent, and a 1 percent increase in after-tax wealth increases charitable bequests by 1.6 percent.

Thus, each of the three types of evidence finds that the sensitivity of charitable bequests to price is close to, and usually greater than, the sensitivity to after-tax wealth. This result, combined with the progressivity of the tax, implies that charitable bequests can be expected to decline significantly if the estate tax were repealed, since repeal would create relatively large increases in the price of giving and relatively smaller increases in after-tax wealth.

Putting an exact number on the size of the decline is a useful exercise, but should be interpreted with caution. Joulfaian calculates that for an individual whose price and before- and after-tax net worth are equal to the average for all filers in his sample, estate tax repeal would reduce charitable bequests by 12 percent. For a variety of technical reasons, however, this calculation probably underestimates the change in aggregate charitable bequests.<sup>5</sup>

<sup>5</sup>The bias arises because Joulfaian calculates the average estate tax rate by (effectively) weighting observations by wealth, but calculates the marginal tax rate as a simple unweighted average. A more consistent approach would calculate a wealth-weighted marginal tax rate. This measure would be significantly higher than the unweighted marginal rate, because high-wealth households face higher marginal tax rates. Using the weighted marginal estate tax rate would imply that repeal would generate a bigger increase in the price of giving than Joulfaian calculates, and therefore a bigger decline in charitable bequests.

**Figure 1**  
Charitable Bequests as a Percentage of Gross Estates vs. Marginal Estate Tax Rate on Average Gross Estate, All Filers, by Decade



Source: Authors' calculations based on data from IRS Statistics of Income.  
Notes: Marginal estate tax rate is a decade average of annual rates calculated at mean gross estate among all filers. Decade averages from 1950s through 1980s are based on a subset of years for which data were available.

Duke University professors Charles Clotfelter and Richard Schmalbeck (1996) simulate the effect of repeal by applying a set of estimates from the previous cross-sectional studies to a set of individuals representative of the different types of people filing estate tax returns. They calculate that estate tax repeal would reduce aggregate charitable bequests by between 24 percent and 45 percent. Using a similar but more detailed simu-

lation approach, the estimates from our paper with Slemrod imply that estate tax repeal would cause widowed filers to reduce charitable bequests by 37 percent. This reduction would amount to \$3.6 billion in 2001, or 22 percent of charitable bequests made by all filers. If other types of filers were equally responsive, the decline would be \$6 billion. Both our simulation and Clotfelter and Schmalbeck conservatively assume that

nontaxable filers would be unaffected by repeal. To the extent that filers are nontaxable because they make large charitable bequests, repeal could reduce their giving as well.

As noted above, the estate tax also affects incentives to give to charity while alive. Research on this question has relied exclusively on cross-sectional variation in tax rates, and finds that lifetime giving would decline under estate tax repeal. Treasury economists Gerald Auten and Joulfaian (1996) use data on 1982 estate tax returns matched to the 1981 income tax returns for the decedents and their children. They find that higher estate tax rates are associated with higher lifetime contributions while alive, even after controlling for wealth. Repeal would reduce charitable giving in the last year of life by about 12 percent among people who would otherwise have to file estate tax returns. If annual charitable donations while alive by people likely to face the estate tax is well-approximated by the \$42 billion given by people with incomes above \$200,000 (who represent roughly the top 2 percent of the household income distribution), and giving throughout life is similarly sensitive to giving in the last year of life, this would imply a \$5 billion decline in annual charitable donations through this channel.

Since this estimate is based on giving in the last years of life, one might suspect that it overstates the sensitivity of giving to estate tax rules. However, in a different paper, Joulfaian (2001) finds that charitable giving in the last 10 years of life is even more responsive to the estate tax. He uses data from income tax returns for 1987-96 and estate tax returns for decedents who died between 1996 and 1998. His estimates of the determinants of charitable bequests are similar to previous cross-sectional estimates. Based on averages in the data, he estimates that repeal would reduce combined charitable bequests and charitable donations in the last 10 years of life by between 13 percent and 31 percent. As noted above, a simulation approach would likely suggest a larger impact.<sup>6</sup>

#### V. Caveats

Although almost all research implies that estate tax repeal would significantly reduce charitable bequests and charitable giving while alive, the findings should be viewed with caution. As noted, there are difficult statistical issues associated with the estimates. In addition, none of the estimates are based on time periods when no estate tax existed. As a result, the parameter estimates may not be valid over a large change in tax rates, even holding related behavior constant. Outright repeal could also change related behavior. It would convey an explicit message that charitable giving at death is no longer encouraged. It would remove some

<sup>6</sup>Congressional Budget Office economists Pamela Greene and Rob McClelland (2001) use data from the Health and Retirement Study and estimate expected estate tax rates based on information on current wealth, age, subjective life expectancy, and different assumptions about asset growth rates. They provide further evidence that the charitable donations of elderly people are sensitive to expected estate tax rates.

of the need to do tax planning prior to death. The elimination of the charitable deduction would eliminate a major selling point for charities. As a result, the aggregate effects could be larger than previous estimates suggest.

Another issue is that the estimates hold pretax wealth constant, but to the extent that repeal raised aggregate wealth and income, charitable giving during life and at death would rise. Some perspective on this issue is appropriate, though. First, it would require enormous increases in wealth to offset the basic results found above. Even increases bordering on 10 percent would not overturn the conclusion that repeal would reduce charitable giving. Second, the impact of estate tax repeal on wealth accumulation is by no means certain. Although we do not review the literature here, both theory and evidence indicate that the effect is ambiguous (Gale, Hines, and Slemrod 2001). Third, even if there were an increase in wealth, it is not obvious that charitable bequests would rise. Currently, the effective estate tax rate is zero on wealth accumulated for the purposes of giving to charity. That rate would not change under repeal, which would simply make other uses of estates tax-free as well.

Boston College researchers Paul Schervish and John Havens (2003) advocate a new model of charitable giving. In their model, people have a hierarchy of preferences: As resources rise, people first take care of themselves and their family, then their friends, and only after those needs are met do they turn to the needs of broader, nonprofit organizations. Schervish and Havens draw two conclusions. First, increases in wealth should generate more than proportional increases in charitable giving. This conclusion is consistent with the data shown in table 1 and elsewhere, but it does not distinguish their approach from conventional approaches. Second, because preferences are hierarchical in their model, households do not address charitable concerns until they have fully addressed their preferences relating to family and friends. Once their wealth is sufficient to focus on charity, the other preferences are no longer a matter of concern. As a result, they say, charitable contributions depend on values, not on tax policy.

This supposed second implication is flawed. Empirically, households do not have purely hierarchical preferences. Many low-income households make charitable contributions. Many wealthy people continue to seek out new personal or family consumption even as they make large donations. Even if the hierarchy of preferences were exact, tax subsidies for charity would affect the wealth level at which people switched from addressing other preferences to charitable concerns. Most importantly, as a purely logical matter, to say that values matter for choices does not imply taxes are irrelevant. People always make choices (that is, express their values) subject to constraints and incentives (which depend on taxes). Observed behavior — like charitable giving — depends on the interaction among values, constraints, and incentives, not on one in isolation of the others.

Schervish and Havens also claim that repeal would actually raise charitable bequests, based in part on a

## COMMENTARY / TAX BREAK

survey of individuals with net worth exceeding \$5 million who indicated that they expect to allocate 16 percent of their estate to charity, 47 percent to heirs, and 37 percent to taxes. Given their druthers, however, the respondents would prefer to devote just 9 percent to taxes, 64 percent to heirs, and 26 percent to charity. Taken at face value, the results suggest that reducing the estate tax by more than three-quarters (from 37 percent of estate to 9 percent) would induce an increase of more than 60 percent in charitable bequests (from 16 percent of the estate to 26 percent).

One should not take the results at face value, though. First, the results refer to intentions rather than actions. The econometric literature, based on actual behavior, is replete with studies showing that actual contributions among living people and among decedents are sensitive to tax rates. Second, it seems implausible that these individuals would have to devote 37 percent of their estate to taxes. For estate tax returns filed in the year 2000, for example, the average tax rate even among taxable returns with gross estate in excess of \$20 million was just 20 percent. These concerns raise serious questions about the reliability of the recorded answers.

## VI. Conclusion

Estate tax repeal would have significant deleterious effects on charitable bequests and charitable giving during life. Although estate tax reform will raise many issues, the impact on the nonprofit sector should be a central part of the debate.

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**Charitable Bequests  
and Taxes on Inheritances  
and Estates:  
Aggregate Evidence from  
across States and Time**

Jon Bakija  
William Gale  
Joel Slemrod

**Discussion Paper No. 7**

April 2003

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This paper was prepared for the American Economic Association Meetings, Washington, D.C., January 3, 2003. The authors thank Manijeh Azmoodeh, Chris Lyddy, and Edward Major for painstaking research assistance, Barry Johnson and Wojciech Kopczuk for help with the data, David Joulfaian for insightful comments, and The Nathan Cummings Foundation for financial support. Any errors or opinions are the authors' and should not be taken to represent the views of the funders, officers, trustees, or staff of any of the institutions with which they are affiliated.



After years of neglect, the estate and gift tax recently became the center of a heated policy debate, culminating with provisions in the tax cut enacted in June 2001 that will reduce the estate tax gradually, repeal it in 2010, and then reinstate it in its pre-2001 form at the beginning of 2011. This patchwork treatment virtually guarantees that estate tax rules will be revisited soon.

One recurring issue in the estate tax debate is the impact of reform on the nonprofit sector. The federal estate tax has allowed a deduction for charitable bequests since 1918 (Johnson 2001). With the top marginal rate of federal estate tax currently at 49 percent, abolishing the tax would approximately double the price of a charitable bequest relative to an ordinary bequest for the wealthiest estates. It would also, however, presumably raise the after-tax wealth of decedents, so the ultimate impact of any particular policy change depends in part on the relative sizes of the price and wealth elasticities.

Cross-sectional studies typically find that decedents with larger estates and therefore higher marginal federal estate tax rates make larger charitable bequests (see Joulfaian [2001], for an up-to-date example and literature review). The interpretation of this result is unclear, though, because the federal tax rate is an increasing, nonlinear function of estate size, and the true functional form of the relationship between wealth and charity is uncertain. If wealth has a nonlinear effect on charitable bequests that is not accurately captured in the estimated functional form, the price elasticity estimate may suffer from omitted variable bias (Feenberg 1987).

Wojciech Kopczuk and Joel Slemrod (2003) use aggregate annual time-series analysis to show that several different summary measures of the marginal federal estate tax rate have a small but positive influence on aggregate reported charitable bequests. But it is difficult to adequately

distinguish the impact of changing tax rates from other, possibly unobserved time-varying influences and trends in aggregate time-series analysis.

This paper contains early results from a research program designed to estimate the impact of taxes on charitable bequests using an econometric framework that addresses several problems that plague prior research. We exploit the fact that federal and state tax rates on estates and inheritances have changed over time in different ways across states and real wealth levels. The effect of federal and state inheritance and estate taxes on charitable bequests is estimated using pooled cross-sectional data spanning several decades, based on aggregated information from federal estate tax returns. Under several different specifications, we find evidence of a strong incentive effect of estate and inheritance taxes on charitable bequests.

#### **I. Data and Federal-State Tax Calculator**

We use a data set provided by the Statistics of Income Division of the Internal Revenue Service (IRS) and drawn from a confidential IRS data set of federal estate tax returns. The underlying data set contains a nearly 100 percent sample of federal estate tax returns for deaths through 1945, and a stratified sample of returns for selected postwar years, with sampling weights (i.e., weights based on the inverse of the sampling probability) available. The tables provided to us aggregate returns into cells based on year/state/wealth level/marital status combinations, and include the sample-weighted average charitable bequests and wealth measures for each cell.

For this study, we focus on returns filed by a second-to-die spouse.<sup>1</sup> In 1998, these widows and widowers accounted for 44 percent of federal estate returns filed, and 63 percent of the aggregate value of charitable bequest deductions (Kopczuk and Slemrod 2003, Table 7).

Our analysis includes all years for which the IRS conducted a study that drew a substantial sample of decedents, and for which information on state of residence and marital status is available. This leaves us with 39 years: 1924 through 1945, 1969, 1976, 1982, and 1985 through 1998. Data are arranged into cells based on five wealth categories, expressed in 1996 dollars: \$400,000 to \$750,000; \$750,000 to \$1.25 million; \$1.25 million to \$2 million; \$2 million to \$5 million; and \$5 million and above. To maintain comparable compositions of decedents in each cell over time, we omitted cells for which the real federal estate tax filing threshold was above the minimum bound for the cell. After removing cells with no decedents in the sample (or in many cases, in the population) we have 6,615 cells.

The two main explanatory variables of interest are disposable wealth at death and the tax price of charitable bequests. Both require accurate measures of combined federal and state tax rates, which are not directly available in the data set. To address this, we have developed a tax calculator that computes combined federal-state inheritance and estate taxes for an individual in any state and any year. The calculator appropriately accounts for factors such as the deductibility of federal taxes from many state taxes, the limited nonrefundable federal credit for death taxes paid to a state, and whether charity was exempt from the state tax.

Pre-tax wealth is defined as the gross estate reported on the federal estate tax return, minus debts and mortgages, plus certain components of wealth that were excluded from the gross estate.<sup>2</sup> This is close to a comprehensive measure of net worth at death that is largely consistent across time for our sample of widows and widowers. Returns are sorted into cells based on pre-tax wealth. "Disposable wealth" is wealth minus the combined federal and state inheritance and estate tax liability.

We define the tax price of charitable bequests ( $P^c$ ) as the opportunity cost of an increase in charitable bequests in terms of ordinary bequests foregone. This is equal to one minus the marginal estate and inheritance tax rate. We compute this marginal rate as (negative) the change in combined federal and state tax liability caused by a \$10,000 increase in the amount of charitable bequest, divided by \$10,000. State inheritance taxes typically imposed different rates and exemptions depending on how the estate was divided up among different types of heirs. The data do not provide information on the recipients of bequests, so we assume that the net estate (after bequests to charity) is divided equally between two adult children.

The time-series path of state tax rates differed substantially across states during our sample period, and also typically differed across wealth classes within a state. Marginal federal rates at all wealth levels considered in our study increased dramatically over time, starting at or below 10 percent in 1924, and rising to the 40-60 percent range by the late 1990s. Importantly for our purposes, the time-series path of the federal marginal tax rate differs across wealth levels. For instance, the marginal rate faced by the typical return in our top wealth class has come down after hitting a peak of 70 percent during the 1970s, at the same time that rates at lower real wealth levels continued to climb slowly.

## II. Econometric Specification

Following William Randolph (1995), Joulfaian (2001), and others, we model the demand for charitable giving using a Deaton-Muellbauer (1980) expenditure share equation. We estimate:

$$(1) P^c_{it} G_{it} / W_{it} = \alpha + X_{it} \beta_0 + \beta_1 \ln(P^c_{it}) + \beta_2 (\ln W_{it}) + \varepsilon_{it}$$

where  $i$  indexes state-wealth class cells, and  $t$  indexes years.  $P_{it}^c$  is the price of charitable bequest relative to a bequest to heirs, based on current law applying at the date of death, calculated at the sample-weighted mean taxable estate in the cell.<sup>3</sup>  $G_{it}$  is the sample-weighted cell-mean charitable bequest.  $W_{it}$  is disposable wealth at death, calculated as sample-weighted mean pre-tax wealth for the cell minus the tax liability that applies at the cell-mean taxable estate. Both  $G$  and  $W$  are measured in 1996 dollars.  $X_{it}$  is a vector of control variables, consisting of sets of dummy variables for wealth class, year, and state, depending on the specification.

We use instrumental variables to address the familiar problem that  $P^c$  and  $W$  are endogenously related to charitable bequests, since a larger donation to charity reduces tax liability and can push a decedent into a lower marginal tax bracket. Our approach to constructing the instrumental variables will also be an important part of our strategy for addressing certain forms of omitted variable bias, which will be discussed further in the next section. As an instrument for  $\ln(P^c)$ , we construct a measure of  $\ln(P^c)$  based on the marginal tax rate at the midpoint of the wealth category of which each cell is a member. This midpoint is constant in real terms over time. Similarly, to construct an instrument for  $\ln(W)$ , we calculate  $ATR_M$ , the average tax rate (defined as tax liability divided by pre-tax wealth) calculated at the midpoint wealth in the cell. The instrument is  $\log$  of [pre-tax wealth  $\times$  (1- $ATR_M$ )]. In both cases, for the top wealth category, in place of a midpoint, we use the median level of wealth among the pooled observations from that category, which is \$12.7 million in 1996 dollars.

