CHARITABLE CONTRIBUTION DEDUCTIONS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT GENERALLY

OF THE

COMMITTEE ON FINANCE UNITED STATES SENATE

NINETY-SIXTH CONGRESS

SECOND SESSION

ON

S. 219

A BILL TO AMEND THE INTERNAL REVENUE CODE OF 1954 TO ALLOW THE CHARITABLE DEDUCTION TO TAXPAYERS WHETHER OR NOT THEY ITEMIZE THEIR PERSONAL DEDUCTIONS

JANUARY 30 AND 31, 1980

Printed for the use of the Committee on Finance

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WEDNESDAY, JANUARY 30, 1980

U.S. SENATE,
SUBCOMMITTEE ON TAXATION
AND DEBT MANAGEMENT GENERALLY,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 9:30 a.m. in room 2221, Dirksen Senate Office Building, Hon. Harry F. Byrd, Jr. (chairman of the subcommittee) presiding.

Present: Senators Byrd, Moynihan, Packwood, and Chafee.

[The press release announcing these hearings and the bill S. 219 and the description of S. 219 follow:]

Press Release # H-76

PRESS RELEASE

FOR IMMEDIATE RELEASE
December 17, 1979

COMMITTEE ON FINANCE
UNITED STATES SENATE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
2227 Dirksen Senate Office Bldg.

FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT SETS HEARINGS ON S. 219, CHARITABLE CONTRIBUTIONS

Senator Harry F. Byrd, Jr. (I-Va.), Chairman of the Subcommittee on Taxation and Debt Management announced today that hearings will be held on January 30 and 31, 1980, on S. 219, the charitable contributions bill.

The hearings will begin at 10:00 a.m. on January 30 in Room 2221 and 10:30 a.m. on January 31 in Room 1318 of the Dirksen Senate Office Building.

S. 219, sponsored by Senators Packwood and Moynihan and 29 cosponsors, would permit taxpayers to take a tax deduction for charitable contributions whether or not they "itemize" their other deductions. Under present law, only itemizers are permitted to take a tax deduction for charitable contributions.

The revenue loss of this bill is $2.4 billion per year. The beneficiaries are charitable, educational, and religious organizations and beneficiaries of their programs.

Oral Testimony.--Witnesses who desire to make oral statements at the hearing should submit a written request to Michael Stern, Staff Director, Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D. C. 20510, by no later than 12:00 noon on January 21, 1980.

Legislative Reorganization Act.--Senator Byrd stated that the Legislative Reorganization Act of 1946, as amended, requires all witnesses appearing before Committees of Congress "to file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument."

Witnesses scheduled to speak should comply with the following rules:

(1) A copy of the statement must be filed by noon the day before the day the witness is scheduled to testify.

(2) All witnesses must include with their written statement a summary of the principal points included in the statement.

(3) The written statements must be typed on letter-size paper (not legal size) and at least 100 copies must be submitted by the close of business the day before the witness is scheduled to testify.

(4) Witnesses are not to read their written statements to the Subcommittee, but are to confine their oral presentations to a summary of the points included in the statement.

Written Testimony.--Written testimony submitted by witnesses not making oral statements should be typewritten, not more than 25 double-spaced pages in length, and mailed with five (5) copies by February 25, 1980, to Michael Stern, Staff Director, Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D. C. 20510.

96TH CONGRESS
1ST SESSION

S. 219

To amend the Internal Revenue Code of 1954 to allow the charitable deduction to taxpayers whether or not they itemize their personal deductions.

IN THE SENATE OF THE UNITED STATES

JANUARY 25 (legislative day, JANUARY 15), 1979

Mr. MOYNIHAN (for himself and Mr. PACKWOOD) introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To amend the Internal Revenue Code of 1954 to allow the charitable deduction to taxpayers whether or not they itemize their personal deductions.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 62 of the Internal Revenue Code of 1954 (defining adjusted gross income) is amended by inserting after paragraph (14) the following new paragraph:

"(15) CHARITABLE CONTRIBUTIONS.—The deduction allowed by section 170.".

(b) Paragraph (1) of section 57(b) of such Code (defining adjusted itemized deductions) is amended—

(1) by redesignating subparagraphs (C) and (D) as (D) and (E).

(2) by inserting after subparagraph (B) the following new subparagraph:

"(C) the deduction for charitable contributions allowed by section 170,",

(3) by striking out "the taxpayer's adjusted gross income for" and inserting in lieu thereof "the taxpayer's adjusted gross income (determined without regard to section 170) for", and

(4) by striking out "(A) through (D)" and inserting in lieu thereof "(A) through (E)".

(c) Subparagraph (E) of section 170(b)(1) of such Code (defining contribution base) is amended by inserting "and without regard to this section" after "section 172".

(d) Paragraph (1) of section 213(a) of such Code (relating to allowance of deduction for medical, dental, etc. expenses) is amended by inserting after "adjusted gross income" the following: "(determined without regard to paragraph (15) of section 62).".

(e) Section 213(b) of such Code (relating to limitation with respect to medicine and drugs) is amended by inserting "(determined without regard to paragraph (15) of section 62)" after "adjusted gross income".

(f) Subparagraph (A) of section 3402(m)(2) of such Code (defining estimated itemized deductions) is amended by striking out "paragraph (13)" and inserting in lieu thereof "paragraphs (13) and (15)".

SEC. 2. The amendments made by the first section of this Act shall apply to taxable years beginning after December 31, 1978.

DESCRIPTION OF S. 219

RELATING TO

THE DEDUCTION FOR CHARITABLE CONTRIBUTIONS

INTRODUCTION

The bill described in this pamphlet, S. 219, has been scheduled for a hearing on January 30 and 31, 1980, by the Subcommittee on Taxation and Debt Management Generally of the Senate Finance Committee. The pamphlet provides a summary of S. 219, followed by a description of present law, discussion of the issues, explanation of the bill's provisions, its effective dates, and its revenue effects. An appendix provides background information and statistics on charitable contributions, itemization of deductions, donors' income levels, and charitable donees.

I. SUMMARY OF S. 219

Senators Moynihan, Packwood and Others[1]

Under present law, a deduction is allowed for certain charitable contributions made by individuals or corporations (sec. 170). For individual taxpayers, charitable contributions are allowed as itemized deductions which are subtracted from adjusted gross income in arriving at taxable income. Thus, in order to benefit from the deduction, the amount of an individual's charitable contributions, together with his or her other itemized deductions, must exceed the amount of his or her "zero bracket amount."[2] In addition, present law treats an individual's deduction for charitable contributions as an item of tax preference (sec. 57) for purposes of the alternative minimum tax (sec. 55) and the maximum tax (sec. 1348).

Under the bill, the deduction for charitable contributions would be allowed as a deduction from gross income in arriving at adjusted gross income. Thus, the deduction would be allowed in addition to a taxpayer's zero bracket amount. In addition, the bill would end the treatment of the charitable contributions deduction as an item of tax preference.

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[1] Cosponsors of S. 219 are Senators DeConcini, Durenberger, Cochran, Lugar, Hayakawa, Mathias, Melcher, Javits, Schmitt, Schweiker, Chafee, Jepsen, Randolph, Durkin, Stone, Helms, Hatch, Leahy, Humphrey, Cranston, Simpson, Thurmond, Tower, Hollings, Heinz, Gravel, Wallop, Armstrong, Stewart, Bradley, Boren, Jackson, Warner and Heflin.

[2] The zero bracket amount is $2,300 for heads of household and unmarried individuals, $3,400 for married individuals filing joint returns, $1,700 for married individuals filing separate returns, and $1,050 for estates and trusts.

II. DESCRIPTION OF S. 219

A. Deduction for Charitable Contributions

Present law

Under present law, a deduction for charitable contributions may be claimed by individual taxpayers as an itemized deduction from adjusted gross income in determining taxable income for the year in which the contributions are made. The amount of the deduction is subject to limitations depending on the nature of the contribution, type of donee, and the value of the contribution in relation to the taxpayer's adjusted gross income (without regard to net operating loss carrybacks).

Issue

The issue is whether the deduction for charitable contributions should be extended to taxpayers who do not itemize their deductions by allowing charitable contributions to be claimed as an above-the-line deduction from gross income.

Explanation of provision

Under the bill, the deduction for charitable contributions would be allowed as a deduction from gross income in arriving at adjusted gross income. Thus, the level of a particular individual's zero bracket amount would not affect the deduction and an individual would be permitted to take a deduction for charitable contributions whether or not he or she itemizes deductions.

The bill also would include several technical amendments designed to preserve the effect of certain present law rules which otherwise would be affected by the bill's substantive changes. For purposes of the limitations on the charitable contributions deduction which are based on a percentage of adjusted gross income, adjusted gross income would continue to be determined without regard to the deduction. For purposes of the floor of three percent of adjusted gross income under the deduction for medical expenses, and the floor of one percent of adjusted gross income under the deduction for medicine and drugs, adjusted gross income would be determined without regard to the charitable contributions deduction. Finally, an employee still would be permitted to take into account the amount of his or her anticipated charitable contributions deduction for the year in determining his or her income tax withholding allowances for the year.

Effective date

These provisions would apply to taxable years beginning after December 31, 1978.

Revenue effect

The bill, as introduced, would reduce calendar year liability and fiscal year receipts as follows:

($-million)

	1979	1980	1981	1982	1983	1984	1985
Calendar	1, 979	2, 176	2, 394	2, 634	2, 897	3, 187	3, 505
Fiscal		[1] 2, 331	2, 212	2, 433	2, 677	2, 945	3, 239

[1] Includes the revenue loss for fiscal 1979 already past.

If the bill's effective date were changed to taxable years beginning after December 31, 1979, the bill would reduce calendar year liability and fiscal year receipts as follows:

($-million)

	1980	1981	1982	1983	1984	1985
Calendar	2, 176	2, 394	2, 634	2, 897	3, 187	3, 505
Fiscal	357	2, 212	2, 433	2, 677	2, 945	3, 239

B. Tax Preferences:

Alternative Minimum Tax and Maximum Tax

Present law

Alternative minimum tax.—Under present law, the charitable contributions deduction is an item of tax preference subject to the alternative minimum tax (sec. 57). The alternative minimum tax applies at rates up to 25 percent to the total of a noncorporate taxpayer's gross income reduced by deductions allowed for the taxable year and by accumulation distributions from trusts, and increased by two tax preferences (sec. 55). These tax preferences are the capital gains deduction and adjusted itemized deductions. The amount of adjusted itemized deductions is the amount by which certain itemized deductions, including the charitable contributions deduction, exceed 60 percent of the taxpayer's adjusted gross income (sec. 57(b)).

Maximum tax.—Under present law, the maximum marginal tax rate applicable to taxable income from personal services generally is 50 percent. However, the amount of personal service income eligible for the maximum tax is reduced dollar-for-dollar by the amount of an individual's tax preferences for the year. The taxpayer's adjusted itemized deductions, including any charitable contributions deduction, are among the preferences reducing the amount of personal service income entitled to benefit from the maximum tax under section 1348.

Issue

The issue is whether the deduction for charitable contributions should continue to be treated as a tax preference item subject to the alternative minimum tax and continue to reduce the amount of personal service income which is eligible for the rate ceiling of the maximum tax.

Explanation of provision

The bill would provide that the deduction for charitable contributions would not be taken into account in determining the amount of an individual's tax preference items. Thus, the amount of an individual's charitable contributions deduction would not be included in the taxpayer's income for purposes of the alternative minimum tax, nor would it reduce personal service income for purposes of the maximum tax.

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Effective date

These provisions would apply to taxable years beginning after December 31, 1978.

Revenue effect

The tax preference changes in S. 219, as introduced, would reduce calendar year liability and fiscal year receipts as follows:

($-million)

	1979	1980	1981	1982	1983	1984	1985
Calendar	30	33	36	40	44	48	53
Fiscal		30	33	36	40	44	48

If the bill's effective date were changed to taxable years beginning after December 31, 1979, the tax preference changes would reduce calendar year liability and fiscal year receipts as follows:

($-million)

	1980	1981	1982	1983	1984	1985
Calendar	33	36	40	44	48	53
Fiscal		33	36	40	44	48

III. APPENDIX:

BACKGROUND AND STATISTICAL DATA

A. Amount and Type of Charitable Contributions

Amount

In 1978, individuals gave approximately $32.8 billion to charitable organizations. Individuals accounted for the largest share, 82.8 percent, of the $39.6 billion in total contributions to these organizations from all private sources, including foundations, corporations, and bequests. During the period 1960–1978, individual giving has remained a constant percentage of disposable personal income, about 2 percent.[1]

Type of recipient

Religious organizations are the largest single category of recipients of private charitable giving. In 1978, they received 46.4 percent of all private contributions, while health and welfare groups received 24.9 percent, educational institutions 13.9 percent, and other groups (including civic and cultural groups) 15.7 percent.

Individuals give about 56 percent of their total contributions to religious organizations, a higher share of individual giving than of all private giving. (This can be inferred from the fact that other categories of private givers—corporations, foundations, and bequests—give very little to religious organizations.) Estimates of the proportion of individual giving to recipient categories other than religious organizations are not available.

Amount of individual giving and type of recipient by income class

Table 1 presents the most recent data on the percent of income which individuals give to charitable organizations, by income class. Although these figures are derived from tax returns and, thus, only from those individuals who itemize deductions on their tax return, they probably are representative of all taxpayers, because few taxpayers are able to itemize deductions solely on account of their charitable contributions.[2] Table 1 indicates that contributions constitute a relatively constant percentage of adjusted gross income for middle-income individuals, but are a relatively high percentage of adjusted gross income for both the lowest and highest income groups.

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[1] *Giving U.S.A.*, 1979 Annual Report, American Association of Fund Raising Counsel.

[2] See e.g., Michael J. Boskin and Martin S. Feldstein, "Effects of the Charitable Deduction on Contributions by Low-Income and Middle Income Households: Evidence from the National Survey of Philanthropy," Harvard Institute of Economic Research, Discussion Paper 427, July 1975.

TABLE 1.—CHARITABLE CONTRIBUTIONS BY INCOME CLASS 1978: TAXABLE RETURNS WITH ITEMIZED DEDUCTIONS

Adjusted gross income (thousands)	Amount of contributions (thousands)	Percent of adjusted gross income
Below $10	$459, 209	4. 9
$10 to $20	3, 411, 012	3. 0
$20 to $30	5, 058, 087	2. 3
$30 to $50	4, 694, 809	2. 3
$50 to $100	2, 409, 021	2. 7
$100 to $200	1, 247, 829	3. 5
$200 and over	1, 711, 628	6. 8
Total	18, 992, 494	2. 7

Contributions received by charitable donees vary markedly by their contributors' income class, as shown in Table 2. The percentage of income given to religious organizations declines as income rises, while the percentage of income contributed to welfare, educational, and other organizations generally rises with income, particularly when income rises above $25,000. Thus, religious contributions are a greater proportion of total contributions for individuals at the lowest income levels than for individuals at the highest income levels.

TABLE 2.—INDIVIDUAL CONTRIBUTIONS TO ORGANIZATIONS BY TYPE OF RECIPIENT AND INCOME CLASS, 1972–1973

Income class (thousands)	Average contribution (percent of income in parentheses): Welfare organizations	Religious organizations	Other	Total
Below $3	$12.59(0.7)	$39.36(2.3)	$3.38(0.2)	$55.33(3.2)
$3 to $4	7.73(.2)	63.78(1.8)	1.78(.1)	73.28(2.1)
$4 to $5	9.57(.2)	62.80(1.4)	3.51(.1)	75.89(1.7)
$5 to $6	11.32(.2)	79.55(1.5)	2.11(.04)	92.98(1.7)
$6 to $7	15.33(.2)	90.52(1.4)	3.88(.1)	109.73(1.7)
$7 to $8	14.14(.2)	90.44(1.2)	1.64(.02)	106.22(1.4)
$8 to $9	21.46(.2)	110.44(1.2)	3.66(.04)	135.57(1.5)
$10 to $12	28.87(.2)	128.81(1.2)	5.10(.05)	162.79(1.5)
$12 to $15	39.07(.3)	160.09(1.2)	5.46(.04)	204.62(1.5)
$15 to $20	53.08(.3)	203.09(1.2)	8.04(.05)	264.21(1.5)
$20 to $25	87.69(.4)	266.25(1.2)	16.05(.07)	369.99(1.7)
$25 and over	215.67(.6)	434.34(1.2)	81.88(.2)	731.88(1.9)
Total	43.29(.4)	147.22(1.2)	10.56(.1)	201.07(1.7)

Source: Bureau of Labor Statistics, *Consumer Expenditure Survey: Interview Survey, 1972–73.* Bulletin 1997, Vol. 1, 1978.

B. Trends in Itemization of Deductions

Table 3 shows that the percentage of taxpayers who itemize their deductions has fluctuated considerably. As recently as 1970, 57.4 percent of all taxable returns contained itemized deductions. By 1979, however, taxable returns with itemized deductions had fallen to approximately 39.2 percent. This decrease in itemizers occurred largely because of increases in the zero bracket amount (standard deduction) during the 1970's. These increases in the zero bracket amount generally caused greater numbers of lower income taxpayers to switch from itemizing. Therefore, the proportion of total adjusted gross income received by taxpayers who itemize has not fallen as rapidly. In 1970, 72.6 percent of adjusted gross income received by all taxpayers was accounted for by those who itemized; in 1979, this percentage was estimated to be 58.1 percent.

TABLE 3.—NUMBER AND INCOME OF TAXPAYERS WITH ITEMIZED DEDUCTIONS AS A PERCENTAGE OF AMOUNTS FOR ALL TAXABLE RETURNS, 1964–79

	Number of taxable returns (thousands)			Adjusted gross income ($ billions)		
Year	All returns	Itemizing returns	Percent itemizing	Amount on all returns	Amount on itemizing returns	Percent on itemizing returns
1964	51, 306	25, 009	48. 7	$376	$238	63. 3
1965	53, 701	25, 957	48. 3	409	261	63. 8
1966	56, 709	26, 792	47. 2	450	285	63. 3
1967	58, 673	28, 122	47. 9	487	317	65. 1
1968	61, 289	30, 370	49. 6	538	363	67. 5
1969	63, 721	33, 201	52. 1	588	411	69. 9
1970	59, 317	34, 036	57. 4	610	443	72. 6
1971	59, 916	29, 285	48. 9	651	432	66. 4
1972	60, 869	25, 709	42. 2	717	429	59. 8
1973	64, 267	26, 868	41. 8	800	479	59. 9
1974	67, 335	28, 340	42. 1	880	537	61. 0
1975	61, 491	24, 522	39. 9	898	521	58. 0
1976	64, 421	24, 594	38. 2	1, 004	571	56. 9
1977	64, 350	21, 855	34. 0	1, 094	583	53. 3
1978	68, 806	24, 650	35. 8	1, 242	698	56. 2
1979 (est.)	70, 792	27, 750	39. 2	1, 390	808	58. 1

Table 4 presents estimates of the percentage of taxpayers in various income classes who itemize for 1979. Virtually all of those in the lowest income group take the zero bracket amount (standard deduction). In the highest income group, almost all taxpayers itemize.

TABLE 4.—ITEMIZING RETURNS AS A PERCENTAGE OF ALL TAXABLE RETURNS, BY INCOME CLASS, 1979 (ESTIMATED)

Expanded income [1] (thousands)	Taxable returns (thousands)	Itemizing returns (thousands)	Percent of returns which itemize
Below $5	4, 596	95	2. 1
$5 to $10	14, 257	1, 138	8. 0
$10 to $15	14, 193	3, 219	22. 7
$15 to $20	11, 798	5, 061	42. 9
$20 to $30	15, 693	9, 497	60. 5
$30 to $50	8, 001	6, 505	81. 3
$50 to $100	1, 999	1, 820	91. 0
$100 to $200	346	326	94. 2
$200 and over	91	88	96. 7
Total	70, 974	27, 751	39. 1

[1] Expanded income means adjusted gross income plus minimum tax preferences (largely excluded capital gains) less investment interest expense to the extent of investment income.

C. Types of Taxpayers Affected by S. 219

By allowing charitable contributions to be deducted from gross income, S. 219 would provide taxpayers who do not itemize their deductions with a tax saving for such contributions by reducing their Federal income tax liability by 14 to 70 cents for each dollar of contributions, depending on their marginal tax bracket. This group of taxpayers would account for most of the revenue loss associated with this bill.

Taxpayers who may itemize their deductions under present law would account for 25 percent of the revenue loss. This occurs for two reasons. First, some taxpayers who now itemize only because of the availability of the charitable deduction would switch to the standard deduction, while continuing to deduct charitable contributions. Second, because the charitable deduction could be claimed "above-the-line," and would reduce adjusted gross income, the benefit of some tax provisions, such as the earned income credit, the amount of which depends on adjusted gross income, would increase. The distribution of the estimated revenue loss of S. 219 by income class and present law itemizing status is shown in Table 5.

TABLE 5.—ESTIMATED REVENUE LOSS OF S. 219, BY INCOME CLASS AND CURRENT LAW ITEMIZING STATUS, 1979 INCOME LEVEL

Expanded income [1] (thousands)	Nonitemizers (millions)	Itemizers (millions)	Total (millions)	Percent of Total	Cumulative Percent of Total
Below $5	$44	$1	$45	2.3	2.3
$5 to $10	259	24	283	14.3	16.6
$10 to $15	260	57	317	16.0	32.6
$15 to $20	287	78	365	18.4	51.0
$20 to $30	432	140	572	28.9	79.9
$30 to $50	159	89	248	12.5	92.4
$50 to $100	37	29	66	3.4	95.8
$100 to $200	4	24	28	1.4	97.2
$200 and over	1	54	55	2.8	100.0
Total	1,483	496	1,979	100.0	

[1] Expanded income means adjusted gross income plus minimum tax preferences (largely excluded capital gains) less investment interest expense to the extent of investment income.

Senator BYRD. The hour of 9:30 having arrived, ~~the~~ committee will come to order.

The subcommittee today will begin 2 days of hearings on S. 219. This measure, as sponsored by Senators Moynihan and Packwood, would permit taxpayers to deduct charitable contributions regardless of whether or not they itemize other deductions.

The chief sponsors of the proposal are Senators Moynihan and Packwood. In addition there are over 21 other cosponsors, including other members of the Finance Committee.

The idea of permitting a special deduction for charitable contributions must be evaluated closely. While it may encourage greater charitable contributions, it could also create additional complexity. Further, the proposal is a departure from the current structure of the Tax Code, since it permits both a standard deduction and an additional deduction.

It could serve as a precedent to permit other types of deductions to be taken as well as the standard deduction. However, charities contribute greatly to our Nation in a variety of important ways.

Charitable organizations provide an alternative to public programs. This alternative may be in the field of education, health care, child care, or assistance to the needy.

I am a strong believer in the private sector of our economy. I wish to see the continued growth and vitality of charitable organizations.

The Joint Committee on Taxation has estimated that the proposal before this subcommittee today will cause a revenue loss of over $2 billion in 1980, rising to over $3 billion in 1985. A detailed analysis prepared by the joint committee on this proposal has been printed and will be included as a part of the record of these hearings.

I share the concerns of many charitable organizations about the impact in changes of the tax law upon small gifts to charities. The increase in the size of the standard deduction has reduced the number of taxpayers who itemize, and may have reduced the incentive for charitable giving.

I am glad the committee will have an opportunity to look carefully at S. 219. I am sure that the subcommittee and the Finance Committee will give the proposal thoughtful and thorough consideration.

The distinguished Senator from Oregon and the distinguished Senator from New York, the chief sponsors of this legislation, are here at the moment. I would ask Senator Packwood if he has any comment at this point, then Senator Moynihan.

Senator PACKWOOD. Mr. Chairman, thank you.

There are few bills that I have sponsored in the almost 12 years that I have been here about which I feel as strongly. If the Government is going to do anything to encourage activities beyond what the normal marketplace would encourage, there are only two ways to go about it.

One is the grant system, whereby we collect money from the taxpayers, bring it to Washington and run it through the Internal Revenue Service and the Treasury Department out to the various agencies. It is then allotted to those who properly applied for the grants and met the standards that we set.

The other way to encourage it is by tax incentives which require relatively little Government intervention.

Wherever we have an opportunity, it is between those two: the grant system and the tax incentive system, to achieve basically the same end. In this case, I overwhelmingly prefer the tax incentive system.

If we want to encourage charitable activities, I can think of a no more difficult, onerous, or divisive task than to set up the equivalent of the U.S. Charities Commission which would allocate Federal moneys, assuming it was constitutional, to perform the activities that eleemosynary, educational and other charitable institutions now perform.

I can think of no better return than that we get out of the organizations that would be entitled to the deduction that this bill allows.

Last, I would say that there would be no way under any kind of Federal grant program that we could receive the literally millions of hours of volunteer time that are given for nothing to all kinds of charitable organizations. If we further discourage the giving to the institutions covered by the bill that we are here considering, and think we are going to make up the difference with some form of Federal grant, America will be the loser.

Senator BYRD. Senator Moynihan?

Senator MOYNIHAN. Thank you, Mr. Chairman. I have a statement which I would like to put in the record, if I may.

Senator BYRD. Yes, it will be included in the record.

[The opening statements of Senators Byrd, Moynihan, and Chafee follow:]

OPENING STATEMENT OF SENATOR HARRY F. BYRD, JR.

Charities contribute greatly to our nation.

In a variety of important ways, charitable organizations provide an alternative to public programs. This alternative may be in the field of education, health care, child care or assistance to the needy.

I am a strong believer in the private sector of our economy. I wish to see the continued growth and vitality of charitable organizations.

The Subcommittee will today, begin two days of hearings on S. 219. This measure, sponsored by Senators Moynihan and Packwood, would permit taxpayers to deduct charitable contributions regardless of whether or not they itemize other deductions. The chief sponsors of the proposal are Senators Moynihan and Packwood. In addition, there are over twenty-one other co-sponsors, including other members of the Finance Committee.

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The idea of permitting a special deduction for charitable contributions must be evaluated closely. While it may encourage greater charitable contributions, it also could create additional complexity. Further, the proposal is a departure from the current structure of the Tax Code since it permits both a standard deduction and an additional deduction. It may serve as a precedent to permit other types of deductions to be taken as well as the standard deduction.

I am glad the Committee will have an opportunity to look carefuly at S. 219. I am sure that this Subcommittee and the Finance Committee will give the proposal thoughtful and thorough attention.

Opening Statement of Senator Daniel Patrick Moynihan

This morning we commence two days of hearings on one of the most important pieces of tax legislation that the Finance Committee has had before it in recent years: a bill that would slightly shrink the amount of revenue collected by the federal Treasury in order greatly to strengthen the vast and vital network of private, nonprofit organizations and activities that we have come to know as the Independent Sector; and—not at all incidentally—to reduce the federal income taxes paid by millions of low and middle income persons who understand the importance of that sector and who give of their own earnings that it can carry out its essential and variegated activities.

This bill embodies the principle of pluralism; it salutes the idea of voluntarism; and it represents a clear statement that government policies and actions should be purposefully designed to foster nongovernmental activities and organizations. Its importance is amply illustrated by the extraordinarily distinguished list of Americans who have asked to appear before the Subcommittee to share their experiences, their insights and their concerns with us.

It should not, however, be thought for one moment that passage of this bill would mark any fundamental change in the premises that now underly the personal income tax. The charitable deduction dates back to 1917 when, in an eloquent editorial in support of the then-pending amendment, The Washington Post observed that:

"If the government takes all, or nearly all, of one's disposable or surplus income, it must undertake the responsibility for spending it, and it must then support all those works of charity and mercy and all the educational and religious works which in this country have heretofore been supported by private benevolence. . . . This country cannot abandon or impoverish the great structure of private charity and education that has been one of the most notable achievements of American civilization. Therefore with every additional dollar the government finds it necessary to take in taxation, it becomes increasingly necessary to accept the principle of the pending amendment and leave untaxed that part of every citizen's income which he may voluntarily give to the public good."

The Congress accepted that proposition and the charitable deduction endures to this day in the internal revenue code. The problem, of course, is that as fewer and fewer taxpayers "itemize", the purpose of the charitable deduction is steadily eroded and its incentive effect attenuated.

Our bill would simply restore the charitable deduction to its original condition by enabling every taxpayer who makes a charitable contribution to deduct it before calculating the income on which he owes taxes to the federal government.

Nor should it be thought that "above the line" deductions are an innovation. They are already provided for such disparate outlays as moving expenses, alimony, and the penalties that must be paid for early withdrawal of funds from fixed-term savings certificates. It seems unobjectionable to confer the same treatment on one of mankind's noblest impulses: the voluntary support of worthwhile voluntary activities.

The alternative to S. 219 is the steady erosion of the financial basis of the independent sector and a steady increase in the size and role of government. Inasmuch as that is the natural inclination of government and the disposition of those whose primary interests are governmental, it is no small undertaking to arrest the process. It must, therefore, be seen for what it is: a wasting disease that slowly but inexorably saps the vitality of a free society and replaces its nerves and sinews with the cold, impersonal, and often unresponsive apparatus of the state.

Liberal social policy in the present age requires a renewed appreciation of pluralism and a revitalization of the proposition that public purposes are served by private activities and organizations as well as by the agencies of government. S. 219 would take a long step toward that renewal and revitalization.

Introductory Remarks by Senator John H. Chafee

Mr. Chairman, Senator Packwood and Senator Moynihan are to be congratulated for their sponsorship and persistent support of S. 219, the charitable contributions bill. Individuals who do not itemize their tax returns should be entitled to the same tax benefits for their charitable donations as those who do itemize.

The private nonprofit institutions, the so-called "third sector" of our society, are fundamental to the way of life in this country. Americans have always been self-starters. We do not call on our government to solve every problem. Yet, there has been a trend in recent years away from the private nonprofit sector toward more reliance on government.

Part of this is understandable and, I suspect, has resulted from the demand for quicker solutions to our social and economic problems. But what I find most disturbing about this is the evidence that charitable giving is becoming either less important or less possible for many Americans. for example, between 1971 and 1976 charitable contributions in the U.S. fell from a total of 1.98 percent of GNP to 1.74 percent—a 12 percent decline in just 5 years.

As Senator Packwood said in a statement last year:

"One reason contributions are not keeping pace with the economy is that, as the government provides more and more services, a citizen can say, 'Let Uncle Sam do it' ".

But there is an equally disturbing reason for the overall decline in charitable giving: Uncle Sam himself is making it harder and more expensive to give.

That is why we are here today. As recent tax reform legislation has simplified the process of filing tax returns, it has reduced the portion of taxpayers who itemize their deductions. Therefore, those who no longer itemize can receive no direct tax benefit from their contributions. This is contrary to the principle long espoused in this country that private donations to nonprofit organizations for essentially public purposes should not be taxed.

In 1970, 57 percent of taxpayers itemized. By 1978, only 36 percent did so, and the proportion continues to drop as tax simplification efforts progress.

Figures show that itemizers contribute twice as much to charitable organizations as nonitemizers, yet the vast majority of middle and lower income taxpayers is being systematically denied any tax deduction for its support of nonprofit institutions.

In fact, the biggest decline in giving has been among middle income groups. These are the groups that form the bedrock support for such organizations as the United Way, the Red Cross, Catholic Charities and others.

In Rhode Island, we depend heavily on donations to nonprofit organizations for programs as basic as Meals on Wheels and others as esthetic as historic preservation. In a State with less than a million population, the United Way, for example, raised over $10 million in 1979. The funds are allocated to 238 separate programs run by 141 nonprofit agencies and their branches.

This was the result of 180,000 individual contributions. In addition to about 35 full-time employees, our United Way has enlisted the active participation of 27,000 volunteers who serve as contact persons in various businesses and neighborhoods to raise money.

This remarkable effort is accomplished with an administrative cost of only 8 cents from every dollar contributed. I have yet to see any governmental agency do so much at so little cost with so few full-time employees. Can you imagine the fix we would be in if our government had to assume the burden of services now provided voluntarily by groups like the Salvation Army, the YMCA, the Scouts, Red Cross, day care centers, settlement houses, psychiatric counselors, and a host of others?

In a separate effort, the Catholic Charities of Rhode Island raised about 2.4 million in their annual 1979 fundraising appeal. This effort supports an impressive array of 28 full-time member agencies, 31 other programs, and 7 high schools in our state.

It troubles me that government policies—no matter how inadvertently—are creating a heavier burden for the people who fund our nonprofit organizations and churches. I have always supported efforts to simplify personal income tax returns. This has benefited the many people who find it difficult to deal with a long and complex system of itemization.

However, I also believe that the interest of fairness requires us to provide a simple deduction for individuals who make charitable contributions, whether they itemize their tax returns or not. As subtle as this change might be on individual behavior and the incentive to give, it would certainly provide a clear statement of national policy in support of private initiative and our great nonprofit institutions.

I am pleased to announce that Mr. Thomas Whitten, representing the John Hope Settlement House in Providence, Rhode Island, and also, the United Neighborhood Centers of America, will present testimony during the course of these hearings.

As a cosponsor of S. 219, I urge the Committee to move swiftly to approve this legislation.

Senator MOYNIHAN. As you know, we are starting out this morning with the equivalent of testimony from President and Mrs.

Carter, who are obviously very much in favor of our bill. This word has perhaps not reached the Treasury yet, but it will, it will.

I do not think we should delay, since we have two distinguished colleagues from the other body also to hear from, I am anxious to know what the President thinks about this bill, Mr. Chairman.

Senator BYRD. Before having the oral testimony, suppose we have this short film which would give some indication about how the President and Mrs. Carter feel toward this legislation.

[A film is shown.]

Senator BYRD. That is a very nice film featuring a very lovely and charming lady. I am not sure that I gathered from the film precisely where President Carter stands on this legislation, but I must say that is a problem that I have with a great many of President Carter's speeches.

The first two witnesses will be the Honorable Barber Conable, Congressman from the State of New York and the ranking Republican member of the House Ways and Means Committee, and my distinguished colleague from Virginia, the Honorable Joseph L. Fisher. Following them, the Honorable Donald C. Lubick, Assistant Secretary for Tax Policy of the U.S. Treasury Department.

Congressman Conable, Congressman Fisher, would you come to the witness table?

You may proceed in any order that you wish.

STATEMENT OF HON. BARBER B. CONABLE, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Representative CONABLE. Thank you, Mr. Chairman, fellow cosponsors. I greatly appreciate your willingness to hold these hearings. I feel it will help focus attention on what we believe to be a very important measure, one that will help our system in the best way possible.

I am pleased to be able to be here at the beginning of these hearings to renew my advocacy of the bill sponsored in the House by Congressman Fisher, myself and 130 others and in the Senate by the gentleman flanking me, Mr. Chairman, and 30 others.

The proposal is not a new one, but its wide base of support indicates its timeliness and continuing relevance. It deserves your support and enactment.

The idea of this legislation is simple. People ought not be taxed on money they contribute to charitable causes. This should be true whether or not their other economic actions make it advantageous for them to itemize their deductions. Allowing everyone to deduct charitable contributions from taxable income, as this bill proposes, would restore the badly eroded incentives for supporting the independent sector and would strengthen the precarious position of charities in today's inflationary economy.

I do not need to plead the case for the voluntary sector. Its importance in our Nation is self-evident. Today and tomorrow, several dozen witnesses will describe in great detail the worthy activities undertaken by their own organizations which are representative of the entire independent sector.

Regardless of the specificity of the endorsements in the movie, clearly the worthy activities were described in the most glowing terms from on high.

As you listen to these witnesses, imagine, if you can, what our Nation would be like without the spiritual, cultural, or nurturing organizations that depend on voluntary contributions of time, effort, and funds. The Government could not fill these needs, nor should it. The independence of the voluntary sector from Government budgeting and control has been an important part of its success.

The major motivation behind this legislation is to reestablish a proper and appropriate balance between the Government and the voluntary sector. Reaffirming this balance is crucial in today's tightfisted fiscal environment which limits Government's ability to support social services, cultural activities and the like.

There are many interesting statistical observations that can—and will—be made about the relationship between the tax structure and the financial status of independent sector organizations. These are, of course, important facts to consider. But let's not get so bogged down in printouts and revenue estimates that we lose sight of the fundamental purpose of this legislative effort—the assurance that the independent sector will continue to enjoy broad based, generous public support.

Without this legislation, people of modest means increasingly will find themselves using the zero bracket on their income tax returns. Therefore, their charitable contributions, if any, will be made in after-tax dollars rather than in tax-deductible dollars. Inflation is already viciously bearing down on people's ability to support themselves and their families, and eroding their support for charities. When financial support is withdrawn, there is a tendency for volunteer activities to fall off as well.

As people with modest and low incomes abandon the independent sector, charities and voluntary organizations will increasingly turn to the relatively few remaining wealthy donors who still itemize their deductions. This pattern is already evident in several types of institutions.

Probably the most popular, high-visibility institutions will survive—universities, hospitals, museums, and the like. But many of the more delicate, less well-established agencies will be lost in this increasingly rugged environment for charities.