Our model is estimated by weighted linear two-stage least squares, where the weights are based on the number of returns sampled by the IRS that underlie each cell.<sup>4</sup> The proportion of cells with zero charitable bequests, weighted in this fashion, is 3.3 percent, so censoring is present but is unlikely to be a large problem.<sup>5</sup> We compute standard errors that are robust to

arbitrary autocorrelation within each state/wealth category combination, and robust to arbitrary heteroskedasticity across such combinations.

Elasticities are of particular interest in this application. In the Deaton-Muellbauer functional form, elasticities vary across individuals, depending on the expenditure share of charity. The elasticity of charitable bequest with respect to price for an individual (cell) is  $\eta_{P_{it}} = \beta_1(W_{it}/P_{it}^c G_{it}) - 1$ ; the wealth elasticity of charity is  $\eta_{W_{it}} = \beta_2(W_{it}/P_{it}^c G_{it}) + 1$ . When  $\beta_1$  or  $\beta_2$  equal zero, the elasticity is -1 or 1, respectively. Thus, a significance test of the coefficient value is really a significance test for whether the elasticity is one in absolute value. For ease of interpretation, we present the elasticity of aggregate charitable bequests with respect to a uniform percentage change in price or disposable wealth for all observations. For price, this is  $[\sum_{it}(G_{it}\eta_{P_{it}})]/(\sum_{it}G_{it})$ ; for wealth, it is  $[\sum_{it}(G_{it}\eta_{W_{it}})]/(\sum_{it}G_{it})$ .

### III. Results

Table 1 presents results from estimating four different versions of equation (1). Each successive specification adds a set of dummy variables that removes certain forms of identification from the independent variation left in  $W$  and especially  $P^c$ , thereby removing potential biases caused by omitted influences that may be correlated with those sources of identification.

Specification (a) includes no control variables in  $X$ , thus allowing all forms of variation - aggregate time-series, cross-sectional differences across wealth levels, etc. - to identify price and wealth effects. This results in a price elasticity of -1.62 and a wealth elasticity of 1.32, both very precisely estimated. The most comparable estimate in the recent literature comes from Joulfaiian (2001, p. 755), who finds a price elasticity of -0.74 and wealth elasticity of 1.54 using a roughly similar specification, but on a cross-section of 1992 unmarried decedents.

In specification (b) we add a set of wealth class dummy variables to (a). This not only allows for a more flexible and arbitrary nonlinear relationship between wealth and charity, but in conjunction with the cell midpoint-based instrument set, it purges the independent variation in price of all variation caused by its nonlinear relationship with wealth. The remaining independent variation in price comes from state tax rates, and from changes over time in federal tax rates at fixed real wealth levels caused by statutory changes and bracket creep. This eliminates any bias to the price coefficient that might otherwise be caused by omitted nonlinear functions of real wealth. The elasticity estimates remain robust to addressing this potential bias, as they are similar to those in (a).

In specification (c), we add year dummies to (b), which removes aggregate time-series variation from the independent variation in price and wealth, eliminating the potential for omitted variable bias caused by time-varying aggregate influences that affected everyone's expenditure share of charity in a similar way. This causes the most notable change across our specifications, as the price elasticity increases from -1.69 to -1.91 and its standard error triples from 0.10 to 0.33. The increased standard error is not surprising, since aggregate time-series variation in federal marginal tax rates, which is removed as a source of identification by specification (c), is large relative to the other available sources of variation in price.

In specification (d), which is the most robust to omitted variable bias, we add state dummies to (c) to control for any time-invariant omitted characteristics of states. The identification of the price effect in this last specification arises entirely from differences in the time path of tax rates across wealth classes, across states, and across wealth classes within states. The price elasticity estimate is -2.14 with a standard error of 0.33, and the wealth elasticity estimate is 1.55 with a standard error of 0.10. After addressing many potential sources of bias,

the main result is preserved: The incentive effect of estate and inheritance taxes on charitable bequests is large and significant. If anything, it appears that the potential sources of omitted variable bias addressed here had been biasing the price elasticity downward in absolute value.

Among the widows and widowers present in our 1998 sample, eliminating estate and inheritance taxes would have raised the price of charitable bequests by 77 percent, on average, while raising disposable wealth by an average of only 24 percent. The difference arises because of the progressivity of these taxes, which means that marginal tax rates are much higher than average tax rates. As a result, to a rough approximation, total repeal will cause charitable bequests to decline among this population unless the wealth elasticity is more than three times as large as the price elasticity (in absolute value), which is far from what we estimate. Our estimates therefore point towards a decline in charitable bequests in response to the abolishing estate and inheritance taxes.

#### **IV. Conclusions**

Using pooled cross sections of aggregated estate tax return data spanning much of the 20th century, we find evidence that the incentives for charitable giving present in state and federal estate and inheritance taxes have a strong effect on charitable bequests. Our estimates that rely on differences in the time path of state and federal tax rates across groups provide a more credible source of identification than the previous literature of a large and significant price elasticity of charitable bequests.



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TABLE 1 – EFFECTS OF PRICE AND DISPOSABLE WEALTH  
ON CHARITABLE BEQUESTS

Dependent variable: P <sup>c</sup> G/W	Coefficient		Elasticity*	
	ln(P <sup>c</sup> )	ln(W)	Price	Disposable wealth
(a) No controls	-0.050 (0.006)	0.026 (0.001)	-1.617 (0.072)	1.316 (0.018)
(b) Add wealth class dummies to (a)	-0.056 (0.008)	0.040 (0.008)	-1.690 (0.102)	1.490 (0.095)
(c) Add year dummies to (b)	-0.074 (0.026)	0.043 (0.008)	-1.913 (0.325)	1.527 (0.093)
(d) Add state dummies to (c)	-0.093 (0.027)	0.045 (0.008)	-2.142 (0.335)	1.551 (0.099)

*Notes:* Robust standard errors are in parentheses. Estimated by weighted 2SLS.

\* Elasticity of aggregate charitable bequests with respect to a uniform percentage change in price or disposable wealth for all individuals in sample.

**Endnotes**

1. Joulfaian (2001) and Kopczuk and Slemrod (2003) discuss some of the difficulties involved in specifying the incentives to give to charity for the first-to-die spouse, and in using the spousal deduction as a source of price variation.
2. Until 1942, up to \$40,000 of life insurance owned by the decedent could be excluded from the gross estate. Starting in 1977, the difference between the market value of certain farm and small business property and its “special use” value in that capacity could be excluded. Each of these exclusions is added back in to our measure of wealth.
3. The “taxable estate” we use to calculate the “actual” tax liabilities and marginal rates is the gross estate for federal tax purposes, less debts, mortgages, and charitable bequests, where each of these variables represents the sample-weighted mean value for the cell.
4. Weighted regression is necessary for consistent estimation of standard errors and efficiency when the data represent means of the values for multiple individual observations. The variance of these means will be inversely proportional to the number of individuals contributing to the calculation of the mean for each cell, causing heteroskedasticity.
5. We also tried estimating each equation with a Tobit model (results not shown), and found that the elasticity estimates were very similar.

**Charities on the Frontline:  
How the Nonprofit Sector Meets the Needs of America's Communities**

Statement of

*Luke L. Hingson*

Testimony Before the  
Subcommittee on Social Security and Family Policy  
Senate Finance Committee  
United States Senate

September 13, 2005

Luke L. Hingson is President of Brother's Brother Foundation since 1980.

Mr. Chairman and members of the Subcommittee:

Brother's Brother Foundation (BBF) is a 48-year old Pittsburgh-based international charity, which has provided over \$1.6 billion of medical supplies, textbooks, food, seeds, and other humanitarian supplies to people around the world in over 120 countries. With the help of gifts from the general public, corporations and the US government, in 2004 BBF sent product contributions totaling more than \$226,000,000 (3,125,000 pounds) to those in need in 40 countries including Argentina, Armenia, Czech Republic, Ethiopia, Iraq, Poland, and the United States.

Forbes Magazine, the national business periodical, listed Brother's Brother Foundation as the only charity to receive 100% or higher rating in a special issue, 2005 Investment Guide (Charity), December 13, 2004. The issue lists 200 charities, rating them on how efficiently they collect and distribute donations. BBF received 100% rating or higher in all three evaluating categories: charitable commitment, donor dependency and fundraising efficiency.

Most recently, BBF sent aid to tsunami victims in South Asia raising \$2,000,000 in cash and \$41,000,000 in donated products and helped ship over 4,000 tons of donated goods from Brother's Brother Foundation with the aid of other charities.

Over the past two weeks Brother's Brother Foundation has had to respond to sudden needs due to Hurricane Katrina. International disaster response is an area of expertise of BBF. Our experience allowed BBF to quickly respond to obvious and unanticipated needs resulting from the largest national disaster in America's living memory.

BBF is helping survivors of Hurricane Katrina by sending multiple tractor trailer loads of new shoes, clothing and other items to the United Methodist Church distribution center near New Orleans. Additionally, BBF is working with the Church of Latter Day Saints with distribution center in Atlanta, GA.

BBF provided air and land shipments of requested medicines and other supplies to charity clinics in Mississippi and Texas for distribution via the Southern Baptist Convention and Texas Association of Community Health Centers. I am told that as of this morning, the value of donated product to survivors of Hurricane Katrina exceeds \$1.6-million.

Also, we are currently resettling several families from New Orleans in the Pittsburgh area. Areas of assistance include housing, education, daily sustenance, child care and economic rehabilitation.

Brothers Brother Foundation is a member of the Pennsylvania Association of Nonprofit Organizations (PANO). PANO is a membership organization of hundreds of nonprofits throughout Pennsylvania. BBF is enrolled in PANO's Standards for Excellence program as a way of demonstrating BBF's commitment to the highest standards of ethics and accountability

With respect to specific provisions of the Care Act:

First, BBF supports the Non-itemizer Tax Deduction (provided under section 301). We feel strongly that this would increase incentives for charitable giving. Currently, over 2/3 of tax payers do not itemize deductions. We believe people would be more willing to donate if they would receive a tax deduction for their donations.

Second, we support the IRA Rollover Provision (section 302) We believe that this would encourage charitable giving by middle income Americans with secure financial resources.

Third, we support the tax deduction for donated food items. This would create further incentive to give.

Fourth, BBF also supports the tax deduction for Volunteer Vehicle Mileage for individuals, who provide volunteer services including transportation. This would encourage citizens to be more involved with charitable activities. In the case of BBF, it would increase the individual's interest in delivering donated goods to our facility, reduce our cost and increase our potential to provided useful donated items to those in need.

Additionally, I would like to state that while we recognize that some abuses in the charitable sector may exist, only a tiny number of charities engage in abusive conduct. Most charities are run by honest well-intended individuals. They deliver essential services that government is either unable or unwilling to provide. As such, I urge this committee to consider that nonprofit reform legislation will have certain consequences, some unintended, especially with respect to smaller charities. This is not the time to undermine a charity's ability to function in the name of reform.

At this time, our nation is calling upon the charitable sector to do more, not less. It is my firm belief that if elements of the CARE Act had been already enacted into law, BBF would have a greater ability to provide relief to evacuees seeking refuge from hurricane Katrina.

I also endorse more rigorous use of existing laws to protect charities from those individuals in the private sector who abuse charitable intent by false representation for private gain.

Thank you, Senators, for granting me the opportunity to express my concerns before this subcommittee. I invite each of you to visit our facility in Pittsburgh, Pennsylvania. Perhaps, in this way, you could see how the work of charities like BBF is essential to relief efforts, to our communities and to our nation.

**Questions for the Record for Mr. Luke L. Hingson  
September 13, 2005**

**From Senator Grassley:**

Question 1

Assuming existing laws and regulations are not modified, how would you propose the IRS efficiently and effectively combat the “parking of assets” in supporting organizations and donor-advised funds which is currently legal? The parking of assets refers to the donation assets, often illiquid, to facilitate large charitable deductions for the donor with little, if any, monies actually going to help those in need.

**Response:** BBF has no direct involvement with donor advised funds. This question is not applicable to BBF.

Questions 2

Assuming existing laws and regulations are not modified, how would you propose the IRS combat the playing of audit roulette with valuation of assets donated to charity? It would seem that better enforcement would require IRS to conduct more audits of individual taxpayers. Yet, the threat of audit does not sufficiently deter taxpayers from overstating valuations. Moreover, auditing such taxpayers only results in wasted IRS resources as many of these taxpayers are willing to challenge the IRS through administrative appeals and litigation, often times outspending the IRS.

**Response:** While the baseball style arbitration process may seem to be a fair solution to the valuation problem, the better solution might just be increased IRS enforcement of existing laws. On the other hand, there may be no solution to this problem. Certainly passing the burden of affirming the value of the donation to the charity would make receiving such gifts impractical.

Question 3

Mr. Steuerle used the example of vehicle donations as an example of inefficient giving. He stated that a \$1,000 car donation resulted in \$900 advertising expense with only \$100 going to the charity while it cost the government \$300 for allowance of the deduction. Do you believe that such charitable fundraising activities and abusive valuations on the part of individuals are acceptable in light of the cost to the government?

**Response:** BBF does not accept Vehicle donations. This question is not applicable to BBF

**From Senator Bunning:**

Major Hood, Mr. Hingson, & Dr. Reccord, over the past few weeks we have been hearing heroic stories about the work of the charitable community in the Gulf region. We also have heard some stories about the enormous aid that some members of the corporate community have been providing to the hurricane victims. Could you comment on how your organizations have coordinated with the corporate community to provide aid to victims?

**Response:** BBF has coordinated with the corporate community to provide a substantial amount of relief for hurricane Katrina. As of October 11, 2005 BBF has provided or committed over \$4,500,000 in aid to victims of Katrina. Over 90% of this is from direct contributions from corporate donors.

BBF receives both goods and services "in-kind" from corporate donors. These corporate donors range from trucking companies who donate use of their transport services, to manufacturers who donate text books, medical supplies, desperately needed pharmaceuticals, and basics like shoes and clothing.

Corporate donors are an integral partner with BBF's relief efforts. I would strongly encourage this committee to improve charitable giving incentives for corporate donors. Some of the corporate giving incentives have been included in the Hurricane Relief Act. Unfortunately, the benefits of this Act are limited in time and scope.

BBF works closely with certain pharmaceutical companies in a constant effort to supply essential medicines to victims of natural disasters. This is a source of charitable giving that I believe has not received adequate incentives. I believe that a greater capacity exists here to benefit those in need.

It is true, as Senator Bunning notes, that the private sector's response to the catastrophe in the Gulf region has been generous and timely. It is particularly notable that the medical and other supplies that BBF sent were actually needed, rather than merely surplus inventory. That's no accident. Over the years, Brother's Brother Foundation and our colleague organizations have built excellent relationships with pharmaceutical and medical supply manufacturers, so that we can rely on them for what our people need, whether for a short-term domestic emergency like Hurricane Katrina, or for a major development program in a developing nation.

I believe that Congress should recognize that partnerships between corporations and charities have become an increasingly important form of American medical assistance abroad. Data from the Partnership for Quality Medical Donations (PQMD) indicate that the dollar value of medical products from their members exceeds \$1.4 billion annually -- approximately equaling the USAID budget for global health. At least \$500,000,000 in medical product donations are also given each year to non-PQMD charities.

As valuable as those donations are, the need is still greater. It would be appropriate, in my view, for the Committee to strengthen the incentives for such activities through targeted enhancement of the deductions for donations bearing directly on human and animal health and education.

With respect to other corporate donations of food items and books, I would encourage this Committee to make permanent the provisions included in the Katrina Relief Act.

Finally, I would like to address the non-itemizer tax deduction with respect to corporate donors. Many corporate employers have organized employee donation campaigns. This is where an employer encourages its employees to make contributions to a specific charitable campaign. The employee donor receives the tax deduction. Unfortunately, most of these workers do not itemize their deductions on their individual income tax return. This type of coordinated giving campaign has not received the recognition that it is due. It has the capacity to generate much greater charitable giving than has been recognized. One potential incentive to promote this type of giving would be to increase the corporate giving percentage allowable under current tax law for c-corporations.



Major Hood, Mr. Hingson, & Dr. Reccord, I assume that you all have seen the outline of the proposal for temporary tax breaks intended to help the hurricane victims that was unveiled by chairman Grassley yesterday. Could you comment on that package? Is there any proposal that you feel was not included that would be particularly helpful to the hurricane victims or those organizations that are providing assistance to them?

**Response:** The Hurricane Relief package fails to provide long-term relief for those charities that provide relief to victims of other natural disasters. BBF may respond to three of four major natural disasters that are of lesser consequence to Congress. However, without a general package of charitable giving incentives, charities like BBF may simply run out of donations. Charities are already starting to feel the pinch of increasingly scarcer resources. How will America's charities be able to respond to the next natural disaster?

Most of the emergency relief provisions of the Katrina Emergency Tax Relief Act of 2005 (H.R. 3768) are only temporary tax incentives. Provisions of the Act benefit only charities that serve certain limited groups, and within certain limited geographical locations. Victims of future disasters will not benefit from this act at all without subsequent legislation. Lesser disasters, if there can be such a thing, may lack sufficient interest from Congress. Yet, the same charities, BBF included, would still come to the aid of those in need. The issue then becomes one of limited resources. These new tax incentives are only temporary. They will create little long-term improvement in the capacity of charities to provide services.

Major Hood, Mr. Hingson, & Dr. Reccord, as you know, the finance committee is looking at a number of proposals that are aimed at getting the bad actors out to the charitable arena. I assume that you are familiar with many of these proposals. Could you please comment on which proposals you feel would be most effective.

**Response:** BBF is aware of the Senate Finance Committee focus on eliminating fraudulent actors from the charitable sector. This is an issue that is of great interest to us as well.

As far as which of the Committee's proposals I would consider "most likely to be effective". The term "effective" can not be used in the absence of full consideration of the consequences of the Committee's proposals.

While the intended consequences may achieve the desired goal of eliminating bad actors from the charitable sector, the unintended consequences of these proposals are potentially devastating to many legitimate actors. In too many cases, the increased burden could be so onerous as to undermine the charity's ability to function. In its effort to root-out bad behavior, this Committee must not obstruct the ability of honest hard-working and well-intentioned charities from providing essential services.

With respect to how the Committee might discourage the "bad actors" in the charitable sector. For medical donations, a proposal offered in the House several years ago might merit consideration: it would disallow tax deductions for pharmaceutical donations that do not meet the Guidelines on Drug Donations of the World Health Organization, endorsed by PQMD and others. These guidelines ensure that drug donations are appropriate, that they reach patients long before expiration, and that they are handled in a safe and professional manner.

The fact is that only a small number of charities are actually engaged in abusive conduct. Most of these cases could be eliminated through more effective enforcement of existing laws. Of what benefit is enacting additional laws if the existing enforcement arm can not administrate the existing laws? The real problem is the lack of sufficient funding for enforcement of existing laws.

Another recommendation that I would offer would be to improve federal coordination with state oversight agencies. The sharing of information between states would leave these bad actors fewer places to hide.

Mr. Hingson – as Senator Santorum stated earlier, your organization is amazingly efficient- as very small amount of your budget is spent on administrative costs. Can you address how your charity achieves such efficiency? What can other charities do to achieve similar results?

**Response:** In 2004, BBF's reported gross receipts of over \$253 million. BBF takes great pride in the fact that its fundraising and administrative costs are generally well below 1% of overall program expenses. BBF also takes pride in the fact that our fundraising expenses are a very small part of our cash income (less than 6% in 2004). This is not always the case with other gift in kind charities. While this is certainly a credit to BBF's tireless work and achievement, these numbers are due in-part to the specific nature of BBF's operation. BBF reports substantially large gross receipts because it receives a substantial portion of its gross receipts as gifts in-kind from corporate and private donors. Once corporations that provide gift in kind donations decide that they trust the receiving charity and the charity's distribution system, it does not require significant charity resources to maintain the relationship with the donating corporations. On September 13, I testified before this Committee that the total value of donated goods that BBF had raised for the hurricane Katrina relief effort exceeded \$1.6 million. This figure now exceeds \$4.2 million. The bulk of these charitable gifts were donated by corporations.

As a result, I believe that BBF is only a replicable model for charities that perform the same function as BBF. On the other hand if more charities were involved with the distribution of gifts in-kind, then the BBF model would be replicable.

Testimony of Major George Hood,  
National Community Relations Secretary  
The Salvation Army

Before the Senate Subcommittee on Social Security and Family Policy  
September 13, 2005

Good morning, Mr. Chairman.

At the outset, I'd like to extend my thanks to you and Senator Conrad for inviting The Salvation Army to testify at this hearing. We're delighted to have this opportunity to tell you about the services we provide to those in need and also to be able to comment on the merits of the CARE Act.

**The Salvation Army**

Mr. Chairman, The Salvation Army is a part of the Universal Christian Church. Our mission – our fundamental purpose – is to provide aid and comfort, without discrimination, to those in need.

We are active across the country. Indeed, the Army has a presence in more than 5,000 communities in the United States – either through Corps service centers or a network of volunteers known to us as service units.

Services are delivered by 5,000 uniformed officers, 135,000 lay members, 65,000 employees, and by the three-and-a-half million Americans who volunteer their time, energy, and compassion to those in need.

More importantly, because these dedicated people have first-hand knowledge of their individual communities, we are able to efficiently deliver services that meet, significant social, emotional and spiritual needs that are ever present in the cities and towns where we live and work. Our daily presence in communities across

the land has undeniably proven to be one of the Army's key organizational strengths.

Most of our work is performed beyond the spotlight of television cameras. Each and every day of the year, we are serving the poor, the hungry, the lonely, the forgotten – people whose lives generally are in profound crisis. Our primary objective is to give people hope where all may seem lost, and last year, we delivered hope to some 34 million Americans through our core social services that include programs providing help to the drug addicted, the homeless, abused women, low income seniors and at-risk youth.

We are also moved, by our faith, to provide for those who are stripped of shelter and sustenance by a disaster. Last year we assisted nearly 4 million disaster victims, including the tens of thousands impacted by the hurricanes that ravaged Florida and the Gulf Coast.

And to provide you with a brief overview of our work to date across the Hurricane Katrina impact area, The Salvation Army has provided more than 1 million hot meals from 100-plus mobile kitchens, and Mr. Chairman, we have deployed from Pennsylvania, eight teams of Army staff operating eight of those feeding units capable of serving 55,000 hot meals a day. We also have assisted nearly 40,000 sheltered survivors and we are working shoulder-to-shoulder with local, state and federal response agencies, preparing for the next phases of assistance to the many thousands affected by this storm. What began as a three-state response has now expanded into at least 30 states, and it's growing daily.

#### **Role in Disaster Response**

From the news coverage of the relief effort now under way along the Gulf Coast, it is apparent that a number of charitable organizations have responded to the call for aid. This is not an unusual situation; there are several charitable

organizations, including The Salvation Army, that routinely provide assistance to disaster victims.

Each of these organizations is known among the disaster response community for having a particular set of skills or assets to bring to bear on a particular disaster. Let me be clear on this point: I do not know of any single charitable organization that, on its own, is capable of providing the full range of disaster response services that is usually required to put communities back on their feet as the result of a natural disaster.

As a result, charitable organizations routinely coordinate our activities with one another as well as with official government emergency management agencies.

The Salvation Army has been at the site of every major natural disaster in America for more than a century, and we have developed the following areas of expertise in disaster response: mass feeding to survivors and emergency responders immediately after the disaster has occurred; sheltering those affected while we tend to their spiritual and emotional needs in the immediate aftermath of the disaster; and then, the continuation of social service assistance to ensure that the survivors have the means necessary to move back into some semblance of routine they knew before disaster struck.

**Mass Feeding:** In the case of Hurricane Katrina, The Salvation Army mobilized canteens – mobile kitchens – throughout the region that moved into New Orleans, Biloxi, Gulfport, Mobile and numerous other communities hours after the storm had past. In some areas, we were the first opportunity for survivors to obtain food and water.

**Shelter:** The Salvation Army also provides shelter for storm victims. In the case of Katrina, the Army has already opened 225 shelters in 11 states, which are now housing more than 31,000 people.

**Spiritual and Emotional Care:** The Salvation Army provides spiritual comfort and emotional support to disaster victims and emergency workers coping with the stress of a disaster. At the World Trade Center site, for example, one of the most critical missions of The Salvation Army was counseling firefighters, police, and morgue workers who were struggling with the enormity of the tragedy. In fact, we are providing this care now – to those in the Gulf region and to those who have been moved to other communities across the country.

**Long-term outreach to survivors:** For 365 days each year, The Salvation Army responds to people in crisis, whether it be physical, emotional or spiritual. Their lives are broken in some manner and they turn to us for help. When disaster strikes, our clients' problems magnify, and add to that, the lives of many others who are impacted by disaster, requiring the Army's case management support – essentially tending to the needs of survivors well-beyond the impact of a storm, or fire, or earthquake, or terrorist attack.

#### **An Established and Extensive Infrastructure**

Mr. Chairman, the key to The Salvation Army's ability to respond quickly and on a large scale is our decentralized infrastructure. By that I mean:

- Our physical assets across the country – buildings and equipment
- Our people – officers, employees and volunteers in 5,000 communities
- Our donors

Our focus is people in the field and not at a centralized headquarters. The Salvation Army can mobilize in a disaster quickly. Let me dwell on this point for just a moment. Last week, hours after Biloxi was devastated by Katrina, The Salvation Army's officers, staff, and volunteers had already set up a temporary

facility and were busy helping their neighbors, while colleagues were being sent from across the country to lend a hand.

And perhaps even more compelling is the story of what occurred at our New Orleans operations, called the Center of Hope. Senators, it was the last bastion for 290 people, including four on dialysis and 14 children ranging in ages from 4 to 11 years old. None of these people were able to evacuate -- some did not have the economic means, some lacked transportation and some were too sick to travel. They literally had no place else to go and the officers in charge of the Center opened it to serve their fellow citizens.

The two Salvation Army officers assigned to manage the Center of Hope kept themselves and those in their care alive, awaiting rescue from the upper floors of the two-story building that had been surrounded by flood waters, in stifling heat. Rescue finally came by Coast Guard and National Guard personnel, six days after Katrina arrived – two days after the food in the Center was gone and as water was being rationed.

That story, though, exemplifies one of the central reasons the Army is uniquely positioned to respond under such difficult conditions. We were already there – in New Orleans – with people and facilities ready to help. Those efficiencies built into our system, we believe, are among the reasons we are prepared to move so quickly, and from a financial standpoint – so efficiently.

In addition to our human resources and physical assets, our donors play an essential role in the delivery of services to those in need. In fact, there is a direct correlation between the generosity of donors and the extent of The Salvation Army's ability to respond to people in crisis.

**The CARE Act**

And that correlation, Mr. Chairman, is why The Salvation Army is so supportive of the CARE Act.

The provision allowing non-itemizers to deduct charitable contributions can only encourage those Americans with smaller incomes – including young professionals who might otherwise be inclined to begin a lifetime of annual giving – to contribute to worthy causes. We do not discriminate among those in need, and we ask the Congress not to discriminate in providing tax incentives for charitable giving.

The Salvation Army is particularly interested in the IRA rollover provision. We are fortunate that some of our donors are willing to share the fruits of their life's labor with us. We've found that many people, including the wealthiest of Americans, have used IRAs to set aside funds for retirement. It is frustrating to us to see potential gifts sharply reduced by the requirement that the IRA be vacated and a tax penalty applied to the proceeds. Penalizing a charitable gift is simply inconsistent with our long-established tradition of encouraging voluntary, private donations to worthy causes.

I want to digress for just a moment. The nonprofit sector, in cooperation with the federal, state and local governments, have truly stepped up in light of these tragic human events. When you have a sector take on so much, it seems that it is probably not the right time to move to further regulate this sector. Many nonprofits have moved quickly – sometimes more quickly than governments – to meet the needs of the hurricane victims. Many are working in difficult circumstances without power, without modern conveniences such as computers and email. So adding new regulations and additional paperwork burdens may not be the most timely response, whereas moving to ensure that individuals and corporations that have poured out their generosity to assist us in meeting these



needs get credit in the form of tax relief might be a more timely piece of legislation.

What some may not know is that as part of our core services we offer a drug rehabilitation program that receives no federal funding. The Salvation Army funds that critical service through the sales from our thrift stores – sales that are dependent on the generous contributions of our donors. So for example, if changes are adopted that lessen the incentive for families, particularly the low- and middle-income families, to contribute household goods for our stores or to cap the amount of contributions of these individuals, then the individuals who may lose are those that are seeking drug treatment but have to wait longer for us to raise the funds to services. These services are needed sooner and in more places. We do not believe that the federal government should be pursuing policies that restrict the ability to support these essential services.

The Salvation Army appreciates your work on this bill, Mr. Chairman, and for all the energy that has been put forth to expedite the movement of this bill through the legislative process. On behalf of all charities and donors, we are hopeful that this bill will soon be approved.

This concludes my testimony and I am grateful for this opportunity.



DOING THE MOST GOOD®

FROM THE OFFICE OF  
MAJOR GEORGE E. HOOD

October 1, 2005

Senator Charles E. Grassley  
Chairman  
United States Senate Committee on Finance  
219 Dirksen Senate Office Building  
Washington, DC 20510

Dear Senator Grassley:

It was my privilege to be a part of the Subcommittee on Social Security and Family Policy of the Senate Committee on Finance in testimony given on Tuesday, September 13, 2005. We are appreciative of the work being done and the support you personally have for the non profit sector and the service provided the American public by the entire sector.

As a follow-up to my testimony you have asked that I answer a few additional questions. I am happy to do so, and will respond by stating the question and then providing my response as follows:

**Questions From Senator Grassley**

**Q1:** Assuming existing laws and regulations are not modified, how would you propose the IRS efficiently and effectively combat the "parking of assets" in supporting organizations and donor-advised funds which is currently legal? The parking of assets refers to the donation assets, often illiquid, to facilitate large charitable deductions for the donor with little, if any, monies actually going to help those in need.

**R1:** While The Salvation Army understand that there are donors who reportedly give to charities through the use of supporting organizations and donor-advised funds, The Salvation Army has no direct relationship to such organizations or funds. Furthermore, it neither encourages nor discourages donors to give through or utilize such vehicles for their charitable giving. Such vehicles are not particularly relevant as a meaningful source of support to the work of The Salvation Army.

The concept of "parking of assets" of illiquid assets is not helpful, however, when considered within the broader scope of how colleges and universities and many charities with institutional programs of size are supported. Real property holdings are "illiquid" but may produce income to support charitable programs, as would dividends from stocks and bonds. Donated art works may be held for educational uses and purposes or sold after a legally required holding period so the charity can realize value for charitable purposes. Some of the recurring cost of Salvation Army programs is paid from the income derived from donor restricted endowment funds that support a specific charitable purpose. The Army has never considered charitable giving through endowments inappropriate, as there is an immediate and regular charitable benefit that helps those in need.

The Salvation Army, USA National Headquarters, 615 Slaters Lane, Alexandria, Virginia 22313, phone 703.684.5500  
DONATE AT 1.800.SALARMY OR WWW.SALVATIONARMYUSA.ORG

There are two points to bear in mind concerning the donation of goods in-kind. These are (1) that the donor bears the burden of proof to satisfy the IRS regarding a bona fide value of donated goods on which the donor takes a charitable deduction, and (2) the donor must pass actual control of the goods to the charity. The charity then takes responsibility for the donated goods to see that the organization's charitable purpose can be advanced as a result of using or selling the donated goods. We understand the IRS concern for donor-advised funds has properly focused on the issue of who is in actual control of the donated asset. We think this is appropriate.

**Q2: Assuming existing laws and regulations are not modified, how would you propose the IRS combat the playing of audit roulette with valuation of assets donated to charity? It would seem that better enforcement would require IRS to conduct more audits of individual taxpayers. Yet, the threat of audit does not sufficiently deter taxpayers from overstating valuations. Moreover, auditing such taxpayers only results in wasted IRS resources as many of these taxpayers are willing to challenge the IRS through administrative appeals and litigation, often times outspending the IRS.**

**R2: The Salvation Army understands that donors, not the charitable organizations whose purposes are the object of the charitable donation, are responsible for establishing the bona fide value of donated goods. In response to this question, it would seem that this question should be directed to the Internal Revenue Service since it would be in the best position to assess its audit capabilities of all or some of the taxpayers who declared on their annual income tax return that they took a charitable deduction for charitable contributions of in-kind or non-cash goods. We do believe that if the burden of proof for valuation is placed upon the shoulders of the charity that the resulting administrative costs assumed by the charity will have a negative impact upon the charity's ability to fulfill its primary mission without adding to administrative overhead.**

**Q3: Mr. Steuerle used the example of vehicle donations as an example of inefficient giving. He stated that a \$1,000 car donation resulted in \$900 advertising expense with only \$100 going to the charity while it cost the government \$300 for allowance of the deduction. Do you believe that such charitable fundraising activities and abusive valuations on the part of individuals are acceptable in light of the cost to the government?**

**R3: The Salvation Army benefits significantly from donations of used vehicles, and believes that Congress implemented effective measures to stem abuses in this area by the enactment of Section 170(f)(12) of the Internal Revenue Code as part of the American Jobs Creation Act of 2004. In contrast to the example provided by Mr. Steuerle, where the charity received the benefit of only 10% of the proceeds from the sale of the donated vehicle, The Salvation Army has realized substantially higher benefits from vehicle donations as measured by the percentage of the sales proceeds that is ultimately available for the religious and charitable programs of The Salvation Army. For example, The Salvation Army Adult Rehabilitation Center in Northern Virginia has benefited from used car donations by realizing in excess of \$1 million in sales revenue in the 2004 fiscal year.**

**Questions From Senator Bunning:**

**Q1: Major Hood, Mr. Hingson & Dr. Reccord, over the past few weeks we have been hearing heroic stories about the work of the charitable community in the Gulf region. We also have heard some stories about the enormous aid that some members of the corporate community have been providing to hurricane victims. Could you comment on how your organizations have coordinated with the corporate community to provide aid to victims?**

**R1: If there is any single lesson learned from Katrina and Rita this year it is the reality that no single organization can stand alone. There must be more collaboration with government, between NGOs and in pre-planned partnerships with corporate America. We have been humbled by the outpouring of concern by the individual Americans who want to make donations and**

volunteer. The demonstration of support has been far beyond anything we have experienced in our 125 year history in America. Critical to our ability to respond quickly and effectively has been the support of Wal-Mart – a corporate partner; and the Lilly Endowment – a philanthropy partner. Both are always anxious to respond providing us with cash for the early response and a supply chain that keeps us going with critical food, water, clean-up supplies and clothing for victims.