Unwittingly, we have passed tax changes in the last decade which have severely undermined people's propensity and ability to support charitable causes. In the 1970's, the standard deduction increased six times. In 1970, when it was 10 percent of adjusted gross income up to a maximum of $1,000, about one-half of all taxpayers itemized their deductions. By 1979, the zero bracket, regardless of income level, was $3,400 on a joint return, $2,300 for a single return. Less than a one-quarter of all taxpayers are expected to itemize deductions on their 1979 tax returns.

As a consequence, charitable organizations receive fewer contributions than they would have otherwise. According to a recent Gallup survey, those who itemize personal deductions—regardless of income level—give more than those who claim the standard deduction. In the $15,000 to $20,000 income range, for example, itemizers give three times more than nonitemizers on average. Charities estimate that over the last decade, the incresaed standard deduction reduced contributions by some $5 billion. They figure that the high zero bracket level is currently costing them over $1 billion annually.

The dwindling number of itemizers increases the risk that deductibility of charitable contributions will be labeled a loophole and will become a target of reform efforts. The increasingly narrow base of support for this deduction leaves it increasingly vulnerable to sunset procedures and congressional limits on tax expenditures.

Let me put to rest the argument that permitting taxpayers to use the zero bracket amount while also claiming deductions for charitable contributions amounts to a double dip. The rapid increase last decade in the standard deduction and zero bracket as a tax cutting and simplification device obliterated any connection—and it was always tenuous at best—between a hypothetical basket of deductions claimed by the average taxpayer and the zero bracket. At the end of my testimony, I have included an analysis of the legislative history of the standard deduction and zero bracket prepared by the Library of Congress.

The President chose not to recommend a tax cut in his state of the Union address. He has indicated, however, that if economic conditions warrant, a tax cut would be considered later this year. In these inflationary times, the Fisher-Conable bill is one of the most appropriate types of tax cuts to make. Simple commonsense says that giving middle- and low-income families tax cuts conditioned on their contributing their increased spending power to charities—rather than spending it on something like a new refrigerator—is preferable to squeezing the charities further through zero bracket increases.

As an added benefit the additional contributions occasioned by this tax cut will enable charities to expand their services at a time when the Government's economic conditions increases the need for services and decreases the Government's ability to provide them.

Inflation means not only higher prices, but to the extent that people's income keeps pace, it means higher taxes as well. Either way, they have less total spending power and less ability to support the independent sector. This problem has crept up on us gradually, and unfortunately we have become accustomed to living with it.

But if we value the role of the independent sector in our Nation, we cannot afford to ignore it very much longer. For charitable organizations, the alternatives are bleak—they will cease to exist, they will become the domain exclusively of the wealthy, or they will be taken over by the Government. Frankly, I do not know which is worse.

The economic situation warrants a tax cut of sufficient dimensions to accommodate this provision. The increasingly difficult fundraising position of the independent sector makes prompt action imperative if we want to preserve an appropriate balance between the public and voluntary sectors. I urge this committee and my own Committee on Ways and Means to move promptly on this legislation.

Mr. Chairman, I have attached to my statement the study from the Library of Congress to which I referred.

Senator BYRD. Would you like that inserted in the record?

Representative CONABLE. If it could be inserted in the record.

Senator BYRD. Without objection, it will be inserted in the record.

[The material referred to follows. Oral testimony continues on p. 44.]

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LEGISLATIVE HISTORY OF THE STANDARD DEDUCTION AND THE ZERO BRACKET AMOUNT IN FEDERAL INCOME TAXATION

Prepared at the Request of the House Ways and Means Committee

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July 20, 1979

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LEGISLATIVE HISTORY OF THE STANDARD DEDUCTION AND THE ZERO BRACKET AMOUNT IN FEDERAL INCOME TAXATION

Personal Exemptions

Although the standard deduction did not enter the income tax until the 1940's, initially the personal exemption may have performed the role later filled by the standard deduction. Since the Tariff Act of October 3, 1913, 1/ the United States income tax has contained a personal exemption for a certain amount of income. The 1913 Act provided for a $3,000 exemption for single individuals and a $4,000 exemption for a married couple.

Although the committee reports 2/ do not offer an explanation for personal exemption, some of the floor discussion on H.R. 3221, the Tariff Act, indicates that some Members of Congress believed that the amount of income necessary to provide a decent living should not be taxed. Several Congressmen thought that the amount of the exemption should be lowered to $1,000. In defending the higher personal exemption, Members of Congress gave their opinions as to the purpose of the personal exemption.

1/ P.L. No. 16, 63d Cong. 1st Sess. This bill contained the first individual income tax passed after the ratification of the Sixteenth Amendment in 1913.

2/ U.S. Congress. House. Committee on Ways and Means. To Reduce Tariff Duties, To Provide Revenue for the Government, and for Other Purposes. Report No. 5 (63d Cong. 1st Sess. 1913) as reprinted in 1939-1 (pt 2) C.B. 1.

U.S. Congress. Senate. Committee on Finance. To Reduce Tariff Duties, To Provide Revenue for the Government, and for Other Purposes. Report No. 80 (63d Cong. 1st Sess. 1913) as reprinted in 1939-1 (pt 2) C.B. 3.

"in levying this direct tax upon incomes we ought to rise above the point where the consumption taxes now bear out of all proportion to the incomes, and we ought to leave free and untaxed as a part of the income of every American citizen a sufficient amount to rear and support his family according to the American standard and to educate his children in the best manner which the education system of the country affords." 3/

"There are those who would say that we should begin at $1,000 in lieu of $4,000. They forget the principle upon which this tax is founded, and that is that every man who is making no more than a living should not be taxed upon living earnings, but should be taxed upon the surplus that he makes over and above that amount necessary for good living." 4/

The amount of the personal exemption has changed a number of times since 1913. In 1917 additional exemptions for children were permitted. A table showing the changes from 1913 to the present is included as an appendix to this report.

As the table illustrates, the personal exemption generally decreased in the years from 1913 to 1940 and the exemption for dependents increased only slightly. This trend linked with increasing rates, expansion of the tax base, and increasing complexity of the tax law may have contributed to the need for a standard deduction.

3/ Rep. Palmer, 50 Cong. Rec. 1250 (63d Cong. 1st Sess. May 6, 1913)

4/ Rep. Murray, 50 Cong. Rec. 1252 (63d Cong. 1st Sess. May 6, 1913) Also see the discussion in the Senate at 50 Cong. Rec. 3839-3840, 3850-3852 (August 28, 1913)

Optional Standard Deduction

Although the optional standard deduction did not enter the tax law until 1944, a standard deduction of sorts was introduced for certain low income taxpayers in 1941. A Finance Committee amendment to the Revenue Act of 1941, 5/ adopted by the Senate without discussion on September 3, 1941, provided for a new Supplement T to the Internal Revenue Code of 1939, as amended. 6/

Supplement T, sections 400 - 404 in the 1939 Code, provided for an optional tax on individuals with gross income of $3,000 or less, providing that gross income consisted entirely of salary, wages, compensation for personal services, dividends, interest, and annuities, etc. The taxpayer who qualified for the optional tax determined his gross income and reduced this by $400 for each dependent and then looked up his tax on the appropriate table (determined by marital status).

A taxpayer electing to use this simplified return could not take any deductions or credits against net income. In lieu of the foregone deductions, the tax table reduced the tax that would otherwise have been payable by about ten percent. This 10 percent reduction had been found "to be the effect of the average amount of deductions taken by persons in these brackets." 7/

5/ Public Law No. 250, 77th Cong. 1st Sess., Ch 412, 55 Stat. 687 (1941).

6/ 87 Cong. Rec. 7258-7259 (September 3, 1941).

7/ Conference Report to H.R. 5417, the Revenue Act of 1941, as reprinted in 87 Cong. Rec. 7418, 7420 (September 16, 1941)

H.R. 4646, a bill to simplify the individual income tax, which became the Individual Income Tax Act of 1944,[8/] introduced the optional standard deduction into the tax law. The bill made a number of simplifying changes in the tax system such as consolidating the tax base and eliminating the victory tax. The optional standard deduction was one of these simplifications. This is how it was described on the floor of the House:

> "Another complication under present law is the itemizing of small amount of deductions from various sources. The bill extends the policy, now used on the short form, of allowing taxpayers to take a standard amount of nonbusiness deductions in lieu of describing their actual deductions. All taxpayers with less than $5,000 can, by using the withholding receipt or the tax table, receive approximately 10-percent deductions. All taxpayers with income of over $5,000 can use a standard deduction of $500. Any taxpayer may, if he chooses, itemize his actual deductions to take advantage of a greater amount." 9/

Although they did not list the deductions replaced, the Committee Reports[10/] indicate that the standard deduction was intended to be taken

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8/ Public Law No. 315, 78th Cong. 2d Sess., Ch. 210, 58 Stat. 231 (1944).

9/ Rep. Doughton, 90 Cong. Rec. 3976 (78th Cong. 2d Sess. 1944).

10/ U.S. Congress. House. Committee on Ways and Means. Individual Income Tax Act of 1941. Report No. 1365 (78th Cong. 2d Sess. 1944) as reprinted in 1 Seidman's Legislative History of Federal Income and Excess Profits Tax Laws 1953-1939 1400-1401 (1954).

U.S. Congress. Senate. Committee on Finance. Individual Income Tax Act of 1941. Report No. 865 (78th Cong. 2d Sess. 1944) as reprinted in 1944 U.S. Code Cong. Service 1081.

in lieu of all deductions other than those which are to be subtracted from gross income in computing adjusted gross income and also in lieu of credits for taxes of foreign countries and possessions of the United States.

Reading the floor discussion leaves no doubt that the optional standard deduction was intended to replace virtually all itemized deductions, including the charitable contributions deduction. Charitable organizations and some Members of Congress appeared to be concerned by the fact that the standard deduction would replace the itemized deduction for charitable contributions.

In considering the following excerpts from the Congressional Record, it may be helpful to be aware that the bill also simplified the rules for the itemized charitable deduction. The change allowed taxpayers to deduct charitable contributions in amounts up to 15% of gross income whereas under previous law they had been limited to 15% of net income determined before any allowance for the charitable contribution.

Mr. CURTIS.

. The objection is that the individual who gives a substantial sum from his wages to religion and charity has the same amount withheld from his wages as the individual who gives nothing. The objection of the churches, colleges, hospitals, and orphanages under this bill is that everybody, regardless of whether they give a nickel, is entitled to a blanket deduction. That has not been taken care of in this bill and those people were denied a hearing before the committee.

* * *

Mr. CURTIS. I do not stand here representing any charitable institution or any colleges, or any charitable group, or anyone else. I am speaking in my own right.

I submit this is a public matter. I feel that whenever we suggest a tax structure that works against the interest of those splendid institutions we have hurt the United States. The minute we cripple these institutions we invite a Federal subsidy to every college, every orphanage, and every other institution of that nature, and we have then started on the road toward totalitarianism. My complaint against the committe is that they did not bring their experts into a public hearing to state their objections openly and permit those objections to be answered. 11/

Mr. ROBERTSON. Mr. Speaker, the bill that will come before us upon the adoption of this rule is not only popular with the members of our committee who have unanmiously endorsed it and recommended it; it is not only popular with the Members of the House with whom I have discussed it—with the exception of the gentleman from Nebraska who has just spoken—but this bill is going to be popular with the taxpayers of the Nation because it gives relief where relief is needed.

The only phase of the bill that apparently is misunderstood is that section of the bill permitting the 10 percent automatic deduction for those who may wish to avail themselves of that in lieu of enumerating the deductions for charity, interest, taxes, and so forth, as permitted by general law. There are some who think we have repealed the provisions of present law which authorize deductions for charity running up to 15 percent. We have not done so. Any man who gives up to 15 percent of his income and is willing to enumerate his gifts as required by present law can get that deduction from his adjusted gross income.

11/ 90 Cong. Rec. 3972 (May 3, 1944).

When we had the previous bill up and were proposing to give in the interest in simplification a 6 percent automatic deduction in lieu of the enumerated deductions for charities and otherwise, there was some opposition at that time to that proposition, and it is my recollection that the gentleman from Nebraska and others who thought as he did were heard before our committee on the point. This year notwithstanding the records of the Bureau of Internal Revenue indicated that the average of gifts to charity was 2½ percent, we provided an automatic deduction for those who wished to take it of 10 percent.

To our great surprise, we heard from the gentleman from Nebraska and from a large group throughout the Nation that we were planning to do something that would greatly handicap gifts to charities; so after we had voted to make it 10 percent for those who wished to file that type of return we then voted to open the subject again, and the gentleman from Nebraska and the group for whom he was speaking were given four separate hearings by the joint group of our experts. Each member of the committee got dozens of letters. I reckon I had several hundred. I do not know why they picked on me so, but word got out over the country in some way or other that I was the chief malefactor or something; anyway they singled me out for special attention and I got a lot of letters, all of which I read. We could not do what we were asked to do and still do the job of simplification that was needed. We knew it, our experts knew it, and those advocating no automatic deduction knew it but they said it was better, more to the public interest, not to simplify than to have an automatic deduction which might—and I yet do not see how—but which might curtail gifts to charities.

12/

12/ 90 Cong. Rec. 3973 (May 3, 1944)

Mr. Doughton.

. . . . . .

The bill further simplifies and liberalizes existing law with respect to charitable contributions. This subject was given most careful study and consideration by your committee, as we recognized the splendid work being performed by religious, charitable, and educational institutions, many of which are dependent upon contributions for their existence. I know I express the viewpoint and desire of the entire membership in stating that we are anxious to do everything possible to aid and assist in the continuation of such splendid work. Under existing law it is difficult for taxpayers to determine the amount of their deductible contributions to charities. They must first determine their net income without any allowance for charitable contributions. These total contributions cannot exceed 15 percent of their net income thus computed. They are then required to again compute their net income, with the charitable deductions included. The bill amends existing law so that the existing 15 percent limitation for contributions shall be 15 percent of the taxpayer's gross income instead of the existing 15 percent of net income. This has the effect of increasing and simplifying the allowance for charitable contributions, and enables the taxpayer to compute the same without first having to compute his net income. The bill not only simplifies the computations for those making charitable contributions, but also enables them to make larger contributions, free of tax, than under the existing law.

The committee carefully considered a proposal to grant an additional exemption from withholding for those persons who signified their intention to contribute, or who were regular contributors to religious, charitable, or other organizations. We found this to be impractical of administration, and would seriously jeopardize the revenue and place upon the employer an additional burden he could ill afford under present manpower conditions. It would also make difficult, if not impossible, the use of the withholding tables which are computed on the basis of the standard deduction allowance. We were also advised that it would be very difficult, if not impossible, to properly check and determine whether such contemplated contributions had, in fact, been made and the fear was expressed that such a provision would inevitably lead to great abuse and fraud.

There are some who fear that the allowance of the 10-percent standard deduction, which in no case can exceed $500, will have an adverse effect on taxpayers' contributions to charitable organizations. I do not share such fears, as I do not believe that the great mass of contributors do so for the purpose of securing a tax reduction, but because of the worthy causes such contributions advance. Moreover if total deductions are in excess of 10 percent of their income they are permitted to itemize these deductions and thereby get the benefit of the larger amount. It may be true that some taxpayers in the larger income levels consider the tax-saving effect of contributions, but the flat allowance of a maximum of $500 will in no way deter or influence them in connection with making contributions from a tax-savings standpoint.

Mr. ROBSION of Kentucky. Mr. Chairman, will the gentleman yield?

Mr. DOUGHTON. I yield to the gentleman from Kentucky.

13/

13/ 90 Cong. Rec. 3975-3976 (May 3, 1944)

Mr. ROBSION of Kentucky. As I understand the statement that has been made here, and I should like to have it confirmed by the chairman if it is a fact, the average contribution is about 2½ percent, and has been. This provides for a 10-percent deduction.

Mr. DOUGHTON. Yes, a 10-percent standard deduction allowance if the income is less than $5,000. However, this standard deduction allowance, which is secured by using the tax table in the law, covers not only charitable deductions, but other personal deductions such as medical expenses, taxes on a home, interest on a personal loan, and the like. If his income is $5,000 or more, he is allowed as standard deduction of $500. Nobody is forced to take the standard deduction. If their actual deductions, including charitable contributions, exceed their standard deductions, they can take their actual deductions.

Mr. ROBSION of Kentucky. Where the income is above $5,000, what is he allowed as a deduction?

Mr. DOUGHTON. He can either take the standard deduction of $500, which would be 10 percent of $5,000, or he can take his actual deductions.

Mr. ROBSION of Kentucky. The full amount he has been giving heretofore?

Mr. DOUGHTON. So far as the charitable deduction is concerned he can take up to 15 percent of his gross income, if he itemizes his deductions. Under existing law he is limited to 15 percent of his net income.

Mr. ROBSION of Kentucky. I agree with the gentleman that it appears that you have liberalized it rather than restricted it.

Mr. DOUGHTON. There is no doubt about it.

Mr. CARLSON of Kansas. Mr. Chairman, will the gentleman yield?

Mr. DOUGHTON. I yield to the gentleman from Kansas.

Mr. CARLSON of Kansas. I am afraid the distinguished gentleman from Kentucky might have the impression that we are allowing a 10-percent deduction under this bill for charitable contributions. This 10 percent must include taxes, interest, charitable contributions, and other deductible items. I am fearful that the gentleman was getting the idea that we had increased it from 2½ percent to 10 percent.

Mr. DOUGHTON. It includes all deductions.

Mr. ROBSION of Kentucky. If the total income is $5,000 or less, you allow $500 clear.

Mr. DOUGHTON. If the total income is $5,000 or less he can get a standard deduction of approximately 10 percent of his gross income by using the tax table, or he can take his actual deductions.

Mr. ROBSION of Kentucky. If it is above $5,000, then you include provision for that in the tax return?

Mr. DOUGHTON. He can take a standard deduction of $500 or his actual deductions if greater than the standard deduction of $500.

Mr. ROBSION of Kentucky. If it is above $5,000?

Mr. DOUGHTON. Yes.

Mr. ROBSION of Kentucky. He can take the $500 deduction or itemize the actual contributions?

Mr. DOUGHTON. He can take the actual deductions that he would be allowed to take under the law; yes.

Mr. ROBSION of Kentucky. That is as I understand it.

Mr. DOUGHTON. He is not denied that privilege at all.

Mr. JENKINS. Mr. Chairman, will the gentleman yield?

Mr. DOUGHTON. I yield to the gentleman from Ohio, a member of the committee.

Mr. JENKINS. This bill does not, under any circumstances, prevent anybody from filing a return and make any contribution that he pleases. Of course, it will not be considered under the present law, and it will not be under the law we will pass now, over 15 percent. But as the distinguished chairman says, and I think it will be agreed to by all, this ninth point in the report is very clear. It reads as follows:

> The existing law has been amended with respect to deductions for charitable contributions so as to allow up to 15 percent of the adjusted gross income.

14/

14/ 90 Cong. Rec. 3976 (May 3, 1944)

Mr. ROBSION of Kentucky. Does that 10 percent refer to the deductions for charity?

Mr. JENKINS. Yes; the 10 percent includes charitable contributions; but if his actual deductions, including his charitable contributions, exceed the 10-percent allowance, he may choose to take his actual deductions instead of his 10-percent allowance.

Mr. ROBSION of Kentucky. You can accept that.

Mr. JENKINS. He can accept it if he wants to.

Mr. ROBSION of Kentucky. If his salary is up to $5,000.

Mr. JENKINS. He can do so if he wishes. If he does not, he can make his own return, but if he chooses to go outside of the table, he must itemize his deductions.

Mr. ROBSION of Kentucky. So the workingman must make his return according to this table here or he does not have the benefit of this. If he goes outside of that, having a house to rent, and so on, he must make a regular return.

Mr. JENKINS. If his income is less than $5,000, that is, if his earnings and his other income are less than $5,000, and he doesn't choose to use the tax table he must itemize his deductions.

Mr. ROBSION of Kentucky. He is no longer under this table then?

Mr. JENKINS. No.

Mr. CARLSON of Kansas. Mr. Chairman, will the gentleman yield?

Mr. JENKINS. I yield to the gentleman from Kansas.

Mr. CARLSON of Kansas. It seems to me there is considerable confusion about this 15-percent exemption for contributions. This law does not in any way change the existing law as far as the 15-percent deduction allowable for contributions is concerned. It does this, however: It sets up a standard deduction which, if a taxpayer takes advantage of it and it is used under withholding, he is allowed 10 percent or not in excess of $500 for a standard deduction, which must consist of contributions to charitable and religious organizations, interest, and other items. A taxpayer does not have to take advantage of it, but if he does and uses this form, he must, of course, have his wages withheld on that basis.

15/

15/ 90 Cong. Rec. 3980 (May 3, 1944)

The previous excerpts from the Record were all from the proceedings in the House. Senator George's comments, which follow, outline the reasons favoring the standard deduction. He admits that some compromises had to be made in the overriding interest of simplification.

> There is, Mr. President, one feature of the bill that should be considered more at length because it has provoked considerable discussion throughout the country, especially by the churches and religious and educational organizations.
> 16/

16/ 90 Cong. Rec. 4703 (May 1944)

I refer to the standard deduction and its effect on charitable contributions.

A standard deduction in lieu of an itemization of actual deductions—for contributions to charitable, religious, and educational organizations; personal taxes; interest on personal indebtedness; medical expenses; and so forth—is permitted in the pending bill in the case of every taxpayer regardless of size or source of income. Under existing law, a standard deduction of 6 percent of gross income is allowed to all users of the short-form tax table—supplement T. However, the use of this table is limited to those with gross incomes under $3,000 from the following sources: Compensation for personal services, dividends, interest, and annuities.

In the committee bill, the standard deduction allowed to users of the short-form tax table is raised to 10 percent of adjusted gross income. Adjusted gross income is, in general, gross income less business expenses, and, for the average wage earner, represents total wages. In addition, the use of the short form is broadened to include all taxpayers having adjusted gross incomes of less than $5,000, regardless of the source of the income. A taxpayer is not required to make use of the standard deduction; on the contrary, the taxpayer is free to itemize his actual deductions and compute his tax accordingly, and he will undoubtedly do so whenever his personal deductions exceed 10 percent of his adjusted gross income.

For taxpayers having an adjusted gross income of $5,000 or more, an optional standard deduction of $500 is allowed. Probably many taxpayers will find it to their advantage to claim this $500 as their total personal deductions, rather than to maintain records of actual deductions, determine whether the deductions are allowable, and itemize and claim them on their return.

It is apparent from the foregoing that no taxpayer will be penalized by the allowance of this standard deduction. On the contrary, many taxpayers will be benefited. Income-tax returns filed by taxpayers having less than $5,000 net income show average nonbusiness deductions—including contributions—of less than 10 percent of adjusted gross income. For this group, contributions alone constitute only about 2½ percent of adjusted gross income. The standard deduction will also relieve the Bureau of Internal Revenue of the necessity of auditing and verifying the actual deductions.

Certain representatives of charitable organizations have argued that the allowance of a standard deduction removes the tax incentive for making gifts to charities. The committee does not believe it can be proved that a tax incentive has been an important factor in the making of such gifts by individuals having less than $5,000 of adjusted gross income, and certainly the $500 standard deduction will not remove the tax incentive for persons in the higher brackets, upon whom the charities depend for contributions in substantial amounts. Moreover, taxpayers eligible for the 10-percent standard deduction always have the option of filing a return and securing the benefit of deductions greater than 10 percent.

As a matter of fact, the pending bill liberalizes the maximum allowance for charitable contributions and removes the necessity for double computations heretofore required to determine the maximum allowance. This is accomplished by changing the limitation from 15 percent of net income, computed without regard to this deduction, to 15 percent of adjusted gross income. The following examples will illustrate the modification made in the maximum allowance. Under existing law, a taxpayer having $2,000 of adjusted gross income, and $100 of personal deductions other than contributions is limited to a maximum deduction of $285 for charitable contributions. Under the new bill, this taxpayer's maximum allowance is raised to $300. A taxpayer having $80,000 of adjusted gross income, and personal deductions other than contributions amounting to $20,000, is limited to $9,000 for allowable charitable deductions under present law, whereas under the pending bill his limitation is raised to $12,000.

Representatives of the charitable organizations do not seem to realize that without a standard deduction every one of the 50,000,000 taxpayers would have to file a regular return and compute his tax. The validity of the objection made by representatives of the churches and the charitable and educational institutions to this extent is frankly recognized, that is to say, where one does not make a charitable contribution, he should not be given the benefit of a deduction. But to take care of this situation would require everyone to compute his tax. Under the terms of the pending bill this procedure will be followed by only 10,000,000 taxpayers, or less than one-fifth of the total. Little or no simplification of the tax system would remain if the option of a standard deduction were removed from this bill.

It has also been urged that a special deduction for charitable contributions be allowed for withholding purposes on the basis of a statement made by the employee to his employer estimating the amount of such contributions he would make during the year. We who have studied this matter thoroughly are convinced that the entire withholding system would break down if this procedure were adopted. There is general agreement among employers of all classes and sizes of establishments that it would be absolutely impossible to allow a tailor-made deduction for each employee for withholding purposes. It was for this reason that the withholding tables in the bill were computed in such a manner as to allow an average of 10 percent total deductions to all wage earners. Remember that withholding is only a means of collecting the tax liability. The final liability is not determined until the taxpayer files his return with the collector after the close of the taxable year. If the taxpayer's return shows that his total deductions actually exceeded the 10-percent allowance for withholding purposes, resulting in an overpayment of tax, he will be allowed a refund.

The main argument against according contributions special treatment centers around the burden of administering such a program both so far as the employer is concerned in the withholding process and so far as the determination of final liability is concerned. If contributions were removed from the standard deduction, the following must be taken into consideration.

First. The standard 10-percent allowance which was designed to cover all personal deductions including contributions should obviously be lowered if contributions are to be accorded special treatment. If the percentage of standard deductions is thus lowered from 10 to some lesser figure, one of the major simplification factors will be lost. For example, a taxpayer in attempting to determine whether or not his actual deductions are within the standard allowance would find it far more difficult to take 7 or 8 percent of gross income than to mentally calculate 10 percent.

Second. Each employee would have to determine and certify to the employer as to the amount of contributions that he anticipates that he would make for the taxable year. This amount, reduced by the employer to its pay-roll-period value, would have to be applied against gross income by the employer for each employee before the amount of tax to be withheld could be determined. Further, a taxpayer's estimate of a coming year's contributions would generally be a very tentative figure.

Third. If contributions are to be accorded separate treatment and are to be exempt from withholding, it follows that such must be handled as a special deduction on the final return of the taxpayer in computing his final tax liability. This would have the following effects upon simplification: (a) It would impair the simplicity of the withholding receipt as a tax return, as the taxpayer would be required to itemize the amount actually contributed during the year; (b) for those taxpayers using the regular income-tax return and determining their own tax, there would, in effect, be a possibility of three sets of deductions: (1) So-called business deductions used in arriving at adjusted gross income; (2) contributions used in arriving at adjusted gross income less contributions; and (3) personal deductions included in the standard deductions; and (c) the requirement for itemization of contributions by the taxpayer reverts to tedious record keeping which the simplification bill has attempted to eliminate and retains the present audit responsibilities of the Bureau of Internal Revenue in the verification of such deductions.

Employers have stressed that the additional work which would be involved in according special treatment to each employee is far beyond the capacity of most businesses today. 17/

17/ 90 Cong. Rec. 4704 (May 19, 1944)

The standard deduction remained in the tax law from 1944 until 1976. From 1944 until 1969, the standard deduction was ten percent of adjusted gross income, although in 1948 the maximum amount of the deduction increased from $500 to $1000. After 1969 the applicable percentage and the maximum amount of the standard deduction increased according to the following table:

year	percentage	maximum amount
1970 18/	10	$1,000
1971 18/	13	1,500
1972 19/	15	2,000
1973 19/	15	2,000
1974 19/	15	2,000
1975 20/	16	2,600/2,300
1976 21/	16	2,800/2,400

18/ Tax Reform Act of 1969, Public Law No. 91-172 §802, 83 Stat. 676, amending Internal Revenue Code of 1954 §141(b).

19/ Revenue Act of 1971, Public Law No. 92-178 §202, 85 Stat. 511.

20/ Tax Reduction Act of 1975, Public Law No. 94-12 §202, 89 Stat. 28

21/ Revenue Adjustment Act of 1975, Public Law No. 94-164 §2(b), 89 Stat. 970.

In the H.R. 3477, the Tax Reduction and Simplification Act of 1977,[22/] Congress replaced the standard deduction with the zero bracket amount (ZEBRA). The reasons for the change were beliefs that the tax forms were too long and complex and that the computation of the tax liability should be simpler. Under the law prior to 1977, taxpayers determined their adjusted gross income, determined the standard deduction or their itemized deductions, subtracted the standard (or itemized) deduction(s) from adjusted gross income, determined the number of exemptions multiplied by $750, subtracted that number in order to determine to determine taxable income. The taxpayer then consulted the tax table to determine the preliminary tax. After that the general tax credit and other credits, if any, were applied against the tax.[23/]

The 1977 Act formula involves fewer computations than the prior law. The 1977 Act eliminated the minimum percentage and maximum standard deductions and replaced them with what might be termed a flat-rate st nd-ard deduction of $2,200 for single persons and $3,200 for married couples filing joint returns. This flat-rate "standard deduction" was built

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22/ Public Law No. 95-30 §101, 91 Stat. 134.

23/ U.S. Congress. House. Committee on Ways and Means. Tax Reduction and Simplification Act of 1977. House Rept. No. 95-27. 95th Cong. 1st Sess. at 38-39, 44 (1977).

into the tax tables as the zero bracket amount. That is, there was no tax on amounts of income up to $2,200 or $3,200 depending on the filing status. Graduated rates began at amounts over the zero bracket. The tax tables were based on the number of exemptions and "tax table income." For taxpayers who have no itemized deductions, tax table income is adjusted gross income. After determining adjusted gross income, the taxpayers look up their tax liability in the tables. Those who itemize deductions subtract the zero bracket amount from their itemized deductions and then subtract the remaining itemized deductions from adjusted gross income to obtain their tax table income. 24/

Certain taxpayers with incomes or exemptions in excess of the the amounts shown on the tax tables have to compute their taxable incomes and apply the tax rates.

Other than a need to simplify tax returns and tax computation for individual taxpayers, there does not seem to have been much discussion of the intended function of the zero bracket amount. It seems to have been

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24/ U.S. Congress. Senate. Committee on Finance. Tax Reduction and Simplification Act of 1977. H. Rpt. No. 95-66 at 47-54 (95th Cong. 1st Sess. 1977).

viewed as as a built-in, flat-amount standard deduction. There was no discussion similar to that in 1944 as to what itemized deductions, if any, the zero bracket amount was intended to replace. In light of the fact that the Conference Report 25/ describes the creation of the zero bracket amount in terms of setting new flat amounts for the standard deduction and building the standard deduction into the tax table, it seems safe to assume that the zero bracket amount should be considered to serve the same purpose as the standard deduction which it replaced.

The Revenue Act of 1978 increased the zero bracket amount from $3,200 to $3,400 for married taxpayers filing joint returns and from $2,200 to $2,300 for single taxpayers and heads of households. No changes were made in the operation of the zero bracket amount. In the General Explanation of the Revenue Act of 1978, the Joint Committee Staff described the zero bracket amount as building the old standard deduction into the tax rate schedule. 26/

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July 18, 1979

25/ U.S. Congress. House. Conference Report. Tax Reduction and Simplification Act of 1977 at 24 (95th Cong. 1st Sess. 1977).

26/ U.S. Congress. Joint Committee on Taxation. General Explanation of of the Revenue Act of 1978 at 40 (95th Cong. 2d Sess. 1978)

Appendix

PERSONAL EXEMPTIONS IN THE FEDERAL INCOME TAX, 1913 - PRESENT

Income year	Single Persons	Married Couples	Dependents
1913-16	$3,000	$4,000	0
1917-20	1,000	2,000	$200
1921-24	1,000	2,500	400
1925-31	1,500	3,500	400
1932-39	1,000	2,500	400
1940	800	2,000	400
1941	750	1,500	400
1942-43	500	1,200	350
1944-47	500	1,000	500
1948-69 1/	600	1,200	600
1970	625	1,250	625
1971	675	1,350	675
1972-78	750	1,500	750
1979	1,000	2,000	1,000

1/ Beginning in 1948 an additional personal exemption was allowed for blindness and/or age over 65.

Source: Adapted from the Federal Tax System: Facts and Problems, 1964, materials assembled by the committee staff for the joint Economic Committee, 88th Congress, 2nd Session, 1964, p. 22; Pechman, Federal Tax Policy 298 (1977); and subsequent public laws.

Senator BYRD. Representative Fisher?

STATEMENT OF HON. JOSEPH L. FISHER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Representative FISHER. Thank you, Mr. Chairman. I have a prepared statement. I will just highlight it and request that the full statement be made a part of your record.

Senator BYRD. Without objection, it will be a part of the record.

Representative FISHER. My views, of course, parallel closely those of Congressman Conable and your two colleagues. All of us are sponsors of this kind of legislation. It does have wide support, not only in the Senate and in the House, but across the country.

It is not surprising, therefore, that the four of us represent the width and breadth of the country from Oregon, to New York, to Virginia. As a matter of tax efficiency, studies do indicate that this legislation is sound because it will increase charitable giving more than it will result in a revenue loss to the Treasury. That is almost for sure, no matter whose figures you look at. It is just a matter of how much.

But I really do not think that this is the primary reason why this legislation is desirable. The primary reason is that it gives additional support for private giving, for community good works, and if we are ever going to be able to disengage Government from doing these things, this surely is one very, very good way of doing it. We must try to transfer some of this necessary work of society out of the public sector and into the community, the independent, the voluntary, the nonprofit sector.

I would like to point out that in addition to the increase in charitable giving that will result from this legislation, there almost certainly will be a very large increase in work contribution that citizens make to this whole range of independent voluntary sector activities. Many, many people who will give, or give more to charities, will for sure find themselves giving their own time and energy and talent, and this is never calculated as part of the statistical studies that are made of revenue loss and private charity giving.

The private, nonprofit sector which this legislation is designed to assist, performs, of course, many valuable services to our society all across the board, and everybody, one way or the other is involved, if not in giving, then in receiving, benefits—health, education, United Way activities, churches—above all, churches.

And so it is. After church last Sunday we have the coffee hour that so many churches have and I took that occasion to ask a number of people who were gathered there in talking, would you give more to this church if you could deduct your contribution, and said no more. The answer, from 8 or 10 whom I had asked was, without hesitation, yes. Why should I not?

I could give more, and it would not cost me any more out of my own resources.

I am sure that if any one of us asked questions like this, one to one on people, we would get the same response.

Well, due to a significant decline in charitable giving relative to indices like gross national product and disposable income, there is much evidence that the private, nonprofit sector needs assistance in carrying out its valuable services to society.

Two causes for the decline in charitable giving are the increasing use of the standard deduction and the economic difficulties which inflation is causing for potential contributors. There is no question about this. It is corroborated in statistical investigations and, more importantly, it is corroborated in questions that we all ask our friends and neighbors.

This bill, it seems to me, is right. Philosophically, it is right; historically, it is right; psychologically it is right; emotionally, it is right; and its time has come, I believe.

It fits with the very best elements in our tradition.

Now, the Senate and the House version meets all of these issues by allowing the charitable contribution to be taken regardless of whether the taxpayer elects the standard deduction. It would have the effect of giving all an incentive for charitable giving.

What we are trying to do is give the incentive to people to handle some of these problems in their communities through organizations of their own making.

It would result in the cost of the charitable contribution being lowered from the individual's point of view. Objections will be raised, of course. Always those who have to collect taxes are concerned that the form will be complicated, there will be an additional question, the administration will be made more troublesome. One concedes that this will happen a little bit. But the administrative problem of handling this tax is really not very severe, certainly not when stacked up against the gains that will result.

The revenue loss, which is another argument which is raised against it time after time, is conceded. There will be a revenue loss, but it will be more than offset by contributions to charities and much more than offset if you count the increase in work contribution, time, energy, and caring.

This bill, it seems to me, is good for any season because it has these abiding and deep roots to support it in our tradition, in our history. Of course, it would be especially advantageous if, at some time, we are considering a more general tax cut.

I personally hope that we do not do that given the present outlook. But if things should get worse, that may have to be done. In that case, it does seem to me that we have here a piece of a general tax cut of great merit because the cuts go to moderate and low-income people—that three-quarters of the taxpaying population which elects the standard deduction, the very people who are carrying the responsibilities of our society through contributions to churches and charities and universities and hospitals and the United Way. You could not think of a better group of some millions of people to whom to provide some tax relief, should that be necessary.

Well, this is the nature of our case for this bill. I hope very much that your committee, Mr. Chairman, will consider it favorably.

Senator BYRD. Thank you, Congressman Fisher.