**Q2: Major Hood, Mr. Hingson & Dr. Reccord, I assume that you all have seen the outline of the proposal for temporary tax breaks intended to help the hurricane victims that was unveiled by chairman Grassley yesterday. Could you comment on that package? Is there any proposal that you feel was not included that would be particularly helpful to the hurricane victims or those organizations that are providing assistance to them?**

**R2:** Congress has passed legislation giving tax relief to victims of Hurricane Katrina. The beneficiaries of this legislation are persons who have suffered severe personal loss and who will rebuild their lives with the support and encouragement that is provided from such forms of outside assistance. We believe that periodic assessment of need will help Congress fashion additional remedies suitable for the rebuilding of the devastated area. The Salvation Army has consistently been a supporter of the Care Act and we would hope that much of what has been proposed in that initiative would eventually be passed.

**Q3: Major Hood, Mr. Hingson & Dr. Reccord, as you know, the finance committee is looking at a number of proposals that are aimed at getting the bad actors out of the charitable arena. I assume that you are familiar with many of these proposals. Could you please comment on which proposals you feel would be most effective?**

**R3:** There are new state laws regulating the efforts of professional fundraisers. Such a law in California targets those fundraisers who handle or directly receive the money donated by the public in response to a charitable solicitation. Such laws should help reduce the incidence of fraud if the enforcement effort is adequately funded. The federal government has an interest in the success of the states' efforts to assure that the purposes to which tax exempt charitable organizations are dedicated and the public trust in the charitable assets is protected and not abused by interstate fraud, by misappropriation of charitable contributions, or unauthorized use of their name, often a service mark protected by federal law.

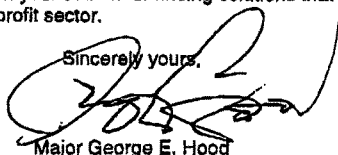
Another area that should be considered is whether persons are abusing the law of nonprofit organizations by organizing and qualifying such organizations under IRC Sec. 501(c)(3) without ever intending to meet the "public support" test. By failing to meet the "public support" test, the charity has the character of private philanthropy and not truly an extension of the public trust, serving publicly recognized charitable purposes. The law now requires tax exempt charities to have not less than fifty percent of their revenue from sources that meet the definition of public support. New charities need time to build infrastructure to serve their declared public purposes. They may depend initially on large single source gifts to become established. Therefore, for a period of time, the IRS could expressly allow single source gifts, including foundation grants, to be received, subject to a reasonable excise or transaction tax, enabling the organization to depend on such gifts without threat of loss of exempt status. After a reasonable period of time, the organization would be on notice that the public support test would thereafter be strictly applied and the failure to meet the test would be cause for loss of tax exempt status or reclassification to private foundation status. For example, at the end of five years, all new organizations could be required to file Form 990 regardless of the amount of gross revenue, showing whether they had met the public support test in year five. The IRS would then be able to determine whether or not the organization would continue to be recognized as tax-exempt.

**Q4: Major Hood, you spoke about the value of donated used goods to your group. You also expressed concern about potential limits on deductions for donated goods. Do you have any suggestions about what this committee can do to eliminate abusive deduction claims without stifling the contributions that your group depends on?**

**R4:** The question is of importance to The Salvation Army as the public donates a significant amount of goods to support the charitable services The Salvation Army provides to the needy. The Salvation Army appreciates this support because it enables the services it provides to the poor and needy. On the other hand, it does not condone tax fraud perpetuated by anyone through an overvaluation of donated goods declared on an income tax return. Taxpayer responsibility includes the importance of honesty in self-reporting all the information provided on tax returns and declaring the same to the government under penalty of perjury. We are not opposed to a cap of \$500 per donor on gifts of this nature, but we also believe that the responsibility for reporting and defending donations claimed at any level should remain with the donor. What we already provide is a valuation guide that is in print and can be accessed via our web site.

Once again I thank you for the opportunity to be a part of this process. I trust that the information provided will prove helpful to you in your search for finding solutions that are in the best interest of the American public and the non profit sector.

Sincerely yours,

A handwritten signature in black ink, appearing to read "George E. Hood", written over the typed name below.

Major George E. Hood

NATIONAL COMMUNITY RELATIONS SECRETARY

Testimony of Robert E. Reccord, President  
North American Mission Board of the Southern Baptist Convention  
Before the Senate Finance Committee's  
Subcommittee on Social Security and Family Policy  
Charities on the Frontline: How the Nonprofit Sector Meets the Needs of  
America's Communities  
September 13, 2005

Good Morning Chairman Santorum and Ranking Member Conrad. Thank you for the opportunity to testify today before your Committee. I'm Robert E. Reccord, President of the North American Mission Board. We are the domestic missions agency of the Southern Baptist Convention, cooperatively funded by more than 42,000 churches across America, and interested supporters of The Care Act because of the multiple ministries and services we provide.

We help local congregations to share the Gospel of Jesus Christ, start churches, enable volunteers to serve others across the North American continent, send missionaries, strive to redemptively influence our culture, and equip leaders.

One of our assignments is to coordinate disaster relief efforts by Southern Baptists. The North American Mission Board partners with The American Red Cross, the Salvation Army and FEMA in responding to major disasters. We represent the third-largest disaster relief corps in the nation. Last year during the hurricanes in Florida, we served over 2.4 million meals and repaired over 8,000 homes through clean-up and recovery. Right now, more than 5,000 of our trained volunteers are serving 46 communities devastated by Hurricane Katrina.

Traveling as state-based teams, these dedicated volunteers have made their way to the Gulf Coast from Pennsylvania, Kentucky, Utah, Tennessee and 29 other states. The Pennsylvania team, joined by colleagues from New Jersey, is cooking meals and cleaning up debris in Biloxi, Mississippi, one of Katrina's most devastated areas.

Our strong suit as Southern Baptists seems to be food. The American Red Cross has tapped Southern Baptist Disaster Relief to prepare 250,000 meals each day for hurricane victims. Since Katrina struck, our volunteers have cooked and served almost 2.2 million hot meals for hurricane victims. They are also providing hot showers, laundry units, clean-up and recovery services, and chainsaw crews to clear away fallen trees. A daily update and webcast of our response efforts appears at [www.namb.net](http://www.namb.net).

Last week, I saw first-hand stunning devastation in Covington, Louisiana. Many people who came to our feeding station there have lost literally everything – even hope. I listened to one lady tell me about her harrowing escape from

downtown New Orleans just after floodwaters breached a levee. Each person I met had their own remarkable story.

Last week, I was honored to be one of eighteen relief leaders invited to meet with the President at the White House. He greeted us by thanking all of those we represented for being "Ambassadors of Hope in a seemingly hopeless situation." Southern Baptists count it a privilege to field competent, compassionate "ambassadors of hope" who are giving a cup of cold water in the Master's name while extending hands, and hearts, of comfort. And by the way, we give freely to anyone in need, not just members of our denomination.

The North American Mission Board, through an effort called Houses of Hope, is connecting churches and their members with people displaced by the hurricane. Literally thousands of evacuees are being sheltered right now in Baptist churches and encampments in Arkansas, Oklahoma, Texas, Tennessee, Indiana, Georgia and Alabama. Many of them know they will never return to their homes.

In the past, Southern Baptists have helped resettle hundreds of refugees from Cuba and Vietnam. Now, we face the sobering challenge of caring for and resettling thousands of fellow Americans whose city is uninhabitable.

To help get local caregivers back on their feet, the North American Mission Board is inviting churches across the country to adopt one of the 480 congregations gravely impacted by Katrina. Many of these churches have lost not only their building, but the pastor's home and much of their community. The response has been encouraging.

It seems appropriate that the Bill before this Committee today, Title III of S. 6, is entitled the "Care Act." I wish to speak in support of this bill and I urge you to favorably consider it.

This is an unprecedented time for America. In the wake of 9/11 and the current, catastrophe, many Americans have stepped up to help their fellow citizens with their time, talent and treasure. As the community of faith called Southern Baptists, we are called to love others. From our faith flows the impulse to cook meals, dry tears, do laundry and provide comfort for hurting people.

The provisions of S.6 provide modest tax benefits for those who choose to give charitably. We support any effort by the federal government that encourages people to give, because this rewards generosity and resources organizations that are on the front-lines of need. Providing a tax break here – or lifting a cap there – is wise public policy when the net result helps people to help people.

The original language of S. 6., authored by Chairman Santorum, leads us in this direction. The Care Act:

- Provides 83 million Americans who don't presently itemize the opportunity to deduct part of their charitable contributions. This will encourage giving by two-thirds of American taxpayers!
- Offers incentives for individuals to give tax-free contributions from their Individual Retirement Accounts to charities. Diverse entities ranging from soup kitchens to universities would benefit from this provision.
- Provides incentives that will yield an estimated \$2 billion worth of food donations from farmers, restaurants, and corporations to help those in need. America's Second Harvest estimates that this is the equivalent of 878 million meals for hungry Americans over 10 years. Last year, the North American Mission Board helped provide 3 million meals to hungry people. We are now feeding hurricane victims 250,000 meals each day. We believe this provision will help fight hunger in our nation.
- Allows 300,000 low-income, working Americans the opportunity to build assets through matched savings accounts to purchase a home, expand their education, or start a business. This type of program can greatly leverage tax dollars. The North American Mission Board is already investing strategically in New York, Miami, New Orleans and Cleveland to elevate people economically as well as spiritually. This provision will give charities such as NAMB an additional way to multiply the impact of our investment in low-income communities.
- Provides \$150 million per year for a Compassion Capital Fund to assist small community and faith-based organizations with technical assistance to expand their capacity to serve.
- Provides incentives for corporate charitable contributions and the contributions of books.

Allowing millions of non-itemizers the opportunity to deduct their charitable gifts is the right thing to do. It's also a wise policy choice because it recognizes and fosters a giving impulse among younger taxpayers, and encourages charitable lower and middle-income taxpayers whose incomes do not allow them to itemize.

We likewise support tax-free donations of IRAs by people over the age of 70.5. Billions of dollars residing in these IRAs can be allocated by citizens to fuel armies of compassion across our land. Many older Americans want to



experience the joy of making a difference by giving, and this provision provides them that opportunity.

As an organization providing millions of meals each year to hungry people, we support provisions that will facilitate more food donations and help feed the needy.

We applaud the Bill's provision allowing corporate deductions for charitable donations to be increased. Although the corporate world has seemed reluctant to catch the President's vision of "a level playing field" for secular and faith-based charities, any tax law that rewards corporations for being good citizens makes economic and ethical sense.

We oppose linking "charitable reforms" to the Care Act. Charities should operate within the letter and the spirit of the law. This is a legal and moral imperative. Those who do not follow the law should face the legal consequences. However, many of the new reporting requirements proposed as "charitable reforms" would divert dollars from helping people to complying with federal regulations. It is not wise public policy to burden our caring sector with expensive new requirements at a time when fuel costs are soaring and a major disaster has struck our nation.

Thank you for this opportunity to testify. Sixteen million Southern Baptists stand ready to do all that we can to encourage giving and caring in this great nation of ours. I am happy to answer any questions you may have.



*NORTH AMERICAN  
MISSION BOARD*

Robert E. "Bob" Reccord, *President*  
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VIA FAX: 202-228-1703

October 13, 2005

Honorable Charles E. Grassley  
Chairman  
United States Senate  
Committee on Finance  
219 Dirksen Senate Office Building  
Washington, DC 20510-6200

Dear Senator Grassley:

Thank you for your letter of September 19 and for the privilege of testifying before the Subcommittee on Social Security and Family Policy of the Senate Committee on Finance on September 13, 2005.

As you have requested, I am sending copies of this letter to Mr. Nick Wyatt via fax and e-mail. The questions you and Senator Bunning posed are included herein.

**QUESTIONS FROM SENATOR GRASSLEY:**

**Question 1: "Assuming existing laws and regulations are not modified, how would you propose the IRS efficiently and effectively combat the 'parking of assets' in supporting organizations and donor-advised funds, which is currently legal? The parking of assets refers to the donation assets, frequently illiquid, to facilitate large charitable deductions for the donor with little, if any, monies actually going to help those in need."**

The North American Mission Board (NAMB) does not maintain a supporting organization nor a donor advised fund. However, we appreciate the concern you have raised regarding the 'parking' of assets. The in-kind assets we receive can be immediately used, such as food and building materials, or can be quickly converted to fulfill our charitable purposes.

We are not aware of any 'parking' of assets within organizations we relate to, and are grateful for the significant gifts we have received from donor advised funds. NAMB does not accept contributions of illiquid assets that cannot be used for our exempt purposes because it is our understanding that receiving these type of gifts is inconsistent with our tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

We urge caution in adopting legislation that might restrict legitimate charitable uses of donor advised funds and supporting organizations without careful analysis demonstrating that significant private inurement is occurring.

**Question 2: "Assuming existing laws and regulations are not modified, how would you propose the IRS combat the playing of audit roulette with valuation of assets donated to charity? It would seem that better enforcement would require IRS to conduct more audits of individual taxpayers. Yet, the threat of audit does not sufficiently deter taxpayers from overstating valuations. Moreover, auditing taxpayers only results in wasted IRS resource as many of these taxpayers are willing to challenge the IRS through administrative appeals and litigation, often times outspending the IRS."**

We agree with Senator Santorum that more money should be invested in the enforcement of existing tax laws instead of creating new laws. We would question any measures that limit established charitable giving avenues. The recent hurricane recovery efforts have underscored the importance of in-kind donations to help people in need.

**Question 3: "Mr. Steurle used the example of vehicle donations as an example of inefficient giving. He stated that a \$1,000 car donation resulted in \$900 advertising expense with only \$100 going to the charity while it costs the government \$300 for allowance of the deduction. Do you believe that such charitable fundraising activities and abusive valuations on the part of individuals are acceptable in light of the cost to the government?"**

We do not favor nor condone abusive over-valuations of in-kind gifts. However, we are not aware of any broad studies revealing a pervasive pattern of over-valuation of donated vehicles.

Decisions regarding which fundraising methods best advance the exempt purposes of an organization carry important First Amendment implications. We believe these choices should rest with the charity, who must ensure their funds are used exclusively for tax-exempt purposes.

#### **QUESTIONS FROM SENATOR BUNNING:**

**Question 1: "Major Hood, Mr. Hingson, and Dr. Reccord, over the past few weeks we have been hearing heroic stories about the work of the charitable community in the Gulf region. We also have heard some stories about the enormous aid that some members of the corporate community have been providing to the hurricane victims. Could you comment on how**

**your organizations have coordinated with the corporate community to provide aid to victims?"**

Our volunteers in the Gulf Coast are aware of laudable efforts by many corporations to help both hurricane victims and first responders. One example is Georgia Pacific Corporation that sent a feeding team to Diamondhead Baptist Church in Diamondhead, Mississippi to cook for our volunteers receiving and sorting cleaning supplies, baby food and canned goods for relief work. Georgia Pacific also donated a truckload of paper products to assist mud-out operations in Diamondhead.

As you are aware, utility repair teams from across the nation are in the Gulf Coast region. Many of these have worked hard to restore and maintain power and communications at locations where our feeding and recovery units are located. The response and assistance by these corporations has been exemplary.

**Question 2: "Major Hood, Mr. Hingson, and Dr. Reccord, I assume that you all have seen the outline of the proposal for temporary tax breaks intended to help the hurricane victims that was unveiled by chairman Grassley yesterday. Could you comment on that package? Is there any proposal that you feel was not included that would be particularly helpful to the hurricane victims or those organizations that are providing assistance to them?"**

It is my understanding that this package has since passed Congress and was signed by the President. We are happy to serve as a resource to anyone in Congress as we recover together from the catastrophic impacts of Hurricanes Katrina and Rita.