I might say that this legislation certainly has outstanding sponsorship: Mr. Conable and Mr. Fisher, Mr. Packwood and Mr. Moynihan.

Senator Packwood?

Senator PACKWOOD. I have no questions, Mr. Chairman.

Senator BYRD. Senator Moynihan?

Senator MOYNIHAN. Mr. Chairman I would not want our colleagues to leave without thanking them and particularly thanking them for the large perspective with which they have opened these hearings.

We have something much more than a tax bill before us. We have a bill that has to do with the nature of American society. It is 40 years, I guess, since Joseph Schumkter wrote his last great book and he said that the theme of the remaining part of this century will be the steady conquest of the private sector by the public sector and it has gone on on many different fronts, none more conspicuous than this.

I am afraid nothing is more characteristic of the times then that we know this is wrong and we go on doing it. So you have something historic.

The President and Mrs. Carter are going to be shown all over this country supporting this bill. Mr. Lubick is about to come up and tell us on behalf of the President that we may not have it.

Now, we had better straighten ourselves out in this matter. I think the President, having gotten the political benefit of that film that COMNVO put on for them, then COMNVO gets the benefit of this bill.

Thank you, very much.

I very much appreciate your coming, both of you.

Senator BYRD. Thank you, Congressman Conable Thank you, Congressman Fisher.

[The prepared statement of Mr. Fisher follows:]

TESTIMONY OF CONGRESSMAN JOSEPH L. FISHER

Mr. Chairman:

I would like to thank you for offering me this opportunity to express my strong support for S.219, which would allow individuals to receive a deduction for their charitable contributions regardless of whether they use the standard deduction. I, along with my colleague in the House, Barber Conable, have introduced identical legislation, H.R. 1785. At this point we have received over 140 co-sponsors. I hope that these hearings before your committee will provide the momentum necessary for serious and successful consideration of these bills in both the House and Senate.

Over the next two days you are likely to hear various estimates on how much this legislation will cost in terms of lost revenue, and how much it will generate in terms of added contributions to charitable organizations. I am convinced by several detailed and comprehensive studies which will be made available to this committee by other witnesses that it is reasonable to expect that this legislation will help private non-profit organizations more than it will hurt the Treasury. However, what I would like to focus my comments on are the value of the private non-profit sector and its need for legislation such as the bill you are considering today to assist it.

The private non-profit sector of our economy offers a valuable opportunity to supplement, and perhaps to some extent to replace, the work of government in a way which often gives those who participate in this sector a greater sense of involvement and effectiveness than they feel through passively supporting similar government activities by tax dollars. As such, the private non-profit organizations perform a most worthwhile dual service. At a time when there are serious efforts to reduce overall government spending, and at a time when current government spending is likely to be allocated more toward the defense portion of the budget, voluntary organizations will be called upon to pick up the social services slack to a greater degree. Whether in the field of education or health, whether with respect to food assistance abroad or scientific research at home, whether through individual efforts or social programs provided by churches, the private non-profit organizations have a significant contribution to make in a kind of partnership with government. The significance is likely to grow in the future.

Yet, it is not only a service in the aggregate which these organizations perform. They also provide individuals with a greater sense of participation in promoting projects which they deem important. Of course, government provides resources to advance many worthy social goals. But these efforts are often perceived by individuals only in the abstract. They see the power of their tax dollars defused. They feel increasingly overwhelmed by the problems and alienated from the solutions.

In contrast, the voluntary sector offers individuals an opportunity to contribute directly to the amelioration of social problems which are of concern to them. I do not think that we should underestimate the sense of satisfaction which is derived by an individual who feels that he or she did their part through a monetary contribution in correcting an evil or promoting a good. In addition, it is quite common that a financial contribution is accompanied by voluntary service. This is a further opportunity for individuals to participate actively in a way that is meaningful to them and beneficial to society.

So, then, the private non-profit sector is valuable from both a societal and an individual point of view and should be promoted. The issue now turns to whether there is a further need to assist this sector, and, if there is, what form it should take.

Over the past decade, there has been a significant decline in charitable giving relative to indices such as the Gross National Product and disposable income. It is difficult to say for certain what are the causes. However, prime among those cited is the increasing use of the standard deduction. As the amount of the standard deduction has increased over the past decade as a mechanism for tax simplification and general tax cuts, it became more and more advantageous for taxpayers to use it as opposed to itemizing their deductions. Since a taxpayer must itemize in order to take a deduction for a charitable contribution, then the greater use of the standard deduction--now covering almost 80% of the taxpayers--effectively means that the vast portion of the taxpayers are not receiving the often advertized incentive of a tax deduction for their contributions. It is hard to believe that the relative decline in contributions is purely coincidental with the decline in the number of people who are eligible to receive an itemized tax deduction for those contributions.

Another factor in the relative decline in charitable contributions is the sense that inflation is taking a greater and greater portion of each individual's disposable income. As a result, there has been to some extent a psychological retrenchment in charitable giving. Not that people prefer to give any less. Rather, they believe that they cannot afford to give as much as they would like and still have ends meet.

How, then, to deal with this decline? It is here that S.219 and H.R. 1785 come into play. By allowing the charitable contribution deduction to be taken regardless of whether the taxpayer uses the standard deduction, this legislation will once again give all taxpayers an incentive for charitable giving. Furthermore, this incentive will effectively lower the cost of giving and, therefore, make it seem more affordable. For example, if a taxpayer contributes $10 and has a marginal tax rate of 25%, then the tax deduction for the contribution will mean that the contribution will really only cost $7.50.

This bill is good in its own right and deserves to be passed. But in addition to bolstering the admirable American tradition of private, voluntary charities and good works, the bill would offer special advantages at a time of business recession, or incipient recession, when a general tax cut would be in order. Several billion dollars of tax reductions under this bill, would go to some 64.2 million taxpayers, nearly all of whom would be the moderate and lower income level people who customarily elect the standard deduction. In a time of recession and falling incomes, no group would deserve a tax cut more.

In conclusion, Mr. Chairman, I believe that the committee over the next two days will be given the opportunity to assist a vital sector of our economy. I hope that it will make the most of this opportunity and give S. 219 a favorable hearing. I hope also that your companion committee in the House, the Committee on Ways and Means, on which I sit, will approve the identical House version of this bill.

Senator BYRD. The next witness will be the hardworking Assistant Secretary of the Treasury, Mr. Lubick.

Mr. Lubick?

STATEMENT OF HON. DONALD C. LUBICK, ASSISTANT SECRETARY FOR TAX POLICY, U.S. TREASURY DEPARTMENT

Mr. LUBICK. Mr. Chairman, a few weeks ago the Washington Post characterized me as a Grinch for proposing capital gains treatment for Christmas trees, and it is with trepidation—I do not know what they are going to say as a result of our position on this bill. I would like to say that I come here not without experience and total sympathy and dedication to the volunteering sector.

In the 25 years of private practice before I came to the Treasury Department, I gave as much as I could of my time and pocketbook to the voluntary sector and I believe I am as dedicated a supporter of it as your colleagues here. And during such time that I have had to spare from the Treasury Department, I have been willing to participate in the private sector. I have a drawer full of pledge cards to solicit at this time.

Nevertheless, I think we can come at this with some perspective and we have several concerns with this legislation. A number of them have been alluded to by Congressman Fisher and Congressman Conable and first, as is usual for the Treasury Department, we are concerned with the magnitude of the revenue loss that would result from enactment of this bill at a time when fiscal austerity is called for. I do not need to recount for you the reasons why the President has moved to try to control inflation by holding down the size of the deficit.

Our revenue estimates are based on the latest figures as to the size of giving and the income levels involved here without any induced giving. For the feedback in this case operates not to reduce the magnitude of the revenue loss of the bill, but to increase the size of the revenue loss, and the sponsors would hope that the revenue loss would indeed grow, because the growth of the revenue loss means greater and greater giving to charity. But leaving aside the induced revenue loss, our figures indicate a $3 billion revenue loss, all of which goes with respect to existing giving. The $3 billion is just based on existing giving, and it is split between those who already claim the standard deduction and those who are now itemizers but would find it advantageous to claim the standard deduction if they were able to take their charitable contribution separately.

We perceive the greatest threat to giving in the voluntary sector, not to be the standard deduction, but rather inflation. As more and more pressure is put upon the incomes of persons in these brackets, and as their disposal income is less and less, of course an area that suffers is the voluntary sector.

Next, our concern is whether this is the type of individual tax cut that we want. As I have indicated, it would go, in very large measure, to those who are already giving with respect to their existing gifts, and we will talk a little bit about that later.

The standard deduction, in addition, it must be emphasized, is an important key to taxpayer compliance and administration. Without it, some 43 million taxable returns would have an itemization burden. There are 64 million filers who use the standard deduction. It makes 21 million of them nontaxable. So you would have 43 million who would otherwise be taxable who would have an itemization burden. That means more burdens in completion of the form, more burdens of recordkeeping and more audit burdens on the Internal Revenue Service.

The standard deduction was placed in the law for the purpose of minimizing these burdens and achieving simplification, by allowing a fixed amount in lieu of interest, medical, State and local taxes, casualty losses, and charitable deductions, all of which are in the law for important national purposes. The standard deduction allows the administration of the system to go on without breaking down under the burden of auditing all of these deductible expenditures individually.

One of the key questions which has been raised is whether or not the use of the standard deduction does cause a reduction in giving. But we know that when the standard deduction was enacted in 1944, similar fears were expressed that this would have very serious inroads upon giving. At that time, some 80 percent of all taxpayers elected the standard deduction and if you will look in our prepared statement at table 2, you will see the history of the utilization of the standard deduction rising to 84 percent in 1945 and then declining to 52 percent in 1970 and then increasing as Congress increased the amount of standard deduction. In 1977, it hit 74 percent. It is on the decline now, as inflation moves persons into higher brackets and magnifies the amount of their deductible expenditures. We expect 69 percent will utilize the standard deduction in 1979 if nothing further is done in the way of changes in the Tax Code. We expect the number of taxpayers using the standard deduction to continue to decline.

We also find that nonitemizers gave $12 billion in 1978 which was $200 per nonitemizer. As we have indicated, a large portion of this revenue loss will simply result from giving tax benefits to those persons who are already significant givers. The complexity which arises from the itemization of the charitable deduction is indeed troublesome. The Internal Revenue Service experience has been that it simply cannot audit another 43 million returns with respect to relatively small amounts of charitable deductions.

In many cases, we have problems where contributions are claimed without receipts, without any documentary evidence, and the cost of policing this entire area, which according to IRS tests, is an area where there has been very significant abuse, unfortunately.

To go the route of the bill in the absence of a showing of a very great cost benefit would be highly questionable.

Our statement indicates some of the complexities in the Internal Revenue Code that are involved. The bill which has been introduced by Senators Moynihan and Packwood does address some of them. For example, there are a number of items that are based on adjusted gross income. If charitable deductions were placed above-the-line, so to speak, adjustments would have to be made in order to avoid continuing complexity and continuing revenue losses. These items are the medical deduction, sick pay, the earned income credit, taxable unemployment compensation, withholding allowances for excess itemized deductions, and so on. There is a fairly long list.

A major concern this morning is the question of induced giving and there, I think, is a very crucial question. How much would the allowance of the standard deduction, in addition to the charitable contribution deduction, affect induced giving?

If you look at table 1, you will see that the amount of giving seems to be primarily a function of the amount of personal income of individuals. If you look at 1955, giving as a percent of personal income was 1.7. It rose to 1.8 and in 1973, it declined to 1.7. Then in 1976, 1977, and 1978, it was 1.9 percent, based on the American Association of Fund-Raising Counsel's book, "Giving U.S.A." There is some question as to the estimates that have been used on what the amount of giving is. I am not sure that all of these figures are precise, and therefore not precisely comparable, but the fact of the matter is that the amount of giving has varied within a very small range as a percentage of personal income.

If you stack up that last column on table 1 with the last column on table 2, the utilization rate of the standard deduction, you will find that the amount of giving as a percent of income is more or less constant, even though there has been wide variations and wide fluctuations in the use of the standard deduction.

Therefore, it appears that the cries of doom and the cries that the standard deduction is going to destroy the charitable sector, I think are overstated. Indeed, the strength of the voluntary sector in the United States is the dedication, in particular of persons in lower income brackets, to the good purposes which it serves and the satisfaction which one receives not only from contributing but from working in the sector.

There has been a lot of analysis that has been made with respect to price sensitivity of giving. We concede that the amount of giving with respect to high-bracket taxpayers—and this is true not only from the statistical evidence, but we can testify from our own reactions—is price sensitive. To the extent that a tax deduction at the 50-percent bracket is available, the amount that will be given is sensitive to the net after tax cost of the donor. Further to the extent that contributions can be made in appreciated property and thereby eliminate capital gains tax with respect to that property, there will be even greater price sensitivity to an even lower net cost to the donor.

As to the lower income givers, however, there is much dispute about price sensitivity. Our statement alludes to a number of economists that have different views on it. Deputy Assistant Secretary Sunley is here to discuss the techniques that are beyond me as to the statistical analysis and the varying predictions of price elasticity.

But I think that it is sufficient to say that one cannot isolate out whether or not individuals give more because they have more, or because there is a tax reduction in the price at these lower levels. But it is counterintuitive to say that those in the lower brackets will respond as well to a tax break of relatively small magnitude because of their low tax rate bracket than will those in higher tax rate brackets.

In any event, one thing is clear, as a result of the studies that have been made and as indicated in table 3, regardless of the price elasticity factor that is used, it is clear that there is going to be a lag in any event, even under the most optimistic assumption, which is the first one—minus 1.3 elasticity assumption. There is going to be a lag before the revenue losses are at least matched by the increased volume of contributions. I would suppose that it would be at least a decade, even under the most optimistic circumstances, that one could say that the induced charitable contributions will match the revenue losses. Of course, if we assumed lower price elasticity, we will never achieve a balance.

If I may summarize very briefly, Mr. Chairman, if you will include our entire statement in the record, our reasons for opposing the measure are, first of all, the need for fiscal restraint at this time to control inflation, which is the most serious problem in the voluntary sector; second, the bulk of the revenue loss from this tax change would be wasted because it would go only to reward those who are making existing gifts; third, the serious compliance and recordkeeping problems that would be caused both for taxpayers and the Internal Revenue Service and as a result, create a breach in the wall of the major tax simplification policy of the standard deduction; and finally the inadequacy of the evidence to demonstrate that additional giving would be of sufficient magnitude to justify the cost.

Senator BYRD. Thank you, Mr. Secretary. Your full statement will be included in the record.

I am not clear as to the figur that you mentioned. What does the average person give as a percent of income? What figure do you have on that?

Mr. LUBICK. There are different figures for itemizers and nonitemizers, as our statement indicates. The average figure for the nonitemizer, the person using the standard deduction, appears to be about $200.

Senator BYRD. What percent of income would that be?

Mr. LUBICK. We have overall figures in table 1 that indicate giving as a percentage of personal income is 1.9 percent.

Presumably, in fact clearly, giving as a percent of personal income is a lower percentage for those who do not itemize than it is for those who do itemize.

Senator BYRD. What is it for those who do itemize?

Mr. LUBICK. I do not believe that we do have that, Mr. Chairman. We will endeavor to see if we can ascertain that figure and submit it to you, if we can, for the record.

[The material to be furnished follows:]

The Treasury Department submitted for the record the following table:

1978 INDIVIDUAL GIVING IN RELATION TO ADJUSTED GROSS INCOME

[Dollars in billions]

Status	Giving by individuals	Adjusted gross income	Giving as percent of AGI
All returns	[1] $32.8	[2] $1,304.2	2.5
Itemizers	[3] 19.7	[2] 708.9	2.8

1978 INDIVIDUAL GIVING IN RELATION TO ADJUSTED GROSS INCOME—Continued

[Dollars in billions]

Status	Giving by individuals	Adjusted gross income	Giving as percent of AGI
Nonitemizers	[1] 13.1	[2] 595.3	2.2

[1] Estimates in "Giving USA," American Association of Fund-Raising Counsel.
[2] Preliminary "1978 Statistics of Income, Individuals," Internal Revenue Service.

Office of the Secretary of the Treasury, Office of Tax Analysis—February 14, 1980

Note.—Adjusted gross income data are used in this table. Personal income data are not available for itemizers and nonitemizers. The Survey of Current Business, Department of Commerce publishes on occasion a table presenting a data reconciliation of the two income concepts.

Senator MOYNIHAN. Do you not have some data?

Mr. LUBICK. If you look at table 4, we have some average contribution deductions by brackets.

One of the problems is that the percentage of income for the itemizer is going to be a higher percentage of his personal income than it is for the nonitemizer, and I think that we would concede that. That is one of the arguments that is made for this change.

However, it is equally admissible to infer that the reason the giver is an itemizer is because he is a large charitable giver rather than that he is a large charitable giver because he is an itemizer.

One of the reasons a number of persons use the standard deduction is because, unfortunately, they either do not have the resources or do not have the motives of generosity that lead them to make gifts of sufficient magnitude so that they can itemize.

I do not think that one can say that because of the standard deduction that these persons are giving less. I think one can equally say that because they are giving less it is not advantageous to them to itemize and therefore they use the standard deduction.

Senator BYRD. Insofar as my previous question is concerned, I was trying to be sure that I interpreted table 4 correctly. Take the $50,000 to $100,000 category; the average contribution is deduction, $1,985. You might say $2,000—do I read it correctly? This indicates that the average contribution is somewhere between 2 and 4 percent for that category of taxpayer.

Mr. LUBICK. That is correct.

Senator BYRD. The next one, $100,000 and over, is the average contribution $9,354? I cannot read the first figure.

Mr. LUBICK. That is correct.

Senator BYRD. $9,354.

Let me ask you this, Mr. Secretary. Does President Carter favor or oppose this legislation?

Mr. LUBICK. President Carter opposes the legislation; the position which I have stated is that of the administration, which is not to derrogate our dedication and support for the private sector. Both President Carter, as well as the Treasury Department, let me assure you of that.

Senator BYRD. Does the Office of Management and Budget favor or oppose this legislation?

Mr. LUBICK. The Office of Management and Budget opposes the legislation. They have reviewed and approved the statement which I submitted for the record.

Senator BYRD. Does the administration favor or oppose the legislation?

Mr. LUBICK. The administration opposes the legislation, Mr. Chairman.

Senator BYRD. The standard deduction was first increased substantially—am I right about this—around 1969?

Mr. LUBICK. That is correct, Mr. Chairman. You are talking about the major increase after 1944?

Senator BYRD. The major increase after 1944.

Mr. LUBICK. In fact, the nature of it was somewhat changed.

Senator BYRD. Changing the standard deduction as it has been changed has brought about the problem that we are discussing today, I take it?

Mr. LUBICK. We do not concede that, Mr. Chairman.

Following standard deduction change, you will notice that utilization in the last column of table 2 shows what has happened to the standard deduction.

Actually, the change in 1969 did not catch up to the change in the utilization rate. There was a change in 1971 which you will see increased the utilization rate to 58 percent. In 1972, it went up to 65 percent.

In 1969, the alternative percentage was eliminated and it became a fixed amount. But when we got up to the changes in 1977, we made some changes which greatly liberalized the standard deduction and that got the number of standard deduction users up to 74 percent, still significantly below what it was when the deduction was first inaugurated in 1944. Since 1977, the utilization of the standard deduction has been falling, as I indicated, because of the increase in the cost of deductions through interest, taxes, charitable deductions, et cetera, has risen faster than the one adjustment which was made in the 1978 act to the standard deduction. It was raised only by $100—single; and $200—joint; therefore, we are in a period of declining utilization.

I might suggest if the Congress did nothing with respect to the standard deduction—I am not saying that is good or bad for we would have to judge that at the time—presumably this alleged problem would diminish because the utilization of the standard deduction is going to decline year by year unless Congress increases it.

Senator MOYNIHAN. Would the chairman allow me to intervene?

Senator BYRD. Yes.

Senator MOYNIHAN. The utilization of the standard deduction is not, per se, a measure of movement in that regard, or it does not necessarily reflect movements in charitable giving.

This could be a function of 14 percent mortgage rates.

Senator LUBICK. Once one has a 14-percent mortgage interest payment to make and he is thrown into itemization, then he is free to claim all of his charitable contributions as deductions.

It does not matter how you get to the threshold. Once you are at the threshold——

Senator MOYNIHAN. But with the 14-percent mortgage, you cannot afford to make charitable contributions.

Mr. LUBICK. That is precisely my point, Senator Moynihan. The basic problem is not the standard deduction. It is inflation. Therefore, fiscal restraint is called for to get a handle on that.

Senator MOYNIHAN. Mr. Lubick, if you are going to go on agreeing with us, we are not going to get anywhere.

Senator BYRD. You mentioned fiscal restraint three times and I certainly——

Mr. LUBICK. I was trying to appeal to you, Mr. Chairman.

Senator BYRD. I certainly agree with you for the need for fiscal restraint, but there are two ways. I think the appropriate way to look at fiscal restraint, or at least the way I look at it, I must admit I am in a minority among my colleagues on these budgetary matters, but the way I look at it, fiscal restraint means restraint in spending. It does not mean increase in taxes.

There are two ways to balance the budget—you mentioned reducing the deficit. There are two ways the budget can be balanced. One, is to increase taxes and the other is to get spending under control. It is the latter I indicate.

Mr. LUBICK. We agree with you and the President in his budget has held the real level of spending down.

Senator BYRD. You have not read his budget very carefully. I am glad you brought up the budget; I had not planned to bring it up.

The President has advocated a $68 billion increasing in spending—a $68 billion increase in spending over what the Congress approved in November.

It goes from $548 billion to $616 billion. I do not call that fiscal restraint.

Senator Packwood?

Senator PACKWOOD. I am always struck by the consistency of the Treasury Department. No matter what party is in power, they are generally opposed to tax incentives, and the argument always used is that tax incentives are too complex. The administration's wood-burning stove tax incentives are not too complex for the taxpayers to figure out, or the marvelous passive solar energy credit, which I support. The President attempted to explain these credits to the Ways and Means Committee and utterly failed, because they were too complex.

Those are all right. I might say to the Senator from New York that the wood-burning stove credit was not complex, but the tax credit in the bill sponsored by all of the members sitting here, and this committee, of no more than a maximum of $10,000 to increase your growing of trees was too complex.

I remember the debate over the tuition bill that the Treasury Department—not Mr. Lubick personally—testified that the taking of a $500 tax credit on an income tax form was too complex and instead cited as the administration's counterproposal the expansion of the basic educational opportunity grant program as an example of simplicity.

Mr. LUBICK. I plead guilty. It was I who testified, Senator.

Senator PACKWOOD. I cite these only to say that the argument of complexity is one that we all use for things that we do not want and avoid the things that we do want.

I am perfectly prepared to argue the merits of the response of charitable giving to the standard deduction. I have a chart prepared by the Treasury Department that shows the number of people who take the standard deduction and the percentage of personal income giving and the two lines correlate very closely.

I am not going to ask you to argue whether or not the correlation is close because of the standard deduction, but indeed they are closely correlated over the years. I see no point, Mr. Chairman, in asking Mr. Lubick any further questions because I know he has to go back to the Treasury Department to work out his defense for the windfall profits conference on the solar energy credit so that conference can understand it.

Mr. LUBICK. If I may comment, I think it is somewhat unfair to toss out the notion of complexity in this particular area of millions and millions of very low income taxpayers and the problems of compliance that are involved in 43 million returns and the audits of very small amounts. The wood-burning stove credit, after all, is not complex and it is an additional item to the energy credit, which you have been a fervent sponsor of. It is just one more item on the list.

It is not a new credit. It is an addition to the list of an existing credit. The passive solar credit gives one for builders. There was undue complexity in the original proposal. Now it is a relatively simple credit that builders can claim through use of tables.

Senator PACKWOOD. 271 different areas of the country—or have I overstated the number of areas?

Mr. LUBICK. Each builder is normally in only one area, Senator.

Senator PACKWOOD. It is very simple; you only have to know the average degree days in the particular area that you are building, how often the temperature is above or below a certain day in 271 different degrees, multiplied by the square footage of the windows facing south and you can take a credit. But the average citizen who takes the standard deduction cannot comprehend an additional $100 above-the-line contribution to the Catholic Church. That is beyond their ken.

I will pursue the subject no further.

Senator BYRD. Senator Moynihan?

Senator MOYNIHAN. I want to congratulate Mr. Sunley on the Clotfelter lag. That is good.

It is an argument you did not have last year. It will give Martin Feldstein something to do next year to rebut the Clotfelter lag.

Senator PACKWOOD. What is the name of it?

Senator MOYNIHAN. The Clotfelter lag.

Senator PACKWOOD. The same department that gave us sibling overlap?

Senator MOYNIHAN. It does appear to be the work of Charles Clotfelter of Duke University. It is in the area of sibling overlap. It is bad for you.

We understand perfectly the exigencies that produce the Treasury view. There is a question of evidence here. You will agree, Mr. Secretary, that as a percent of disposable personal income, giving has been going down—not sharply, but it has been declining, not increasing.

Mr. SUNLEY. The numbers are very close. I have seen the chart that Mr. Packwood referred to. It should be introduced in the record.

Those estimates of the total amount of giving are subject to a wide amount of variation and error. We start out with a fairly solid number that comes out of the individual income tax returns. What itemizers give. Then you need to make an estimate of what is the amount of giving of nonitemizers.

I assume the people who put together "Giving U.S.A." looked at various sources, by various types of institutions, of what is the amount of total giving that they received. They do not know whether it comes from itemizers or nonitemizers.

Then they put a number together and you get a total.

A few years ago, partly as a result of Mr. Feldstein's work which suggested that giving was understated, Giving U.S.A. concluded that they greatly underestimated for a number of years of the amount of giving by nonitemizers and they adjusted it.

It is on the table that we had in the testimony here on the amount of giving as a percent of personal income. The last 3 years you reached record highs of 1.9 percent.

We correctly indicate that there is a break in the statistical series. We are not saying that it is higher. Those numbers are not necessarily comparable to the earlier years. But when you are looking at two significant figures, that is a lot of significant figures in this area. We do not have three and four significant figures.

It is very hard to see much of a trend.

Senator MOYNIHAN. Sir, you would know that this committee regards your testimony with absolute trust. You have brought the highest personal and professional standards, giving us whatever information there is, and you make your case as best you can, and that you ought to do and you do it very well.

I would just ask you to consider—it is not properly your concern, but if you can sense our concern—that this is a committee that deals with a large range of social welfare issues, as well as taxes. We are both a tax committee and a social welfare committee and we see the steady displacement of private sector efforts by Government.

That is why we have to keep raising taxes to provide services which in a significant sense were heretofore provided by charitable enterprises. There is no more conspicuous area than schools. In education, the public sector is driving out the private sector. The administration is adamant that there should be no effort to mitigate that movement.

I think it has also been true in health care. I think we are going to hear a great deal about other places.

When we talk about this—just so that you will know—there is a dimension to this issue for us which is not a fiscal issue at all. It is a question of whether we are becoming a statist society. Is the disease inexorable? Is the movement not to be resisted regardless of doctrine or pronouncements?

Even a nation with a soul can end up being run by the Government, you know.

But I thank you for your testimony. It is very helpful and very straight.

Senator PACKWOOD. Mr. Chairman, I wonder if I might add in Senator Moynihan's and mine, lexicon that I noticed in a letter of May 15, 2 years ago by then-Secretary Blumenthal to Congressman Fisher. He said, "I wonder how much confidence for public policy purposes should be placed in these small year-to-year statistical wiggles."

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Senator MOYNIHAN. Mr. Sunley is a hell of a man. He makes the best case he can.

Senator BYRD. Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman.

I am a cosponsor of this bill and I am sorry I did not hear all of the testimony that has been presented here from Mr. Lubick and Mr. Sunley.

Coming down on you, Mr. Sunley, would be against it, because he seems to be against all the bills that we have here. Sometimes he is against it because of loss of revenue. Sometimes because, as Senator Packwood pointed out, complexity; sometimes because of equity. And we have a series of measures that are going to come before this committee which we are interested in—and I think I speak for the majority of the committee—and which you will oppose all of them. And I am thinking now of accelerated depreciation; I am thinking about changes in the taxation of Americans working abroad.

So you are here today opposing this just like you opposed some changes that we had in the windfall profits tax. I remembered I wanted to increase the tax on second-tier oil to 75 percent. You opposed that; you wanted it 60. Then the administration came back and wanted 65 and 70.

In any event, where on your scale of 1 to 10—that seems to be popular in judging things, pulchritude and a whole lot of other things—would you put your resistance to this measure, 10 being stonewalling it completely and 1, acceptability?

We want to know deep down how you feel.

Mr. LUBICK. I would have to see the other nine items.

Senator CHAFEE. I will give you a lead. You know what is coming. You know the 10-5-3 is coming on the depreciation. You know, or I can let you know now that we will have something on taxation of Americans working abroad, an abroad exemption which you wanted to change a couple of years ago, not on the basis of revenue but on the basis of equity.

So, bearing those in mind just as a couple of lead items, where do you put this one?

First of all, how much revenue—do you have a prediction on revenue? I missed that.

Mr. LUBICK. We suggested that the revenue loss was $3 billion without induced giving. If there is induced giving, the revenue loss would go up.

Senator CHAFEE. What does induced giving mean?

Mr. LUBICK. If more people give more. It is $3 billion you lose with respect to their existing gifts.

Senator CHAFEE. The whole idea is to have induced giving.

Mr. LUBICK. That is correct.

Senator CHAFEE. We want more giving?

Mr. LUBICK. That is correct. The success of the bill will be measured by the magnitude of its revenue loss.

Senator CHAFEE. That is skillful phrasing.

Back to my 1 to 10, seriously—we went through this on the windfall profits, as you know, Mr. Lubick. I am curious as to how you feel about this. How urgent is this as far as the Treasury goes.

Mr. LUBICK. That is very hard to say, Senator. I do not think I can be pinned down to ranking these things until I see what the needs of the economy are at the time that it is necessary to have a tax cut and to see what the competing demands are. They could be quite different 6 months from now to the present time.

We have great sympathy with the charitable sector. We have talked, from time to time, about other changes that might alleviate our concern about the compliance problem and techniques generally in that area. We are continuing to meet and discuss our problems with them to see if there are ways to mitigate the revenue loss. As to deadweight giving, that which is going to be made anyway as compared to putting out an inducement to additional giving, if we could allow this deduction only for the extra gifts that would be made and not spend $3 billion on gifts that are being made anyway, our attitude would be extremely different.

Senator CHAFEE. That is an impossibility. There is no way you could tell.

You mean base it on a historical average?

Mr. LUBICK. There are techniques in it, devices that have been explored. You may be able to come closer.

Senator MOYNIHAN. Senator Chafee, would you yield?

If I could ask for a specific, how would the Treasury feel if we had a lower limit or if you deducted above a certain amount of contributions?

Mr. LUBICK. A floor?

Senator MOYNIHAN. A floor.

Mr. LUBICK. That is what I was leading to.

Senator MOYNIHAN. If we had a $100 floor, how would you feel?

Mr. LUBICK. I am not sure. I could have a quick thermometer. I could test my degree of fever.

Senator MOYNIHAN. You would feel differently?

Mr. LUBICK. We would feel differently, certainly.

Senator MOYNIHAN. Fever is not the image with which we associate your approach to reducing revenues.

Senator CHAFEE. Your suggestion would be you could deduct anything over $100?

Mr. LUBICK. One aggregates his gifts and arrives at a certain floor on the charitable contribution. You claim the charitable deduction for a contribution over a certain amount. The inducement is there for the extra giving.

That means that those who give only minimally and nominal amounts will not be in the system and will not be subject to audit. It compensates administratively for the problems that we have there. It maintains the incentive. It moves in the direction——

Senator CHAFEE. Only deduct something over a certain amount?

Mr. LUBICK. That is something that has been discussed as a possibility.

Senator CHAFEE. When you work out a standard deduction and you arrive at it in making up your tables, is there a theoretical amount that people in arriving at the composite—you figure it is so much for mortgage and so much for medical and so much for charitable. Is there some way that you arrive at the standard deduction?

Mr. LUBICK. There are statistical bases. I will let Mr. Sunley discuss the statistical background of that.

Mr. SUNLEY. I would think, if you look at the changes since 1969, the way the tax-writing committees have proceeded, Senator Chafee, they have decided on what revenue increases they have wanted. They have decided in total what kind of tax deduction they would want, and have asked the joint committee staff to come back with a series of possibilities.

I can recall certain times where the greatest pressure was to provide tax relief to the lower income families. In the 1978 act, there was considerable interest in spreading the tax relief into higher income classes. There was considerable effort and desire to increase the number of taxpayers using the standard deduction to achieve significant simplification. Probably since 1969, those increases in the standard deduction were the only major things that Congress has done to provide simplification for the average taxpayer.

Yet what we have done in this period is also to greatly complicate the tax-filing process by adding new items to the tax return and I would be glad to take you through the list of our achievements in the last decade.

Usually what has happened is that the joint committee staff has brought back several possibilities for tax reduction, smaller increases in the standard deduction, larger increases in the standard deduction, and the committee has made their decision.

Senator CHAFEE. It has not been based on any model of what the person might be giving. It is based on trying to achieve a result of studying a certain group.

Mr. SUNLEY. The income distribution. The effects of where the various tax reductions will go. The number of people who are required to itemize.

These are some of the considerations. What will it do on the marriage penalty? The penalty on single individuals? The standard deduction plays a role there.

Mr. LUBICK. One of the facts which is important that Mr. Sunley has alluded to is the number of persons who will itemize and that measurement of the number of persons who itemized or claimed the charitable deduction is a reflection of what the average amounts of the aggregate of these special personal deductions amount to.

In other words, if you come up with a figure that says 70 percent of the taxpayers will be on the standard deduction, that is based upon an evaluation of what number it is that will account for the interest, taxes, charitable contributions, medical expenses, et cetera, of 70 percent of the tax-filing population.

That factor is evaluated in setting these limits.

Senator CHAFEE. Thank you, Mr. Chairman. I will not pursue anything more on that rating.

As you know, just as I say, we are going to be back with lots of things here.

Mr. LUBICK. We sincerely try not to oppose you on everything.

Senator CHAFEE. Your record is not very good.

Mr. LUBICK. It is pretty good.

I must say that your imagination far exceeds our capacity to respond.

Senator CHAFEE. We have you working nights, though.

Senator BYRD. Thank you, gentlemen.

I would say that I feel there is a fundamental problem in permitting both the standard deduction and an additional deduction. I think that is a point that Treasury is trying to suggest. Thank you.

[The prepared statement of Mr. Lubick follows:]

STATEMENT OF HON. DONALD C. LUBICK, ASSISTANT SECRETARY OF THE TREASURY (TAX POLICY)

Mr. Chairman and Members of this Subcommittee, I welcome the opportunity to appear before you to discuss S. 219, a bill to allow nonitemizers under the personal income tax to claim the deduction for charitable contributions in addition to the standard deduction (also known as the "zero bracket amount").

No one can question the important role played by private philanthropy in this country. Private contributions from individuals and businesses exceeded $37 billion in 1978. Government also supports philanthropy in a number of ways. At the Federal level, this sector receives billions of dollars in grants and contracts, as well as special treatment primarily in the form of tax exemption of organizations, tax deductibility of donations, and lower-than-regular mail rates in the Postal Service. Tax expenditures benefitting philanthropy were $7.7 billion in fiscal 1979. Philanthropic organizations also receive billions of dollars of property tax exemption at the State and local levels. A study for the Filer Commission found that the philanthropic sector (excluding religion) receives 34 percent of direct funds from government, 20 percent from private philanthropy, and 46 percent from operating revenues and investment earnings. One must conclude that there is strong public support for philanthropy.

We share the sentiment. Nevertheless after careful examination, this Administration is opposed to S. 219 for a number of reasons. The bill would represent a multibillion dollar tax cut almost entirely to nonitemizers at a time when disciplined fiscal policy forces us to postpone tax cuts generally. Moreover, the bill would provide a multibillion dollar windfall to nonitemizers for the substantial giving they now do without any tax incentive. Further, the bill is questionable as to its effectiveness. Based on an examination and evaluation of historical tax return data and empirical studies, we cannot be certain that additional giving will be sufficient to justify the revenue loss. The bill also would reverse the long-standing effort of the Congress to provide major tax simplification. It would complicate taxpayer compliance and create new recordkeeping and reporting burdens for tens of millions of taxpayers. It would create serious audit and enforcement problems for the Internal Revenue Service.

CHARITABLE CONTRIBUTION DEDUCTION

The deduction for charitable contributions by individuals was originally enacted in 1917. The deduction is allowed for contributions generally to eligible religious, charitable, health, scientific, literary, and educational organizations.

The charitable deduction is one of several deductions (medical and drug expenses, most State and local taxes paid, home mortgage interest and personal interest expense, etc.) which are itemized and subtracted from adjusted gross income in computing taxable income. In 1944, for simplification purposes, the standard deduction was enacted as an option in lieu of itemized deductions.