**Question 3: "Major Hood, Mr. Hingson, and Dr. Reccord, as you know, the Finance Committee is looking at a number of proposals that are aimed at getting the bad actors out of the charitable arena. I assume that you are familiar with many of these proposals. Could you please comment on which proposals you feel would be most effective?"**

While many of these proposals are very detailed, I believe it is most effective to improve enforcement, increase transparency and help charities be more accountable to their donors rather than to the government. Our nation urgently needs a strong charitable sector at this moment, and I do not think it is wise to go fishing for the guilty in the pond of the innocent.

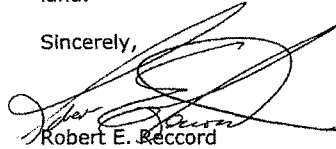
**Question 4: "Dr. Reccord, in your testimony you talk about how your organization partners with Red Cross, the Salvation Army, and government agencies to respond to major disasters. Can you talk to us about that partnering and how the coordination takes place?"**

The North American Mission Board partners with the American Red Cross, The Salvation Army and The Federal Emergency Management Agency of the Department of Homeland Security through memoranda of understanding. These agreements identify in advance the protocols, roles and expectations that trigger and govern our joint response to natural and man-made disasters. They promote efficiencies by avoiding duplication and playing to our respective strengths.

For example, Southern Baptist Disaster Relief has great competence in mass feeding. Accordingly, the American Red Cross delegates to us major responsibility for feeding in federally declared disaster areas. The Salvation Army and the American Red Cross have strong experience in operating emergency shelters. Southern Baptist Disaster Relief defers to their expertise in this area. In addition, the Red Cross and FEMA have invited us to place a representative in their headquarters in Washington, DC to facilitate the coordination of our efforts.

Thank you again for this opportunity to contribute to our important national dialogue on the role of charities and their supporters in healing and building our land.

Sincerely,



Robert E. Reccord

**Statement for “Charities on the Frontline: How the Nonprofit Sector Meets  
the Needs of America’s Communities”**

**Sen. Rick Santorum**

**Chairman of the Subcommittee on Social Security and Family Policy  
Senate Finance Committee**

**September 13, 2005**

Good morning. Today we are here to discuss a topic close to my heart – the role of the charitable community in meeting the needs of our communities. I had originally planned this hearing to discuss the need for charitable giving in our country prior to Hurricane Katrina slamming the Gulf Coast, but I am now more convinced than ever that while we are asking so much of our nonprofit community we should do all we can to ensure that they have the resources to meet the diverse needs of both the hurricane victims and those in our communities throughout the nation that depend on them. I know that charities throughout this country work day in and day out to transform the lives of individuals, families, and communities, but rarely has their compassion and comfort been on such stunning display as in their incredible response to those affected by Hurricane Katrina.

I believe strongly that the philanthropic, generous nature of Americans is a big part of what makes America a great nation. Neighbors helping neighbors, those blessed with financial resources and talents walking alongside and learning from the least of these in our communities. In responding to the current tragedy, these social entrepreneurs have demonstrated the agility, flexibility and innovative thinking that has stood in such stark contrast to the bureaucratic response from all levels of government.

We have seen organizations such as America’s Second Harvest and the Florida Boulevard Baptist Church feed the hungry. We have seen that within 48 hours of Katrina, the nation’s fraternal benefit societies were feeding, housing, and providing supplies, clothes, toiletries, cash and beds to those in need in shelters both in Houston and in New Orleans. During the first week of this effort, fraternal had already expended upwards of \$14 million on hurricane relief, a sum which is expected to increase as these efforts broaden. We see community foundations, such as the Baton Rouge Area Foundation, literally saving people’s lives. They helped Louisiana State University open a field hospital for 1,000 people in an old Kmart. And we see national organizations such as the YMCA of the USA providing program services such as emergency child care, recreation, and grief counseling. The YMCA has provided showers and other physical comforts and opened up their facilities as staging areas for relief, recovery and clean-up efforts. And the list goes on and on and on.

For years I have been working with Senator Joe Lieberman and this Committee on a broad package of incentives to encourage charitable giving through the Charity Aid, Recovery, and Empowerment Act (CARE Act). The CARE Act includes incentives for non-itemizers, IRA charitable rollovers, food donation incentives, and corporate giving incentives. In the 108<sup>th</sup> Congress, the CARE Act passed the Senate by a vote of 95-5. The House of Representatives

passed companion legislation, the Charitable Giving Act, H.R. 7 by a vote of 408-13. Tragically for those in need, the bill was chosen as the first bill to not be allowed to go to conference after passage by both chambers and thus prevented from becoming law in the last Congress.

The CARE Act is currently included in S. 6 in the 109<sup>th</sup> Congress. The recently passed Senate Budget included an amendment that I offered to reflect our ongoing support for completing this important package. With the urgent needs being faced by charities in both the affected areas and across the country, I call on my colleagues to expedite the consideration of this bill so we can ensure that charities have the means in both the short term as well as the long term to meet the needs of our communities.

We all know that the recovery from this disaster will not come quickly, so we should not take a path that assumes the need for assistance from the nonprofit sector is short-term. Although there was a surge of giving after both the 9/11 tragedy and the Asian tsunami, much of that giving was targeted at larger international organizations at the expense of some of our smaller, local charities that provide vital services such as domestic violence shelters, soup kitchens, after-school tutoring and mentoring programs, and drug rehabilitations services. As we respond to these needs we must choose to pursue a long-term response rather than succumbing to the politically desirable short-term fix. There are more than 1.2 million charities in this country, most of whom are small, focus primarily on their mission and struggle to make the best use of their limited resources. If we fail to do this now, we may find that in the years to come the organizations meeting the social services needs for the most vulnerable in our communities are still searching for the necessary funding when we could have been part of the enduring solution.

Although the topic of today's hearing is charitable giving, there remains the specter of a series of proposals that would collectively require the charitable community and its donors to bear a significant burden for dubious public benefit. There are enough laws on the books to ensure that donors are protected -- the question is enforcement. And an analysis of the alleged abuses presented as part of the June 2004 hearing of the full Committee found that 92 of the 94 cases were all covered under current law. In other words, current law, regulations and reporting requirements already covered the concerns raised in almost every instance.

Nonetheless, we all agree that we want to discourage inappropriate behavior by those who may seek to abuse the public's trust. In the last two years we have seen that the IRS has significantly increased its enforcement in the area of nonprofits. What we have not seen is whether that effort has reduced the need to legislatively address the concerns that have been raised by some on this Committee. I believe that we should work to ensure that the IRS has a robust enforcement process, including ensuring that the excise taxes collected to support the IRS enforcement in the nonprofit sector are actually used for that purpose and adding resources for enforcement as needed. In my opinion, we should not be moving to amend the laws until it is clear that the current laws are not working. Further, there is and has been aggressive enforcement at the state level. In my home state of Pennsylvania, the Attorney General's office works closely with the Pennsylvania Association of Nonprofit Organizations to enforce the state's laws and educate entities on how to remain in compliance.

As we have witnessed in the aftermath of Hurricane Katrina, charitable organizations are the social entrepreneurs helping those in need – in the affected area of Louisiana, Mississippi and Alabama, and around the country. We should continue to encourage and provide incentives to those blessed with significant resources as well as those called to share the wealth they have with others in their communities. Acting on these incentives now will have positive real world consequences in the lives of those in need. Today, we are privileged to have representatives from three organizations that responded to the needs in the Gulf region, as well as two respected tax analysts as we discuss the CARE Act proposals to provide incentives for charitable giving.

First, we will hear from one of my constituents, Luke Hingson. Mr. Hingson is President of the Brother's Brother Foundation, a 47-year old organization in Pittsburgh founded by his father Dr. Robert Hingson. Brother's Brother Foundation – or BBF – has received top honors from Charity Navigator, earning an overall rating of four out of four stars. More importantly, donations are managed well by BBF staff who work hard to keep their administration and operating cost below one percent of the value of program services. On Friday, September 2, 2005, BBF shipped twelve pallets of new clothing, kid's kits and plastic drinking cups for use by Hurricane Katrina survivors, with the transportation provided by South Hills Movers of Bethel Park, Pennsylvania. Additionally a shipment of 5,000 pairs of new CROCS shoes leaves for Atlanta later this week. Finally, BBF works closely with another of my constituents, Joe Geiger from the Pennsylvania Association of Nonprofit Organizations, and I am pleased Joe can join us today as well.

Next we will hear from Major George Hood, Director of National Community Relations and Development for the Salvation Army. Major Hood was commissioned as an officer in The Salvation Army in 1968 and has since followed an extremely diverse career path that includes 20 years of nonprofit leadership and an additional 15 years in corporate marketing and business administration. The Major currently serves at The Salvation Army National Headquarters as the National Community Relations & Development Secretary. In this role he holds administrative responsibility for marketing communications, public relations, government relations and corporate relations for The Salvation Army in the United States. Major Hood's career includes assignments in Fitchburg, Massachusetts; Columbus, Ohio; Philadelphia, Pennsylvania; Cleveland, Ohio; and Hempstead (Long Island), New York. Born and raised in Hamilton, Ohio, Major Hood is a graduate of Indiana Wesleyan University and The Salvation Army School for Officers' Training. He holds a BS in Management from Indiana Wesleyan and is currently studying for a Masters in Management from the same university.

And then we are pleased to welcome Dr. Bob Reccord, the President and CEO of the North American Mission Board of the Southern Baptist Convention. Dr. Reccord became the first president of the North American Mission Board in June 1997. Prior to leading the Mission Board's team, Dr. Reccord served as senior pastor of First Baptist Church in Norfolk, Virginia, and Bell Shoals Baptist Church in Brandon, Florida. Dr. Reccord is a published author, including a book co-written with Houston Astros' pitcher, Andy Pettitte entitled *Strikezone! Targeting a Life of Integrity and Purity*. He is a featured speaker for Promise Keepers and has also served as an adjunct professor at Southeastern Baptist Theological Seminary. Dr. Reccord is a graduate of Indiana University and received his Master of Divinity and Doctor of Ministry degrees from Southwestern Baptist Theological Seminary.



As we move to the academics on the panel, we welcome Dr. Bill Gale from the Brookings Institute and Dr. Gene Steuerele from the Urban Institute. Dr. Gale is a Senior Fellow at the Brookings Institution. He is deputy director of the Economic Studies Program and Co-Director of the Tax Policy Center, a joint venture of the Brookings Institution and the Urban Institute. Interestingly, his co-director is Dr. Steuerele sitting beside him. Before joining Brookings, Dr. Gale was an assistant professor in the Department of Economics at the University of California at Los Angeles, and a senior staff economist for the Council of Economic Advisers. He has co-edited three books and co-authored a numerous academic articles. He contributes a regular column in *Tax Notes* magazine, and has published in a wide variety of popular media outlets. Dr. Gale received his B.A. in economics from Duke University and his Ph.D. in economics from Stanford University. He also studied for a year as an undergraduate at the London School of Economics.

Dr. Steuerle is a senior fellow at the Urban Institute and Co-Director of the Urban-Brookings Tax Policy Center. In addition he is a columnist for *Tax Notes*, and the author or editor of 11 books and more than 150 reports and articles. Under President Reagan, he served as economic coordinator and original organizer of the Treasury's tax reform effort and later as the Deputy Assistant Secretary of the Treasury for Tax Analysis. He has also served as the President of the National Tax Association, Chair of the 1999 Technical Panel advising Social Security on its methods and assumptions, President of the National Economists Club's Educational Foundation, and Resident Fellow at the American Enterprise Institute.

**Charities on the Frontline  
and  
Making the Best Use of Tax Policy to Help Them**

Statement of

*C. Eugene Steuerle*

Testimony Before the  
Subcommittee on Social Security and Family Policy  
Senate Finance Committee  
United States Senate

September 13, 2005

**C. Eugene Steuerle is a senior fellow at the Urban Institute, co-director of the Tax Policy Center, and a columnist for *Tax Notes Magazine*. Any opinions expressed herein are solely the author's and should not be attributed to any of the organizations with which he is associated.**

**Mr. Chairman and members of the Subcommittee:**

One response to Hurricane Katrina was a very generous outpouring of concern and care by Americans throughout the country. Many of our contributions could be handled immediately only because a solid infrastructure of charities already existed. Our many charities are a tremendous source of strength of which we can and should be very proud. On a personal note, I have been involved with charities at almost every level: as a recipient, as a contributor, as a founder, and as a researcher who studies charitable giving and charitable organizations.

The government interacts with charities and nonprofit institutions on a variety of fronts. Many of its payments flow through charities and provide health, education, and other forms of social welfare. Indeed, more money flows to charities from government fees and contracts than from individual and corporate contributions. With respect to both social welfare in general and to many specific instances of assistance, such as in New Orleans and neighboring areas, the government makes transfers to the needy that are much larger than those provided by individuals. The government often looks to charitable organizations to deliver its transfers because it views charitable organizations as efficient deliverers of services and goods. In many ways, charities and governments complement, rather than substitute for, each other.

The government also affects charities through the tax code. Tax provisions not only provide incentives but are also a powerful signal of the importance our society places on giving—a signal that likely increases giving beyond the pure incentive effect of possible tax savings the taxpayer might receive.

But we should make no mistake about it: the large amount of money flowing to charities from individuals and from government means that a lot is at stake. And because a lot is at stake, we must constantly examine whether that money is being spent well. Can incentives be improved? Can waste be reduced? Can sources of corruption be removed? Waste, inefficiency, and corruption affect more than just the money directly involved. When charities misbehave, for instance, people probably tend to give less and to trust less that charities serve them well.

In recent months and years, the Senate Finance Committee has heard testimony both on bills to expand incentives to give and on ways to reduce inefficiency and corruption within charities and the nonprofit sector. That these issues are by their very nature nonpartisan does not mean that they are easy. Tough choices are required. The two issues are really two sides of the same coin. They reflect the common goal of maximizing the good effects achieved by dollars Americans provide to charities both directly and through tax incentives provided to donors through the government. A combined legislative package could be a clear win-win scenario: good tax policy and good charitable policy. Done the right way, it could significantly increase charitable giving, improve tax compliance, and remove some sources of cheating and corruption associated with individuals and organizations. Think of it this way: every dollar spent on a weak incentive or to subsidize those who cheat is one less dollar available to strengthen the charitable sector in other ways.

I hope that Congress will pull together its two efforts—improving incentives and simultaneously reducing the corruption and noncompliance that remains within the charitable sector. Thus, I strongly recommend that you blend together additional charitable incentives with a clean-up of the charitable sector. One part of the legislative package would include the types of items contained in charitable incentive bills since 2001. The other would focus on curbing problems with charitable giving and governance and seek to improve the IRS's ability to monitor effectively in this arena.

What's the trick here? How can we make this into a win-win scenario? It's simple. Existing incentives in the tax system are not well designed. In addition, a fair amount of cheating takes place when it comes to charitable giving. For the amount of revenues foregone, therefore, much more charitable giving could be generated. The revenues lost because of cheating and lost on

that portion of giving unlikely to be responsive to an incentive could be reallocated to areas more responsive to giving. Meanwhile, these reforms could be done in a way that allows the IRS to better monitor claims of charitable deductions, reduce opportunities to overvalue gifts, and remove opportunities for taxpayers to declare deductions for giving that never took place. The net result would be better tax policy, better tax administration, and a stronger charitable sector—and perhaps most important, an intangible: a sector with improved integrity, one that better represents the public it claims to serve.

A combination bill is also a good way to address the necessary trade-offs in policymaking. Simultaneously trying to increase giving and making the money more likely to reach charitable beneficiaries gives Congress and the charitable sector a way of bargaining that goes beyond the one-item-at-a-time advocacy and reaction. Some charities, like some taxpayers, will take any benefit they can receive. And some would like to be left alone to take individual contributions and government subsidies with minimal transparent reporting to either donors or the IRS. When these issues are addressed one at a time, the representatives of the charitable sector are sometimes pushed to behave like a trade association—having to represent any potential loser rather than the well-being of the entire sector.

The net amount for charitable purposes is clearly a far more important consideration than the gross amount flowing through any particular charity. For instance, suppose a provision forces some charities to lose \$100 of contributions, of which only \$25 really ends up going to charitable recipients. Often the charity in question will end up fighting to protect the \$100 going through its organization, with the notion that at least some money is eventually going for good purposes. Suppose also that, in exchange, Congress offers charities, as a whole, subsidies likely to increase giving to charitable beneficiaries by \$30. Then, the net amount of real charitable activity is larger. There is not only more money available to ultimate beneficiaries, but also the economy as a whole is now more efficient and wastes fewer resources along the way.