STANDARD DEDUCTION (ZERO BRACKET AMOUNT)

The optional standard deduction reduces substantially recordkeeping and tax return preparation for tens of millions of taxpayers. Similarly, it mitigates the audit burden of the Internal Revenue Service. The widespread use of the simplified 1040A short form depends on the use of standard deduction.

In more recent years, because of concern about the impact of the income tax on lower income individuals, the Congress has also used the standard deduction device, in conjunction with the personal exemption, to increase the threshold below which individuals would not be liable for tax.

In 1944, when the standard deduction was adopted, four out of five tax return filers elected the standard deduction. This ratio was maintained in the early postwar years but declined in the fifties and sixties to a low of 52 percent in 1970. This occurred because of the growth of homeownership, accompanied by deductible property taxes and mortgage interest, while at the same time the fixed dollar limit on the standard deduction failed to keep pace with the growth of income in that period. For many years, the standard deduction was 10 percent of adjusted gross income or $500 whichever was the lesser. The $500 limit was increased to $1,000 in 1954.

The adoption of still higher limits for the standard deduction began in 1969 to provide for tax simplification for millions of taxpayers, to provide higher tax-free income thresholds, and to target tax cuts to lower and middle-income people. Most recently, in the Revenue Act of 1978, Congress increased the zero-rate bracket amount (the standard deduction) from $2,200 to $2,300 for single persons and from $3,200 to $3,400 for married persons filing jointly. The higher limits permitted 69 percent of return filers in 1979 to use the standard deduction, a drop from the high point of 74 percent in 1977.

REVENUE COST

A major concern of this Administration is the $3.0 billion annual cost of the legislation (at 1979 levels) without considering any incentive effects. It would be a special tax cut almost entirely to nonitemizers and would be a substantial call on limited budget resources. To give some perspective of size, the multibillion dollar cost of the legislation would be more than twice the $1.2 billion annual cost of the recently enacted energy heating cost assistance to the poverty stricken and the elderly.

The President, in his Budget Message, has made it clear that the critical battle to halt inflation requires budget restraint and a disciplined fiscal policy. Accordingly, the Administration is opposing at this time all proposals for tax cuts. This constraint is absolutely necessary regardless of the value of such proposals.

WINDFALLS AND DEADWEIGHT REVENUE LOSSES

Another concern of this Administration is the windfall tax cuts implicit in S. 219 to those individuals who make no change in their pattern of giving. Even if giving did not change, there would be a $2.5 billion tax cut for nonitemizers who now give billions to charity, and a $0.5 billion windfall tax cut for the 3 million itemizers who would find it advantageous to take the standard deduction without increasing their giving.

Nonitemizers now make substantial charitable gifts without any tax incentive. An estimate of giving by nonitemizers, as published in Giving USA, is more than $12 billion in 1978. This large amount which averages out to about $200 per nonitemizer is consistent with the assumption that the mass of giving is influenced by nontax motivations such as religious convictions, charitable instincts, and peer pressure associated with the widely-used payroll deduction method of fundraising. Extending the charitable deduction to nonitemizers would result in an estimated $2.5 billion deadweight revenue loss.

Moreover, 3 million itemizers would reduce their tax without making any additional gifts by switching to the standard deduction. This may be illustrated by an example of a taxpayer who gives $600 to charity and is able on a joint return to itemize $3,500 of personal expenses including the $600 of charitable gifts. Under S. 219 this taxpayer would no longer itemize since he would be able to claim $600 of charitable gifts plus the $3,400 standard deduction or zero-bracket amount, $500 more deductions than under current law without making any additional charitable contributions. Such taxpayers would have no additional incentive to give to charity so that the revenue loss, about $0.5 billion, would be clearly a windfall.

Deadweight revenue cost of S. 219 (without induced giving) (1979 levels)

	Billions
1. Cost of current giving by nonitemizers who would benefit without increasing giving	$2.5
2. Cost of current giving by switchers who would benefit without increasing giving	.5
Total deadweight revenue loss	3.0

TAXPAYER COMPLEXITY AND IRS ADMINISTRATIVE PROBLEMS

Congress has provided about 64 million taxpayers with the simple standard deduction which substitutes for the complexity of itemizing deductible outlays. S. 219 would be a serious reversal for tax simplification. Tens of million filers would have to report and keep records of nominal gifts which they are not required to do now.

The 1040A and 1040 tax returns would be made more lengthy and complicated. First, additional lines and instructions would be required to handle the charitable deduction as an "above-the-line" item for all taxpayers. Secondly, S. 219 as drafted would create additional complexities in handling provisions which depend on the concept of adjusted gross income. For example, to compute the limitations on the medical expense deduction, itemizers would be required to add back the amount of charitable deduction to "adjusted gross income" for the purpose of determining the 3 percent medical expense floor and the 1 percent drug expense floor. This add-back would be difficult for itemizers to understand and accept and may be expected to lead to considerable taxpayer complaint and confusion. On the other hand, if this provision were not added to S. 219, the bill would have the unintended impact of increasing the number of individuals utilizing the medical expense deduction and of increasing the revenue cost of the bill.[1]

A very serious IRS administrative problem would arise if tens of millions of additional tax returns contained the contributions deduction. The Internal Revenue Service finds the charitable contribution the most troublesome of the deduction items, particularly among lower income itemizers. It is often claimed for numerous small donations to many recipients. Cancelled checks or receipts are often lacking. Verification is difficult and sometimes impossible. IRS audit records indicate that a downward adjustment in the deduction occurs in approximately 40 percent of returns examined with incomes under $10,000 and in 36 percent of returns examined with incomes between $10,000 and $50,000. The cost of policing small deductions averaging $200 to $300 for taxpayers generally in the 14 to 20 percent brackets would be prohibitive in light of the relatively small additional tax and penalties that could be produced by audit and enforcement.

INDUCED GIVING

Supporters of S. 219 contend that the greater utilization of the standard deduction has been detrimental to philanthropy because itemizers switching to the standard deduction reduced their giving. If nonitemizers were allowed to deduct charitable donations (as well as the standard deduction) supporters of S. 219 believe it would create a substantial incentive to give more.

Before discussing induced giving under S. 219, let me first give you some historical insight into the concern of the philanthropic sector. The anxiety about the greater utilization of the standard deduction is identical to the fear expressed by the charities in 1944 when the standard deduction was adopted. Many in the Congress in 1944 thought the concern was groundless. In the Congressional debate on the adoption of the standard deduction, then Representative Robertson stated:

". . . we have every reason to believe that the fears the standard deduction will throw a damper upon charitable gifts will prove to be unfounded." (90 Cong. Rec. 3973.)

In the same debate, then Representative Doughton said:

"There are some who fear that the allowance of the 10 percent standard deduction, which in no case can exceed $500, will have an adverse effect on taxpayers' contributions to charitable organizations. I do not share such fears, as I do not believe that the great mass of contributors do so for the purpose of securing a tax reduction, but because of the worthy causes such contributions advance." (90 Cong. Rec. 3975.)

History has proven these Congressmen right. The fears were groundless in 1944 and they are equally groundless today. Giving by individuals has maintained a remarkable stability in relation to personal income. When the standard deduction was introduced, over 80 percent of all taxpayers switched to the standard deduction, yet the rate of charitable contributions was not significantly affected. The amount of giving continued to rise as personal income rose. For example in 1941 before the introduction of the standard deduction, charitable donations were 1.7 percent of personal income; in 1950, donations were 1.8 percent of personal income.

The stability with respect to income continues today. Individual giving was 1.8 percent of personal income in 1970 when 52 percent of taxpayers claimed the

[1] Another provision which would require the utilization of the concept of a modified adjusted gross income (AGI plus the deduction for contributions) is the percentage limitation on charitable contributions. Section 3402(m)(2) relating to the definition of estimated itemized deductions for purposes of withholding allowances would require a modified concept of itemized deductions.

In addition, since S. 219 would reduce AGI, it could, in some instances, result in a slightly larger earned income credit, because the limitation of section 43(b) is in part tied to AGI. Similarly, the bill could result in a reduction in the amount of unemployment compensation subject to taxation since AGI is an element in the computation. Also the sick pay exclusion would be subject to a lower phase-out because it is based on AGI.

standard deduction and was 1.7 percent in 1975 when 69 percent claimed the standard deduction. Since 1975, the philanthropic sector has adjusted upward its estimates of giving by individuals. However, with the adjustments, giving as a percent of personal income has remained stable at 1.9 percent between 1976 and 1979. (See Tables 1 and 2.)

The stable historical relationship between total giving and income provides ample evidence that the fear that the standard deduction would have an adverse impact on philanthropy has been and continues to be unwarranted.

Nevertheless, supporters of S. 219 contend that the bill is justifiable on the grounds that donors generally have a high sensitivity to the "price" of giving. The "price" is the net after-tax cost of giving. When itemizers switch to the standard deduction, it results in a higher net cost or "price" for contributions. If the taxpayer is in a 20 percent marginal tax bracket, a nondeductible contribution by nonitemizers costs 20 percent more than a deductible contribution by itemizers. So it is concluded, nonitemizing donors give less because of loss of tax incentive.

S. 219 would lower the "price" of giving for nonitemizers with an "above-the-line" deduction which it is argued would encourage more giving by nonitemizers. The evidence often cited is the research and simulations performed by Professor Martin Feldstein of Harvard University. The price sensitivity or "elasticity" he used was often assumed to be −1.285 for all taxpayers. Under the assumption, a 10 percent decrease in "price" will induce a 12.85 percent increase in giving if the taxpayer has $10,000 of income or $100,000 of income.

The supporters of S. 219 also contend that itemizers give substantially more on the average than nonitemizers, overall and in the same income group. They cite the results of a recent Gallup survey as evidence and conclude that the tax incentive in itemization creates large gifts.

TABLE 1.—TOTAL GIVING BY INDIVIDUALS AS PERCENT OF PERSONAL INCOME, 1955–78

Year	Giving by individuals [1] (billions)	Personal income [2] (billions)	Giving as percent of personal income
1955	$5.1	$308.8	1.7
1960	7.2	399.7	1.8
1965	9.3	537.0	1.7
1966	10.5	584.9	1.8
1967	11.1	626.6	1.8
1968	12.6	685.2	1.8
1969	13.6	745.8	1.8
1970	14.4	801.3	1.8
1971	15.4	859.1	1.8
1972	16.8	942.5	1.8
1973	18.4	1,054.7	1.7
1974	19.8	1,154.7	1.7
1975	21.5	1,246.0	1.7
1976	[3] 26.3	1,375.3	[3] 1.9
1977	[3] 29.5	1,536.7	[3] 1.9
1978	[3] 32.8	1,707.6	[3] 1.9

[1] American Association of Fund-Raising Counsel, Giving USA.
[2] Department of Commerce, Survey of Current Business.
[3] Nonitemizer giving revised upward by Giving USA.

Office of the Secretary of the Treasury, Office of Tax Analysis—January 28, 1980

TABLE 2.—UTILIZATION OF THE STANDARD DEDUCTION ON INDIVIDUAL INCOME TAX RETURNS, 1944–79

Year	Utilization of standard deduction		
	Number of returns, total [1]	With standard deduction [1]	Percent of total
1944	47.1	38.7	82
1945	49.4	41.5	84
1950	53.1	42.7	80
1955	58.3	41.4	71
1960	61.0	36.5	60

TABLE 2.—UTILIZATION OF THE STANDARD DEDUCTION ON INDIVIDUAL INCOME TAX RETURNS, 1944-79—Continued

Year	Utilization of standard deduction		
	Number of returns, total [1]	With standard deduction [1]	Percent of total
1965	67.6	39.3	58
1966	70.2	41.2	59
1967	71.7	41.5	58
1968	73.7	41.3	56
1969	75.8	40.5	53
1970	74.3	38.4	52
1971	74.6	43.5	58
1972	77.6	50.2	65
1973	80.7	52.2	65
1974	83.3	53.2	64
1975	82.2	55.5	68
1976	84.7	58.2	69
1977	86.5	63.6	74
1978	[2] 89.9	[2] 64.1	[2] 71
1979	[2] 93.0	[2] 64.1	[2] 69

[1] Internal Revenue Service, Statistics of Income. Nonitemized returns include returns claiming the standard deduction. Since 1977 there are some nonitemized returns with zero bracket amount.
[2] Preliminary

Office of the Secretary of the Treasury, Office of Tax Analysis—January 28, 1980.

The Treasury finds that the evidence obtained from the econometric studies and in the Gallup survey is inconclusive. We do know that as income increases, the portion of income going to charities generally goes up. But there are two possible explanations for this phenomenon. First, individuals may give more to charity because they have more income. Second, they may give more because the higher marginal tax rates reduce the "out-of-pocket" cost of each dollar of contribution. The empirical question is whether higher giving is attributable to the lower "price" or whether it is attributable to the higher incomes.

There is now general agreement that individuals with high marginal tax rates are highly sensitive to the price of giving. But there is no similar consensus as to low and middle income taxpayers. The empirical problem is more difficult to resolve at those incomes because the variability of price is much more limited. There is less range of marginal tax rates than at the high incomes.

Professor Arnold Zellner at the University of Chicago, a Fellow of the Econometric Society and an editor of Econometrica, has stated:

". . . while each-low income individual does not contribute a great deal of charity, there are a large number of low-income givers and thus the group's total contribution is substantial. Given the [Feldstein] evidence presented, it seems unwarranted to assume that the price elasticity of low-income individuals is . . . as assumed in the [Feldstein] simulations. Simply put, the price elasticities for different income groups have not been determined very precisely . . . for the $4,000-$20,000 income group . . . these [Feldstein's] point estimates of −0.35 and −3.67 differ by about a factor of 10 and have very different policy implications. More work is needed to understand the sources of such variation in the estimates before they can be used confidently for serious policy simulations."

Charles Clotfelter of Duke University and Eugene Steuerle of the Treasury utilized recent tax return data to determine whether giving sensitivity to price varied by income level. Their findings were presented at a Brookings Conference in October 1979. In three related tests they found that sensitivity to prive is smaller at lower income levels and that sensitivity to price increases as income increases. They produced evidence to suggest that sensitivity to price for the great majority of taxpayers who itemize deductions is lower than −1.00 (i.e. these taxpayers will increase giving by less than their tax saving) and that it exceeds −1.00 only for a small part of the taxpayer population. Their findings, as they point out, are not conclusive in the same way that Feldstein's earlier findings are not conclusive.

Accordingly, the judgment at Treasury is that the "price-of-giving" theory applies to the higher incomes who are more knowledgeable about their tax situations and much less so to the low and moderate incomes. If in fact, low and middle income taxpayers are not very sensitive to the price effect, S. 219 would result in a large revenue loss to the Treasury and little increased giving for the charities.

Even if there were high sensitivity to price among low and middle income persons, there is new evidence to show that the full measure of increased giving would be significantly delayed. Clotfelter who measured that lag, found that only 34 percent of the long run increase in giving occurs in the first year and 57 percent in the second. He finds that giving may not exceed 90 percent of the long run until the sixth year after the "price" is changed. Utilizing the Clotfelter lag estimates, the annual revenue losses if S. 219 were adopted, would far exceed induced giving for many years. The Treasury estimates of revenue losses and induced giving during the adjustment period (based on assumed price elasticities) are presented in Table 3.

As for the Gallup survey, the Treasury believes that the results were misinterpreted. Gallup found in the $10,000 to $15,000 income group that itemizers give $324 and nonitemizers give $249 on the average and in the $15,000 to $20,000 income group itemizers gave $652 and nonitemizers gave $222 on the average. These findings are interpreted by supporters of S. 219 as evidence that the tax incentive in itemization creates larger gifts.

TABLE 3.—RANGE OF REVENUE LOSS AND ADDITIONAL CHARITABLE CONTRIBUTIONS [1]

[In billions of dollars]

	Calendar years				
	1981	1982	1983	1984	1985
Price elasticity of −1.3:					
Revenue loss	$3.7	$4.2	$4.7	$5.2	$5.8
Additional charitable contributions	1.6	2.9	3.7	4.6	5.6
Price elasticity of −1.0:					
Revenue loss	3.6	4.1	4.5	5.0	5.4
Additional charitable contributions	1.2	2.2	2.8	3.5	4.3
Price elasticity of −0.7:					
Revenue loss	3.5	3.9	4.3	4.7	5.2
Additional charitable contributions	.8	1.5	1.9	2.4	2.9

[1] Under three price elasticity assumptions resulting from allowing charitable contributions as a deduction in computing adjusted gross income as in S. 219. Assumes effective date is January 1, 1981

But the Gallup survey simply does not establish that the tax incentive to itemizers explains the differences in average gifts. First, it fails to recognize that many individuals are itemizers precisely because they have made relatively large charitable gifts. Second, the conclusion does not take into account the differing characteristics of itemizers and nonitemizers. For example, homeowners who tend to itemize also tend to give more than tenants who tend not to itemize. One explanation may be that homeowners tend to have more assets as compared to tenants in the same income group. Another explanation may be that homeowners tend to have larger families, tend to be established in the community and involved and committed to its institutions. By contrast, tenants tend to be single or have smaller families, and tend to be more mobile and less involved in the community.

Gallup found that homeowners gave $449 on the average and tenants gave $177 but failed to provide data by income level and by itemization status. One must presume that the difference in giving between homeowners and tenants in part accounts for the difference in giving between itemizers and nonitemizers.

Another characteristic which apparently affects giving is the extent to which an individual receives income from business and investments. In other words, individuals who are more wealthy and who receive property income tend to give more on the average than individuals who receive only wages and salaries and a nominal amount of property income. The Treasury found that in 1975 itemizers in the $10,000–$15,000 income group who had property income of $100 or more in addition to wages and salaries gave $422 on the average. But itemizers in the same group with wages and salaries only or with less than $100 of property income gave $340. The average gifts were $512 and $401 respectively for similar itemizers in the $15,000–$20,000 income group. Since individuals with property income of $100 or more accounted for the majority of itemizers and wage and salary earners with less than $100 of other income accounted for the majority of nonitemizers, one must conclude that the difference in giving between individuals with substantial property income and those with little or none also account in part for the difference in giving between itemizers and nonitemizers.

There are no doubt other explanations for the difference in average gifts of itemizers and nonitemizers, but the essential point to be made, is that it is not mainly itemization and nonitemization that causes larger and smaller gifts respectively, but the particular characteristic of individuals who tend to itemize or tend not to itemize.

To investigate this matter further, the Treasury conducted a study of the giving by 1975 itemizers on the assumption they were subject to the much more liberal standard deduction in 1979. The Treasury found that in 1975 when all itemized, the average gift of itemizers who would have switched was considerably lower than the average gift of itemizers who would not have switched at each income level. Itemizers in the $10,000–$15,000 income group who would have switched made an average gift of $321. Itemizers in the same group who would have continued to itemize made an average gift of $433. Similarly, itemizers in the $15,000-$20,000 income group who would not have switched made an average gift of $352. Itemizers in the same group who would have continued to itemize gave $501 on the average. See Table 4. These results clearly demonstrate that the switchers were already giving considerably less before switching than other itemizers. Consequently, it is questionable to conclude, as do supporters of S. 219, that the use of the standard deduction has caused a serious loss in giving and that its use is detrimental to charity.

In conclusion, Mr. Chairman, this Administration opposes the enactment of S. 219 because of its cost in light of budget constraints, the windfalls it provides, the complexity and burdens it creates, and its questionable effectiveness as an incentive to giving.

TABLE 4.—1975 ITEMIZERS[1]

AGI	Number of 1975 itemizers	Number who switch	Average contribution deduction	Number continuing to itemize	Average contribution deduction
Under $5,000	698,000	304,000	$298	394,000	$264
$5,000 to $10,000	3,681,000	2,254,000	321	1,428,000	334
$10,000 to $15,000	6,043,000	3,023,000	321	3,020,000	433
$15,000 to $20,000	5,800,000	1,746,000	352	4,054,000	501
$20,000 to $50,000	8,816,000	1,313,000	418	7,503,000	720
$50,000 to $100,000	731,000	18,000	577	713,000	1,985
$100,000 and over	182,000	1,000	883	180,000	9,354
Total	25,952,000	8,659,000	342	17,293,000	718

[1] Average gifts of those who would have switched and those who would have continued to itemize if they had been under the more liberal 1979 standard deduction.

Note.—1975 Standard Deduction—16 percent of AGI, but not over $2,300 for singles ($2,600 for joint returns), or not under $1,700 ($2,100 for joint returns). 1979 Standard Deduction (Zero Bracket Amount)—$2,300 for singles ($3,400 for joint returns).

Senator BYRD. The next witness will be the Honorable John Gardner, chairman, Coalition of National Voluntary Organizations. Mr. Gardner has had wide experience in government where he served in what I suppose is one of the most difficult Government positions, Secretary of the Department of Health, Education, and Welfare.

Welcome, Mr. Secretary.

STATEMENT OF JOHN GARDNER, CHAIRMAN, COALITION OF NATIONAL VOLUNTARY ORGANIZATIONS—NATIONAL COUNCIL ON PHILANTHROPY ORGANIZING COMMITTEE

Mr. GARDNER. Thank you, Mr. Chairman. I am grateful for the opportunity to appear before you. I have had earlier opportunities to work with the distinguished sponsors of this bill, so I know at first hand your very great concern to preserve what is best in American life.

A great many Americans today—Mr. Chairman, I will simply read excerpts from my statement if the full statement may be inserted in the record.

Senator BYRD. The full statement will be incorporated in the record.

Mr. GARDNER. A great many Americans today fear that the standard deduction does unintended damage to a unique and treasured aspect of American life. The charitable contributions legislation is designed to prevent such a change and such damage and I support it without reservation.

In a totalitarian state, virtually all activity is, in essence, governmental. Almost everything is bureaucratized and subject to central goalsetting and rulemaking.

In the nations that the world thinks of as democracies, there is, in contrast a large area of activity outside of government. The United States probably outstrips all others in the size and autonomy of its nongovernmental or private sector. The major portion of our private sector consists of activities designed for profit; a smaller portion consists of nonprofit activities.

I am going to talk about the nonprofit segment of the private sector. It is an extraordinary part of our national life, though Americans are so familiar with it they never look straight at it. It includes religious organizations, institutions concerned with health and welfare, schools and colleges, libraries and museums, performing arts groups, neighborhood organizations, citizen action groups and countless other categories. It includes Alcoholics Anonymous, the Metropolitan Opera, the 4-H clubs, the Amateur Athletic Union, the Urban League, the Women's Political Caucus, and so on. The variety is astonishing.

The American habit of voluntary association emerged in the Colonies more than a century before the Constitutional Convention. If neighbors or members of a community shared a problem or concern, they did not wait for higher authority to nominate someone to tackle it. They acted on their own initiative. This habit of self-nomination was often quite disconcerting to colonial governors newly arrived from England. Though the practice had roots in British tradition and in philosophical ideas current in 18th-century Europe, our enthusiastic everyday application of the idea took some time for foreign visitors to get used to.

The tradition has flowered beyond the dreams of our forebears and is today one of the glories of American life. It is unique throughout the world—not unique in the fact that it exists, because it exists elsewhere, but unique in its strength and diversity. If we lose it we shall have lost a priceless and irreplaceable element in our national life.

All over this land today Americans acting in this voluntary sector are solving problems, starting organizations, devising new technologies, helping their neighbors, combating injustice, pioneering new fields of science, creating jobs, and enriching the lives of others.

We love that torrential flow of human initiative, and we intend to hold onto it. It is rooted in good soil—civic pride, compassion, a philanthropic tradition, a strong problem solving impulse, a sense of individual responsibility and—whatever the cynics say—an irrepressible commitment to the great shared task of improving our life together.

Compared with government and business, the independent sector is relatively free. And thanks to that freedom one finds in the sector an extraordinary variety of activities, initiatives, goals, and beliefs. It is pluralistic in the richest sense. Every institution in the independent sector is not innovative; but the sector provides an environment for innovation. An idea that is controversial, unpopular or "strange" has little chance in either the commercial or the political marketplace. But in the diverse world of the nonprofit sector it may very well find the few followers necessary to nurse it to maturity.

The sector is the natural home of nonmajoritarian impulses, movements, and values. It comfortably harbors innovators, maverick movements, groups which feel that they must fight for their place in the Sun, and critics of both liberal and conservative persuasion.

Institutions of the independent sector are in a position to serve as the guardians of intellectual and artistic freedom. Both the commercial and political marketplaces are subject to leveling forces that may threaten standards of excellence. In the independent sector, the fiercest champions of excellence may have their say.

The freedom from constraints, the pluralism, and the continuous emergence of new ideas, all provide a strong stimulus to individual initiative and responsibility. The sector preserves in the individual a sense of the power to act. As in the for-profit sector, there are innumerable opportunities for the resourceful—to start something, explore, grow, cooperate, lead, make a difference. At a time in history when individuality is threatened by the impersonality of large-scale social organization, the sector's emphasis on individual initiative is a priceless counterweight.

And equally important, the sector permits the forging of linkages between individual and community. I don't just mean communities as geographical locations; I mean communities as coherent entities with the moral and binding values that hold people together. Our sense of community has been badly battered, and every social philosopher emphasizes the need to restore it. What is at stake is the individual's sense of responsibility for something beyond the self. A spirit of concern for one's fellows is virtually impossible to sustain in a vast, impersonal, featureless society.

The nonprofit sector permits the survival of mediating structures that often get squeezed out by modern large-scale organization. Only in coherent human groupings—the neighborhood, the family, the community—can we keep alive our shared values—and preserve the simple human awareness that we need one another. The countless informal organizations of the independent sector permit the expression of caring and compassion; they make possible a sense of belonging, of being needed, of allegiance and all the other bonding impulses that have characterized humans since the prehistoric days of hunting and food gathering.

At a time when the continued vitality of the society requires some measure of decentralization, the independent sector offers an escape from central control and central definition, an escape from clearances with a distant bureaucracy. It makes possible a significant role for relatively small grassroots structures.

All of the healthy, diverse, and creative activity of the voluntary sector is undergirded by certain philosophic beliefs, certain traditions, and certain practical policies which we care a great deal about but give little thought to.

Americans have always believed in pluralism—the idea that a free nation should—within the law—allow all kinds of people to take the initiative in all kinds of activities. Within that tradition, unpopular ideas can be expressed, an utterly unknown person can come up with an important idea, religious groups can pursue their deepest convictions, new commercial ventures can be launched, great institutions of learning can arise and function independently.

When all kinds of people are left free to pursue all kinds of activities, a surprising number choose to serve some community purpose. The private pursuit of public purpose is an honored tradition in American life. We do not regard the furtherance of public purpose as a monopoly of government. And that belief has released incredible human energy and commitment in behalf of the community.

But all of these nonprofit activities depend on another powerful American tradition—the tradition of private giving for public purposes. The ingredient of private giving supplies the element of freedom.

This aspect of our life has traditionally been recognized and fostered through the tax deductibility of private gifts for charitable, scientific, religious, and educational purposes. The principle expressed at the time the deduction was introduced was that the income tax should be levied only on consumable income, and not on income passed on to public uses rather than retained for personal benefit.

Unlike the usual tax preferences that are designed to deal with quite specific situations, the tax deductibility provision undergirds a whole segment of American life. To tamper with it is to tamper with something central and previous in our national style, in our way of expressing our best impulses, in our way of dealing with our shared purposes.

It has been seen as a positively valuable and good thing in American life that groups outside government should, on their own initiative, undertake activities to further community aims, and that a great many people, quite independently in their capacity as private citizens, should contribute to charitable, religious, scientific, and educational activities of their choice.

And this positive policy has worked. It has permitted the emergence of great world centers of learning, it has made our museums and medical centers famous throughout the world. And it has nourished our community life. We have demonstrated that preserving a role for the private citizen in these matters encourages creativity, and keeps alive in individual citizens the sense of personal caring and concern so essential if a mass society is to retain the element of humaneness.

Yet today, despite long-term successes, all the institutions of this sector—great universities, private hospitals, social agencies, foundations, museums, citizens' action groups, symphony orchestras—

all share the same apprehensions. They feel that their world is endangered, that the walls are closing in, that their days may be numbered. Why?

There are many reasons. Private giving has eroded. Giving is now a smaller proportion of disposable personal income. At the same time, expectations for service have risen greatly, especially in this time of Government cutbacks. Obviously inflation is a heavy burden on a sector that is in its nature manpower-intensive. Operating costs have escalated. A high proportion of nonprofit institutions are in serious financial trouble.

There is steadily increasing dependence on the Federal Government. According to the latest available figures, about 30 percent of the total revenue received by nonprofit institutions is supplied by government. And government money is followed by the government rulebook. The level of government funding is rising. If the trend continues, many of our nonprofit institutions will be arms of government.

In sum, whatever the cause, there is apprehension throughout the voluntary world. There is the sense of a foreshortened future.

The apprehension was not diminished by the 1978 report of the Wolfenden Committee, a British commission on the future of voluntary organizations, which lamented that England has let its philanthropic tradition and its voluntary agency structure deteriorate so badly and has come to depend on its public system so completely that the opportunity to have a truly independent sector has been lost.

We watch those alarming developments elsewhere while simultaneously learning through hard experience the limitations of big government here at home. One of the gravest mistakes we can make is to assume that alternatives will always exist here.

One cause of the decline of the voluntary sector in Europe is that it is associated in the public mind with the benefactions of the rich and the powerful, which are resented by the people. In contrast, our own voluntary sector boasts the extraordinary participation of tens of millions of ordinary Americans whose modest gifts account for most of the $40 billion contributed last year. Yet the standard deduction strikes at precisely that base of small givers. It moves us toward a situation in which giving will indeed be confined to the higher income groups.

Mr. Chairman, I could go on at great length. I have not touched upon many crucial matters that concern me: the concept of tax expenditures, the notion that all income covered by tax laws is government money, the question of whether money given away is properly thought of as income.

I have not done so beause for me the whole case rests ultimately on the question of what kind of society we want. In answering that question I have sought to express as lucidly as possible views that I know are shared by a great many thoughtful Americans.

Thank you.

Senator MOYNIHAN. We thank you, sir. You could not have made this case more eloquently.

Senator Packwood?

Senator PACKWOOD. Mr. Gardner, I will echo the exact words. It is an eloquent statement. It is the kind of statement I wish we would hear more often rather than "Well, it might cost $2.3 billion in revenue loss as opposed to an increase of $2.9 billion in charitable giving."

The direction that this country is going to take is not going to be determined as to whether or not we first look at the revenue figures and then decide our philosophy. It is going to be determined the other way around.

We can balance this budget and we can eventually stop the inflation and pass this bill. The two are not incompatible.

But if we are going to take every bill that has a purpose as worthy as this and hold it up to computerized estimates, I think that we can probably find a reason to defeat every bill and with it eventually the private sector of this country, as Britain has done. That is the wrong direction to go.

The tenor that you have placed in your statement is the kind of argument that I make for this bill everyplace I go in this country, and I thank you for coming.

Senator MOYNIHAN. Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman. I would like to join in praise of you, Mr. Gardner, for your statement. I have long been an admirer of yours. I wonder if you could touch upon—it might be helpful for us to get a little experience of the foreigners. You talked about what happened in Britain and the decline in giving in Britain now, the whole British charitable system coming under attack, but I was not sure I understood it completely.

One of the problems in Britain is that apparently giving is associated with the so-called upper classes and thus it comes under attack. Is there anything comparable in the British tax system dealing with charitable deductions and standard deductions and so forth?

Mr. GARDNER. I honestly cannot answer that question. I read this portion of the Wolfenden Committee report. I do know that in most countries on the continent there is nothing comparable and indeed, if you have read an absolutely immemorable story in the New York Times last August, I believe, about the decline of the voluntary sector in Europe you can see most vividly the reaction that philanthropy is something that comes from the manor house, not something that we do for our own society.

Senator CHAFEE. I certainly think everything you say about preserving this precious American institution, as you call it, it is unique compared to other nations in the world. Nothing on this scale. I do not know how the British universities survive, Oxford and its colleges and so forth, without the vast alumni system of thousands and thousands of people giving, and I guess you know, I presume, that they are much more dependent on government support than say, any of our colleges and universities.

Thank you very much. Thank you, Mr. Chairman.

Senator MOYNIHAN. If I may just continue this a moment, I put in the record last July an article from the New York Times entitled, "Private Charity Going Out of Style in Western Europe and the Welfare States."

I would like to put this in the hearing record now, just to substantiate this point and draw attention to a central theme that you were making, John Gardner, which is do not underestimate the connection between the destruction of the private sector and the growth of the state.

[The material referred to follows:]

PRIVATE CHARITY GOING OUT OF STYLE IN WEST EUROPE'S WELFARE STATES

Mr. MOYNIHAN. Mr. President, an absorbing article in the New York Times of July 2, 1978, described the decay of private philanthropy in the welfare states of Western Europe. This underscores the urgency of measures to insure that the United States does not follow this pattern. One such measure is S. 3111, a bill that Senator Packwood and I introduced on May 19, 1978, to allow all taxpayers to take a charitable deduction on their Federal income tax return, whether or not they itemize their other deductions. Although policy cannot—and certainly should not—compel individuals to make charitable contributions, it can encourage them to do so, even at some cost in revenues that would otherwise accrue to the public fisc. The alternative is gloomy indeed: A situation in which Government gradually assumes direct responsibility for practically everything and in which the generous impulses of philanthropists are scoffed at. In reading this article—which I ask to have inserted in the Record—one does well to consider how diminished this society would be if the Mellon family had not built the National Gallery of Art and its new East Building, if the Rockefeller family had not contributed the land comprising Acadia National Park—or if the ordinary taxpayer did not support the church and college of his choice.

I also ask to have printed in the Record an excerpt from an editorial published in the Washington Post on August 25, 1917, just before Congress initially adopted the charitable deduction. In eloquent yet simple terms it sets forth the philosophy that underlies S. 3111 and the counterpart bill now before the House Ways and Means Committee.

The article and excerpt follow:

[From the New York Times, July 2, 1978]

PRIVATE CHARITY GOING OUT OF STYLE IN WEST EUROPE'S WELFARE STATES

(By Jonathan Kandell)

STOCKHOLM, June 29.—A few years ago, toward the end of his life, King Gustaf VI Adolf decided to make a final bequest from the royal coffers to his Swedish subjects. He would contribute a sizable amount, running into the hundreds of thousands of dollars, to a national association for the handicapped.

The donation was never accepted. And, in fact, the would-be recipients admonished the King for even attempting as a private individual to fulfill what was considered in modern-day Sweden a function of the government.

Increasingly in Western Europe, philanthropy is acquiring a bad name. Leftists assert it delays the expansion of government-controlled social benefits and softens popular attitudes toward private wealth.

Even moderates are voicing disapproval of what they call the elitism of philanthropists' and their foundations' dispensing large amounts of money and patronage without the controls of electoral mandates or the accountability of government bureaucrats.

CHARITABLE GROUPS ARE NUMEROUS

In sheer numbers, West European charitable associations seem impressive enough. There are 120,000 in Britain, 32,000 in the Netherlands, 19,500 in Switzerland, 15,000 in Sweden, and 4,000 in West Germany. But most of them are small and exist in name only. Fewer than 5 percent still make sizable donations. Public sentiment that philanthropy should be the responsibility of governments has forced thousands of small charities to depend increasingly on funds from state and local authorities.

The refusal of West European governments to allow tax deductions for large individual donations has reduced the number of tycoon-philanthropists of the sort that achieved fame before World War II. Even those wealthy persons who continue to contribute often find the publicity surrounding their donations can boomerang.

Last March, for example, Marcel Dassault, the aircraft manufacturer and reputedly one of the richest men in France, decided to finance an indoor swimming pool for his constituents in Beauvais, a district he represents as a conservative Gaulist legislator in the National Assembly.

The mayor, Walter Amsallem, a Socialist, inaugurated the pool with some acid comments as the 86-year-old Mr. Dassault stood by.

"To give ourselves over to patronage, consigning our fates to the powerful and the rich, seems to us contrary to the spirit of the republic and of democracy," said the mayor. "We should have preferred action by the nation, the fruits of efforts by the whole community, eliminating charitable practices that degrade those who benefit from them."

It is doubtful that Mr. Dassault even heard the rebuke. He was caught up in a shouting match with some Communist councilors, hurling abuse at him from across the pool. "My workers are the best paid in France," Mr. Dassault yelled. "and I also was once poor before I was successful."

Less raucous, but no less controversial, has been the case of Pierre Guerlain, 72, the perfume manufacturer, whose offer to donate 10,000 acres of lake and land for a wildlife reserve was approved after four years of negotiations with the French Government.

His credentials as a nature lover were never questioned—he was once administrator of the World Wildlife Fund. But bureaucrats reportedly held up the bequest for fear that it would give Mr. Guerlain a windfall of publicity or set off rumors that he had been given a tax break. Mayors in some of the communities bordering the preserve felt that the Government should reserve the option of eventually using the land for housing.