A complex part of this equation requires considering the reputation of the sector as a whole. If a leaner and cleaner sector leads to more public giving, then that must be counted strongly on the benefit side of the equation. Admittedly, qualitative judgment is required. As an example, if some levels of compensation are considered excessive, then a judgment must be made whether restricting compensation yields more on net for charitable purposes or less in charitable output (over and above compensation) by those whose compensation is restricted.

What are some elements of a legislative package that might be considered? Many have already been included in different bills in Congress, although some need to be redesigned to enhance their effectiveness and likelihood to increase giving. Here are some examples:

#### **Some Potential Elements of a Combination Legislative Package**

1. **Adopt a deduction that is the same for non-itemizers and itemizers alike.** Charitable bills often offer an extension of deductions to non-itemizers, but generally fail to deal adequately with the design of floors and ceilings. (A floor provides a base under which deductions would not be allowed; a ceiling represents a maximum amount that can be deducted.) For some complicated but very important reasons, I believe that it is crucial to adopt a floor and that this floor be the same for itemizers and non-itemizers alike (see Appendix). At the same time, ceilings reduce enormously the incentive effect of the tax break and should be avoided. The goal should be to increase giving per dollar of revenue cost but not add significantly to taxpayer and IRS administrative costs.
2. **Stop phasing out itemized deductions of charitable contributions.** Although this reform technically is not part of proposals that have a separate deduction for non-itemizers, the phase-out would be removed almost automatically if a common floor on itemizers and non-itemizers were adopted. Everyone would take their deductions somewhere other than on the itemized deduction schedule, so that folding these deductions back into the phase-out would be complicated and appear somewhat silly. The current rule most penalizes those who give away a great deal and is mainly a

backdoor tax rate increase. It should be abandoned. (Note that this issue becomes especially important if the phase-out of itemized deductions is retained, as many are now suggesting for deficit reasons.) At the same time, changes should not be enacted on a temporary basis, in this or other cases. Temporary changes are particularly challenging to the IRS and induce time-shifting moves, including shifts in giving over time that do not reflect aggregate increases in giving.

3. **Consider proposals to remove limits on charitable contributions, such as the proposal to allow contributions to be made from individual retirement accounts (IRAs).** Various versions of this proposal would allow money to be paid directly out of IRA accounts without having to be declared first as income subject to tax and then deducted. I myself have suggested that lottery winners ought to be given a brief period when they can give away as much as 100 percent of their winnings in the same manner. (Right now they are penalized for not engaging in a legal commitment to share their lottery winnings at the time the ticket is purchased but before they have won—an almost impossible condition given the odds of winning and the cost of such a legal transaction relative to the cost of a ticket.) The simplification aspects of these proposals almost surely would increase charitable giving and would likely lead both mutual funds and state lotteries to advertise the availability of these options. Whatever rule is adopted, there should be at least one line on the individual tax return reporting gifts made in any exceptional way, as well as a box on the 1099 sent to taxpayers and the IRS by retirement plans. Only in that way will the IRS and the Congress be able to monitor well exactly what is happening over time. This selective approach does grant only some individuals an exception to the limit on giving of 50 percent of adjusted gross income, an issue that must be admitted. On net, however, I believe that the simplification gains would enhance giving enough to make the proposal worthwhile.
4. **Raise and simplify the various limits on charitable contributions that can be made as a percentage of income, such as the President's original proposal for corporate contributions.** There seems to be no significant reason for limiting corporate giving to 10 percent of income. For moderate- and middle-income individual taxpayers, in addition, one could consider removing the various individual limits (50 percent for all giving, lesser amounts for giving to foundations and for giving appreciated property). The goal here is both to simplify and enhance charitable giving. The limit on giving to foundations ought simply to be folded into whatever overall limit applies to giving in general; this separate limit for foundations has a tortuous history that has little to do with the present circumstances of foundations.
5. **Allow deductions to be given until April 15 or the filing of a tax return.** This is the same rule that applies to IRAs and Keogh plans. If the tax system is to encourage giving, then the best time to advertise is when people are filling out their tax returns or their tax preparers are looking for additional ways to save them taxes. The long-term cost of this extension would be only a fraction of whatever increase in charitable giving might result since there is almost no cost unless giving goes up. Therefore, it would be one of the most effective measures that could be adopted in terms of induced charitable giving per dollar of revenue cost. To deal with some enforcement issues, however, this April 15 allowance might be allowed only for contributions accompanied by an improved reporting system, as is the case with IRA contributions. Otherwise, Treasury fears that some taxpayers would take the deduction twice, on April 15 of the year of deduction and then when filing the tax return for the next year. With IRAs, the issue is solved by the recipient charity working with the taxpayer to provide a 1099 indicating the year to which the deduction applies.
6. **Reduce and dramatically simplify the excise tax on foundations.** This tax raises far more than is needed to meet its intended Congressional purpose—to support IRS costs of monitoring the nonprofit sector. The current design discourages payouts today

because they can increase future excise taxes (which are higher when giving tomorrow does not exceed giving today). Moreover, whatever Congress gives back here will automatically be paid out to the public in the form of greater charitable activity—thus meeting the primary test for effectiveness outlined above.

7. **Devote more IRS resources to helping the public monitor the charitable sector.** Within the IRS, the exempt organization function traditionally has been treated as an unwanted step-child because it brings in almost no revenue. (As noted, moreover, the IRS actually spends only a fraction of revenues from the foundation tax monitoring the nonprofit sector.) Today, however, there is an unusual opportunity that derives from a large confluence of charitable sector groups, researchers, state attorneys general, and private-sector information firms who are united in trying to clean up the charitable sector. One example is the electronic filing of tax forms, such as the 990 and 990 PF. Electronic filing will (1) improve compliance by charities, (2) lead to better monitoring of the sector by the public, (3) help state attorneys general catch non-tax abuses, and (4) make it easier to make charitable donations over the Internet and reduce the paperwork exchange among charities (e.g., by foundations needing information on grantees). It also makes the IRS's job easier. Although the IRS is trying to help, it lacks resources. Congressional backing here—even if only a statement of congressional intent that electronic filing should be put in place quickly and that the IRS should demand more accurate filing of returns—could add to the momentum toward producing a more vibrant nonprofit sector.
8. **Change the foundation payout rule so that it does not encourage giving in a pro-cyclical manner.** A recent stock market bubble caused grants to rise dramatically for a few years, but a later recession and a bursting bubble tended to lead at least some foundations to reduce grants. It is counterproductive to require private foundations to pay out more money when times are good and to induce them to pay out less when times are bad. Revisions to the payout formula that would reduce this pro-cyclical effect need to be considered. Whether the average rate of payout needs to be higher or lower over time is a separate issue.
9. **Provide an improved reporting system to taxpayers for charitable contributions.** This would involve expansion of 1099 reporting to the IRS by charities on some, most, or all donations received (starting with gifts greater than \$250, where such reports already must be made to taxpayers). Further consideration ought to be given to requiring that charities verify or place valuations on many, most, or all types of in-kind gifts, and, for the most part, that the taxpayer use that valuation when reporting charitable donations. For household goods alone, Congress ought to consider the Joint Committee on Taxation option to remove the deduction. I recognize that some charities would not be interested in improving the reporting system. The truth is, however, that the IRS simply does not and cannot enforce the law adequately as currently structured—just as it could not enforce well compliance on interest and dividends until information reporting was expanded to cover most of those payments.
10. **Limit deductibility for in-kind gifts where the net amount to charity is so low (because of payments to intermediaries) that the revenue cost to government is greater than the value of the gift made.** Alternatively, at least improve the information that donors receive. For instance, require that the charity must report to the taxpayer on the net amount received after payment to intermediaries, including advertisers, if this amount is less than, say, 50 percent of the value of the gift. Or require full and transparent public disclosure by fund-raising intermediaries of the amount of the gifts raised for *each* charity; the amount they, the intermediaries, received; the amount paid to other intermediaries, including for advertising; and the net amount turned over to the charity. These returns would be publicly available, just like the 990 returns of charities.

11. **Place limits or remove deductibility of pure cash contributions.** The IRS simply cannot enforce the law well where there is no check, credit card, receipt from the charity, or any other document that an IRS auditor can verify.

#### Further Analysis

In a well-designed legislative package, leaving out an option that raises revenue often means winning a battle and losing the war because it *reduces* the amount of charitable giving. All the compliance and revenue-raising options noted above are targeted to areas where there is cheating, misleading advertising, weak ability to enforce, invitations to corruption, and limited portions of contributions actually making their way to charitable purposes.

Some of the revenue-raising proposals—even with no offsetting expansion of incentives—might increase the net amount of charitable giving. Someone giving away, say, an automobile with a wholesale value of \$3,000 might alternatively sell the automobile and give the \$3,000 to charity, or make charitable contributions of \$2,500 if she had not given the automobile away. If only \$1,000 on net is making it to the charity when the automobile is given away because of all the fund-raising and advertising costs, then the net amount for charitable purposes has actually gone down. At a broader level, people are tired of reading about abuses of the charitable sector in areas like automobile donations, clothes donations, and easement rights. A sector that demonstrates more integrity in such areas is one that in the long run might very well attract more giving.

In many cases, charities that might be reluctant to take on some of these suggested limits or reporting requirements, considered in isolation, would find that they are much better off with the broader legislative package than without it. For instance, a floor under itemized deductions would have little effect on itemizers since it would have little effect on their marginal giving, but it would increase the amount of revenues that could be spent on expanding the deduction to non-itemizers. The additional reporting requirements make it easier to allow giving until April 15, which likely would increase giving significantly because it markets the tax incentive at the time the tax return is filed. A tighter restriction on cash contributions, which might at first appear to affect churches, is likely to be more than offset in value by the extension of a deduction to non-itemizers, since giving to churches is much more concentrated among lower- and middle-income taxpayers than giving to many other forms of charity. Keep in mind also that in churches, larger givers usually make use of envelopes, while those giving only modest amounts of cash are likely to be non-itemizers anyway.

On some of the options noted above, it will be hard to come up with a perfect revenue estimate. This places some risk that the revenue given away will be greater than or less than the revenue raised. I am reminded of the time in the 1980s when Congress required that Social Security numbers be reported for dependents. IRS research staff had long argued that there was substantial cheating here but had trouble coming up with an exact figure, even from their own audits. It turned out that there was much more than many expected, and the revenue pickup from this simple improvement in reporting was substantial. To me, however, the inexactitude of the revenue estimates creates little risk that the legislative package would decrease giving. Moreover, if desired, it would be possible to give regulators some authority to reduce a floor under deductions in some automatic fashion for future years when the total amount deducted in a given year came out to be less than some targeted amount.

Whatever this proposal's considerable advantages for reducing error and cheating, some may object to the cost of expanded information reporting for the charitable sector. After all, it would entail some expansion of its administrative responsibilities regarding charitable giving. For most charities, in truth, the net additional cost would be small because most already have a system in place to keep track of their donors and how much they have given. Even most churches now give taxpayers a statement at the end of the year as to the cash contributions they stick in envelopes.

Still, some software would probably need to be developed that would integrate current systems of reporting with any new system of reporting to the IRS, and there would be some transition costs.

Despite some additional administrative costs, information reporting reform would almost assuredly simplify tax preparation for individual taxpayers. Most taxpayers today no longer need to keep track on a separate ledger of their interest or dividends as they are received, but merely transfer to their tax return the information reported to them at the end of the year on information returns. If most charitable deductions were reported on information returns, they could stop keeping separate ledgers here as well.

### **Conclusion**

Here, then, is an ideal trade-off. The monies derived from improved incentives, improved compliance, and a better system of information reporting could be spent on enhancing charitable incentives—extending the deduction to more taxpayers, raising the ceiling on allowed charitable giving for some types of gifts, and allowing taxpayers to benefit immediately from the charitable contributions they make while filing their tax returns. My guess is that the combination would increase giving and improve compliance at the same time.

One need not agree with every item I have suggested above. I have almost assuredly left out many worthwhile options. The Senate Finance staff is working closely with the Joint Committee staff, the Independent Sector, and others to offer ways (both public and private) of improving the behavior and operations of nonprofit organizations. Turning to disinterested staff to develop the options on which you vote is one of the best ways of striving for what Lincoln called “that perfect impartiality which has ever been considered the most favorable to correct decisions.” My principal suggestion is that you develop a legislative package that gives you the most bang per buck—maximizing giving per dollar of revenue cost while recognizing legitimate concerns for good tax policy and administration.



## APPENDIX

## WHY EXTENDING A DEDUCTION TO NON-ITEMIZERS REQUIRES A COMMON FLOOR FOR NON-ITEMIZERS AND ITEMIZERS ALIKE

Here, roughly speaking, is the rationale that leads to the need for a common floor if charitable deductions are extended to non-itemizers:

- **Step One:** IRS cannot accurately monitor small amounts of contributions. This means that Congress will need to consider putting some floor under contributions before they would be deductible to non-itemizers. Fortunately, a floor significantly increases the amount of giving relative to the revenue cost. With a floor, the incentive is more likely to be confined to extra giving, where it is most effective. An incentive is not effective for the first dollars of giving—that giving that would take place even in absence of any incentive. For someone giving away over \$200 already, a contributions' deduction on the first \$200 provides almost no incentive.
- **Step Two:** Creation of a different floor for non-itemizers than for itemizers would create a large amount of confusion for taxpayers. Deductions would pop up in two different places on the tax return, and the decision over which place was optimal would require a number of calculations. One could no longer add up itemizable deductions and compare them to the standard deduction; instead, one would have to compare remaining itemizable deductions plus charitable gifts with no floor to itemized deductions excluding charitable gifts plus charitable gifts less a floor. (If you're confused reading about this calculation, imagine tens of millions of taxpayers having to figure it out!) In addition, for some taxpayers, issues such as the phase-out of itemized deductions would affect whether it was optimal to deduct.
- **Step Three:** A common floor for itemizers and non-itemizers removes this complexity. It also encourages a greater level of giving per dollar of revenue cost. For instance, a \$150 floor under all taxpayers would likely raise more charitable gifts than a revenue-neutral floor—say, \$400—under non-itemizers alone. It also helps insure that there is no increase in the administrative burdens placed on an IRS that does not currently monitor well the deductions of itemizers alone.
- **Step Four:** Some of the costs of not adopting a common floor are not trivial: taxpayers' reaction against a more confusing tax return and charitable contributors' reaction against the increase in cheating that would arise.



COMMUNICATIONS

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**Senate Committee on Finance  
Subcommittee on Social Security and Family Policy  
September 13, 2005**

**Charities on the Frontline: How the Nonprofit Sector Meets the Needs of America's  
Communities**

**Written Comments and  
Statement for the Record**

**of the**

**Association of Fundraising Professionals (AFP)  
1101 King Street # 700  
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703-519-8456; 800-666-3863  
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September 13, 2005

Senate Committee on Finance  
Subcommittee on Social Security and Family Policy  
Attn: Editorial and Document Section  
Rm. 203 Dirksen Senate Office Building  
Washington, DC 20510-6200

Re: Comments Regarding the Subcommittee on Social Security and Family Policy's hearing titled "Charities on the Frontline: How the Nonprofit Sector Meets the Needs of America's Communities"

On behalf of the Association of Fundraising Professionals (AFP), I am pleased to provide a written account explaining how the nonprofit sector meets the needs of America's communities, particularly in a time of crisis such as this one. As an organization that represents individuals responsible for generating philanthropic funds, AFP has first-hand knowledge and understanding of charitable giving and related governance and accountability processes. We hope our thoughts and perspective will prove helpful to the Subcommittee on Social Security and Family Policy as it continues its examination of issues related to the nonprofit sector.

Before I begin, I must stress how much charities build community and bring people together who otherwise might not have much in common—just as we have seen happening with growing frequency in the days following hurricane Katrina. This community-building legacy is and continues to be an important outcome of the tragedy which was 9/11. Much of American tradition is rooted in people helping each other. This is exactly what charities do.

#### **Organizational Background**

For nearly forty-six 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 27,000 members across North America and around the world. We have more than 170 chapters located in almost every state and metropolitan area, as well as in Canada, Mexico, and Asia. AFP also maintains strategic alliances with similar organizations in Europe and the Pacific Rim. Our members raise funds for a wide variety of charities, from large, multinational institutions to local grassroots organizations advocating every conceivable issue or need – education, healthcare, religion, arts, 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 of Ethics is widely recognized in the 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 self-governance. Violation of the AFP Code can result in the revocation of credentials and expulsion of members who engage in prohibited behavior. Much of our work is spent educating and training members in ethical fundraising practices and working with federal and state regulators to improve regulation and to identify wrongdoers who hurt the charitable sector.

AFP instituted a credentialing process in 1981 – the CFRE, 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 members and the public about ethical fundraising practices and working with federal and state regulators to improve regulation and to identify wrongdoers who don't belong in the charitable sector.

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. A copy of the *Donor Bill of Rights* is attached. Similarly, AFP supported the Treasury Regulations developed by the Internal Revenue Service (IRS) to implement the “intermediate sanctions” of the Internal Revenue Code.

Fundraisers are stewards of the public's money, and the success of the nonprofit sector and our individual organization is dependent upon public trust and confidence. This role emphasizes the importance of ethical fundraising, and membership organizations such as AFP can ensure that the costs of fundraising are reasonable while advocating and encouraging strong ethical practices and meaningful self-regulation among our members.

#### **Charitable Giving Trends in the United States**

Charitable giving in the past five years has been greatly affected by the economy. In 2004, charitable giving increased throughout the country for the first time in several years—charitable giving had been down in previous years due to a poor economy. With the Katrina disaster looming as an immense and immediate burden on our economy, it is essential that charities be permitted to rely upon stability in existing government policies in order to withstand economic fluctuations.

Two studies support these facts.

According to *Giving USA 2004* (a publication of the Giving USA Foundation researched and written by the Center on Philanthropy at Indiana University):

- Charitable giving in the U.S. exceeded \$248 billion in 2004. This is the highest amount ever in the U.S. and represents a 5 percent increase from the revised 2003 figure of \$236.73 billion. Adjusted for inflation, giving rose by 2.3 percent – the first positive growth in inflation-adjusted dollars since 2000.

- Giving by individuals continued to account for the bulk of all charitable giving (75 percent) in 2004. According to the study, individuals contributed \$187.92 billion, a 4 percent increase from the 2003 figure of \$180.58 billion.
- Foundation giving reached \$28.80 billion, an increase of 7.3 percent from the 2003 figures. Corporations and corporate foundations kept pace, contributing an estimated \$12 billion in cash and in-kind donations (an increase of 7.3 percent from 2003). Finally, 2004 saw additional bequest giving, with bequest totals equaling \$19.80 billion, a 9.2 percent increase from 2003.

In addition, the *2005 State of Fundraising Survey* (produced by AFP, an annual survey of American and Canadian fundraisers analyzing how charities' most recent year-end totals compared to the prior year), noted that:

- In the United States, 64.9 percent of organizations raised more money in 2004 than in 2003. This is the highest *positive* variance in the four years of the survey. Furthermore, 44.6 percent of respondents raised at least 10 percent more money in 2004 than in 2003, and 24.9 percent reported that they had raised at least 20 percent more.
- A little more than 10 percent of organizations said they raised the same amount in 2004 as in 2003, and 24.7 percent reported they raised less.
- One positive outcome of catastrophes such as the Southeast Asian tsunami in late 2004 and the 9/11 terrorist attacks is that—unfortunate as they may be—disasters of any kind tend to raise the public's general awareness of the importance of support for the charitable sector. This fact is cited not to suggest that American charities do not need the benefits afforded them by U.S. public policy, but to emphasize that those policies are working and that interfering with the existing incentives for charitable giving and support could cause chaos in the sector and beyond.
- Seventeen percent of organizations cited the economy as the single greatest challenge affecting their fundraising in 2004. Other challenges included increasing competition for the charitable dollar (14.9 percent), developing fundraising strategies and strategic planning (8.4 percent), brand awareness of the charity (7.8 percent) and staff issues (7.5 percent).

These figures indicate that although charitable giving has grown over the past year, charities remain vulnerable to economic downturns. The data also indicates that now is not the time to unnecessarily restrict nonprofits with new laws that might limit charitable giving. To ensure that the charitable sector is able to provide altruistic services across the country and meet the needs of our nation's communities, not to mention respond to disasters such as hurricane Katrina, it is imperative to encourage charitable giving, not burden charities with excessive reform measures.

**There Is No Crisis in the Charitable Sector: Charities Continue to Uphold Ethical Standards**

As AFP has noted in previous submissions to the Finance Committee, our organization remains committed to working with the Subcommittee on Social Security and Family Policy (and Congress), the Internal Revenue Service, Federal Trade Commission, and other interested agencies to ensure the best possible operation of the tax-exempt system. It is important to emphasize that there is no evidence of widespread abuse in the sector. To the contrary, most charities are legitimate organizations that abide by the law and focus their efforts on accomplishing their mission and providing needed services.

In fact, empirical data indicate that there is *not* widespread abuse in the charitable sector and that substantial new legislation is unnecessary. Reports collected by the Federal Bureau of Investigation (FBI), the Federal Trade Commission (FTC), state attorneys general and even watchdog groups such as the Better Business Bureau show that reports of charity fraud constitute less than 1 percent of all complaints of fraud.

Creating a false sense of crisis benefits neither the charitable sector nor constituents. In fact, this scenario will likely harm both charities and their communities because implementing unnecessary changes to laws governing the charitable sector could create an entirely different sort of crisis for *all* charities, one that would be devastating as charities throughout the country strive to deal with the aftermath of Katrina.

Instead of implementing new laws that will detrimentally affect the altruistic work of charities, Congress needs to provide sufficient resources to the IRS to enforce current laws. A recent analysis conducted by the TRUST Coalition concluded that 92 out of the 94 alleged abuses recently reviewed by the Senate Finance Committee could have been addressed under existing IRS regulations.

All nonprofit corporations are chartered by state governments and subject to state authority. This power, combined with the power of the IRS, provides significant protection for donors and members of the general public. In almost all cases, the current laws are sufficient; the problems lie in enforcement.

**Any Additional Laws Must Carefully Curb Abuses Without Upsetting Charities' Altruistic Work**

If additional laws are needed, they should be fashioned to target wrongdoers without burdening legitimate charities. Moreover, there are ways for Congress to help charities better respond to disasters like Katrina and ensure that they will be in a position to meet the needs of America's communities. For instance, AFP strongly supports Chairman Santorum's CARE Act. Last year's version of the bill not only contained vitally important giving incentives such as the IRA rollover and enhanced deductions for contributions of food inventories, but also charity accountability measures, including additional charity disclosures and penalties.

AFP particularly applauds the IRA Rollover provision. Currently, donors can rollover funds from their IRAs to charity, but by doing so, they face potentially harsh tax consequences. The rollover would allow individuals to transfer funds tax-free from an Individual Retirement Account to a charitable organization. The IRA Rollover provision may increase giving by several billion dollars annually.

The CARE Act has strong bipartisan support, is relatively inexpensive and strikes a commendable balance between common sense reform measures and key tax incentives, incentives that could bring billions of dollars of needed disaster relief and ongoing support through donations to charities.

By working together, the Subcommittee on Social Security and Family Policy and the charitable sector can use their combined expertise and experience to forge a focused package of legislative changes—such as the CARE Act—that will enhance the work of charities while doing much to curb abuses in the sector with minimal intrusion of the federal government.

Such a coordinated effort can bear fruit. When the State of California developed its own comprehensive legislation governing the charitable sector earlier this year, AFP worked closely with the bill's drafters in the California Attorney General's office to ensure the law carefully and effectively targeted abuses while assuring that the measure's impact on legitimate organizations was minimized. For instance, based upon AFP's recommendations, the state legislature raised the auditing threshold up to \$2 million.

#### **Eliminate Percentage-Based Compensation**

Of the several factors that contribute to high fundraising costs, the most significant is percentage-based compensation. Under percentage-based compensation arrangements, 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;
- Percentage compensation can produce reward without merit.

For these reasons, one of the most important actions Congress can take to increase public confidence and crack down on unjustifiable fundraising costs is to prohibit--*to explicitly outlaw--* the use of percentage-based compensation schemes for charities and their fundraisers.

In fact, Canada is already contemplating such a change. The Uniform Law Conference of Canada has recommended that the country eliminate percentage-based compensation for charitable fundraising.



**Conclusion**

AFP applauds the work of Subcommittee Chairman Santorum and all of the Finance Committee in support of the nonprofit sector. The original CARE Act represents a measured and appropriate response to the issues and needs presented by the community of American charities. AFP appreciates the opportunity to discuss how charities meet the needs of communities with the Subcommittee on Social Security and Family Policy. We respectfully offer our assistance to the Subcommittee as it proceeds with further consideration of these very important issues.

Sincerely,

A handwritten signature in cursive script, appearing to read "Paulette Maehara".

Paulette Maehara, CFRE, CAE  
President & CEO

## AFP Code of Ethical Principles and Standards of Professional Practice

STATEMENT OF ETHICAL PRINCIPLES  
Adopted 1964, Amended October 2004



The Association of Fundraising Professionals (AFP) exists to foster the development and growth of fundraising professionals and the profession, to promote high ethical standards in the fundraising profession and to preserve and enhance philanthropy and volunteerism. Members of AFP are motivated by an inner drive to improve the quality of life through the causes they serve. They serve the ideal of philanthropy; are committed to the preservation and enhancement of volunteerism; and hold stewardship of these concepts as the overriding principle of their professional life. They recognize their responsibility to ensure that needed resources are vigorously and ethically sought and that the intent of the donor is honestly fulfilled. To these ends, AFP members embrace certain values that they strive to uphold in performing their responsibilities for generating philanthropic support.

### AFP members aspire to:

- ◆ practice their profession with integrity, honesty, truthfulness and adherence to the absolute obligation to safeguard the public trust;
- ◆ act according to the highest standards and visions of their organization, profession and conscience;
- ◆ put philanthropic mission above personal gain;
- ◆ inspire others through their own sense of dedication and high purpose;
- ◆ improve their professional knowledge and skills so that their performance will better serve others;
- ◆ demonstrate concern for the interests and well being of individuals affected by their actions;
- ◆ value the privacy, freedom of choice and interests of all those affected by their actions;
- ◆ foster cultural diversity and pluralistic values, and treat all people with dignity and respect;
- ◆ affirm, through personal giving, a commitment to philanthropy and its role in society;
- ◆ adhere to the spirit as well as the letter of all applicable laws and regulations;
- ◆ advocate within their organizations, adherence to all applicable laws and regulations;
- ◆ avoid even the appearance of any criminal offense or professional misconduct;
- ◆ bring credit to the fundraising profession by their public demeanor;
- ◆ encourage colleagues to embrace and practice these ethical principles and standards of professional practice; and
- ◆ be aware of the codes of ethics promulgated by other professional organizations that serve philanthropy.

### STANDARDS OF PROFESSIONAL PRACTICE

Furthermore, while striving to act according to the above values, AFP members agree to abide by the *AFP Standards of Professional Practice*, which are adopted and incorporated into the *AFP Code of Ethical Principles*. Violation of the *Standard* may subject the member to disciplinary sanctions, including expulsion, as provided in the AFP Ethics Enforcement Procedures.

#### Professional Obligations

1. Members shall not engage in activities that harm the member's organization, clients, or profession.
2. Members shall not engage in activities that conflict with their fiduciary, ethical and legal obligations to their organizations and their clients.
3. Members shall effectively disclose all potential and actual conflicts of interest; such disclosure does not preclude or imply ethical impropriety.
4. Members shall not exploit any relationship with a donor, prospect, volunteer or employee to the benefit of the member or the member's organization.

5. Members shall comply with all applicable local, state, provincial, federal, civil and criminal laws.
6. Members recognize their individual boundaries of competence and are forthcoming and truthful about their professional experience and qualifications.

#### Solicitation and Use of Philanthropic Funds

7. Members shall take care to ensure that all solicitation materials are accurate and correctly reflect the organization's mission and use of solicited funds.
8. Members shall take care to ensure that donors receive informed, accurate and ethical advice about the value and tax implications of potential contributions.
9. Members shall take care to ensure that contributions are used in accordance with donors' intentions.
10. Members shall take care to ensure proper stewardship of philanthropic contributions, including timely reports on the use and management of such funds.
11. Members shall obtain explicit consent by the donor before altering the conditions of contributions.

#### Presentation of Information

12. Members shall not disclose privileged or confidential information to unauthorized parties.
13. Members shall adhere to the principle that all donor and prospect information created by, or on behalf of, an organization is the property of that organization and shall not be transferred or utilized except on behalf of that organization.
14. Members shall give donors the opportunity to have their names removed from lists that are sold to, rented to, or exchanged with other organizations.
15. Members shall, when stating fundraising results, use accurate and consistent accounting methods that conform to the appropriate guidelines adopted by the American Institute of Certified Public Accountants (AICPA)\* for the type of organization involved. (\* In countries outside of the United States, comparable authority should be utilized.)

#### Compensation

16. Members shall not accept compensation that is based on a percentage of contributions; nor shall they accept finder's fees.
17. Members may accept performance-based compensation, such as bonuses, provided such bonuses are in accord with prevailing practices within the members' own organizations, and are not based on a percentage of contributions.
18. Members shall not pay finder's fees, or commissions or percentage compensation based on contributions, and shall take care to discourage their organizations from making such payments.

Amended October 2004

# A Donor Bill of Rights

**PHILANTHROPY** is based on voluntary action for the common good. It is a tradition of giving and sharing that is primary to the quality of life. To assure that philanthropy merits the respect and trust of the general public, and that donors and prospective donors can have full confidence in the not-for-profit organizations and causes they are asked to support, we declare that all donors have these rights:

## I.

*To be informed of the organization's mission, of the way the organization intends to use donated resources, and of its capacity to use donations effectively for their intended purposes.*

## II.

*To be informed of the identity of those serving on the organization's governing board, and to expect the board to exercise prudent judgement in its stewardship responsibilities.*

## III.

*To have access to the organization's most recent financial statements.*

## IV.

*To be assured their gifts will be used for the purposes for which they were given.*

## V.

*To receive appropriate acknowledgement and recognition.*

## VI.

*To be assured that information about their donations is handled with respect and with confidentiality to the extent provided by law.*

## VII.

*To expect that all relationships with individuals representing organizations of interest to the donor will be professional in nature.*

## VIII.

*To be informed whether those seeking donations are volunteers, employees of the organization or hired solicitors.*

## IX.

*To have the opportunity for their names to be deleted from mailing lists that an organization may intend to share.*

## X.

*To feel free to ask questions when making a donation and to receive prompt, truthful and forthright answers.*

DEVELOPED BY  
 AMERICAN ASSOCIATION OF FUND RAISING COUNSEL (AAFRC)  
 ASSOCIATION FOR HEALTHCARE PHILANTHROPY (AHP)  
 COUNCIL FOR ADVANCEMENT AND SUPPORT OF EDUCATION (CASE)  
 ASSOCIATION OF FUNDRAISING PROFESSIONALS (AFP)

ENDORSED BY  
 (IN FORMATION)  
 INDEPENDENT SECTOR  
 NATIONAL CATHOLIC DEVELOPMENT CONFERENCE (NCDC)  
 NATIONAL COMMITTEE ON PLANNED GIVING (NCPG)  
 COUNCIL FOR RESOURCE DEVELOPMENT (CRD)  
 UNITED WAY OF AMERICA

**The Bruderhof Foundation, Inc.**

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2032 Route 213 • Rifton NY 12471  
tel: 845.658.7700 • fax: 845.658.3144

**Subject: For the Public Record**

**U.S. Senate Hearing: 10:00 a.m., September 13, 2005**

**Charities on the Frontline:  
How the Non-profit Sector Meets the Needs  
Of America's Communities**

The Bruderhof Foundation, Inc.

2032 Route 213 • Rifton NY 12471  
tel: 845.658.7700 • fax: 845.658.3144

September 12, 2005

Honorable Rick Santorum  
511 Dirksen Senate Building  
Washington D.C. 20510-3804

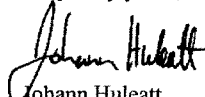
Dear Senator Santorum,

There is no better time to re-focus the current debate on charity reform than today, in the wake of Hurricane Katrina. As you are aware, several high-profile incidents of abuse within the charity community have generated legislative proposals that are over reaching and would negatively effect both charitable giving by individuals and charitable work done by well-intentioned, law abiding non-profit and religious organizations.

In response to the natural disaster of Hurricane Katrina, The Bruderhof Foundation, based in Pennsylvania and New York, joined the many charitable organizations working to relieve the suffering of hurricane victims. The immediate response of the Foundation was to provide air transportation to government workers so they could travel from Orlando to New Orleans immediately after the hurricane struck. As the scale of the disaster increased, a delegation of relief workers and nurses sponsored by the Foundation was sent to volunteer at the Cajun Dome in Lafayette, Louisiana - now "home" to over 8,000 displaced persons. Looking ahead, by working with the Mennonite Central Committee and the Mennonite Disaster Service, the Foundation plans to address the immediate physical, emotional and spiritual needs of hurricane victims while working to provide housing, schooling and job opportunities to help rehabilitate evacuees.