In Sweden, where popular feeling against private philanthropy probably runs highest, there have been few recent cases of large private donations.

"I would say that sort of philanthropy is suspect nowadays," said Lars Bergstig, information secretary in the Budget Ministry. "Even among wealthy people, there is a feeling that you don't become popular by giving away money, by establishing a grant or foundation in your name."

SWEDEN ALLOWS NO TAX DEDUCTION

Nor would a philanthropist in Sweden be allowed a deduction from his taxable income for a charitable donation.

"In the past, philanthropy was an important substitute for social benefits for the poor," said Mr. Bergstig. "But we've had such a fast buildup of public welfare services since the end of the war. All political parties now believe that philanthropy should be the function of the state and local communities. And the mentality of Swedes today is that if you need money for disease research or support for the arts, you go straight to the Government. After all, isn't that why we pay all those taxes?

According to Mr. Bergstig, many of the thousands of small charitable trusts that still exist can no longer fulfill their original aims.

"There are five to ten small trusts in Stockholm alone that specify that their money should be spent for the moral improvement of wayward women," he recalled. "Can you really imagine giving away money for that in Sweden today? Then we have old charitable funds to make it possible for young people to go to a university or study abroad. Well, the Government more than takes care of that nowadays.

"The trouble is that even if there are no longer recipients who qualify for many of the old charitable funds, no new legislation has been passed to alter their provisions. It just would not be worth the controversy."

TAX EXEMPTIONS EXIST IN BRITAIN

In Britain, charities are exempted from income tax, corporation tax and capital gains. But individual donors are not. And in recent years, most of the charities have had trouble raising money or maintaining their endowments.

"Operating and administrative costs continued to rise and inflation persisted in eroding the value of capital," stated a report last year by the charity commissioners for England and Wales. "These trends impinged adversely on the ability of charities to sustain existing programs and to start new ones, from their own resources and also on the ability of the public to subscribe fresh funds."

Increasingly, British charities depend on government financing. Earlier this year, a survey by the Charities Aid Foundation, an umbrella group for many voluntary organizations, disclosed that only 40 percent of donations to British charities came from individuals, wills, trust funds and corporations. Government grants covered most of the rest.

TREND TOWARD STATUTORY FUNDING

"It would be naive to suppose that charities which are effectively dependent on statutory funding will be left with the freedom of initiative any longer than it suits the convenience of the state," said Redmond Mullin, assistant director of the Charities Aid Foundation.

This view was also put forward in a report last year on philanthropy by the National Westminster Bank, but with a slightly different perspective:

"In recent years there has been increasing political interest in charities, and their attractive, tax-sheltered status must have played a role in this. Some charities such as private schools or hospitals are seen as havens of wealthy privilege that enable the rich to buy certain services at a cut price; others are attacked on the ground that they launch political propaganda under the guise of charitable activity."

STATE'S ROLE DOES NOT RESOLVE ISSUE

But a government monopoly of philantrophy, as has occurred in the patronage of the arts in Britain, has not put an end to the controversy.

In the United States, businesses are allowed to give away up to 5 percent of their income, free of tax. In Britain, business gifts to the arts are free of tax only if the Government determines that they are part of actual business or advertising expenses. As a result, private donations account for only $1.8 million a year, or less than 1 percent of total patronage of the arts.

But the Government, particularly at the local level, tends to donate its money to the more conventional artistic activities that are free from public controversy, according to advocates of private philanthropy.

The stringent tax laws against potential private art patrons have also been blamed for the large-scale outflow of works of art abroad. Neither the museums nor the Government are able to match offers by foreign collectors for paintings put up for sale by their British owners.

[From the Washington Post, Aug. 25, 1917]

EXCLUDING CHARITY

If the Government takes all, or nearly all, of one's disposable or surplus income, it must undertake the responsibility for spending it, and it must then support all those works of charity and mercy and all the educational and religious works which in this country have heretofore been supported by private benevolence.

It would be a mistake to change abruptly the traditional policy under the stress of war conditions. This country can not abandon or impoverish the great structure of private charity and education that has been one of the most notable achievements of American civilization. Therefore with every additional dollar the Government finds it necessary to take in taxation it becomes increasingly necessary to accept the principle of the pending amendment and leave untaxed that part of every citizen's income which he may give voluntarily to the public good.

Senator MOYNIHAN. When King Gustaf VI was getting ready to die, like all kings do, he wanted to make some bequests in Sweden for charitable circumstances and was told "under no circumstances." Charitable purposes are the function of the state and you are not going to do it.

When you see Brooklyn Jewish Hospital or St. Peter's Hospital or a Lutheran Home, you see what was once a private and is becoming a public institution and, as John Gardner said, when the public money arrives, the public rulebook arrives.

Senator CHAFEE. The public what?

Senator MOYNIHAN. The public rulebook arrives. This is the natural world of the independent sector, and we will destroy it. Something then happens to your democracy, does it not?

You could not have said it better, and we are very grateful.

Mr. GARDNER. Thank you, sir.

Senator MOYNIHAN. Thank you, sir.

[The prepared statement of Mr. Gardner follows:]

Statement of John W. Gardner, Chairman, Organizing Committee, Independent Sector

SUMMARY

Testimony strongly supports the Charitable Contributions Bills (S-219 and HR-1785) and commends the sponsors of them.

The non-profit segment of the private sector represents an extraordinary part of our national life. The traditions of giving, volunteering and not-for-profit initiative are among the glories of American life. They are what make us unique. If we lose them we shall have lost a priceless and irreplaceable element in our national life.

At a time in history, when individuality is threatened by the impersonality of large-scale social organization, the independent sector's emphasis on individual initiative is a priceless counter weight.

But all of these non-profit activities depend on private giving for public purposes. The ingredient of private giving supplies the element of freedom.

This aspect of our life has traditionally been recognized and fostered through the tax deductibility of private gifts for charitable, scientific, religious and educational purposes. The principle expressed at the time the deduction was introduced was that the income tax should be levied only on consumable income, and not on income passed on to public uese rather than retained for personal benefits.

One cause of the decline of the voluntary sector in Europe is that it is associated in the public mind with the benefactions of the rich and powerful, which are resented by the people. In contrast, our own voluntary sector boasts the extraordinay participation of tens of millions of ordinary Americans whose modest gifts account for most of the $40 million contributed last year. Yet the standard deduction strikes at precisely that base of small givers. It moves us toward a situation in which giving will indeed be confined to the higher income groups.

The private pursuit of public purpose is an honored tradition in American life. We do not regard the furtherance of public purpose as a monopoly of government. The whole case rests ultimately on what kind of society we really want.

STATEMENT

I am John W. Gardner, Chairman of the Organizing Committee for a new association called Independent Sector. I am grateful for this opportunity to appear before you. I have had earlier opportunities to work with the distinguished sponsors of this legislation on matters of public importance, so I know at first hand your concern to preserve what is best in American life.

The new association, Independent Sector, grows out of a merger of the National Council on Philanthropy and the Coalition of National Voluntary Organizations, two umbrella groups which represent many of the most vital non-profit, non-governmental institutions in American life. The intent of the new organization is to preserve and strengthen the Amer can traditions of private giving, voluntary association and not-for-profit initiative. A great many people who honor and support those traditions fear that recent changes in Federal tax policy do unintended damage to a unique and treasured aspect of American life. The Charitable Contributions Legislation is designed to prevent such damage, and I support it without reservation.

In a totalitarian state virtually all activity is, in essence, governmental—and the little that is not, is heavily controlled or influenced by government. Almost everything is bureaucratized and subject to central goal-setting and rulemaking.

In the nations that the world thinks of as democracies, there is, in contrast, a large area of activity outside of government. The United States probably outstrips all others in the size and autonomy of its nongovernmental or private sector. The major portion of our private sector consists of activities designed for profit; a smaller portion consists of nonprofit activities.

I am going to talk about the nonprofit segment of the private sector. It is an extraordinary part of our national life, though Americans are so familiar with it they never look straight at it. It includes religious organizations, institutions concerned with health and welfare, schools and colleges, libraries and museums, performing arts groups, neighborhood organizations, citizen action groups and countless other categories. It includes Alcoholics Anonymous, The Metropolitan Opera, the 4-H clubs, the Amateur Athletic Union, the Urban League, the Women's Political Caucus and so on and on. The variety is astonishing.

The American habit of voluntary association emerged in the colonies more than a century before the Constitutional Convention. If neighbors or members of a community shared a problem or conern, they didn't wait for higher authority to nominate someone to tackle it. They acted on their own initiative. This habit of self-nomination was often quite disconcerting to colonial governors newly-arrived from England. Though the practice had roots in British Tradition and in philosophical ideas current in 18th Century Europe, our enthusiastic everyday application of the idea took some time for foreign visitors to get used to.

The tradition has flowered beyond the dreams of our forebears and is today one of the glories of American life. It is unique throughout the world—not unique in the fact that it exists, because it exists elsewhere, but unique in its strength and diversity. If we lose it we shall have lost a priceless and irreplaceable element in our national life. All over this land today Americans acting in this voluntary sector are solving problems, starting organizations, devising new technologies, helping their neighbors, combatting injustice, pioneering new fields of science, creating jobs, and enriching the lives of others. We love that torrential flow of human initiative, and we intend to hold on to it. It is rooted in good soil—civic pride, compassion, a philanthropic tradition, a strong problem solving impulse, a sense of individual responsibility and—whatever the cynics may say—an irrepressible commitment to the great shared task of improving our life together.

Compared with government and business, the independent sector is relatively free. And thanks to that freedom one finds in the sector an extraordinary variety of activities, initiatives, goals, and beliefs. It is pluralistic in the richest sense. Every institution in the independent sector is not innovative; but the sector provides an environment for innovation. An idea that is controversial, unpopular or "strange" has little chance in either the commercial or the political marketplace. But in the diverse world of the nonprofit sector it may very well find the few followers necessary to nurse it to maturity.

The sector is the natural home of nonmajoritarian impulses, movements and values. It comfortably harbors innovators, maverick movements, groups which feel that they must fight for their place in the sun, and critics of both liberal and conservative persuasion.

Institutions of the independent sector are in a position to serve as the guardians of intellectual and artistic freedom. Both the commercial and political marketplaces are subject to leveling forces that may threaten standards of excellence. In the independent sector, the fiercest champions of excellence may have their say.

The freedom from constraints, the pluralism and the continuous emergence of new ideas, all provide a strong stimulus to individual initiative and responsibility. The sector preserves in the individual a sense of "the power to act". As in the for-profit sector, there are innumerable opportunities for the resourceful—to start something, explore, grow, cooperate, lead, make a difference. At a time in history when individuality is threatened by the impersonality of large-scale social organization, the sector's emphasis on individual initiative is a priceless counterweight.

And equally important, the sector permits the forging of linkages between individual and community. Citizens banding together can tackle a small neighborhood problem or a great national issue.

The past century has seen a more or less steady deterioration of American communities. I don't just mean communities as geographical locations; I mean communities as coherent entities with the morale and binding values that hold people together. Our sense of community has been badly battered, and every social philosopher emphasizes the need to restore it. What is at stake is the individual's sense of responsibility for something beyond the self. A spirit of concern for one's fellows is virtually impossible to sustain in a vast, impersonal, featureless society. The nonprofit sector permits the survival of mediating structures that often get squeezed out by modern large-scale organization. Only in coherent human groupings (the neighborhood, the family, the community) can we keep alive our shared values—and preserve the simple human awareness that we need one another. The countless informal organizations of the independent sector permit the expression of caring and compassion; they make possible a sense of belonging, of being needed, of allegiance and all the other bonding impulses that have characterized humans since the prehistoric days of hunting and food-gathering.

At a time when the continued vitality of the society requires some measure of decentralization, the independent sector offers an escape from central control and central definition, an escape from clearances with a distant bureaucracy. It makes possible a significant role for relatively small grassroots structures.

All of the healthy, diverse and creative activity of the voluntary sector is undergirded by certain philosophic beliefs, certain traditions and certain practical policies which we care a great deal about but give little thought to.

Americans have always believed in pluralism—the idea that a free nation should—within the law—allow all kinds of people to take the initiative in all kinds of activities. Within that tradition, unpopular ideas can be expressed, an utterly unknown person can come up with an important idea, religious groups can pursue their deepest convictions, new commercial ventures can be launched, great institutions of learning can arise and function independently.

When all kinds of people are left free to pursue all kinds of activities, a surprising number choose to serve some community purpose. The private pursuit of public purpose is an honored tradition in American life. We do not regard the furtherance of public purpose as a monopoly of government. And that belief has released incredible human energy and commitment in behalf of the community.

But all of these nonprofit activities depend on another powerful American tradition—the tradition of private giving for public purposes. The ingredient of private giving supplies the element of freedom.

This aspect of our life has traditionally been recognized and fostered through the tax deductibility of private gifts for charitable, scientific, religious and educational purposes. The principle expressed at the time the deduction was introduced was that the income tax should be levied only on consumable income, and not on income passed on to public uses rather than retained for personal benefit.

Unlike the usual tax preferences that are designed to deal with quite specific situations, the tax deductibility provision undergirds a whole segment of American life. To tamper with it is to tamper with something central and precious in our national style, in our way of expressing our best impulses, in our way of dealing with our shared purposes.

It has been seen as a positively valuable and good thing in American life that groups outside government should, on their own initiative, undertake activities to further community aims, and that a great many people, quite independently, in their capacity as private citizens, should contribute to charitable, religious, scientific and educational activities of their choice.

And this positive policy has worked. It has permitted the emergence of great world centers of learning, it has made our museums and medical centers famous throughout the world. And it has nourished our community life. We have demonstrated that preserving a role for the private citizen in these matters encourages creativity, and keeps alive in individual citizens the sense of personal caring and concern so essential if a mass society is to retain the element of humaneness.

Yet today, despite long-term successes, all the institutions of this sector—great universities, private hospitals, social agencies, foundations, museums, citizens action groups, symphony orchestras—all share the same apprehensions. They feel that their world is endangered, that the walls are closing in, that their days may be numbered. Why?

There are many reasons. Private giving has eroded. Giving is now a smaller proportion of the GNP than it was ten years ago—and a smaller proportion of disposable personal income. At the same time, expectations for service has risen greatly, especially in this time of government cutbacks. Obviously inflation is a heavy burden on a sector that is in its nature manpower-intensive. Operating costs have escalated. A high proportion of nonprofit institutions are in serious financial trouble.

There is steadily increasing dependence on the federal government. According to the latest available figures, about 30 percent of the total revenue received by nonprofit institutions is supplied by government. And government money is followed by the government rulebook. The level of government funding is rising. If the trend continues, many of our nonprofit institutions will be arms of government.

In sum, whatever the cause, there is apprehension throughout the voluntary world. There is the sense of a foreshortened future.

The apprehension was not diminished by the 1978 report of the Wolfenden Committee, a British commission on the future of voluntary organizations, which lamented that England has let its philanthropic tradition and its voluntary agency structure deteriorate so badly and has come to depend on its public system so completely that the opportunity to have a truly independent sector has been lost.

We watch those alarming developments elsewhere while simultaneously learning through hard experience the limitations of big government here at home. One of the gravest mistakes we can make is to assume that alternatives will always exist here.

One cause of the decline of the voluntary sector in Europe is that it is associated in the public mind with the benefactions of the rich and powerful, which are resented by the people. In contrast, our own voluntary sector boasts the extraordinary participation of tens of millions of ordinary Americans whose modest gifts account for most of the $40 billion contributed last year. Yet the standard deduction strikes at precisely that base of small givers. It moves us toward a situation in which giving will indeed be confined to the higher income groups.

Mr. Chairman, I could go on at great length. I have not touched upon many crucial matters that concern me: the concept of tax expenditures, the notion that all income covered by tax laws is government money, the question of whether money given away is properly thought of as income.

I have not done so because for me the whole case rests ultimately on the question of what kind of society we want. In answering that question I have sought to express as lucidly as possible views that I know are shared by a great many thoughtful Americans.

Thank you.

Senator MOYNIHAN. Our next witness is Mr. Landrum Bolling, chairman, Council on Foundations.

Mr. Bolling, we welcome you, and you have your associates?

STATEMENT OF LANDRUM BOLLING, CHAIRMAN, COUNCIL ON FOUNDATIONS

Mr. BOLLING. Thank you, Mr. Chairman.

The Board of the Council on Foundations has authorized me, its chairman and chief executive, to express our support for the proposed charitable contributions legislation, S. 219, and the companion bill in the House of Representatives, H.R. 1785. As a national membership organization of approximately 1,000 private, community, and corporate grantmakers, large and small and of many diverse interests and activities, we are united in working to strengthen the effectiveness of independent and voluntary public service in American life.

I would like to make it clear at the outset that we support this legislation, not because of direct impact upon the grantmakers per se, but because of the benefits we see coming from this legislation to that great range of voluntary and private serving organizations that are the main reasons for our existence, and therefore we have a shared interest in seeing the broadening of that basis of support.

I would like to submit this statement, Mr. Chairman.

Senator MOYNIHAN. Would you please do that?

Mr. BOLLING. I would like to comment briefly, if I may, about some of the points that have already been raised this morning and some of the thoughts we have in mind.

I would like to say a little bit about how foundations work in relation to the whole private sector. I think over the history of foundations, you would find that many times the foundations were able to get involved in the handling of some new problem trying to respond to a new social need that has been put forward and we have often provided through the foundations the initial funds to get something started, whether dealing with a drug abuse problem when that hits us, or the teenage pregnancy problem which has become kind of epidemic in many communities.

You find foundations going in and helping to get something started before Government responds, before anybody else gets into the act. But foundations cannot carry these things on. What usually happens, the foundations give the initial startup money and then it depends upon the response of a great, broad cross-section of individual citizens to come forward and support it. If the amount of support from the broad citizenry declines, or does not expand as it should, then many of these worthy ventures will die or they will be cut back.

These things we see happening today.

I would like to say a little bit about some of the projects that have had this history. One of our most successful and most widely acclaimed agencies, preserving some of the most beautiful, ecologically most significant wildlife areas, the Nature Conservancy, a private group, was funded originally by the Old Dominion Foundation in its formative stages. That funding was a major factor in helping the Conservancy to initiate its programs requiring these special land areas and preserving them as permanent treasures for the local regions, and for the Nation. Then the Conservancy gradually drew unto itself a large membership with regional, local, and corporate affiliates.

Take, then, the development of the Public Broadcast Service. Much of the initiative for that came from the Carnegie Corp., though grants that were made to help get PBS going.

The success of the whole public television system obviously depends upon contributions from literally millions of people across the country who, in their annual auctions in the local communities, give the support to keep those local stations going.

Or, take the National Council on Aging, largely funded by the Ford Foundation in its initial stages. It has later grown to include a varied membership and a wide base of support as it develops ways of serving older people and conducts research and demonstration projects on the problems of the aging.

Once again, a mass kind of support coming forward to keep it going, after foundations provided the startup funds.

The United Negro College Fund was supported originally by the Julius Rosenweld Fund when it began in 1944. That support long since has disappeared, but the fund still grows, because it has become the fundraising agency for 41 predominantly black colleges and universities with members and givers all across the country, large and small.

It is that mix of givers that is important for preserving the whole nonprofit public service private sector.

One of the things we must be concerned about, it seems to me, is how we are able to maintain that broad basis of involvement in the private sector if we come to see charity, come to see public service activities, as being primarily the concern of the wealthy. Then we will have distorted something of the basic character of American life.

This country has been built, from the very beginning, on the assumption that all of us together have the responsibility to make it go. We have had this tradition from the very earliest years. We began in building our schools, our museums, our libraries, our hospitals, our orphanages on the basis of contributed funds, contributed labor, contributed materials. This is the story of how we built this country and we will have very seriously departed from these basic values if we come to the point where we see that these public services can be provided only by the very affluent or by Government.

Looking at the testimony as presented by our friends from the Treasury this morning, I would like to call your attention to something I believe was not presented in his oral statement but it is in the written record, in which Mr. Lubick said that the Government supports the voluntary sector, and his first illustration of that support for the voluntary sector was rather interesting.

At the Federal level, he says this sector receives billions of dollars in grants and contracts, and goes on to state that tax expenditures benefiting philanthropy were $7.7 billion in fiscal 1979. I would submit that is not the kind of support that is, in the long run, going to preserve the private sector, going to preserve this voluntary initiative.

And this is the pattern that has developed in Europe where more and more these private initiatives have been underwritten by tax moneys, until eventually they are no longer independent, private enterprises. They become simply other arms of the government.

This kind of thing is happening all across private sector America, in hospitals and educational institutions, and in a great variety of public service organizations; they come to depend more and more on Government money. Often on a kind of matching basis. I am not saying that this is not a good thing to have matching of Government funds and private funds in many ways. But if the private funds are discouraged, then sooner or later you get into a totally different situation where these enterprises become very much dependent upon the continuation of Government support. And I think this gets at the heart of the problem we face.

The experience of Europe has been alluded to already this morning. This is a very instructive one. The New York Times ran a series of articles on this just about 1 year ago, pointing out how, in Sweden, in France, in West Germany, and in England, free democratic societies, they have moved more and more toward a statist view of how to carry on public service activities.

It is terribly important that we maintain a sense of private responsibility, individual responsibility for working out these things.

One of the most important aspects of the problem of inadequate funds for charitable purposes relates to the continuing harsh, effect of inflation. The cost of providing so many human services, generally labor-intensive, spiral upwards. Private foundation income, and therefore grants, do not keep up with the accelerated inflation-stimulated demand.

This means that foundations are increasingly under pressure to devote more and more their scarce resources just to sustaining ongoing operating budgets with fewer funds to help the independent and voluntary efforts to undertake more new initiatives for the public good, to get at root causes of old problems, to respond quickly to new social needs.

Again and again throughout the history of foundations, they have given essential support for the launching of these new and needed services before Government and the general public would be aroused and begin to respond.

Insofar as the funds of foundations are preempted for the maintenance of established agencies and programs, they will have less capability of finding quick responses to new problems or experimentation and demonstration activities that produce some of the dramative breakthroughs for the public good that foundations have, at times, been associated with in the past.

Such foundation initiated projects, include, for example, the conquest of yellow fever, the development of new high-yield strains of wheat and rice, that come to be called the Green Revolution; the introduction of the national television system, and so on.

I would like to say, finally, just a word about the issue of the charitable deduction and the cost-benefit issue. It is sometimes argued if it can be shown that for each $1 of tax revenues foregone through the charitable deduction it would only produce $1.10 or $1.25 for charity than the benefit to society does not really justify this tax loss. One would hope that the Congress would not adopt this narrow view.

The heart of the matter is that if there were only an even tradeoff between tax revenue foregone and charitable contributions, the tax deductibility would still.be more than justified.

In settings that call for voluntary contributions, and individual and local group efforts to deal with problems through other than governmental machinery are central in preserving an open, free, pluralistic society. They can keep the private sector initiatives for the public good going and keep them strong.

It is this issue of the kind of society that we want to preserve that is at the heart of this issue.

Senator MOYNIHAN. We thank you very much, Mr. Bolling, for a very clear and very important statement. I particularly appreciate your reference to the tax expenditure statement in the opening of Mr. Lubick's testimony.

It says, "Tax expenditures benefitting philanthropy were $7.7 billion in fiscal 1979." I do not suppose that there has been a more progressive idea which good persons have been more associated with than the idea of tax expenditure, and I was happy to hear John Gardner refer to it.

I do not want to say what his views are, but I say to you that it is fundamentally a statist idea, the idea that your income belongs to the Government and what it leaves behind is a benefaction from the Government. It is pernicious, and I am sorry to say that it appeared as a liberal idea.

Senator PACKWOOD. I might interrupt there. When we were discussing the subject we discuss every 2 years on tax reform, the group wanted a simplified tax code, no deductions at all. Everything belongs to the Government and what you get to keep, you get to keep.

There was a professor at the University of Chicago Law School who said, "That's not a new idea. We used to call it feudalism and the Government owned everything and you held what you were entitled to hold as a grant from the Government, it is not a new idea."

Senator MOYNIHAN. I wish the same broad perceptions were around a year ago, Senator Packwood, when you and I were trying to defend the rights of trying to help the nongovernment schools in this country. Suddenly all the people—very enthusiastic—not this measure—were very much absent, I am afraid.

If this is a genuinely liberal issue, it ought to be supported consistently and not with quite the selectivity that I sometimes encountered.

Mr. BOLLING. If I may say this, it seems to me that the tone of the comment is a benign one toward the $7.7 billion expenditures. It certainly was not benign in the attitude toward an allowance for charitable giving.

Senator MOYNIHAN. What are you complaining about? We let you have $7.9 billion.

Mr. BOLLING. Right. The history of what has happened over the last several years is that expenditures to help support these private initiatives from the tax moneys go up year by year. That seems to be the history of this whole thing.

I think another factor that ought to be borne in mind is that over the years the Treasury, whether the administration is liberal or conservative, Republican or Democratic, we get the same kind of advice from the Treasury year, after year, that is advice against the whole deduction system.

I used to be a college president and I had some experience with the kinds of blandishments, if I might put it that way, given to us by Treasury, with their saying you will be able to raise just as much money if you give up the tax deduction for charitable giving, or if you give up the provision for gifts of appreciated securities.

I attended a conference sponsored by the Treasury once in which this kind of thesis was hammered home to us, I think not very convincingly, to the college presidents who came. While I can read the tables that were given to us by Treasury that claim it really will not make much difference, I can tell you, as someone who spent 15 years of my life as a college President raising money that it makes a tremendous amount of difference to have the tax deduction incentive for giving.

Senator PACKWOOD. Let me give you another example. In terms of political contributions, under Federal law and Oregon law, on an individual return, you can make a $50 contribution and get a $50 credit. Not a deduction, a credit of 100 percent; for a joint return of $100, $50 off your Federal tax and $50 off your State tax. You would be amazed at the difference that incentive has made as to the quantity that people are giving to political races in Oregon. In my estimation, for the good because they are not large contributions. They are $20 or $30 or $40 contributions.

When you tell a person you can take 100 percent of it off of the tax you are going to pay, it is an amazing stimulus.

Mr. BOLLING. I would say that the deduction has effect on how much they are giving even in the small income brackets. I know that the very wealthy, of course, are the prime targets that fund-raisers go after. As a former college president, I used to go after my most wealthy alumni. But I also had to depend upon those people in the $15,000 to $20,000 income bracket. These were the faithful alumni who got out and worked and put on the dinners and went out and saw the people to ask for contributions and gave themselves. The fact that they had a deduction that they could draw on encouraged them. There is no question that it worked.

Senator PACKWOOD. That is exactly what this political credit is designed for, for the person who is going to give $1,000 or $5,000. The credit is a maximum of $50. It is mostly an inducement for the person who has never given before.

The experience I have found in this campaign so far, is that of the 27,000 donors who gave an average contribution of $30, most of those people are giving for the first time and will follow the monetary contribution with an interest and participation in politics. I wager the same thing is true in almost any charitable or educational activity.

Mr. BOLLING. It is particularly important in getting people to raise their sights and give more the next year. That is one of the things we have to keep in mind.

For these private initiatives to survive, we have to get people enlisted and get them so committed that they want to do more. As time goes on, and with the tax incentive, there is no question it helps to stimulate that growing commitment to give and that expanding of the size of individual contributions.

Senator MOYNIHAN. Senator Chafee?

Senator CHAFEE. Mr. Chairman, thank you.

I would just like to reinforce the last point that Mr. Bolling made. It seems to me it really has not been made here strong enough.

That is, it is true that we want, through this, to encourage the small donor. But it seems to me that the small donor is a donor who hopefully, some day, will become the big donor and that large donors give because they have been trained in giving.

I do not think giving is easily done and I think it does require some education and some experience, and we have found, certainly in the universities I have been associated with, that our large donors, self-made people who have made a lot of money, have usually started out as very modest donors to the alumni funds, of some very modest means, and have worked their way up and have continued the giving, so they know how to give.

I think that is important. You are not only looking for the small gift, but you are looking for the future big giver who has learned through the small giver.

Mr. BOLLING. Senator, you know the reality of fund-raising in higher education. There is no question about it. You get most of your money from people who have already given you something, even though it is a very small contribution to start with. They get educated to give more.

And anything that you can do to help them in that initial phase with their education is going to redound to the benefit of the enterprise you are trying to promote.

Senator CHAFEE. Thank you.

Thank you, Mr. Chairman.

Senator MOYNIHAN. Thank you very much.

[The prepared statement of Mr. Bolling follows:]

STATEMENT OF LANDRUM R. BOLLING, CHAIRMAN, COUNCIL ON FOUNDATIONS, INC.

SUMMARY

The Council on Foundations, expresses support for S. 219 and H.R. 1785 because we believe it will strengthen the whole enterprise of philanthropy in America, will encourage giving and volunteer work for the general welfare by a broad cross-section of Americans.

1. Over the years the deductibility of charitable gifts has promoted giving for the public good among the general population.

2. As in recent years more and more taxpayers have been encouraged to use the short form and accept the standard deduction, incentives for giving to charity have inadvertently been reduced.

3. Our national well-being requires the formation and growth of both private foundations and contributions by individuals at every economic and social level. For the government to reduce such incentives impairs the process by which private citizens contribute to society's improvement.

4. The proposed legislation is important in that it makes concrete and immediately visible to all citizens the tax benefits of deductible charitable contributions and provides greater equity in the treatment of different income groups.

5. In American we originally built schools, colleges, hospitals and orphanages, libraries and museums and various services to the poor largely through private, voluntary contributions of labor, of materials and of money. To this day a great number and variety of public needs are met by independent agencies and associations and by the work of volunteers. Tax incentives encourage both financial contributions and volunteer work for the public good.

6. Foundations exist to contribute to the support of other charitable service institutions and to provide the "venture capital" for innovation and alternatives to government funding. With the decline in foundation assets due to inflation and poor financial conditions, it is of the utmost importance that contributions from individuals be encouraged. Otherwise society will be deprived of its "venture capital" as a larger and larger pencentage of scarce foundation funds are diverted to support operating budgets of existing programs and less is available to support the basic research and future oriented work that result in important breakthroughs for society.

7. Government cannot and never has been able to do everything. It is important that we continue to provide encouragement for private endeavors in the public interest as alternatives and supplements to government programs.

STATEMENT

The Board of the Council on Foundations has authorized me, its Chairman and Chief Executive, to express our support for the proposed Charitable Contributions Legislation, S. 219, and the companion bill in the House of Representatives, H.R. 1785. As a national membership organization of approximately one thousand private, community and corporate grantmakers, large and small and of many diverse interests and activities, we are united in working to strengthen the effectiveness of independent and voluntary public service in American life.

The Council supports Senate Bill 219 not because of any direct impact it will have on the grantmakers who constitute our membership. Rather, we support this legislation because of the significance it will have in advancing the good work of a great variety of voluntary initiatives that serve the public interest, and specifically, in increasing and widening the source of financial contributions for charitable purposes from all segments of our citizenry.

Certain basic principles undergird our common life and have provided strength for this nation from our earliest beginnings. Among those principles, one which bears repetition, constant study and continuing support, is the principle of private, volunteer participation in taking care of countless public needs. Government cannot do it all. Government never has been able to do it all. We originally built our schools and colleges, our hospitals and orphanages, our libraries and museums and our services to the poor largely through private, voluntary contributions of labor, of materials and of money. To this day a great number of wide-ranging public needs and interests are met by independent agencies and associations and by the work of volunteers.

Often foundations are among the very first to give to a worthy local or national cause, to citizens' groups trying to bring about needed improvements and to institutions struggling to get started in the providing of some needed new service. However important foundation grants may be in helping with those start-up phases, the ability of such causes, groups or institutions to survive and grow to self-sufficiency, ultimately, is dependent upon the acceptance and public support of many people from a broad cross-section of the population. Sound public policy and the maintenance of our national well-being require that government continue to encourage both the formation and growth of private foundations and the expansion of contributions by individuals at every economic and social level. For government to reduce or cease to provide such incentives would be a serious blow to the pluralistic pattern of American life and to the processes by which volunteer initiatives for serving our society have been so long encouraged.

Let me give just a few examples of how foundations helped causes, groups and institutions to get started, after which the general public came forward with financial support to sustain and expand those services of benefit to the community or the nation.

One of our most successful, most widely acclaimed agencies for preserving some of the most beautiful, ecologically most significant wildlife areas, The Nature Conservancy, was funded originally by The Old Dominion Foundation in its formative stages. This funding was a major factor in helping the Conservancy to initiate its program of acquiring these special land areas and preserving them as permanent treasures for the local regions and the nation. The Conservancy now has drawn to itself a large membership with regional, local, and corporate affiliates.

The National Council on the Aging was largely funded by the Ford Foundation in its initial stages. It has grown to include a varied membership and a wide base of support, as it develops ways of serving older people and conducts research and demonstration projects on the problems of aging.

The United Negro College Fund was supported by the Julius Rosenwald Fund when it began in 1944. It now serves as a fund-raising agency for its 41 colleges and university members and attracts many contributors large and small, across the nation.

Major incentives for such independent initiatives to serve public needs have been provided over the past seven decades through two well-established national policies. One has been the complex of legal arrangements for the setting-up and operating of charitable institutions, including grantmaking foundations of various types, sizes and purposes. The other incentives to which we direct our specific support here is the charitable deduction provision in the income tax law.

One Congress after another and diverse national administrations along the way have given support to both of these policies. Foundation giving, corporate giving, and individual giving are all required to sustain the work of the independent sector. Needs always outstrip resources, yet we know that the resources can be enormously enlarged if people have the motivation to give.

People give to charitable purposes for many reasons. One is certainly related to the teachings of the great religions with their emphasis upon compassionate concern for the poor, the sick, the needy. Another motivation has to do with community, family and personal pride. Many people feel good about being identified with worthy projects and causes. Many people give out of a sense of simple duty, without thought of psychic or other rewards. Yet, whatever the underlying motivation, all are encouraged to give—and more generously than would otherwise be the case—by direct tax benefits. There is no question that over the years the tax deductibility of charitable gifts, as well as laws providing for the creation of foundations, have had enormously favorable consequences in promoting giving for the public good.

If broadly supported public endeavors are to multiply and perform effectively in the future as they have in the past, the government, we believe, must re-extend the charitable deduction to that large group of tax payers now able to use the standard deduction.

The proposed legislation is important in that it makes concrete and immediately visible the tax benefits available through explicitly deductible charitable contributions. The growth of the use of the standard deduction by a larger and larger percentage of tax payers, now up to 70% of them or more, is in fact no incentive for giving. The tax payer who does not itemize gets no direct benefit or reward for giving. The person who gives not a cent gets the same theoretical charitable "allowance" on the standard deduction as the tax payer who gives, say, a thousand dollars. A real tax-benefit incentives for giving exists only in connection with specific deductibility for specific charitable contributions. If we are to encourage givers of modest income we should provide them with explicit incentives for charitable giving. All segments of the population, not just the wealth, should be encouraged to participate and to carry forward the volunteer and independent services that are so important to our society. In the aggregate, the gifts of great numbers of contributors are vital to the health and well-being of private voluntary institutions. The larger gifts of foundations, and of affluent individuals, often provide the initial impetus for a particular charitable program or project and can spur other giving. But the largest portion of the support for the private sector must come from the great number of gifts in lesser amounts given by those of modest income. The government through its policies should, therefore, reward not only the generosity of givers with high income, but should extend incentives to all to insure that this massive base of support of the private philanthropic sector will not be eroded inadvertently through the withdrawal of incentives to taxpayers in the middle and lower brackets.

Providing incentives to all segments of the population to participate in the carrying forward of volunteer and independent services has a value far beyond the dollars that are contributed. Volunteer service and individual involvement often accompany monetary contributions. Such commitment adds a humanizing factor that must be retained in our society. Opportunities for broad citizen involvement should be actively encouraged. If we come to the point where charitable giving is the concern only of the wealthy, or if it comes to appear that that is the case, we will have seriously weakened the whole structure of the non-profit, public service sector in American life. Let us make no mistake about it, that sector depends for its survival and health on broad scale participation that is both personal and direct, as well as upon growing financial support. Tax incentives to giving, extended by the government to contributors at each income level, have been an important factor in developing our American system and should be continued.

As to the future there are sound reasons for optimism. Ours is an enormously productive economy, our people are generous and socially concerned, and the tradition of voluntarism is strong. However there are also reasons for concern. And those concerns underscore the need for the legislation.

As we consider the catalytic role of foundations in the total mix of our national philanthropc Third Sector, we have to recognize that their grants are a declining percentage of total charitable giving. Whereas a decade ago foundation giving made up close to 10 percent of all charitable donations, they had dropped to a little more than 5 percent by 1978. That has happened despite a continuing growth in the dollar amount of foundation grants, and despite the fact that the Tax Reform Act of 1969 mandates that foundations pay out 11 of their annual income and, in some cases, considerably more. Part of the reason for the relative decline is that the new controls on foundations—though they have had certain positive effects—have been perceived as discouraging the formation of new foundations and as encouraging the dissolution of existing foundations. Moreover, they have tended to distort investment practices. This is not, however, the time for analyzing the various government policies and regulations concerning foundations. Rather we appear here on the even more urgent need to continue incentives to all givers.