Non-profit organizations that violate the public trust should be held accountable. But the unscrupulous activity of a few, should not be the basis for sweeping legislation that imposes costly compliance-related overheads on foundations and religious organizations of all kinds. We at the Bruderhof Foundation respectfully caution that legislative efforts need to be narrowly tailored to address the abuses without hindering the good works of countless organizations. Hurricane Katrina is an unprecedented call to all non-profit and religious organizations to rally in the face of disaster. May we all be up to the task.

Very truly yours,



Johann Huleatt  
Executive Vice President

cc: ACR, Mennonite Disaster Service, Joshua Albert, Jeff Hammond



*March of Dimes  
Birth Defects Foundation*

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**Charities on the Frontline: How the Nonprofit Sector Meets the Needs of America's Communities**

Social Security and Family Policy Subcommittee  
Senate Finance Committee  
September 13, 2005

Statement Submitted by:  
March of Dimes  
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Washington, DC 20036

The 3 million volunteers and 1400 staff members of the March of Dimes strongly support the CARE Act and urge the Committee to swiftly report out this legislation. In the aftermath of Hurricane Katrina, tax incentives to encourage charitable giving are needed now more than ever.

As you may know, the March of Dimes is a national voluntary health agency whose mission is to improve the health of infants and children by preventing birth defects, premature birth, and infant mortality. Originally incorporated in New York in 1938 as a not-for-profit organization, the March of Dimes is recognized as tax-exempt under Internal Revenue Code section 501(c)(3). To accomplish its mission, the Foundation funds programs of research, community services, education and advocacy. The Foundation's annual budget exceeds \$200 million.

Specifically, the March of Dimes supports the proposals to allow non-itemizers to deduct a portion of their charitable contributions and to permit tax-free withdrawals from individual retirement accounts (IRAs) for charitable contributions. These provisions will encourage new contributors to support worthwhile programs and also reward those who already give.

According to the Internal Revenue Service, about 2/3 of all taxpayers are non-itemizers, and cannot take a deduction for their charitable contributions. Approximately, 90% of these taxpayers earn less than \$50,000 per year. At the March of Dimes our average donation is just \$20 and the median income of those who participate in our largest fundraising event -- WalkAmerica -- is \$45,900. In addition, 74% of WalkAmerica donors also gave to other charitable causes in their communities. Clearly, enactment of a bill that extends the charitable deduction to non-itemizers would stimulate new donors and also encourage current donors to give more.

Under current law, individuals pay tax on amounts withdrawn from IRAs. Although these individuals can deduct a portion of what they give to charity, tax rules generally prevent them from deducting the full value of the contribution. Because of this disincentive, many large donors are reluctant to make significant charitable contributions from their IRAs. Enactment of the IRA rollover provision would remove a barrier that discourages individuals who would like to use some of their IRA earnings to contribute to a favorite charity.

If enacted, the nonitemizer deduction and IRA rollover would encourage additional donations that would benefit the March of Dimes and other charities. The contributions stimulated by these changes in the tax code would provide increased resources for expanding March of Dimes' investment in cutting-edge research, widening the distribution of education materials aimed at preventing prematurity, birth defects and infant mortality, and increasing support of community-based programs to improve the health of women, infants and children.

Hurricane Katrina has demonstrated the importance of charities in responding to the needs of the American public in emergencies as well as everyday life. The March of Dimes is a first-hand witness to the devastation of hurricane Katrina and to the extensive need for lifesaving health services. Our offices in both New Orleans and Gulfport are uninhabitable, yet staff and volunteers are working around the clock to support pregnant women, infants, and children and their families across the states most impacted by the hurricane. We have already initiated the following actions:

- **Emergency Nutrition for Babies:** March of Dimes Louisiana Chapter staff and volunteers worked with local authorities and state authorities to coordinate the delivery of ready-to-feed infant formula. The formula was donated by our corporate partner Mead Johnson and was provided to babies in dire need of nutrition who were housed at the New Orleans Convention Center and in the airport triage areas to which evacuees were moved.
- **Health Information:** March of Dimes Health Information Sheets designed to help pregnant women and mothers with babies address emergency issues such as nutrition, safe water, and safe preparation of formula are being distributed in health facilities and shelters for displaced persons. The materials include information on the signs and symptoms of premature labor.
- **Neonatal Intensive Care Unit (NICU) in Baton Rouge:** Foundation staff are on the ground at Baton Rouge Women's Hospital, the site of a March of Dimes Neonatal Intensive Care Unit (NICU) Family Support Program, to provide direct service and support, including Care Kits for parents of newborns. More than 100 sick and premature infants were airlifted or transported to this hospital from the New Orleans area and the hospital's NICU is operating well above the normal patient census of 40.

- **Premature Infants Supplies:** At March of Dimes' request, our NICU Family Support corporate partner Children's Medical Ventures (a subsidiary of Respironics), donated hundreds of special tiny diapers for premature babies in the NICU. Children's Medical Ventures also has provided other special supplies for hospital nurseries, including pacifiers for premature babies and disposable medical items that were in short supply in the NICUs.
- **Maternity Clothes, Baby Clothes, Furniture, and Toys:** At March of Dimes' request, our Prematurity Campaign corporate partner Motherhood Maternity sent 300 items of much-needed maternity clothing to our Baton Rouge and Jackson offices for distribution at hospitals and shelters. Gymboree, another corporate partner, agreed to our request for 200 sets of infant and toddler clothing, which March of Dimes chapters are now distributing. Plushland, a third corporate partner, has shipped stuffed animals to the Baton Rouge and Jackson offices for distribution to children in hospitals and shelters. The March of Dimes also is activating and expanding its national network of 171 Stork's Nests, a cooperative program with Zeta Phi Beta Sorority. Through Stork's Nest, pregnant women in need obtain maternity and baby clothes as well as furniture at minimal or no cost. The program is also integrating women living in shelters and temporary housing into health education seminars on prenatal and infant care, nutrition, and parenting.
- **Prenatal Vitamins:** The March of Dimes has purchased and distributed a limited supply of prenatal vitamins to pregnant women living in Baton Rouge shelters. The Foundation is seeking corporate donations of larger quantities of vitamins to address this need in the weeks ahead.

The March of Dimes is doing its part to try to meet the immediate and long-term needs of pregnant women, infants, young children, and their families. The tax incentives to stimulate charitable giving included in the CARE Act would provide needed new resources to help charities achieve their missions.



**STATEMENT ON  
THE MODULAR BUILDING INSTITUTE'S ROLE IN ASSISTING  
THE VICTIMS OF HURRICANE KATRINA**

Submitted to the United States Senate Finance Committee for inclusion in the September 13, 2005 Hearing on "Charities on the Frontline: How the Nonprofit Sector Meets the Needs of America's Communities"

Submitted by:  
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The Modular Building Institute (MBI) is an international 501(c)6 nonprofit trade association representing 850 companies in 14 countries engaged in the manufacturing and distribution of commercial modular buildings. MBI also operates a 501(c)3 education foundation. Our members' buildings are constructed off-site and delivered to their destination and designed to be built and installed at a fraction of the time compared to site-built construction, and with considerable flexibility.

While the full effects of Katrina are yet to be determined, and all emphasis is immediately focused on the health and well-being of countless victims, the need for quick, temporary space is massive, and our members are responding. MBI's role in this tragedy has been to coordinate the collection of donations of cash and materials, educate the industry with regards to any updates on needs, transportation issues, or special requests, and to direct requests for space to industry members for rapid response.

The primary requests MBI has received are for temporary office space for relief workers, government officials, health care providers, and law enforcement. However, MBI has also fielded calls for temporary shower units, grocery stores, classrooms, military agencies, and restaurants.

The need for quick space comes at a particularly difficult time, as the industry is still in its peak construction season. Additionally, the past year and a half has seen an increase in the demand for modular buildings in general. Based on MBI's 2005 State of the Industry Report, completed just one week prior to Hurricane Katrina, MBI estimated the average dealer had 83% percent of inventory leased at 6/30/05, compared to 76% at the end of 2003.

Nonetheless, MBI members have donated the use of buildings, materials and cash for this effort. To date, MBI members have donated the use of nearly 20,000 square feet of temporary space to various agencies and relief workers, with MBI directly fielding calls for requests for space totaling over 1,000,000 square feet.

Some examples of the donations from our members:

**Williams Scotsman**, a large international dealer of commercial modular space headquartered in Harmans, MD, donated 10,000 square feet of temporary classroom space in conjunction with the State of Texas, as well as donating 3 road trailers filled with supplies to relief agencies, and two additional road trailers to the Red Cross.

**M Space Holdings**, based in New York City, is currently constructing two 10 x 44 temporary offices to be donated for the effort. Both facilities will be delivered to Bayou LaBatre, AL. One facility will be used for a Community Center office, while the second building's use has yet to be determined.

**Indicom Buildings, Inc.** of Burleson, TX also has agreed to build a 12 x 46 temporary office and donate to the MBI for deployment in the most-needed area.

**GE ModSpace** donated approximately 2,000 sq. ft. of space which was placed on a barge in Pensacola, FL and boated across the Gulf for office space and temporary housing. Additionally, GE Mod Space's parent company, General Electric, donated a \$4 million generator, a number of RVs and staff time for about 60 employees to assist with getting electric service back in some areas.

**Resun Corporation**, based in Dulles, VA donated the use of a temporary office unit to Providence Hospital in Mobile, AL for use by the hospital nuns to sort and distribute clothing.

**Pac Van Corporation**, headquartered in Indianapolis, IN donated the use of a 10 x 46 temporary office to the Washington Parish, LA Sheriff's Office.

**Vanguard Modular Building Systems** of Malvern, PA donated the use of two temporary offices to be used in Gulf Port, MS by the Volunteers of America, with a third building donated to the same cause by **Wilmot Modular** of White Marsh, MD. **Acton Mobile Industries** of Baltimore, MD donated a fourth unit to the Volunteers, who are using the facilities to provide vaccinations for the victims of the hurricane. **TMP Services** of Colton, CA donated the aluminum steps for the buildings, and M Space Holdings coordinated the transportation.

According to Cathi Conti, Director of Marketing for Vanguard Modular, "We are proud to be able to help the relief efforts in a real way. I can't think of a better opportunity than supplying buildings that will help get volunteers to the victims and the devastated area quickly."

Jane Conkin of Mobile, Alabama-based **Quick Buildings**, served as the industry's eyes and ears for several days following the disaster. After her inventory was depleted, she forwarded requests for space to MBI and her competitors to ensure needs were met in a timely manner.

**Manufactured Structures Corporation** of Rochester, IN is spear-heading local community efforts by soliciting and accepting supplies which will be loaded in a company-owned 8 x 30 cargo van. The supplies and the van will all be donated to the relief effort.

**Marvair**, a division of Airxcel, based in Georgia, donated three 4-ton H.V.A.C. units for any manufacturer donating a building to the effort, while **Okaply Industries** of Quebec agreed to supply all ceiling tiles and wall panels for four buildings. **Veristeel, Inc.** of Las Vegas, NV agreed to donate structural steel floor panels, and **Welcome Ramp Systems** of Arlington, WA donated two 30-foot ramps.

Some companies, such as Ohio-based **Bard Manufacturing** and Arizona-based **Modular Technology**, agreed to contribute cash to offset transportation and other costs. Still others, such as **Pacific Mobile Structures** of Washington, **Blazer Industries** of Oregon, and the aforementioned Resun Corporation have organized Red Cross collection efforts to allow their employees to assist in a meaningful manner.

MBI itself donated four generators for the units used by the Volunteers of America and is assisting financially in the delivery of the donated buildings. Additionally, MBI has set aside funds generated from our Seals program (a labeling program whereby member manufacturers purchase one seal for each unit produced) in the month of September to be used for relief efforts. So far, MBI estimates that our member's donations to this effort in the immediate time frame following the rescue amounts to well over \$250,000 in cash and materials.

While it is certain that many of these companies would have acted individually in their donations, MBI played an important role in coordinating the efforts to allow all its members to be able to participate to their fullest ability. Also, our efforts allowed supplier members to donate various component parts of the buildings, so that more buildings could be donated.

The unforeseen jump in product demand has already prompted several manufacturers in neighboring states to announce plans to expand plant capacity and agree to hire displaced victims to help with the demand.

After the initial demand of space for relief workers dissipates, the industry will be faced with a large increase in the need for portable classrooms in the towns and cities that have welcomed Katrina victims. The K-12 school population is already at its highest point in U.S. history, with cities such as Baton Rouge, Houston, and Dallas likely to need additional classroom space for the victims they have helped.

After the temporary needs have been met, the high demand for permanent structures will also impact our industry. Needs for all types of buildings, including police stations, community centers, retail, education, and health care facilities, will press the commercial modular industry's capacity through 2006, and probably longer. Our industry will respond in a timely and professional manner, and MBI will help to facilitate these requests to help this area rebound.

Respectfully submitted for inclusion in the September 13, 2005 Hearing on "Charities on the Frontline: How the Non Profit Sector Meets Needs of America's Communities", this 19<sup>th</sup> day of September 2005.

Sincerely,

A handwritten signature in black ink that reads "Tom Hardiman" followed by a horizontal line.

Tom Hardiman, C.A.E.  
Executive Director  
Modular Building Institute

Statement for the Written Record  
“Charities on the Frontline:  
How the Nonprofit Sector Meets the Needs of America’s Communities”  
September 13, 2005

Submitted by the National Kidney Foundation  
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The National Kidney Foundation (NKF) is pleased to submit testimony for the written record in support of the September 13, 2005 hearing examining the role of the nonprofit sector in America’s communities. NKF is a voluntary health organization with more than 50 years of service to the nation. Our membership includes patients and families; organ transplant recipients; donor families and living organ donors; health care professionals; and members of the public at large who donate their time and talents. Twenty million Americans have Chronic Kidney Disease (CKD) and another twenty million are at risk of developing the disease. Individuals with diabetes or hypertension are especially vulnerable to CKD. The number of individuals with end stage renal disease (ESRD), irreversible kidney failure requiring either dialysis or a transplant to remain alive, is expected to increase from 372,000 patients in 2000 to over 660,000 by 2010 (Source: Xue et al, JASN 12: pp. 2753-2758, 2001).

Senators Grassley and Baucus are considering measures to expand requirements of the nonprofit sector. While we believe it is in the best interest of charities, the communities we serve, and our benefactors to assure organizations are not abusing their nonprofit status, we caution members of the Finance Committee and the Senate at large to consider the remarks contained in Senator Santorum’s opening statement. As the Senator remarked, charities and their donors must not bear a significant burden, when the issue is one of enforcement. Our donors suffered in 2004 through a provision in the JOBS Act that limits the tax deduction for donating motor vehicles to the charity’s gross selling price, rather than a fair market value, yet most vehicle donors were not abusing the system. Similarly, any attempt to address abuses in the nonprofit sector must not adversely impact charities that have operated within current laws and regulations and consistent with voluntary standards.

Most recently, NKF has stepped to the forefront to provide assistance to kidney dialysis patients and organ transplant recipients who have been displaced by Hurricane Katrina. Within a matter of days, we established a Gulf Coast Assistance Task Force. Our National staff is actively engaged with NKF Affiliates in Louisiana, Mississippi and Alabama, and we are in close contact with government and private organizations working on behalf of our kidney disease patients. In an effort to meet patient needs without

duplicating efforts, we have coordinated communication with the Centers for Medicare and Medicaid Services, Medicare kidney disease networks across the country, large dialysis organizations, nonprofit organizations, pharmaceutical and other corporate organizations, and other entities. Services, resources and needs are being matched daily through the NKF Hurricane Relief Task Force on our web site to ensure that the most current information is available to connect patients with care and other critical resources.

NKF also sponsors numerous programs for chronic kidney disease patients and transplant recipients. One of these programs, the Kidney Early Evaluation Program (KEEP), is designed to prevent or delay the progression of kidney disease and its complications. KEEP is a free kidney health screening program hosted by our state Affiliates in their communities, designed to raise awareness about kidney disease among high risk individuals and provide testing and educational information. Test results are provided on site by a physician or other health professionals. If necessary, individuals are referred to a physician or public health facility for additional tests or consultation. We have screened more than 53,000 KEEP participants as of August 31, 2005 and screen approximately 1,200 new participants per month, a tremendous increase from the 889 annual KEEP participants for 1997. Approximately 30% of KEEP participants have a history of diabetes and 50% a history of hypertension, the two leading causes of new cases of end stage kidney failure.

Undeniably, abuses occur in the charitable sector, just as they do in every sector of America. The National Kidney Foundation fully supports efforts to identify unscrupulous participants, but we would remind the Committee that abuses occur among only a small portion of charities. As the Senate continues to develop measures to address abuses in the nonprofit sector, we urge you to do no harm to those charities that have and continue to operate consistent with the trust that the public has accorded them.

Thank you.