One of the most important aspects of the problem of inadequate charitable funds relates to the continuing harsh effect of inflation. The cost of providing so many human services—generally labor intensive—spiral upward. Private foundation income, and therefore grants, do not keep up with the accelerating, inflation-stimulated demand. This means that foundations are increasingly under pressure to devote more and more of their scarce resources just to sustaining ongoing operating budgets, with fewer funds available for helping the independent and volunteer efforts to undertake new initiatives for the public good, to get at root causes of old problems, and to respond quickly to new social needs. Again and again, throughout the history of foundations, they have given the essential support for the launching of new and needed services before government and the general public became aroused and began to resond. Insofar as the funds of foundations are prempted for the maintenance of established agencies and programs they will have less capability for funding quick responses to new problems on experimentation and demonstration activities such as have produced some of the dramatic break-throughs for the public good that foundations have, at times, been associated with in the past. Such foundation-initiated projects as the conquest of yellow fever, the development of new high yield strains of wheat and rice that came to be called the "Green Revolution", and the introduction of the nationwide system of public television are a few examples.

Although, as stated earlier, the foundations and other institutional grantmakers, have no self-serving interest in this particular piece of legislation, our concern about the health and strength of the entire field of private and voluntary initiatives for the public good compels us to urge the Congress to take all appropriate measures to encourage the broadest possible participation in charitable giving. The proposed legislation represented in S. 219 is an appropriate measure.

Finally, let me say a word about one issue that arises in connection with discussion of the charitable deduction: the cost-benefit issue. It is sometimes argued that if it can be shown that one dollar of tax revenues foregone through the charitable deduction will produce only a dollar and a dime, or a dollar and a quarter, in charitable contributions, then, the benefits to society do not really justify the tax revenue loss. One must hope that the Congress will not adopt such a narrow view. The heart of the matter is that if there were only an even tradeoff between tax revenue forgone and charitable contributions, the tax deductibility would still be more than justified. Incentives that call forth voluntary contributions and individual and local group efforts to deal with problems through other than governmental machinery are essential in preserving a free, open, pluralistic society. They can keep private sector initiatives for the public good going and keep them strong.

Senator MOYNIHAN. Now we see that our hearing is graced by the distinguished presence of Senator Morgan, who I cannot doubt is here for the purpose of introducing the president of Duke University, and that puts us a little out of our sequence, but it is a pleasure to have Senator Morgan.

In that case, I wonder if the panel on education and arts could come forward and have them all introduced by Senator Morgan.

Of course, President Sanford; Joanne Pier of Marquette University; Idanelle McMurray, National Association of Independent Schools; Kurt Lambrecht of the S.W. Minnesota Arts and Humanities Council; and June Goodman, of the Connecticut Commission on the Arts.

Would you all come forward, please. We welcome you all and in particular, of course, we welcome our colleague, Senator Morgan.

STATEMENT OF HON. ROBERT MORGAN, A U.S. SENATOR FROM THE STATE OF NORTH CAROLINA

Senator MORGAN. Mr. Chairman, you are mighty kind and gracious in your comments and also to allow me to present the whole panel, but especially my constituent from North Carolina of whom I am very proud.

I think most people know that President Sanford of Duke University has long been one of our State and one of the Nation's most outstanding citizens. My association with him goes back even to the days when he and I were practicing lawyers in adjoining communities.

You know that he was one of North Carolina's most distinguished Governors in the early 1960's. He was known then, and is known throughout our State, as North Carolina's educational Governor. He has made many very fine contributions to the cause of education and now, especially to higher education, and he made many contributions as Governor.

But, as Governor, he was representing, of course, all education; but he was interested in public higher education. So I think that he will speak to you today from a unique vantage point, as one who has seen higher education from the public side and now from the private side.

I think President Sanford will be speaking to you not only on behalf of Duke University but of all higher education in the country.

The American Association of Universities, the American Council on Education, the independent colleges and, of course, his distinguished panelists, I will leave for President Sanford to present.

Thank you very much for allowing us to join you.

Senator MOYNIHAN. We thank you, Senator.

It is not the least of your distinctions that every day we learn something new and more agreeable about the Senator from North Carolina. That he practiced law with Terry Sanford is proximate to glory.

Before we begin the panel, may I say that we are having a long morning and in order that we might finish by 1 o'clock, may we ask the panels to keep their presentation to half an hour and we will hear from everybody. If we run over a little bit that will not matter.

President Sanford, Governor Sanford, we welcome you, sir, and perhaps you, as the leadoff, will direct the presentations.

STATEMENT OF TERRY SANFORD, PRESIDENT, DUKE UNIVERSITY

Mr. SANFORD. Thank you very much, Senator. It is certainly good to be here with each of you and with my old friend, Senator Robert Morgan, and to have an opportunity to talk about this very important matter.

Now, we have before you the names of the members of this panel: Ms. Pier, Ms. McMurray, Mr. Lambrecht, and Ms. Goodman who will, in order of the program, have a few comments to make.

Whatever else I have learned is to be brief in a congressional hearing and I will do just that. I have filed testimony, of course, according to the rules and have indicated that I am speaking on behalf of almost all of the national associations related to higher education: the National Association of Independent Colleges and Universities, but also the National Association of State Universities and Land Grant Colleges; and six others representing various parts of the educational world.

Senator CHAFEE. Governor, I wonder if you would tilt the mike down toward you. It is a little hard to hear.

Mr. SANFORD. I thought maybe they had turned it off.

Charitable deductions certainly have been a basic concept in American life almost from the very time that we have had an income tax, and I think that it has been a very valuable concept, very valuable addition to the development of many institutions in the country.

It has been a valuable addition, I think also, to our concept of citizenship, because this is one deduction, or one advantage, that the taxpayer receives for something done, not purely for himself but for others, and I think it has built a dual system and given strength to what we call the third sector which gives a balance to the enterprise of society and I think it is well worth preserving.

We come now to talk about this particular legislation because what was called a standard deduction and now called a zero bracket amount—I notice the Treasury Department reversed that language, possibly because they would rather have it viewed as a deduction—but I think there are many reasons now that whatever we call it it has served as a disincentive to charitable contributions.

Anyone who had a child now finishing professional school, from the time that young person started to college and finished the professional school, we have seen half as many taxpayers again use the standard deduction instead of itemizing the deductions.

That, of course, indicates that this has been a disincentive, that people have moved away from it. And I think that we need to reconsider just what this has done to the basic concept of charitable contributions and all that has meant in the way that the society has developed.

Specific points made particularly from a university president's point of view: we are bothered by the fact that young people just getting out are gone maybe 10 years before some of them then turn back and look at the institution and their obligations to that institution. I think it is extremely important for a university or college—for that matter, any kind of institution, but particularly an educational institution—to see its graduates go out with some sense of loyalty and some sense of obligation for keeping that institution strong, and not to stay away too long. To get the young alumnus contributing is a very important consideration for the long-term support of institutions.

I think this also has served as a disincentive for that kind of small contribution.

Senator MOYNIHAN. Just the point Senator Chafee was making.

Mr. SANFORD. That ultimately mean so much to the institution.

So I think that we have inadvertently got away from encouraging charitable contributions adequately, and to our detriment, and I am afraid if this trend continues, we will see a greater and greater dependence on public support for private institutions.

It is a matter of survival with private institutions that they have charitable contributions. It is also a matter of achievement of quality for public institutions to have this kind of private gift available to them. About one-fourth of all of the giving to colleges and universities goes to public institutions. A public institution that can achieve that kind of outside support is enabled to reach for a new kind of quality.

I think the University of North Carolina, the University of Virginia, certainly would not be the great State institutions that they are were it not for their ability to obtain charitable contributions. Certainly all private colleges and universities depend on it.

That is principally the reason that I would suggest that we do need to give consideration to the passage of this legislation because the health of the third sector, particularly the university part of that third sector, depends so much on it.

I thank you very much for giving me an opportunity to appear.

Senator MOYNIHAN. We thank you very much. We will hold questions until the end of the panel, I think.

Ms. Pier?

STATEMENT OF JOANNE O'MALLEY PIER, TRUSTEE, MARQUETTE UNIVERSITY

Ms. PIER. I am Mrs. Pier, Mr. Chairman, members of the subcommittee. I am Joanne O'Malley Pier, a trustee of Marquette University, a private, Jesuit-sponsored institution in Milwaukee, Wis.

You have a copy of my written testimony which I will be summarizing for you.

I appreciate the opportunity to testify on this bill because I believe in it so thoroughly. You have heard this morning and will hear tomorrow on the general consequences of the bill, but I would like to focus more narrowly on how the changes might conceivably affect one institution, an independent university very dependent on the notion of healthy volunteerism.

Marquette University has 13,000 students, credit and noncredit, the largest enrollment in our history. We also, through that highest enrollment, achieved new and higher levels of academic quality and, at the same time, consistently balanced our budget.

I give you this brief description so while you understand that Marquette is not wealthy, or heavily endowed, it has managed to fare very well during difficult times.

Last year, Marquette expended approximately $53 million for all its activities, including operational costs, capital needs, and reserves for future commitments. Toward that total, the university received approximately $6.3 million in cash gifts, or roughly 12 percent of expenditures.

At the same time, student tuition and fees amounted to $29.5 million, or approximately 66 percent of the University's expenditures—after such things as room and board income and expenses are removed.

Hence it can be fairly said that Marquette University is both a tuition- and gift-dependent institution. Any major alteration in the performance of either revenue component would cause large changes in the fiscal operation of the university.

This brings me specifically to the matter of voluntary support and volunteerism among the university's alumni, a subject I know in some detail as a result of 15 years of voluntary service for the university, including one term as president of the university's alumni association.

A major element within the university's total gift support is alumni giving, an area in which we have obtained significant increases in recent years. But it is also an area in which the size of the donor population already shows signs of erosion.

Since 1972-73 alumni gift support at Marquette has increased fourfold but one of the companion indicators of successful fundraising shows an important weakness. That factor is participation—the percent of alumni donors among the total number of alumni asked to give. In 1972-73, almost 25 percent of our alumni contributed. Last year, that statistic was 21 percent. In 1 year alone the number of alumni donors decreased about 8 percent while the amount contributed was doubled. In effect, what we are experiencing is more from fewer, and the fewer by and large are among the younger alumni.

It takes no special understanding to know why the observation "Tall oaks from little acorns grow" is apt when considering fundraising. Tomorrow's major donors start as today's small ones. That process of growth includes not only the likelihood of increased capacity to give when one becomes older and more established, but it also reflects the elements of learning and habit reflected in such growth. Indeed, annual giving programs classically are tailored toward encouraging small gifts initially from younger, less capable people with the expectation that they will have more opportunity to give more down the road. If this educational habit never starts, the benefits will never be.

Part of that education toward voluntary support has been curtailed by the steady shift of most Federal taxpayers from the process which recognizes charity by virtue of the tax incentives inherent in itemization to the use of the nonitemization process, one which assumes a certain amount of charity within the standard deduction but which hardly can be described as an incentive.

While the shift of tax filers from long to short form has been taking place, another factor especially pertinent to young people has been magnified. Among recent college graduates, a group generally with less discretionary income than their elders, increasing indebtedness owing to student loans has become an important condition when discussing voluntary gift support. I believe this is a topic in which you take a great deal of interest because of the jurisdiction of this subcommittee.

It is not surprising that a tuition-dependent institution should experience large increases in the amount of loans by its students recently. But the trend line of student borrowing is up so sharply that we are concerned about the eventual outcome. For example, 5 years ago the 7,000 undergraduate students at Marquette obtained State or Federal direct loans of about $2.3 million. Last year that amount exceeded $6.5 million, almost a 200-percent increase.

This increase in indebtedness will not abate in the near future, meaning that the more recent graduates will face even more competition in deciding how to invest a shrinking amount of discretionary income.

It is unfortunate that the topic of student indebtedness has become focused on repayment deficiencies rather than how monthly loan repayments present an increasingly larger disincentive for voluntary support. It is only natural for the student borrower to believe that, after many months of repaying, he or she must have repaid the entire cost of education. That is hardly the case at an independent institution, but nonetheless the impression of total repayment, indeed, has become a new barrier to increased voluntary support from younger alumni.

I acknowledge the problem of bringing student loan repayment default under control and am encouraged by the progress being made on that front. As an aside, I should note that while the National Direct Student Loan default rate nationally in mid-1979 stood at about 17 percent and that the HEW target is to reduce that to 10 percent, Marquette University last year received a commendation for the way in which it takes due diligence for NDSL repayment. Marquette's NDSL default rate from loans to its students was less than 6 percent.

I have recited how Marquette can be characterized as a tuition and gift-dependent institution. I may add that the university is much more globally dependent upon volunteers than simply gift support. Nearly 1,000 alumni, the vast majority of them from among the younger alumni, serve as student admissions representatives, visiting with prospective students across the Nation. There are many other varieties of volunteer services undertaken by alumni, not only for the University but for a whole host of enterprises in which they take a deep interest.

As they become involved in such activities these volunteers tend to exhibit stronger interest, greater leadership and additional commitment. For example, Marquette currently has 650 alumni serving as class agents for the Annual Marquette Fund. While Marquette's overall alumni participation in giving last year was about 21 percent, participation among these 650 class agents stands at about 90 percent. But even here, that figure has started to drop among the younger volunteers.

Mr. Gardner talked about the importance of giving in this Nation. I agree with this and could not put it so eloquently, but it is a very important and major characteristic of our Nation.

For these reasons, I believe that the present tax incentive should be extended to and applied to all taxpayers, not just those who itemize.

People of this Nation will benefit, I believe, by way of continued and bolstered services in the huge array of voluntary enterprises.

I believe that goal is worthy of Congress and the people it represents, and I hope you share my belief in the passage of this bill.

Thank you very much.

Senator MOYNIHAN. We thank you, Mrs. Pier.

Mrs. McMurry?

Ms. MCMURRY. Thank you, Mr. Chairman.

STATEMENT OF IDANELLE S. McMURRY, NATIONAL ASSOCIATION OF INDEPENDENT SCHOOLS

Ms. MCMURRY. Mr. Chairman and members of the committee, I am Idanelle McMurry, head of the Hockaday School, which is an elementary and secondary school for girls in Dallas, Tex. I am also secretary of the board of the National Association of Independent Schools, which is a voluntary association of about 800 independent nonprofit elementary and secondary schools with an enrollment of about 300,000 students.

These are schools which are almost entirely independent of church or public control and support and, in the Washington metropolitan area, include—among others—Georgetown Day School, Sidwell Friends, St. Albans, and Georgetown Preparatory School. I mention these examples since the term "independent school" may not be familiar to everyone. Our member schools are found all over the country, range in size from 27 students to 3,600 students, and subscribe to racially nondiscriminatory policies. In several of our schools minority students constitute a majority of the enrollment and one is an all-black boarding school. Our association appreciates the opportunity to testify in support of S. 219.

Although I am speaking only for NAIS, it should be noted that, according to figures compiled by the National Center for Education Statistics, there are over 17,000 private elementary and secondary schools in the United States and that these schools enroll about 5 million pupils—which is about 10 percent of the country's school-age population. Over 90 percent of these schools are served by nonprofit associations which are members of the Council for American Private Education and which require adherence to a racially nondiscriminatory policy as to students.

We believe that all or most of these schools would benefit from enactment of this legislation, which offers some hope of ending or reducing the serious losses in income recently sustained by charitable organizations due to substantially increased use of the standard deduction.

Private schools provide many benefits to their communities—whether for pupils who are unable to succeed in the public schools, or for those who need greater intellectual stimulus, or for those who just need closer attention and guidance than public schools can offer. In addition to the diversity and freedom of choice which they offer, a good level of quality is assured by the fact that fee-paying patrons have the option of enrolling their children elsewhere if such quality is not maintained.

The benefits to communities are not limited to the schools' patrons and pupils, since the existence of these privately supported institutions results in substantially reduced school taxes for the citizens at large. The savings can amount to millions of dollars in some of the larger cities where up to 30 percent of the school-age population may be enrolled in private schools. Even more valuable, probably, are the roles played by many of these schools in preserving sound educational practices and in developing promising new ones for the future.

The legislation presently under consideration could be of significant value in maintaining the quality and well-being of these schools since, unlike colleges and universities they receive no financial aid from Federal or State funds—although eligible pupils may receive help in the form of commodities and services.

This means that private schools, with few exceptions, must depend almost entirely upon tuition fees and charitable gifts for the support of their education programs and plants and also for providing financial aid to the many families who need help in meeting the cost of such schooling.

Let me cite some figures compiled by NAIS. A typical day school belonging to our association depends upon gift income—a combination of current contributions and endowment—for close to 12 percent of its annual financial support. This figure would be much higher for church-related schools. It is important to note that over 90 percent of this gift income—more than $50 million—is presently being used to provide financial aid to about 40,000 students, with $15 million of that amount going to about half of the 20,000 minority students enrolled in our member schools.

Charitable giving thus constitutes a vital and unique source of income for private schools. Since foundations and corporations are likely to have policies which prohibit or severely limit any giving to private elementary and secondary schools, these institutions therefore—again, unlike colleges and universities—must look to individual donors for whatever help they receive. For example, the figures compiled for NAIS schools indicate that over 90 percent of this gift income is received from individuals.

The question is frequently raised as to why the tax structure should be expected to provide help—however indirect—or institutions whose patrons must be relatively affluent because they have children in private schools. There is a definitive answer to this question in Census Bureau statistics published in February 1979. These figures show that, in round numbers, of the approximately 5 million pupils enrolled in private elementary and secondary schools, 76 percent are from families with incomes under $25,000 and 38 percent are from families with incomes under $15,000.

The vast majority of these families are therefore in what may be described as the middle income range, and a substantial majority of them presumably are among the 72 percent of all American taxpayers who are now using the standard deduction and are therefore not eligible for the charitable deduction available to itemizers.

Since a recent Gallup organization survey indicates that an itemizer contributes more than three times as much to educational institutions as a nonitemizer in a comparable income group, it is logical to surmise that the incentive provided by the charitable deduction could have made the difference.

If this hypothesis is correct, then passage of the legislation embodied in S. 219 could help charitable organizations to recapture the losses occasioned by the widened use of the standard deduction and to increase contributions. This would enable our schools and other nonprofit institutions to improve their programs and to expand their services to many who need them but are presently unable to afford them.

We respectfully urge your favorable consideration of this bill.

Senator MOYNIHAN. We thank you for a very clear and important statement on behalf of a very large sector of institutions we are concerned with.

Mr. Lambrecht, you are next.

STATEMENT OF CURT LAMBRECHT, EXECUTIVE DIRECTOR, S.W. MINNESOTA ARTS AND HUMANITIES COUNCIL

Mr. LAMBRECHT. Good morning.

To understand why I am here to speak in favor of this bill's passage, there are two things you should know about me. The first is that I am a rural Minnesotan. I grew up on a dairy farm, now live in a small community of 10,000 and hope to continue working in rural America.

Second is that I love the arts. I work as director of a regional arts council, serve as vice president of a statewide arts service organization, and do volunteer work on State and local boards for community theater and arts education. The fact that I am a rural person who is dedicated to the arts, is the major reason I am able to recommend your support of the Moynihan-Packwood bill.

As I am sure many of you are aware, the arts have traditionally sought contributions to help fund their activities. As Senator Durenberger will remember from his work with Minnesota's Governor's Commission on the Arts, it was learned that more than 25 percent of Minnesota's arts activities were sponsored by private contributions. Over $3.5 million of this was in the form of gifts from individuals.

Maintaining and increasing that level of support is of dire importance to us. You see, today's economic problems are hitting the arts especially hard. In part, this is because the benefits of modern mass production, which help most other industries, do not aid the arts. It takes us as long now to rehearse for a symphony or paint a painting as it did hundreds of years ago. Rising energy costs have added an extra dimension to the problem: turning down thermostats does not work when a cold theater could permanently ruin a dancer's muscles or when a variance in temperature at a gallery could destroy valuable paintings.

With these dilemmas facing the arts, it is necessary for us to continually work to increase our private contributions and volunteer assistance. I believe the bill that has been described here today will help us do that.

Since I live in a rural area, this bill holds special significance for me. As explained in earlier testimony, the people most aided by this legislation would be low- and middle-income people, like those who live in my area. Many people think that the arts are funded by the wealthy, enjoyed by the upper class and centered in large cities. The area I work in is a prime example of the contrary.

The organization I represent is the Southwest Minnesota Arts and Humanities Council. We work as an arts cooperative for a 21-county agricultural region in the southwestern corner of Minnesota. Although we have a larger land mass than the combined States of Connecticut and Massachusetts, we have a total population that is smaller than the single city of Omaha, Nebr. More than half of our communities have populations under 500 people; only 11 are over 5,000; and none are over 15,000. Tax information shows that income levels for all 21 counties in my region are well below the State and National income medians; in some counties, more than 50 percent below.

Yet, even in an area such as this, where the population base is small and the income levels are low, there is a great deal of art activity. There are 24 community theaters, 31 music groups, 17 visual arts groups and 30 community arts councils. Add to these the more than 1,000 service organizations, schools, churches, and libraries which regularly schedule the arts events in the smaller communities, and the result is staggering.

This kind of arts activity happening in a rural area like ours is not a miracle. It is happening because literally thousands of volunteers are giving thousands of hours, driving thousands of miles and contributing thousands of dollars. Many have asked whether the results of those contributed hours, miles and dollars are worth it. The only answers I can provide are these:

When I see a 5-year-old turn to his dad after seeing a professional dancer at his school and say, "I could be a dancer when I grow up," then I know it is worth it.

When I see a town of 800 people totally restoring their old opera house with volunteer labor, then I know it is worth it

When I see a community mural bring a town and its nearby Indian reservation closer together, as well as helping to launch a major downtown renovation, then I know it is worth it.

The arts are helping us record the history of southwestern Minnesota. They are helping us preserve the beauty and heritage of our area. And they are helping us develop creative young minds.

All of these things help us know that the hours we volunteer, the miles we drive and the dollars we contribute are indeed worth it. Please show us that you agree. Give your support of the charitable contributions legislation.

Senator MOYNIHAN. We thank you for a fine statement.

And now, Mrs. Goodman.

STATEMENT OF JUNE GOODMAN, CHAIRMAN, CONNECTICUT COMMISSION ON THE ARTS

Ms. GOODMAN. Senator Moynihan, Senator Packwood. I am June Goodman from Danbury, Conn., and I am an arts manager and chair of the Connecticut Commission of the Arts, and I am also involved on the Federal level with the National Assembly of States Arts Agencies and, of course, I am here in support of your bill.

I would like to echo what Chairman Gardner said about the philosophy behind this because I feel very strongly that whatever weakens individual participation in voluntary, nonprofit activities also undermines the society in which we live. It is citizen participation whether it is in the voting booth or contributing to a theater production that is the key to our country's greatness.

The present lack of tax incentives for moderate income people represents an erosion of that participation.

But I am here to talk about the arts. I feel deeply about the arts and I would like to quote Mr. Ruskin, "Great nations write their autobiographies in three manuscripts: the book of their deeds, the book of their words, and the book of their art. Not one of these books can be understood unless we read the two others, but of the three, the only trustworthy one is the last."

The arts are important. They provide a meaning for our lives; they exalt the spirit.

Connecticut is quite an arts State and we need every incentive we can to attract contributions. The small donations, despite what the Treasury Department might say, are very critical, very important.

One example is in 1976, the American Shakespeare Theatre at Stratford, which is a national institution, was in a state of crisis and they sent out a call for help and 30,000 people contributed $300,000 with contributions ranging from 85 cents to $100.

Indeed, small contributions do make a difference.

Another example is the Hartford Stage Co. which, in 1967 raised 25 percent of its budget from individual contributions. Today it raises only 6 percent.

Some of that is because there are not tax incentives for the small giver.

As you know, the arts are on the rise and attendance and the demand for new art forms are overwhelming. The Government's commitment to the arts is very clear. The National Endowment and the States each give over $100 million to the arts, but it was never envisioned when the NEA was started that Government would go it alone. Rather that it would be a partnership and the major responsibility is still in the hands of the private citizens. The alternative, if the erosion continues is a government faced with a narrowing financial base with which to match Federal dollars.

There is one thing that is quite special about the arts and that is that the arts are given matching grants and they are given challenge grants. For every $3 that is raised in the private sector, the Government will give $1.

So on the one hand, the Government is encouraging private giving and, on the other hand, it is taking it away.

I am not going to go on about figures. You have them there. I would like to say a word about England because our executive director just came back from England so he knows something about the arts there as compared to the United States.

There is really a difference in philosophy; support of the arts is quite high in Europe by the Government but that is because the

Government is directly responsible for the arts and here we feel strongly that it is a participatory endeavor.

I would like to leave you with those thoughts, and I would like to also say that the American Arts Alliance would like to introduce a statement of theirs.

Senator MOYNIHAN. I have that statement.

[The material referred to follows:]

STATEMENT OF JUNE GOODMAN ON BEHALF OF THE AMERICAN ARTS ALLIANCE

Senator Long and Members of the Committee. The American Arts Alliance, representing over four hundred major non-profit arts institutions, wishes to thank you for holding hearings today on S. 219, the Moynihan-Packwood Charitable Contributions Bill. We are grateful for the opportunity to convey to you the strong support the professional arts community has for this legislation.

In the last decade, Congressional action to simplify the tax laws has encouraged an increasing number of taxpayers to take the standard deduction (52 percent in 1970, 77 percent in 1977). As more individuals have opted to do so and have forgone itemizing their tax returns, they have also given up the option of deducting their charitable gifts. This has led to an alarming decrease in the amount of money given to charitable and non-profit organizations.

Recent studies by Harvard Economics Professor Martin Feldstein detail a loss of $5 billion in charitable donatiors between 1970 and 1978. Professor Feldstein estimates that had the Congress adopted S. 219 in 1978, charitable donations would have risen $4.1 billion in annual giving.

The arts community has felt the gnawing effects of this decrease. The base for funding for the non-profit arts is three legged: income from ticket sales, funding from the Federal and State governments, and support from donations. Survival for the non-profit arts institutions depends on the continued support from each of these areas. The diminishing private support has shaken the funding base for the arts and is of great concern to us.

The history of support for the arts in the United States is very different from any other country. Unlike Western Europe where governments have dictated which arts (and often which philosophies) will receive funding, funding for the arts in the United States has always rested on the principle of individual support as a guarantee for freedom of expression.

Through this support the many disciplines and philosophies of the arts have permeated the American way of life. The arts community today not only provides traditional performances and exhibits in theatres and museums, it offers a wide range of outreach programs to the community—workshops and seminars, performances in schools and senior citizen centers—touching the lives of young and old alike. There is an ever growing demand for these programs. However with reduced monies coming in from private donations, these programs are often the first to be cut back.

Our citizens have always been encouraged to use their income at their own discretion to support whatever charities or artistic endeavors they felt appropriate. By providing incentives for taking the standard deduction, the Congress has unintentionally restricted the taxpayer from doing so by providing a disincentive for giving to charitable and non-profit organizations. Through the passage of S. 219, the Congress has the opportunity to correct this situation and to provide incentives which may encourage more individuals to become philanthropic.

We ask the Committee to support S. 219, and work to ensure its passage in the Senate.

Ms. GOODMAN. Thank you very much.

Senator MOYNIHAN. Thank you.

The half hour went by very quickly.

Senator Packwood?

Senator PACKWOOD. I have no questions. I think this panel has given the best presentation I have heard on this subject. They echo everything you and I have been talking about.

I fear for pluralism in this country, and I see what happens when the Federal Government starts with grants, and I appreciate their matching grants for the arts. One day I can see us moving into the Louis XIV era and you will have only one kind of art, the kind the government wants to have, and that is a dangerous situation.

Anything we can do to encourage the diversity and plurality of unpopularity: unpopular opinions, unpopular art and unpopular education along with popular art and popular education, is important.

I hope that you will stand with us. You can tell that we are going to have trouble on this bill and we will need all of the push that we can get from you and the thousands of other contributors and supporters that you have.

I am convinced that we can pass it, but this is not a piece of cake. Just because charitable contributions sound easy, and just because every one of the witnesses represents something that almost everyone would support does not mean that this bill is going by easily.

Senator MOYNIHAN. I certainly would want to echo that and to say to Mr. Lambrecht and Mrs. Goodman, you know the inescapable Government art is architecture and if you want to know what you take your chances with when the Government is making decisions, look about you in this Grand Rapids roman chamber that we are in.

I would like to say to Mrs. McMurry, in particular, on her independent schools, that while Sidwell Friends School and the like will always survive.

The other schools are not surviving. In Buffalo, half the parochial high schools have closed in the last 5 years. I ast year when Senator Packwood and I had a bill on tuition tax credits, you can not imagine the depth of the opposition from inside this Government.

You saw the state wanting to crush something it does not control. That is not supposed to happen with nice, liberal lawyers running things, but it did and do not doubt it.

There is the great, great illusion that the state does not ultimately want to control things. Its actions are always associated only with the best purposes, but the nature of the purpose has changed.

Twenty years ago, when I was first involved with local Catholic parochial schools, we could not support Catholic schools because they were bad schools, they were not good enough, and we should not encourage them.

Twenty years went by and it turned out we should not support them because these schools suddenly had become so good. But there is one continuing element, which is, what the state does not control it wishes to destroy.

It is creeping in on us and it will creep in on the arts.

We are making a big mistake letting the arts become increasingly dependent on the Government. It is not that you do not get Shakespeare festivals; you get all of the Shakespeare festivals you want. What you do not get is new Shakespeares.

You know our views on that.

As for the universities, sir, if you were to rank the 50 major research universities in this country, you would find that the majority are private. You do not create a major university by passing a law. It takes four generations, five generations. It is an organic thing, and they are not likely to survive, because they are under attack by the state.

As for the Jesuits, they are always under attack.

[The prepared statements of the preceding panel follow. Oral testimony continues on p. 112.]

STATEMENT OF TERRY SANFORD, PRESIDENT, DUKE UNIVERSITY

SUMMARY

1. Voluntary giving is an indispensable source of funds for both independent and public colleges and universities. In 1978, charitable giving to higher education exceeded $3 billion.

2. S. 219, by extending the deduction for charitable giving to all taxpayers, would help to insulate the charitable deduction from the unintended and indirectly harmful consequences of other unrelated changes in the tax law, especially the several substantial increases made in the standard deduction.

3. This legislation, by including all taxpayers, would strengthen the principle of the deductability of charitable giving, granting due recognition to the unique status of this provision in our tax code—it is the one deduction that is given, not for spending income on oneself, but for sharing it with the whole community.

4. Extension of the deduction for charitable giving is the best way to provide an effective tax incentive to give. Changing the mechanism to a tax credit would create severe practical consequences for higher education, museums and hospitals.

5. The gradual narrowing of the tax incentive for charitable giving has social consequences as well. Institutions forced to rely on a small band of contributors may fail to reflect the breadth of thoughts and feelings of our citizens. S. 219 democratizes charitable giving.

6. An important long-term effect of limiting the tax incentive for charitable giving to 23 percent of the population is that the younger alumnus, those most likely to utilize the standard deduction, will be less likely to develop early the habit of annual giving. Moreover, as studies have shown, those who contribute their time become involved often by first contributing their money.

7. The change proposed in S. 219 would be very effective, efficient, and fair yielding more than a dollar in additional charitable donations for every dollar lost in tax revenue. The change would increase charitable giving by at least $4.16 billion in 1978 over what it will be if the tax laws remain unchanged. It will also be fairer to lower middle-income taxpayers than is current law.

8. This change would be more consistent with income tax theory and the practical assumptions underlying our tax system than is current law.

9. This change would strengthen the underlying democratic pluralism of our society by giving recognition to every taxpayer for the public character of his or her private voluntary giving, and by encouraging broader and more responsive participation by all citizens in the public life of their communities and nation.

STATEMENT

Mr. Chairman and members of the committee, my name is Terry Sanford and I am President of Duke University. I appreciate the opportunity to appear before this distinguished Subcommittee on behalf of the associations of higher education listed on the cover page, whose membership includes over 1,600 public and independent non-profit colleges and universities.

S. 219, the Charitable Contributions legislation of 1979, which is the subject of this hearing, would extend the deduction for charitable giving, now limited only to those who itemize their deductions, to all taxpayers. The charitable deduction has a unique status in our tax code. It is the one deduction that is given, not for spending income on oneself, but for sharing it with the whole community. This legislation, by including all taxpayers, would strengthen the principle of the deductability of charitable giving. We believe this is sound public policy worthy of the attention and support of this Committee.

Voluntary giving has long been an important bulwark in the maintenance of diversity and quality in higher education. In 1978, charitable giving to higher education exceeded $3 billion. While independent colleges and universities rely far more heavily on voluntary giving than public colleges, contributions to the latter have increased substantially in this decade. In 1978, public institutions received approximately 25 percent of all contributions to the sector.

Traditionally, studies indicate that three-fourths of all donations contributed by living individuals, foundations and corporations are used to meet current college needs, thus providing some relief from the tuition- and fee-burdens of individual students. However, there is some evidence that this current-use percentage may be increasing, to the detriment of the long-term needs and viability of many of our schools.

In the 1970's spiralling energy costs, rising inflation and the myriad costs of complying with increased government regulations substantially increased college and university operating expenses. To meet this crunch, made more severe by the unexpected nature of it, many colleges began to dip into their capital funds. Howard R. Bowen, a noted economist concluded in the Fourth Annual Report on Independent Higher Education, that:

"The record of performance of independent higher education over recent years has been as good as it has been partly because of a slow and seemingly inexorable using-up of capital. Some of this consumption of capital has been in the form of drawing down reserves or of using for current operations, gifts that should have gone into endowments. Some of the capital consumption has been in the form of deferred maintenance and replacement of plant and equipment for which no reserves have been accumulated. And part has been a consumption of human capital through inability to keep faculty and staff compensation growing in proportion to the wages and salaries of the national work force."

Maintenance of the financial health of our sector in the long-term will require increases in charitable giving. At present, according to the report noted above, on an average 17 percent of current fund revenues of independent colleges and universities comes from charitable sources, (10 percent private gifts, 7 percent endowment income).

While the need for voluntary giving has increased in education, changes in the tax code in the last decade have combined to produce a less favorable tax climate for such giving, resulting in a rate of growth lower than the projected and actual needs of the sector. Principal among these tax code changes has been the unintended, but adverse change produced by increases in the standard deduction.

In the past decade, the standard deduction has been raised six different times. In 1977, 77 percent of all taxpayers elected the standard deduction, compared to 50 percent in 1970. With the increased deduction provided for in the Tax Reduction Act of 1978, the percentage is likely to rise significantly. The result of these trends is that the charitable deduction is in danger of being squeezed out of existence.

Moreover, the attendant loss of the contributions of low- and moderate-income taxpayers has social consequences as well. Institutions forced to rely on a small band of contributors may fail to reflect the breadth of thought and feelings of our citizens. S. 219 democratizes charitable giving.

The gradual narrowing of the availability of the charitable deduction to taxpayers has had a serious impact on the flow of funds to charities. Studies suggest that charitable gifts would have been $1.357 billion greater in 1977 alone had the standard deduction not increased since 1970. The increases in the standard deduction provided by the 1977 Tax Reduction and Simplification Act alone accounted for about $615 million of this amount.

The tax incentive provided by the deduction for charitable giving is a significant factor in determining the size of a voluntary contribution. According to a recent survey undertaken by the Gallup Organization, which compared taxpayers with similar incomes, gifts to education in 1978 averaged $67 for itemizers, while averaging only $19 for non-itemizers. Overall, individuals who itemize gave three times as much to charity as non-itemizers, thus underlining the importance of restoring the tax incentive to all taxpayers.

Immediate losses in annual giving, while substantial, are unfortunately the least of the harmful consequences of this trend for higher education. Higher education continues to receive a substantial amount of its voluntary support from individuals who contribute in excess of $5,000 per year. A significant portion of these gifts are in the form of appreciated property. While these individual givers probably utilize the current deduction for charitable giving, their initial gifts to the institution most likely began at a time when they would have taken advantage of today's large standard deduction. Over the longer run, younger alumni and alumnae, who increasingly will tend to use the standard deduction, will be less likely to develop early the habit of annual giving. The effect of this on giving will not be noticeable perhaps for a decade or more, but by then, it will be too late. In addtion, it is often the case that those who contribute their time become involved by first contributing their money. Discouraging the younger alumnus from playing an active role in college affairs is likely to have consequences beyond the loss of financial support.

Conversely, broadening the base of financial support by providing all taxpayers with a deduction for their gifts is likely to broaden the volunteer base. Colleges—all of philanthropy—will be enriched greatly by the harnessing of the talents and energies of all of our citizens.

The practical reasons for extending the charitable deduction to all taxpayers are, by themselves, sufficient to warrant such a change in tax law. But tax theory supports this view as well. Our income tax system is based on the concept of net income. One leading theory defines net income as that which inures to the benefit of the individual; in other words, private consumption plus savings. Money voluntarily given to worthy public causes should not be counted as income, since charitable gifts contribute neither to personal consumption nor to accumulation. In the case of amounts donated to education and other charitable activities, the benefits produced have the character of public goods where consumption by one person does not preclude consumption by others. Thus, it would be theoretically incorrect to tax an individual as if the taxpayer had consumed the charitable goods.

Although this view of the deduction for charitable giving is at odds with the currently popular theory of Tax Expenditure, even the expenditure theory, which views the deduction for charitable giving as tax spending, would support its existence and expansion. Under the Tax Expenditure theory, an expenditure is acceptable if it meets three criteria. It must be effective, efficient and fair. The broadening of the deduction for charitable giving to all taxpayers meets these criteria.

It is effective because, as noted in the statement submitted to this Subcommittee by Dr. Feldstein, the extension of the deduction for voluntary giving provided in S. 219 would substantially increase charitable giving.

It is effective because the "cost" to the Treasury in so-called "lost" revenues is far less than the funds that would be available to meet public purposes.

It is fair.—Over 85 percent of the revenues "given up" would show up as a reduction in taxes for current non-itemizers, that is, for the 77 percent of all taxpayers who elect to use the standard deduction and who have predominantly low- and middle-incomes. It would thus give recognition to every taxpayer making charitable gifts for these publicly worthy voluntary acts, not just to the 23 percent who itemize. It would also insure that persons using the standard deduction and making a charitable contribution would no longer be treated the same as persons using the standard deduction and not making such gifts.

At worst, moreover, even if one were to assume that no extra charitable giving would result, S. 219 would simply provide a $3.2 billion tax reduction for low- and middle-income taxpayers, individuals who, because of inflation, have found themselves in higher tax brackets.

Over the years, a number of individuals have suggested different tax mechanisms to achieve the goal of extending a tax incentive to all taxpayers. Most prominent in this context was the notion of turning the tax deduction for charitable giving into a tax credit, or providing an optional tax credit. We have opposed strongly this formulation of the tax incentive for charitable giving in the past and continue to do so today. Besides the philosophical problems it poses, it has severe practical consequences for higher education.

According to a study done by Professor Martin Feldstein of Harvard, a 30 percent tax credit would produce a similar level of giving as the current deduction. However, the resultant division of donations between and among charities would be severely altered. Educational institutions would experience a 17 percent reduction in charitable giving. At 1975–76 levels of giving, the Feldstein model documents a reduction in annual giving to colleges and universities of more than $400 million, an amount which would require an additional endowment of $8 billion to offset—a loss colleges and universities simply cannot support. Museums and hospitals would also face substantial reductions in their contributions. Moreover, higher bracket taxpayers who heavily contribute to these types of charity would find their after-tax, after-gift incomes increased. As a practical matter, a tax credit for charitable contributions has an "upside-down effect," increasing the disposable income of the wealthy, decreasing the income of middle- and lower-income individuals, and resulting in a less progressive distribution of income than with a charitable deduction. The optional tax credit, while having all the negative features embodied in a pure credit approach, as formulated last year in H.R. 621, would "cost" the Treasury nearly $6 billion—twice as much as the cost estimate for the legislation this Committee is considering.

Perhaps the most important reason for extending the charitable deduction to all taxpayers is not its appropriateness as a matter of income tax theory, nor its efficiency and fairness, nor even the important practical advantages for philanthropic activities, but rather something much more fundamental to the American system. The genius of American society is our recognition that direct governmental action is not the only way to serve public needs and provide for the community well-being. In fact, it may not always be the best way, for government, like all institutions of human construct, has its inherent limitations as well as its unique strengths.

From the very beginning of our democratic Republic, our laws and customs have encouraged voluntary associations and institutions as another way to serve the public good efficiently and on a particularly human scale. Moreover, there has been the implicit recognition that a society which can attract and engage the voluntary energies and talents of its members in the satisfaction of common needs will be more vital, caring and resilient than one in which its members expect agencies of government to do everything for them.

Thus, our Congress has for over sixty years encouraged citizens to direct their energies to the solution of common problems by the charitable deduction and by other laws intended to foster and encourage non-profit, philanthropic institutions to meet public needs. The results have been a larger flow of financial resources—taxes plus voluntary gifts—directed to common problems than it would be possible to sustain depending on either voluntary efforts or governmental coercion alone, and the energetic and active participation in public life, broadly defined, of a substantial part of our society's membership. Not only does this mixed, pluralistic system induce people to reduce voluntarily their personal incomes well below that level that would be caused by taxation alone, but it provides for a voluntary supply of dedicated, talented manpower involved in its several communities far in excess of that which could be purchased in the marketplace or coerced into service.

Thus, private philanthropic has always been a cornerstone of our pluralistic society. Support of charitable organizations has profoundly distinguished the character of American life. But a tax adjustment for charitable giving limited to the 23 percent of taxpayers who itemized deductions threatens the universality of American participation in the philanthropic sector and the vitality of the whole society. By extending the charitable deduction to all taxpayers, the Congress would take a major step toward ensuring continuing fulfillment of our pluralistic ideals.

Statement of Joanne O'Malley Pier, Trustee, Marquette University

Summary

1. My observations are those of a Trustee of an independently-sponsored educational institution, one which is dependent specifically upon gifts for approximately 12 percent of 1978-79 expenditures and generally upon a willingness of people to sustain voluntary enterprises in this nation.

2. My experience as a volunteer includes 15 years of such service to Marquette University, including one term as president of its Alumni Association.

3. The University has been successful in fund-raising in recent years, but decreases in the number of donors—particularly among younger alumni—concern us.

4. Successful fund-raising assumes donors more times than not become such among younger people with relatively less discretionary income and that this group will provide most of tomorrow's major donors.

5. Competing for financial attentions among today's younger alumni is the fairly recent phenomenon of significant student loan indebtedness, thereby increasing pressure on shrinking amounts of discretionary income.

6. The transition from small to large donor is related to a large extent upon the elements of education and habit, both being vital influences on how a person freely decides to invest material goods and personal service.

7. Included among these influences are tax incentives which apply only to federal tax filers who itemize.

8. The shift of the tax filer population more and more to the use of the standard deduction inadvertently threatens charity and, in turn, the huge array of voluntary enterprises which make American society unusual.

9. Extension of the charitable contribution deduction to non-itemizers would help enable younger people to participate in voluntary initiatives earlier and, in the long run, would bolster voluntary action in America.

Statement

Mr. Chairman and members of the subcommittee, my name is Joanne O'Malley Pier. I am a member of the Board of Trustees of Marquette University, an independent, Jesuit-sponsored institution in Milwaukee, Wisconsin. I appreciate the opportunity to testify to the consequences of S. 219 and H.R. 1785.

You have heard already today and will hear more tomorrow extensive comment on how the extension of the charatible contribution deduction to non-itemizers will impact generally on gift-dependent enterprises, and how such a change relates to existing tax law and federal tax revenues. I wish to focus quite narrowly on how the proposed change could affect one institition, an independent university already very dependent upon the notion of healthy volunteerism.

This year more than 13,000 students are enrolled in credit and non-credit courses at Marquette, marking the largest enrollment in the University's history. It has attracted record numbers of applicants for admission in recent years, achieved new and higher levels of academic quality and, at the same time, consistently operated on a balanced budget. I provide this brief description so that you will understand that Marquette, while not a heavily-endowed or wealthy institution, has managed its affairs successfully in difficult times.

Last year Marquette University expended approximately $53 million for all its activities, including operational costs, capital needs and reserves for future commitments. Toward that total, the University received approximately $6.3 million in cash gifts, or roughly 12 percent of expenditures.

At the same time student tuition and fees amounted to $29.5 million, or approximately 66 percent of the University's expenditures (after such things as room and board income and expenses are removed).

Hence, it can be fairly said that Marquette University is both a tuition and gift dependent institution. Any major alteration in the performance of either revenue component would cause large changes in the fiscal operation of the University.

This brings me specifically to the matter of voluntary support and volunteerism among the University's alumni, a subject I know in some detail as a result of 15 years of voluntary service for the University, including one term as president of the University's Alumni Association.

A major element within the University's total gift support is alumni giving, an area in which we have obtained significant increases in recent years. But it is also an area in which the size of the donor population already shows signs of erosion.

Since 1972-73 alumni gift support at Marquette has increased fourfold but one of the companion indicators of successful fund-raising shows an important weakness. That factor is participation—the percent of alumni donors among the total number of alumni asked to give. In 1972-73 almost 25 percent of our alumni contributed. Last year that statistic was 21 percent. In one year alone the number of alumni donors decreased about eight percent while the amount contributed was doubled. In effect, what we are experiencing is more from fewer, and the fewer by and large are among the younger alumni.

It takes no special understanding to know why the observation "Tall oaks from little acorns grow" is apt when considering fund-raising. Tomorrow's major donors start as today's small ones. That process of growth includes not only the likelihood of increased capacity to give when one becomes older and more established, but it also reflects the elements of learning and habit reflected in such growth. Indeed, annual giving programs classically are tailored toward encouraging small gifts initially from younger, less capable people with the expectation that they will have more opportunity to give more down the road. If this educational habit never starts, the benefits will never be.

Part of that education toward voluntary support has been curtailed by the steady shift of most federal tax payers from the process which recognizes charity by virtue of the tax incentives inherent in itemization to the use of the non-itemization process, one which assumes a certain amount of charity within the standard deduction but which hardly can be described as an incentive.

While the shift of tax filers from long to short form has been taking place, another factor especially pertinent to young people has been magnified. Among recent college graduates, a group generally with less discretionary income than their elders, increasing indebtedness owing to student loans has become an important condition when discussing voluntary gift support. I believe this a topic in which you take a great deal of interest because of the jurisdiction of this Subcommittee.

It is not surprising that a tuition-dependent institution should experience large increases in the amount of loans taken by its students recently. But the trend line of student borrowing is up so sharply that we are concerned about the eventual outcome. For example, five years ago the 7,000 undergraduate students at Marquette obtained State or federal direct loans of about $2.3 million. Last year that amount exceeded $6.5 million, almost a two hundred percent increase.

This increase in indebtedness will not abate in the near future, meaning that the more recent graduates will face even more competition in deciding how to invest a shrinking amount of discretionary income.

It is unfortunate that the topic of student indebtedness has become focused on repayment deficiencies rather than how monthly loan repayments present an increasingly larger disincentive for voluntary support. It is only natural that the student borrower to believe that, after many months of repaying, he or she must have repaid the entire cost of education. That is hardly the case at an independent institution, but nonetheless the impression of total repayment, indeed, has become a new barrier to increased voluntary support from younger alumni.

I acknowledge the problem of bringing student loan repayment default under control and am encouraged by the progress being made on that front. As an aside, I should not that while the National Direct Student Loan default rate nationally in mid-1979 stood at about 17 percent and that the HEW target is to reduce that to 10 percent, Marquette University last year received a commendation for the way in which it takes due diligence for NDSL repayment. Marquette's NDSL default rate from loans to its students was less than six percent.

I have recited how Marquette can be characterized as a tuition and gift dependent institution. I may add that the University is much more globally dependent upon volunteers than simply gift support. Nearly 1,000 alumni, the vast majority of them from among the younger alumni, serve as student admissions representatives, visiting with prospective students across the nation. There are many other varieties of volunteer services undertaken by alumni, not only for the University but for a whole host of enterprises in which they take a deep interest.

As they become involved in such activities these volunteers tend to exhibit stronger interest, greater leadership and additional commitment. For example, Marquette currently has 650 alumni serving as class agents for the Annual Marquette Fund. While Marquette's overall alumni participation in giving last year was about 21 percent, participation among these 650 class agents stands at 90 percent. But even here, that figure has started to drop among the younger volunteers.

The Trustees of Marquette University are committed to seeing that a Marquette education can be obtained by all who wish to experience that type of schooling, not just those who can afford its price. To restrict accessibility to only those with sufficient resources would violate one of our fundamental principles, that Marquette, as an independent institution, exists to provide an alternative mode of education and as such contributes to a healthy pluralism in American education.

The Congress has committed itself to this same principle and we greatly appreciate the ways in which you have illustrated this belief. For example, the passage in the 95th Congress of the Middle Income Student Assistance Act made it possible for larger numbers of citizens to choose a college or university on the basis of academic desires, not simply the student's economic situation.

In the same way, I believe it would be beneficial for the Congress to extend the charitable contribution deduction to non-itemizers. You have heard comments from a variety of people more expert than I on tax laws and consequences, on how such a change would deliver needed encouragement to the enterprises and people who provide services under the flag of voluntary action. And you have heard how some of the existing tax incentives for such action have inadvertently been placed beyond the reach of increasing numbers of federal income tax short form filers, and how this shift has been multiplied in cases where state income tax filing procedures simply mirror the federal process.

The act of giving has several characteristics we must recognize. It signals faith by the donor in the donee. It is a source of encouragement to the recipient. Econometric studies provide evidence of a substantial return of gift dollar value in the form of excellent service. Indeed, giving itself has become a major characteristic of this nation.

For these reasons I believe the present tax incentives for charity ought to affect all tax payers, not just those who itemize deductions each year. The people of this nation will benefit by way of continued and bolstered services from a huge array of voluntary enterprises. That goal seems a worth and reasonable one for the Congress and the people it represents.

We look forward to working with you on this proposal.

Thank you.

Statement of Idanelle S. McMurry, Head, Hockaday School, Dallas, Tex. on Behalf of National Association of Independent Schools

SUMMARY

1. Benefits provided by private elementary and secondary schools to their communities and the nation at large include: diversity; freedom of choice; intellectual stimulus for able students; and close attention and guidance for the less able; preservation of tradition and of sound educational practices; development of promising new practices; and substantial savings for taxpayers. These institutions enroll about 10 percent of the nation's school-age population, and, contrary to the impressions of some over 75 percent of these pupils come from middle and lower income families. The independent schools belonging to NAIS have explicit racially nondiscriminatory policies and devote considerable resources to expanding opportunities for minorities.

2. Private schools are excluded by law from public financial assistance and by policy and practice from any significant support from corporate or foundation sources. Consequently, they are—unlike colleges and universities—dependent almost entirely upon contributions from individuals for support over and above tuition charges and other fees.

3. In its effort to simplify the filing of income tax returns, Congress in recent years has enacted legislation which has brought about use of the standard deduction by millions of taxpayers who formerly itemized their deductions. It is estimated that this shift in filing procedures—with about 72 percent of all taxpayers now using standard deduction—has cost the public charities, including private nonprofit elementary and secondary schools, about $5 billion over the past 10 years in gifts which they would otherwise have received.

4. In light of their dependence on individual donors and of the recent Gallup Organization finding that the average itemizer contributes more than three times as much to education insitutions as a non-itemizer in a comparable income group, our member schools urge favorable consideration of S. 219 in order to extend to all taxpayers the strong incentive for philanthropy provided by the charitable deduction.

STATEMENT

I am Idanelle McMurry, head of the Hockaday School, which is an elementary and secondary school for girls in Dallas, Texas, and is coordinate with the St. Mark's School for boys in that city. I am also secretary of the Board of the National Association of Independent Schools (NAIS), which is a voluntary association of about 800 independent nonprofit elementary and secondary schools with an enrollment of about 300,000 students.

These are schools which are almost entirely independent of church or public control and support and, in the Washington metropolitan area, include—among others—Georgetown Day School, Sidwell Friends, St. Albans, and Georgetown Preparatory School. I mention these examples since the term "independent school" may not be familiar to everyone. Our members schools are found all over the country, range in size from 27 students to 3,600 students, and subscribe to racially nondiscriminatory policies. In several of our schools minority students constitute a majority of the enrollment, and one is an all-black boarding school. Our association appreciates the opportunity to testify in support of S. 219.

Although I am speaking only for NAIS, it should be noted that, according to figures compiled by the National Center for Education Statistics,[1] there are over 17,000 private elementary and secondary schools in the United States and that these schools enroll about 5 million pupils—which is about 10 percent of the country's school-age population. Over 90 percent of these schools are served by nonprofit associations which are members of the Council for American Private Education and which require adherence to a racially nondiscriminatory policy as to students. We believe that all or most of these schools would benefit from enactment of this legislation, which offers some hope of ending or reducing the serious losses in income recently sustained by charitable organizations due to substantially increased use of the standard deduction.

' Private schools provide many benefits to their communities—whether for pupils who are unable to succeed in the public schools, or for those who need greater intellectual stimulus, or for those who just need closer attention and guidance that public schools can offer. In addition to the diversity and freedom of choice which they offer, a good level of quality is assured by the fact that fee-paying patrons have

[1] "The Condition of Education," 1978 Edition, p. 82.

the option of enrolling their children elsewhere if such quality is not maintained. The benefits to communities are not limited to the schools' patrons and pupils, since the existence of these privately supported institutions results in substantially reduced school taxes for the citizens at large. The savings can amount to millions of dollars in some of the larger cities where up to 30 percent of the school-age population may be enrolled in private schools. Even more valuable, probably, are the roles played by many of these schools in preserving sound educational practices and in developing promising new ones for the future.

The legislation presently under consideration could be of significant value in maintaining the quality and well-being of these schools since, unlike colleges and universities, they receive no financial aid from federal or state funds (although eligible pupils may receive help in the form of commodities and services). This means that private schools, with few exceptions, must depend almost entirely upon tuition fees and charitable gifts for the support of their education programs and plants and also for providing financial aid to the many families who need help in meeting the cost of such schooling.

Let me cite some figures compiled by NAIS.[2] A typical day school belonging to our association depends upon gift income—a combination of current contributions and endowment—for close to 12 percent of its annual financial support. (This figure would be much higher for church-related schools.) It is important to note that over 90 percent of this gift income—more than $50 million—is presently being used to provide financial aid to about 40,000 students, with $15 million of that amount going to about half of the 20,000 minority students enrolled in our member schools.

Charitable giving thus constitutes a vital and unique source of income for private schools. Since foundations and corporations are likely to have policies which prohibit or severely limit any giving to private elementary and secondary schools, these institutions therefore—again, unlike colleges and universities—must look to individual donors for whatever help they receive. For example, figures compiled for NAIS schools indicate that over 90 percent of this gift income is received from individuals.

The question is frequently raised as to why the tax structure should be expected to provide help—however indirect—for institutions whose patrons must be relatively affluent because they have children in private schools. There is a definitive answer to this question in Census Bureau statistics published in February 1979.[3] These figures show that, in round numbers, of the approximately 5 million pupils enrolled in private elementary and secondary schools, 76 percent are from families with incomes under $25,000 and 38 percent are from families with incomes under $15,000.

The vast majority of these families are therefore in what may be described as the middle income range, and a substantial majority of them presumably are among the 72 percent of all American taxpayers who are now using the standard deduction and are therefore not eligible for the charitable deduction available to itemizers. Since a recent Gallup Organization Survey indicates that an itemizer contributes more than three times as much to educational institutions as a non-itemizer in a comparable income group, it is logical to surmise that the incentive provided by the charitable deduction could have made the difference.

If this hypothesis is correct, then passage of the legislation embodied in S. 219 could help charitable organizations to recapture the losses occasioned by the widened use of the standard deduction and to increase contributions. This would enable our schools and other nonprofit institutions to improve their programs and to expand their services to many who need them but are presently unable to afford them. We respectfully urge your favorable consideration of this bill.

Statement of Curt Lambrecht on Behalf of the Southwest Minnesota Arts and Humanities Council and Minnesota Citizens for the Arts

To understand why I am here to speak in favor of this bill's passage, there are two things you should know about me. The first is that I'm a rural Minnesotan. I grew up on a dairy farm, now live in a small community of 10,000, and hope to continue working in rural America. Second, is that I love the arts. I work as director of a regional arts council, serve as vice president of a statewide arts service organization, and do volunteer work on state and local boards for community theatre and arts education. The fact that I am a rural person who is dedicated to the arts, is the major reason I am able to recommend your support of the Moynihan-Packwood Bill.

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[2] "NAIS Statistics," February 1979.
[3] "Current Population Reports", U.S. Bureau of the Census, February 1979.

As I'm sure many of you are aware, the arts have traditionally sought contributions to help fund their activities. As Senator Durenberger will remember from his work with Minnesota's Governor's Commission on the Arts, it was learned that more than 25 percent of Minnesota's arts activities were sponsored by private contributions. Over three and a half million dollars of this was in the form of gifts from individuals.

Maintaining and increasing that level of support is of dire importance to us. You see, today's economic problems are hitting the arts especically hard. In part, this is because the benefits of modern mass production, which help most other industries, don't aid the arts; it takes us as long now to rehearse for a symphony or paint a painting as it did hundreds of years ago. Rising energy costs have added an extra dimension to the problem; turning down thermostats doesn't work when a cold theatre could permanently ruin a dancer's muscles or when a variance in temperature at a gallery could destroy valuable paintings. With these dilemmas facing the arts, it is necessary for us to continually work to increase our private contributions and volunteer assistance. I believe the bill that has been described here today will help us do that.

Since I live in a rural area, this bill holds special significance for me. As explained in earlier testimony, the people most aided by this legislation would be low and middle income people, like those who live in my area. Many people think that the arts are funded by the wealthy, enjoyed by the upper class and centered in large cities. The area I work in is a prime example of the contrary. The organization I represent is the Southwest Minnesota Arts and Humanities Council. We work as an arts cooperative for a 21-county agricultural region in the southwestern corner of Minnesota. Although we have a larger land mass than the combined states of Connecticut and Massachusetts, we have a total population that is smaller than the single city of Omaha, Nebraska.[1] More than half of our communities have populations under 500 people; only 11 are over 5,000; and none are over 15,000. Tax information shows that income levels for all 21 counties in my region are well below the state and national income mediums; in some counties, more than 50 percent below.[2]

Yet, even in an area such as this, where the population base is small and the income levels are low, there is a great deal of art activity. There are 24 community theatres, 31 music groups, 17 visual arts groups and 30 community arts councils. Add to these the more than 1,000 service organizations, schools, churches and libraries which regularly schedule the arts events in the smaller communities, and the result is staggering.

This kind of arts activity happening in a rural area like ours is not a miracle. It is happening because literally thousands of volunteers are giving thousands of hours, driving thousands of miles and contributing thousands of dollars. Many have asked whether the results of those contributed hours, miles and dollars are worth it. The only answers I can provide are these:

When I see a five year old turn to his dad after seeing a professinal dancer at his school and say, "I could be a dancer when I grow up," then I know it's worth it.

When I see a town of 800 people totally restoring their old opera house with volunteer labor, then I know it's worth it.

When I see a community mural bring a town and its nearby Indian reservation closer together, as well as helping to launch a major downtown renovation, then I know it's worth it.

The arts are helping us record the history of southwestern Minnesota. They are helping us preserve the beauty and heritage of our area. And they are helping us develop creative young minds.

All of these things help us know that the hours we volunteer, the miles we drive and the dollars we contribute are indeed worth it. Please show us that you agree. Give your support of the charitable contributions legislation.

Statement of June K. Goodman, Finance Subcommittee on Taxation and Debt Management, on Behalf of Coalition of National Voluntary Organizations

SUMMARY

(1) Identification.

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[1] The total land mass of southwestern Minnesota is 13,758 square miles and the total population is 372,800.

[2] The medium income of husband-wife families filing 1977 Minnesota income tax returns was $16,864. The national median for 1977 was $17,616. Medians for southwestern Minnesota counties ranged from $8340 to $15,195.

(2) Citizen participation, the key to our country's greatness, eroded by present lack of tax incentives.

(3) Making charitable tax deduction available to all taxpapers particularly important to the arts in the U.S.

(4) The arts themselves important to the country.

(5) High density of the arts in Connecticut.

(6) Contributions from those with income under $20,000 very significant to the financial stability of that state's cultural resources.

(a) *Example.*—American Shakespeare Theatre's financial crisis averted through contributions from 30,000 people ranging from 85¢ to $100.

(7) Comparison between individual contributions to Hartford Stage Company in 1967 (25 percent of the budget) and 1979 (6 percent of the budget).

(8) Greater public interest in arts today than before, greater financial need.

(9) Government's commitment to the arts at federal, state, local levels significant, but major share of cost comes from private sector.

(10) National Endowment for the Art's Challenge Grant program stimulates private sector giving on 1 to 3 basis, but corresponding tax incentive system lacking for middle and lower income donors.

(11) Analysis of Connecticut arts institution incomes—earned and contributed—underscoring importance of individual donations.

(12) Comparison between government support in Britain and U.S.

(13) Without tax incentives, U.S. could move closer to massive government support and undermine existing healthy balance.

(14) Closing quote from "Taxwise Giving" re importance of "above the line" treatment for charitable contributions as defense against eventually losing itemization altogether.

(15) Consideration should be given to special deductions for charitable gifts for those who claim standard deduction.

STATEMENT

(1) My name is June Goodman of Danbury, Connecticut. I am an arts manager and chairwoman of the Connecticut Commission on the Arts. I am here in support of the enactment of the Fisher/Conable-Moynihan/Packwood Legislation.

(2) Whatever weakens individual participation in voluntary non-profit activities, not only weakens the activities, but also undermines the society in which we live. Citizen participation is the key to our country's greatness, whether it be in the voting booth or contributing to a local theatre production. The present lack of tax incentives for moderate income people is eroding that citizen participation.

(3) Making the charitable deduction available to all taxpayers would be one of the most important changes in our tax laws and provide additional incentives to large numbers of moderate income people to contribute to non-profit organizations. As Chair of the Connecticut Commission on the Arts, I am especially interested in how this affects the arts. The decline in the number of contributors as well as the amounts they formerly contributed is a concern for all of us in the arts.

(4) The arts are important. Ruskin said: "Great nations write their autobiographies in three manuscripts, the book of their deeds, the book of their words and the book of their art. Not one of these books can be understood unless we read the two others, but of the three the only trustworthy one is the last." The arts are important. They provide a meaning for our lives. They exalt the spirit.

(5) Connecticut might well be called the Arts State. It has the highest per capita density of professional and community arts in the nation. Within its 5,000 square miles it has seven nationally recognized theatres, symphony orchestras, dance companies, museums and numerous outstanding individual artists and writers.

(6) Our state needs all possible incentives to attract contributions from everyone, including contributions from those with incomes under $20,000.

(a) Small donations are generally of critical importance. For example, in 1976, when the American Shakespeare Theatre at Stratford, Connecticut, an institution of national renown encountered a financial crisis that threatened its survival, word went out that the theatre needed help. In response to that cry for help, 30,000 people contributed $300,000 with contributions ranging from 85 cents to $100. Indeed, small contributions do make a difference.

(7) The need for tax incentives can be illustrated in Connecticut by the experience of the Hartford Stage Company. In 1967, this company raised 25 percent of its $320,000 budget from individual contributions, or $80,000. Today with a budget nearly six times that amount, $1,300,000, individual contributions still provide $80,000, now representing only 6 percent of the budget. Clearly, the lack of charitable deductions for everyone is a serious deterrent.

(8) Today attendance at performances and exhibitions is on the rise and more arts organizations and institutions are being established in response to public demand. New laws mandate increased access. These realities create greater financial needs for which there is an increasing reliance on government and corporate support, without an equal share of individual support.

(9) The government's commitment to the arts is clear as evidenced by the National Endowment for the Arts which makes a federal contribution to the arts of over $100,000,000. In addition, the 50 state governments contribute another $100,000,000, and municipal governments are increasingly building their share. But it was never envisioned that government would go it alone, rather that government support should be a partnership with the private sector including corporations, foundations and individuals. The government's share amounts to no more than 30 percent of the total needed, therefore, major responsibility is still in the hands of private citizens, corporations and foundations. If individual contributions are to keep pace, there must be incentives such as those provided by Fisher/Conable-Moynihan/Packwood legislation. The alternative is the continuing erosion of individual contributions and a government faced with a narrowing financial base with which to match federal dollars.

(10) It should be pointed out that one means of support is the National Endowment's challenge grant program offered to arts institutions across the land. To stimulate contributions, the Endowment will give $1.00 for every $3.00 raised by the private sector. So on the one hand, the government encourages individual contributions and, on the other, it discourages them by not giving equitable tax incentives to everyone, especially those with incomes of less than $20,000 who take the standard deduction, and do not list their charitable contributions.

(11) Among performing arts organizations in Connecticut, roughly 60 percent of operating budgets come from earned income—that is ticket sales and admission fees. According to a recent study of the larger budget arts institutions in our state, the remaining 40 percent is obtained from fund raising, from grants and donations from government and the private sector, 13 percent from state and federal grants, 6.5 from foundations and 9 percent from individuals. We depend heavily on these contributions to keep these organizations from slipping into deficit conditions. The incentives that can be provided by government for individuals to share in this income are therefore seen as essential.

(12) The telling comparison is between the United States and Britian. The cost is the same, but the method is different. In England, government-supported institutions receive over 60 percent from the government; the government's direct responsibility in the United States is no more than 10 percent.

(13) Not to provide tax incentives is to move the country one more step towards massive direct government support and to undermine the more appropriate balance which has government operating as the lesser partner. This would be ironic when Britian is trying to reverse the balance and increase private contributions.

(14) In closing I would like to quote from the August, 1979 issue of "Taxwise Giving" edited by Conrad Teitell. "The enactment of 'above the line' treatment for charitable contributions would be one of the most important and far reaching changes in the tax laws affecting charitable organizations. At stake is more than allowing charitable deduction to those who take the standard deduction. Enactment will reduce the possibility that the charitable deduction will eventually be lost to those who itemize their deductions. As the number of individuals who take the standard deduction increases, the number who claim the charitable deduction decreases. A future Congress could easily abolish the charitable deduction altogether—on the ground that it benefits an elite group of taxpayers.

(15) Now is the time to make the charitable deductions available to all taxpayers. Charitable gifts should be deductible from adjusted gross income (without a floor) so that all citizens will be encouraged to support worthy charitable institutions. The law already allows some deductions for those who claim the standard deduction—e.g. alimony and moving expenses. Without passing on the merits of the alimony deduction, charitable gifts should be accorded equal treatment.

Senator MOYNIHAN. We had to go out of order, and we now have Ms. Solomon from the National Urban Coalition.

Ms. Solomon, good morning.

STATEMENT OF SANDY SOLOMON, NATIONAL URBAN COALITION

Ms. SOLOMON. Senator Moynihan, Senator Packwood, I am Sandy Solomon, director of Government Affairs at the National Urban Coalition. I am here today to present the testimony of Carl Holman, president of the National Urban Coalition. I know he strongly supports this legislation to enable all taxpayers to deduct their charitable contributions whether or not they itemize their deductions, and it is a matter of great regret that he is unable at the last minute to be here today.

He has asked me to convey to both of you our appreciation for your support in advocacy of this measure which, if passed, will surely increase participation and interest in community-based organizations by moderate-income Americans.

The coalition perspective is very important here—surely we do not want to leave the impression that voluntary action is the sole province, or even the main province, of affluent majority interests.

If you look at who donates time and effort for many of these causes, you will find low-income Americans, many minority Americans, many women. Since its founding in the late 1960's the coalition has worked with these groups as well as with business and labor, city government and other civic leadership to maintain and improve the quality of life in our cities. With some 30 affiliates in cities around the country, and project activities in more than 50, the coalition's philosophy remains the same today as it was during its first years under the leadership of John Gardner. We believe that the combined support of these different constituencies is needed if our cities are to be reinvigorated, their low-income residents given the assistance they need to help themselves.

If we have learned one lesson in our work around the country, it is that the participation and interest of those who live in a community are necessary if that community is to remain healthy. Much of that participation and interest are expressed through civic, neighborhood and other community-based nonprofit organizations and it is about those organizations I wish to speak today. The legislation you have before you today will do much to correct for an indirect and unintended result of recent efforts to simplify the income tax—as the standard amount Congress allows individuals to deduct has risen, the number of Americans who itemize has fallen. Nearly four-fifths of all Americans now use the standard deduction. The problem for civic, neighborhood, and other community-based nonprofit organizations is that with the decline of tax incentives for charitable giving, the level of donations these groups receive has declined as well. Studies have confirmed that on the average, people using the standard deduction give substantially less to nonprofit organizations than those who earn the same amount of money, but who itemize their taxes. Public support for the third sector as a percentage of the gross national product continues to fall.

This legislation would allow taxpayers to deduct the money they give to charity irrespective of their choice about whether to itemize, and I have no doubt that the proposed incentives for Americans of moderate income levels to support nonprofit organizations which serve them will increase the level of giving in this sector.

One of the major complaints leveled against Federal programs is that they inadequately reach the people for whom they were intended—that inefficient administration siphons off resources intended for target populations, that Federal programs are factory-made to suit general conditions that really coincide with, and may actually be harmful to, local needs and conditions.

Nonprofit groups, because they are drawn from, and based in, the communities in which they work, provide many of the basic services to those communities, and, because they are more responsive to the complex needs of their communities, they can most effectively represent their interests.

They have a unique capacity to act as catalysts for and coordinators of community effort and, by putting together public and private resources, they are able to leverage financial and nonfinancial support which far exceeds the direct funding they receive.

The work these organizations undertake is valuable to the community residents who contribute time and money to them. If they are not representing the interests of these residents or if they are not doing their job properly, their support declines. They are cost efficient and they are accountable.

Small wonder, then, that voluntary effort has always been and continues to be a mainstay of our cities. The growth of government has not diminished the array of basic services provided by civic, neighborhood and other community-based groups. From the block group which gets together on the weekend to clean up the street, plant grass, or help neighbors with repairs, to the neighborhood organization which sets up a cooperative crime prevention program or a skills-sharing program for home improvement, to citywide efforts designed to help battered children and women or victims of alcohol and drug abuse, the health of the cities and the well-being of urban residents depend upon the services nonprofit groups provide.

They support the schools and the hospitals, expand employment and recreation opportunities, assist the disabled and the elderly, provide day care, sustain religious institutions, and advance the arts.

I can think of no facet of life in our cities today where nonprofit groups are not making an important difference. Without them, costs to the public of maintaining the services they provide would be astronomical.

I have been working recently with a number of neighborhood groups and national umbrella neighborhood organizations. In the course of those discussions there has been some disagreement about how healthy the neighborhood movement is. On the one hand there are thousands and thousands of groups around the country and, on the other hand, efforts to get private and public decisionmakers in to recognize the work they are doing is very difficult.

The groups I am talking about depend upon voluntary effort. They would not be able to operate without the time and money neighborhood residents contribute; and the money often represents a large percentage of their income. If you look at the Treasury figures, people earning less than $5,000 per year were deducting $1 in $20 as charitable donations. That is quite a percentage of effort.

John Gardner spoke about a sense of community. There are, it seems to me, three components to this feeling: a shared sense of place, a shared sense of occupation, a shared sense of beliefs. In the community organizations with which we work, these three senses can be melded in a very strong way. I think that is the key to the vitality of the community or neighborhood movement and I think it is a movement that deserves increased direct and indirect support from the public and private sector.

Many of the groups in the coalition network began because some neighborhood residents got together to respond to a perceived need for services in the community. They donated their time, used a borrowed typewriter and materials donated by area residents, met in someone's kitchen, the local church or community center, and raised necessary operating funds from their friends.

In the disinvested communities the coalition serves, many of those neighbors were themselves people of modest means, people likely to use the standard tax deduction. Often the services they provided were not those readily associated with voluntary associations which serve the more affluent; they were interested in providing the necessities—food, housing, employment, services to sustain those who because of age or health could not work themselves.

Moreover, while many groups came into existence in response to one problem, they soon expanded to take on other problems experienced by community residents. Let me give you just one example. Jeff-Vander Lou, which began as a grassroots effort to stop demolition of neighborhood housing under the Federal urban renewal program, first took on the privately funded rehabilitation of a few houses. Now it rehabilitates hundreds of houses each year for low- and moderate-income neighborhood residents and also runs a day care center, a senior citizens' center, a communications center which trains young people, and a neighborhood economic development program which has drawn business and industry back into the area. While the success of this organization and its leader, Macler Shepard, has been extraordinary, the same history of effective diversified service can be recounted for many of the local groups affiliated with the coalition.

Civic, neighborhood, and other community-based nonprofit organizations can also act as the champions and the consciences of the communities representing the interest of the poor and the working poor, the rights of blacks, Hispanics and other minorities. Without the advocacy of such groups, basic questions of social equity would often go ignored; without their monitoring, unresponsive or ineffective public programs and public policies would often go unchanged. When such groups speak for the neglected and the powerless, when they hold the public and private sectors accountable for their actions, they perform a vitally necessary function in our free society.

The Stanford Mid-Peninsula Urban Coalition, for example, has for 8 years run a fair housing program called Operation Sentinal, which serves people in the San Francisco Bay area. Residents of the six-county area can call a hot line to report incidents of housing discrimination, inquire about their rights under the law and about possible legal redress. Of the 400 calls the project receives every month, roughly one quarter are referred for litigation and of these, 95 percent are either won or settled in favor of the plaintiff.

For minorities, women with children and others who find housing opportunity denied because of discrimination the local coalition's Operation Sentinal is an invaluable resource, and insofar as its record has been long and successful it helps protect open housing for all bay area residents.

Civic, neighborhood and other community-based nonprofit groups not only provide important services and articulate the public interest as no other sector can, but they are also able to identify opportunities in their home communities and to package public and private resources to multiply the impact of projects they initiate and sponsor.

For example, the Philadelphia Urban Coalition works with the Philadelphia school system, with city employees, and with local labor unions in running its highly praised Philadelphia High School Academy, training young people for meaningful employment opportunities. Or, for example, the Pasadena Urban Coalition has combined loans and grants from several Federal agencies, from the city's redevelopment program, and from several private funding sources including the New York Life Insurance Co. to develop a new shopping center which will serve 65,000 area residents, provide jobs for 75, and facilities for small businesses, many of them minority owned.

Our affiliates, because they begin with the idea of building coalitions, may have an outstanding record of packaging funds from different sources and forging alliances between professionals and volunteers, business and labor leaders, majority and minority concerns, but there are thousands of groups around the country which begin with the distinctive profiles and the unique needs of their neighborhoods and go about enlisting the assistance necessary to make their communities better places in which to live.

Grassroots involvement and neighborhood or community orientation is the key to the effectiveness of these groups. No one in Washington can design an energy conservation program for homes in Minneapolis as effectively as the staff of the Minneapolis Urban Coalition and allied activists in that city, for example.

I could provide you with many more examples—self-help and cooperative action is alive and well in this country today. The people with whom the coalition works are turning away from large, impersonal Government and asking instead that Government assist them in pursuing projects they design and run, often in cooperation with other sectors, often based upon voluntary public support.

The difference between success and failure can be a modest amount of money. For want of funds to underwrite an additional staff member at a crucial point in the development of a new program, even an established group may have to forgo a project badly needed by the community. Inflation has taken its toll on the vitality of civic, neighborhood, and other community-based nonprofit groups even as it has taken its toll on the community residents who support them.

Making the charitable deduction available to all taxpayers would encourage moderate-income Americans to give at the very time that giving is becoming financially more difficult and at the very time when the work of groups they support is becoming all the more crucial to the vitality of their communities.

While this legislation would clearly result in an immediate Federal revenue loss of $2 to $3 billion, it would also free those funds to be spent in a recessionary economy; it would free those funds to leverage more dollars of support for the community from public, private and public nonprofit resources. Our Westchester affiliate, for example, has worked with local business to create unsubsidized job opportunities for CETA trainees, jobs worth $73,000 to the employees and their community; and based on a start-up grant of $100,000, the group now runs a minority contractors program which grossed over $400,000 in its first 6 months of operation.

If the charitable deduction is made available to all taxpayers, it will not only encourage more support for community-based, nonprofit organizations, it will also create a larger base of talent and support on which groups will be able to draw. And, insofar as it elicits more small donations, it will encourage a greater diversity in community-based activities, more innovation in the projects undertaken, and broadened participation in the life of the community.

The contributions citizens make to civic, social and cultural activities, to the full spectrum of voluntary activities that so enrich American communities, are every bit as important to the health and vitality of this Nation as the contributions they make to political parties and candidates.

Support of the third sector, like participation in the political process, sustains grassroots interest and involvement. Clearly the commitment Americans have for their communities and for each other is a precious strength to the Republic, one which endows it with a resiliency and a responsiveness which other nations can only envy. We must do all we can to nurture that commitment. One way of doing so is to provide the means of sustained expression through voluntary association.

Senator MOYNIHAN. Thank you very much.

Senator Packwood?

Senator PACKWOOD. No questions.

Senator MOYNIHAN. We are sorry Mr. Holman could not make it. Give him my regards.

I was present at the founding conference of the Urban Coalition. I think you have done a marvelous job. You are still there and it is about your 10th anniversary shortly.

Ms. SOLOMON. Just passed.

Senator MOYNIHAN. That is a long half-life. It shows that you are hanging in there.

Thank you very much.

We are now going to have our panel on religion and religious activities. The panelists know who they are, if they would come forward: Rev. Dean Kelly, who is the executive for Religious and Civil Liberties, National Council of Churches of Christ; Phyllis Eagan, of the National Conference of Catholic Charities; the Reverend Raymond Hartzell, executive director of the Lutheran Services of Washington; Robert Dugan, of the Office of Public Affairs, the National Association of Evangelicals; and Philip Bernstein, Council of Jewish Federations.

Rev. Dean Kelly, would you begin?

STATEMENT OF REV. DEAN KELLY, STAFF EXECUTIVE FOR RELIGIOUS AND CIVIL LIBERTY, NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Reverend KELLY. Yes, sir.

I would like to submit the written testimony for the record which is entered in the name of our president, William Howard, who could not be present.

Senator MOYNIHAN. We understand that.

Reverend KELLY. Perhaps, because I wrote a book a couple of days on taxation exemption as it applies to churches, if I could get in a plug, it is "Why Churches Should Not Pay Taxes," Harper and Row, 1977.

Some of the material I think may crop up in the written testimony from my book.

Senator MOYNIHAN. I may remind you that Harper and Row began its publishing career with the memoirs of a monk. Few people remember that.

Reverend KELLY. Let's not think too much of that. That was a rather atrocious volume.

I will not reiterate what already has been said except to remark that I think it is unfortunate that a case has to be made of the importance of the nonprofit voluntary sector. And to resist the pernicious doctrine of tax expenditures and to combat the rather singular notion that the Government can somehow spend money more efficiently than private organizations do.

It would be a tremendous loss for this Nation if it were to lose the frontier spirit that citizens that see a need can band together and meet it themselves from their own resources by their own voluntary effort without having to rely on Government, unless the need becomes much greater.

I would like to focus on a peculiar situation which religious organizations face in reference to the legislation before the subcommittee. Religious contributions are the largest single sector of charitable contributions and most churches and synagogues do not rely heavily upon tax incentives for their basic support.

Most of their members will support their religious organizations without deductibility of contributions. That is not as true for some of their auxiliary organizations and religious organizations pioneered in this country, the founding of hospitals and homes for the aged and for orphans, many of which have since become independent. And those may rely a little more heavily on tax incentives, but church members will continue to support their churches whatever the Tax Code says.

The difference is that they may not support them as regularly or as generously if those institutions rely on impulse giving.

It is perhaps an incentive of the Tax Code that contibutors who would contribute are encouraged to contribute more regularly and more generously by the tax incentive. So that basically we are generally pretty satisfied with the arrangement for deductibility of charitable contributions in the Tax Code as a whole.

It is only the particular sector of contributors who are inclined to avoid itemizing and to use the standard deduction with which the legislation you have sponsored is particular concerned, and we are also, because by far the greatest majority of our contributors are in that middle-income group which is tempted to use the standard deduction and therefore are relieved of the necessity to document their contribtions and for that reason, in many instances perhaps, do not make them.

Therefore, we think that there is a legitimate and commendable expedient to allow them to eliminate from their taxable income before taking the standard deduction, those contributions which they make to charity on the ground that it is unlike any of the other deductible items.

It is not something which rebounds to their own personal gain or benefit but money they give away and therefore, as the Fowler Commission said, they should not be taxed for it.

A person who makes $50,000 a year and gives away $5,000 should be taxed on the same basis as a person who makes $50,000 a year and gives nothing away.

Therefore, we and our governing board in the attached resolution have stated that they feel charitable contributions should be deductible prior to taking the standard deduction.

Senator MOYNIHAN. Thank you very much, and we thank the board, in particular, Reverend Kelly.

Mrs. Eagan?

STATEMENT OF PHYLLIS EAGAN, NATIONAL CONFERENCE OF CATHOLIC CHARITIES

Ms. EAGAN. Good morning. I am Phyllis Eagan, president of the Board of Associated Catholic Charities of New Orleans, Inc., and I am happy to testify for our local catholic charities organization and also for the National Conference of Catholic Charities in support of Senate bill 219, sponsored by Senators Moynihan and Packwood.

The Associated Catholic Charities offers social services to the Greater New Orleans metropolitan area. Beginning with institutional child care over 250 years ago, Associated Catholic Charities today provides services in over 20 different social services areas. These service areas include children's day care, maternity, adoption, foster care, group homes, institutional adult care, Indochinese resettlement, home and congregate meals, counseling, rehabilitation for the hearing impaired, immigration, and housing for elderly and low-income families. From our statistics, we estimate that in 1980, over 36,000 individuals will be assisted by Associated Catholic Charities.

The National Conference of Catholic Charities is perhaps the largest human service network in the United States. The conference represents some 1,000 agencies and institutions in all parts of the United States, providing, as our New Orleans agency does, the kinds of services to those who are suffering.

Our total budget in 1978 was $9.5 million and for 1980 it is $13.5 million. Our units of service have really not increased significantly. Inflation is a major factor in this increase in our need.

We are experiencing a decline in the private sector support in relation to the total agency budget. The annual survey conducted by the National Conference of Catholic Charities of all of its member agencies and institutions supports the same conclusion. The most recently compiled data is for calendar year 1978. From 1975 to 1978 our annual surveys indicate the proportion of Government funds in our programs increased by 8 percent while proportion of voluntary contributions declined by 6 percent. In each of those years but one, Catholic charities ran a deficit even after the application of substantial millions of dollars in investment income.

Our concern, then, is over the serious erosion of our voluntary income and our reliance on Federal dollars. On the one hand, there is a clamoring for a balanced Federal budget, increased demands for defense spending, and a number of national crises whose only alleviation seems to be Federal money. On the other hand, there is a growing "proposition 13" attitude and a necessary demand for greater accountability in federally funded programs; so it must be concluded that many Government moneys from many currently funded social programs may be on the decline. The President's proposed astringent budget is a case in point.

As can be seen from the high proportion of Government participation in our programs, we then may be facing a serious cutback in services—this is currently true in title XX—and a need to significantly increase private support. Since it is overwhelmingly evident to us that at present, the service needs of the New Orleans area and the Nation are not being met, it is incumbent upon us to make every effort to promote additional private contributions.

However, our recent experience seems to show a trend of declining private giving.

In 1979, the United Way for the Greater New Orleans area was short of its goal by approximately $200,000. This is the first time in about 5 years that the United Way's drive has fallen short of its goal. However, during the past few years, the goal has been reached with great difficulty and effort, including the extension of campaign deadlines.

I want to look at this problem nationwide in the Catholic Church. Studies published by the National Council of Churches and the American Association of Fund Raising Counsel indicate that giving to religious organizations is up. But at the same time these studies demonstrate that the number of contributors is down.

Our national office is concerned with this, especially in view of Dr. Martin Feldstein's data, on the loss of charitable organizational income due to increases in the standard deduction, and the Gallup Poll demonstrating that the availability of the charitable deduction is actually an incentive to give even among families with very modest and low incomes.

In the voluntary diocesan fundraising drive in the Archdiocese of New Orleans over the last 10 years the total funds contributed are up, but the number of contributors is down. In the voluntary campaign in Senator Moynihan's diocese of Albany, N.Y., from 1969 through 1979 the amount of money contributed each year was up, but the number of contributors is down.

But the more significant for your purposes, the total drop in contributors is among the population which contributed below $25 in the campaign—the number of low-income contributors lost was over 20,000 during that time. The same is true in several parishes our staff checked in the State of Virginia.

In St. Gregory's Parish in San Antonio, Tex., in 1973 there were 1,500 Catholic families. The number had increased to 1,850 families in 1978, and the pastor observed that the average income of the neighborhood dropped slightly. But the number of contributing families dropped from 1,400 to 900, despite the large increase in the number of families in the parish.

Senator MOYNIHAN. I am going to have to ask that we put the rest of your statement in the record. We are particularly grateful for the data. We like numbers on this committee, and you have brought them to us. Thank you.

Reverend Hartzell?

STATEMENT OF REV. RAYMOND HARTZELL, EXECUTIVE DIRECTOR, LUTHERAN SERVICES OF WASHINGTON, D.C.

Reverend HARTZELL. Senator Moynihan, Senator Packwood, I appreciate the opportunity to present testimony in S. 219. I am a Lutheran minister and executive director of Lutheran Social Services of Metropolitan Washington. We are one of some 280 social service agencies of the Lutheran Church across this country.

I would like to describe my agency and its services briefly to show its value and its need for the kind of financial support we are talking about.

This agency is 62 years old. It depends mostly on its support from individuals, mostly church individuals. Last year we served some 10,000 people in Metropolitan Washington with a staff of 25, but 500 volunteers who contributed some 14,000 volunteer hours.

Some example of our services will show the value, I believe—our emergency aid center giving food and clothing to the poor serves some 6,000 people. Our ex-offender program helps some 280 ex-offenders make the transition from jail to the straight life, getting them jobs, job training, homes, those kinds of things.

We helped some 1,300 Southeast Asian refugees resettle in our area.

These are the kinds of things that we are able to do with volunteer contributions, but our value is more than limited service to a few individuals. Agencies like ours provide a unique service to society because our small size allows us to experiment at minimal cost and new ways of delivering service to the new problems that come.

We started one of the Meals on Wheels programs in Metropolitan Washington in the early 1960's. We developed a unique program to help moderate and low-income people become homeowners in the District of Colunbia and one of our current ex-offender programs to trained nonskilled female ex-offenders is going to be written up by LEAA for national distribution.

So our small size allows us to give a rapid response to new social crises and needs as they come.

In this way, we know that we save society many thousands of dollars, easily explained in the money that we save society by keeping an ex-offender from being in jail and under third party custody that we provide.

Our agency depends for its income, 70 percent of it, from individual contributions. We feel that it is important to have these individual donors not only because of the financial support, but a person who gives money has a feeling of ownership in the work that is going on and their money leads them to donation of their time and talents in this volunteer effort, in the volunteer service of people being involved of all races and all classes.

The mix of the upper, the lower and the middle is very important to the goals of this country, we believe.

The Lutheran Church bodies who participate in the Lutheran Council in the U.S.A. have made a public statement supporting enactment of S. 219 and that is in our testimony and it indicates that we do support this and believe that it does provide an incentive for personal giving, it extends the use of charitable giving to middle- and low-income people. It avoids more governmental involvement in social services.

In conclusion, in 1978 the largest share of charitable contributions went to religious organizations so any kind of legislation which affects the patterns of taxpayers will be significant to the churches.

We feel that this particular bill will assist the taxpayers to continue their historic support financially and personally in alleviating the suffering and the needs of people in this society.

Thank you.

Senator MOYNIHAN. Thank you, Reverend Hartzell.

Mr. Dugan?

STATEMENT OF REV. ROBERT P. DUGAN, JR., DIRECTOR, OFFICE OF PUBLIC AFFAIRS, NATIONAL ASSOCIATION OF EVANGELICALS

Reverend DUGAN. We are grateful, Mr. Chairman, for the opportunity to testify in support of S. 219. I represent the 36,000 churches of the National Association of Evangelicals, with a composite membership of 3.5 million. Beyond that, on this issue I believe that we sense the mind of most of the 45 to 50 million evangelicals in this country.

I could not be in a stronger position to testify this morning because, in a 1979 resolution, the National Association of Evangelicals in its annual convention of Orlando, Fla., supported this legislation.

Evangelicals understand that the standard deduction for taxpayers was not designed to erode charitable giving, but that it nevertheless has had that effect, thus diminishing the ability of voluntary agencies to provide services. We will not attempt to document the decline in philanthropic giving, for the Senators are aware of it, and others presumably will have outlined the facts.

Here is the resolution adopted 11 months ago:

> European visitor Alexis DeTocqueville noted a unique quality in colonial America. He marvelled that, when needs developed in communities, the people voluntarily associated themselves together and organized to meet those needs.
>
> Since our earliest days, voluntary, nonprofit agencies have been part of the vital strength of the United States of America. Such agencies, including religious institutions and churches, have performed necessary functions that otherwise would have fallen to government.

I think that is a philosophy heard here this morning by you on the committee and a very heartening philosophy, I must say, believing the voluntary agencies should be strengthened and that it would be tragic if their services had to be taken over by the Government.

The National Association of Evangelicals endorses the kind of legislation espoused by Representatives Conable and Fisher in H.R. 1785 and Senators Moynihan and Packwood in S. 219.

We are convinced the private sector is indispensable in American society. Consider the alternatives if contributions should continue to decline and the voluntary agencies no longer could supply civic, social and religious, medical, musical, educational, and other services.

Either communities' needs would be unmet or Government would have to increase legislation to provide the missing services. The former is unacceptable and the latter undesirable as far as we are concerned.

Unwittingly, the Federal Government is currently discouraging support of the independent sector. Lower income taxpayers are penalized and employ the standard deduction for they are taxed on the dollars freely given away to benefit others.

On the other hand, it dismays one to realize that some people who do not lift a finger to help others through contributions are receiving a tax break for their noncontributions and here is a point that I think has not been made here. That may be partially a response to some who are looking at statistics.

The net effect of S. 219 by requiring itemization of contributions in order to claim deductions will be to remove this unfair benefit from nondonors. That, in turn, will restore a good amount of tax dollars to the Treasury, a counterbalance, a revenue loss through deductions, provided that the standard deduction is adjusted to exclude contributions completely.

Our testimony is not selfishly oriented. Church giving has been up as Dean Kelly has documented and statisticians know that Evangelical Church has regularly experienced even larger per capita contributions than others. Evangelical Christians are obedient to the Scriptures, will always give tithes and offerings to their churches whether or not there is a charitable deduction allowed them.

On the other hand, if the contributions of such highly motivated people cost them 100 cents per dollar, they will have less disposable dollars to contribute and community agencies will then suffer because they will give top priority to what they consider to be the Lord's work, specifically the work of the churches.

Many citizens are going to react psychologically, given no tax incentive for charitable contributions, interpreting the Government's position as one of indifference to these social needs.

If the Government is unwilling to offer any incentives for voluntary contributions, they may feel that the Government should jolly well take care of the problems.

We thank you, Senators, for introducing this legislation and promise not only to continue to applaud your effort, but to seek to have our people persuade your colleagues of the wisdom of giving deductions to all charitable contributors.

Senator MOYNIHAN. That is the best news yet. You are a notoriously persuasive people.

Philip Bernstein?

STATEMENT OF PHILIP BERNSTEIN, COUNCIL OF JEWISH FEDERATIONS

Mr. BERNSTEIN. My name is Philip Bernstein. I am speaking for the Council of Jewish Federations. The judgments that I will present on behalf of the Council grow out of our experience as a consortium of some 800 human service agencies located in communities across the entire continent, serving over 1,200,000 people in a variety of needs—the aged, families, children, youth, health, vocational guidance and employment, education, refugees, and others.

These organizations are supported by the gifts of over 1 million people this year. Beyond that, what has not been made reference to this morning, but which I believe is an important consideration in this legislation, is the multiplier effects of charitable gifts. For every dollar received in a contribution, we attract $5 in other forms of support: in fees and earnings, in tuition, in memberships, third party payments, endowment funds, Government, and others.

In 1979 the income of these 800 organizations in dollars was 5 percent more than 4 years ago. But in purchasing power it was one-third less than 4 years ago because of inflation. That has imposed very grievous losses and hardships which also have a very direct bearing on this legislation.

We strongly support the legislation for above-the-line itemization of deductions for charitable contributions. In our own experience, 75 percent of our gifts are less than $500 and that is where the zero bracket amount has diminished the incentive for giving and where above-the-line treatment would encourage people to give more—and I stress, give more—not just to attract givers, but to attract larger gifts.

The experience of thousands of our volunteer solicitors—and I stress volunteer solicitors—verifies emphatically the findings of the Gallup poll. Our fundraising experience has found that the charitable deduction is an important incentive for how much people give.

The above-the-line treatment will help us obtain many millions of dollars more for our charities. Reference was made this morning by the Treasury to the predicted—it is the predicted lag—in the time for achieving these benefits. I would assure you that many of our organizations will move very quickly to get the benefits of added income for above-the-line itemization and many will not experience the lag that was predicted.

Beyond the dollars, I would underscore the value of the volunteer time, attracted also by better giving and more givers. There is a direct linkage between people who give money and people who give time, and that is vital.

We do not believe in elitism in charities. We believe that all citizens should be encouraged by our Government to give generously. I would underscore, too, that an entry gift of $15 may be $1,500 years later.

I have one actual example of a person who was attracted to a charity by a $5 gift and years later made a $625,000 gift.

Also the gift of $15 may be just as generous as the $150 gift, and all should be given that encouragement by your legislation.

I thank you.

Senator MOYNIHAN. I certainly am encouraged to learn that the Clotfelter lag may not be the obstacle to our future that we had thought.

Senator Packwood?

Senator PACKWOOD. As I go through these statements, I am struck by something. It just occurred to me that every one of these people have been in the trenches raising money and every one of them knows that the tax incentive works when you can tell someone that they can write it off. The only opposition we get to this are studies by people, usually or almost solely whose background is in extracting money via the tax system, which is not normally regarded as voluntary giving.

They do not believe that you can do it voluntarily. I think that is why they come to the conclusion the inducement will not work. They think people will not give voluntarily because they are not used to convincing people. They do not have to convince people to give voluntarily.

Again, it is an excellent panel. Thank you.

Senator MOYNIHAN. An extraordinary panel.

I think we have heard once again, have we not, of the importance of persons acquiring the practice of giving when their incomes are relatively small, they are young, their family demands are large, but they learn to give.

I know Mr. Bernstein will not mind my saying that one of the great traditions of Judaism is the practice of giving. One learns things like that. It has to be made possible.

Senator PACKWOOD. Let me say one thing more. We should say it in defense of Mr. Lubick, who is really a very decent fellow. He is simply representing the higher officials in this.

Senator MOYNIHAN. I would hate to compare his tax bill with mine in terms of charitable contributions.

Senator PACKWOOD. Pat has alluded to this before. It is not just the Treasury that is honestly convinced that people would not give money voluntarily and therefore no inducement is necessary because it will not work.

We are up against a group that does not like diversity in this Nation. They like a certain uniform homogeneity where we all fit into certain squares, and you people are just the antithesis of what they want for America.

They are not going to come here and say that. They are going to come here and talk about complexity, inducement, it will not work, and a variety of other things.

This is not true of Mr. Lubick. Deep in the hearts of some of them is a desire to centralize this country and they do not understand that the safety of civil liberties and the protection of a democracy is in its diversity, not in its centralization.

Senator MOYNIHAN. The idea of the inefficiency of having three Protestant religions—my God. If we could put together Kelly and Dugan and Hartzell, we would only have one witness and we would be out of here in time for lunch. It is that mind set we must guard against.

We thank you very much. We are very much in your debt for the data.

We will resolve this matter, let us assure you.

[The prepared statements of the preceding panel follow. Oral testimony continues on p. 144.]

STATEMENT OF M. WILLIAM HOWARD, PRESIDENT, NATIONAL COUNCIL OF THE CHURCES OF CHRIST IN THE U.S.A.

SUMMARY

1. The tax code should not discourage voluntary support of public charities, which are very important to the vitality of American life.
2. Charitable contributions are unlike other expenditures that are deductibe from taxable income; they are not really "expenditures" at all but are giving money away for the benefit of others.
3. The "standard" deduction is designed to serve in lieu of the deductions declared by those who itemize, but it does not provide an incentive for expanding charitable giving; in fact, it tends to discourage such giving.
4. This disincentive can be corrected by permitting taxpayers to deduct any charitable deductions in addition to it, as suggested by the Filer Commission.
5. Although churches are less dependent upon tax incentives than other recipients of charitable contributions, the NCC urges that Congress maximize the incentives for all charitable giving as a stimulus to citizen initiative in meeting public needs through private philanthropy.

STATEMENT

My name is M. William Howard. I am President of National Council of the Churches of Christ in the U.S.A., a cooperative agency of thirty-two national religious bodies in the United States having in the aggregate about 40,000,000 members. I do not purport to speak for every member of the constituent churches of the National Council of Churches.

Rather, I am speaking on the basis of formal actions taken by the Governing Board of the National Council of Churches—a deliverative body made up entirely of representatives of the constituent communions in proportion to their size and support of the National Council of Churches and chosen by each of those communions according to its own modes of selection.

The Governing Board is intensely concerned, as I am myself, about the safeguarding of the vital role of philanthropy in sustaining the work of countless voluntary organizations and public charities whose presence is such a unique and important part of American life. Not only do groups render services of many kinds to their members and others, but they provide centers of citizen initiative which are essential to the vitality of democracy. They perpetuate the healthy impulse of the frontier for private citizens to band together to remedy their needs without awaiting the intervention of government.

From this impulse have sprung the many private colleges and universities, hospitals, and homes for orphans and for the aged, which represent priceless resources for the American people. Churches have been among the foremost founders of such institutions, and are therefore rightfully concerned for their health and future. That health and that future are heavily dependent upon their ability to raise adequate financial support by voluntary contributions from the society at large, which in turn is dependent to a great degree upon the encouragement of such giving by the incentives to charity (and the absence of disincentives) in the Tax Code.

The essential aspect of the charitable contribution to be kept in mind, we believe, is that it is different from the other kinds of expenditures recognized by the tax code. It is not even an "expenditure" at all—in the sense of paying for goods or services of benefit to oneself in proportion to the amount spent. To be sure, givers often gain some esteem or approbation as a result of their philanthropies. However, the charitable contribution is essentially giving money away for the benefit of others.

It is not like the other deductions allowed to taxpayers who itemize their deductions. It is not like interest paid on money borrowed or medical expenses or taxes or professional expenses or casualty losses. It is not a "loophole" for avoiding taxation, since the gifts deducted do not remain under the control of the giver, but go to benefit the whole community, often with greater efficiency and effect than the same amount paid in taxes. The prestigious Filer Commission on Private Philanthropy and Public Needs took a similar view:

". . . the charitable deduction is a philosophically sound recognition that what a person gives away simply ought not to be considered income for purposes of imposing an income tax. . . . In the context of personal income taxation, the Commission believes it is appropriate to define income as revenue used for personal consumption or increasing personal wealth and to therefore exclude charitable giving because it is neither. . . . We think it entirely appropriate, in other words, for the person who earns $55,000 and gives away $5,000 to charitable organizations to be taxed in exactly the same way as the person who earns $50,000 and gives away nothing." ("Giving in America: Toward a Stronger Voluntary Sector," the Report of the Commission on Private Philanthropy and Public Needs, John H. Filer, chairperson, p. 128.)

For those not itemizing deductions, however, a "standard" deduction is allowed, which is supposed to include an average allowance for the deductions normally claimed. This standard deduction does not expand or contract with the flow of one's philanthropy. One does not need—nor is able—to substantiate the extent of charitable giving in a particular year. With the increase in the number of taxpayers using the standard deduction, therefore, has come a decrease in the number of taxpayers having an incentive to make—and document—charitable contributions, and a consequent decrease in charitable contributions. During the past ten years, five increases were made in the standard deduction, each one costing the public charities more in lost contributions, so that today they receive $5,000,000,000 less than they otherwise would have received.

This increasing utilization of the standard deduction affects this constituency of churches particularly, since the bulk of church support comes from the socioeconomic level at which the choice between itemization and use of the standard deduction is a recurring dilemma. Most contributions to churches (unlike other charitable contributions) are not strongly affected by the incentive of tax-deductibility—at least as far as members' basic will to support their church is concerned. But the amount and regularity of their contributions can often be strengthened by the need to keep records to substantiate their tax deductions. And that is precisely the factor at stake in the choice of the standard deduction as presently constituted.

A corrective to this situation for the person of average means would be to allow the taxpayer not otherwise itemizing deductions to take the standard deduction but in addition to deduct (from gross income) and charitable contributions.

This treatment was suggested by the Filer Commission and has been approved by many philanthropic organizations. It is embodied in SR 219 sponsored by Senators Moynihan and Packwood, and was endorsed by the Governing Board of the National Council of Churches in November, 1977 (see attached Resolution on Tax Law Revision).

The general thrust of our concern could be best summarized by saying that we would favor any reasonable and legitimate enhancement of the tax incentives encouraging charitable contributions, and we would oppose any impairment of such incentives. While we believe that the philanthropic impulse can stand on its own—particularly the voluntary support of churches, which is less dependent upon tax incentives than other areas of philanthropy—it would, in our view, behoove Congress to stimulate and encourage charitable giving througout the nation for the general good of the commonwealth, since it will foster greater citizen initiative and self-reliance and thus strengthen the very fabric of democracy.

Thank you for the opportunity to present these views. I pray God's blessing upon you as you wrestle with the very complicated and delicate issues of tax policy.

Resolution on Tax Law Revision

NATIONAL COUNCIL OF THE CHURCHES OF CHRIST IN THE U.S.A.

The Governing Board of the National Council of Churches of Christ in the U.S.A. reaffirms its Policy Statement on Tax Exemption of Churches, adopted May 2, 1969, and its Resolution on Tax Reform, adopted September 12, 1969, favoring such tax reform as would distribute the burden of public expenditures more equitably across the nation, so that all are taxed in proportion to their ability to pay, and none would entirely avoid paying income tax by loopholes or other financial contrivances.

The Governing Board further reaffirms that philanthropy, through charitable contributions, is not a loophole and should not be so treated in tax policy. It is a voluntary act, today contributing approximately $30 billion a year toward constructive, nonprofit undertakings in the private sector, such as churches and association of churches, colleges, hositals, and other ventures which serve the public good as well as state-financed, tax-supported institutions.

The Governing Board further continues to reaffirm that tax policy which in any of its provisions reduces the incentives to charitable giving would do the most harm to those who benefit the most—the young, the poor, the deserving—rather than to those discouraged from making such contributions.

Therefore, the Governing Board of the National Council of the Churches of Christ in the U.S.A. urges the Congress of the United States:

1. To continue to allow a charitable deduction for long-term appreciated property in an amount equal to the full fair-market value of the property at the time of the contribution;
2. To allow taxpayers the right to remove all charitable contributions from taxable income before electing to take such standard deduction, if the Congress determines to raise the standard deduction provided any taxpayer who chooses not to itemize deductions; and
3. To approach with extreme caution any other proposed revisions in tax policy which would have an implied effect upon private philanthropy, taking into account the effect upon the work of the more than 25,000 major agencies, churches, foundations, and associations which are now engaged in using gifts from donors for the good of others.

Statement of Mrs. Phyllis Eagan, on Behalf of the National Conference of Catholic Charities and Associated Catholic Charities of New Orleans

SUMMARY

Associated Catholic Charities of New Orleans and the National Conference of Catholic Charities support S. 219 sponsored by Senators Moynihan and Packwood for the following reasons:

Catholic Charities income from government sources has gone up in recent years, but income from voluntary contributions has declined.

While it seems true that overall contributions to religious groups are up, the number of contributors is down.

We have data which indicates that the drop in the number of contributors lies entirely in lower income givers, the individuals and families likely to have taken the standard deduction.

Decline in voluntary contributions to Catholic Charities has meant cut backs in services, or growing waiting lists. It has meant increasing reliance on governmental funds to deliver services, and the lack of voluntary resources to take new initiatives.

Catholic Charities supports S. 219 which would enable those who take the standard deduction to also itemize their charitable contributions, as an appropriate tax incentive to strengthen the voluntary structures of our society in their important task of delivery services.

Catholic Charities opposes the introduction of a "threshold" in the legislation as that would simply negate what S. 219 is trying to accomplish.

STATEMENT

I am Mrs. Phyllis Eagan, a member of the Board of Associated Catholic Charities of New Orleans, Inc. since 1976 and I now serve as President of that Board. I am happy to testify for Associated Catholic Charities of New Orleans and for the National Conference of Catholic Charities in support of S. 219, sponsored by Senators Moynihan and Packwood, which would permit those who make charitable contributions to take a tax deduction for those contributions even if they take the standard deduction and therefore do not itemize their other deductions.

Associated Catholic Charities offers social services to the Greater New Orleans Metropolitan area. Beginning with institutional child care over 250 years ago, Associated Catholic Charities today provides services in over 20 different social services areas. These service areas include children's day care, maternity, adoption, foster care, group homes, institutional adult care, Indochinese resettlement, home and congregate meals, counseling, rehabilitation for the hearing impaired, immigration, and housing for elderly and low income families. From our statistics, we estimate that in 1980, over 36,000 individuals will be assisted by Associated Catholic Charities.

The National Conference of Catholic Charities is perhaps the largest human service network in the United States. The Conference represents some 1,000 agencies and institutions in all parts of the United States, providing, as our New Orleans Agency does, the kinds of services to those who are suffering.

The proportionate support of ACC services from the public and private sectors for the past two years and budgeted for the current year is as follows:

SUPPORT OF ASSOCIATED CATHOLIC CHARITIES

Year	Public		Private		Other [1]	
	Amount	Percent	Amount	Percent	Amount	Percent
1978	$6,414,700	68	$1,780,142	19	$1,234,840	13
1979	7,756,684	80.4	1,093,584	11.3	800,526	8.3
1980	9,286,351	67	1,415,965	10.2	3,158,955	22.8

[1] Other is primarily client fees based on the ability to pay

The trend demonstrates a decline in private sector support in relation to the total agency budget.

The annual survey conducted by the National Conference of Catholic Charities of all of its member agencies and institutions supports the same conclusion. The most recent compiled data is for calendar 1978. From 1975 to 1978 our annual surveys indicate the proportion of government funds in our programs increased by 8 percent while voluntary contributions declined by 6 percent. In each of those years, but one, Catholic Charities ran a deficit even after the application of substantial millions of dollars in investment income.

Our concern, then, is over the serious erosion of our voluntary income and our reliance on federal dollars. On the one hand, there is a clamoring for a balanced federal budget, increased demands for defense spending, and a number of national crises whose only alleviation seems to be federal money. On the other hand, there is a growing "Proposition 13" attitude and a necessary demand for greater accountability in federally funded programs; so it must be concluded that many government monies from many currently funded social programs may be on the decline. The President's proposed astringent budget is a case in point.

As can be seen from the high proportion of government participation in our programs, we then may be facing a serious cutback in services (this is currently true in Title XX) and a need to significantly increase private support. Since it is overwhelmingly evident to us that at present, the service needs of the New Orleans area and the nation are not being met, it is incumbent upon us to make every effort to promote additional private contributions.

However, our recent experience seems to show a trend of declining private giving.

In 1979, the United Way for the Greater New Orleans area was short of its goal by approximately $200,000. This is the first time in about five years that the United Way's drive has fallen short of its goal.

However, during the past few years, the goal has been reached with great difficulty and effort, including the extension of campaign deadlines.

I want to look at this problem nation-wide in the Catholic Church. Studies published by the National Council of Churches and the American Association of Fund Raising Council indicate that giving to religious organizations is up. But at the same time these studies demonstrate that the number of contributors is down. Our national office is concerned with this especially in view of Dr. Martin Feldstein's data, on the loss of charitable organizational income due to increases in the standard deduction, and the Gallup Poll demonstrating that the availability of the charitable deduction is actually an incentive to give even among families with very modest and low incomes.

In the voluntary diocesan fundraising drive in the Archdiocese of New Orleans over the last ten years the total funds contributed are up, but the number of contributors is down. In the voluntary campaign in Senator Moynihan's diocese of Albany, New York, from 1969 through 1979, the amount of money contributed each year was up, but the number of contributors is down. But more significant for your purposes, the total drop in contributors is among the population which contributed below $25 in the campaign—the number of low income contributors lost was over 20,000 during that time. The same is true in the Archdiocese of Denver which also conducts an entirely voluntary campaign. The amount of contributions is up, but the number of contributors is down, and the loss is entirely among those who contribute below $25 in the campaign. The same is true in several parishes our staff checked in the State of Virginia.

In St. Gregory's Parish in San Antonio, Texas, in 1973 there were 1,500 Catholic families. The number had increased to 1,850 families in 1978, and the pastor observed that the average income of the neighborhood dropped slightly. But the number of contributing families dropped from 1,400 to 900, despite the large increase in the number of families in the parish.

It seems to us that this sampling of actual data poses a very telling argument for the passage of this charitable contributions legislation, particularly when read side by side with the Gallup and Feldstein data.

All of us realize that inflation has made it more difficult for most persons to give charity. The continued increase in the amount of standard deduction allowable has taken away the tax incentive for many persons. Our ACC Board and the National Conference of Catholic Charities urge the passage of S. 219 as a means of stimulating private donations to charities.

Let us illustrate what the lack of an increase in voluntary giving has meant to our programs in the New Orleans area. We have cut back our Home Delivered Meals program for the elderly, the handicapped and the blind because we do not have sufficient voluntary contributions to match government funds. Our day care programs for both children and the elderly are at a stand-still, and we have large waiting lists of those needing these services. We have waiting lists several months long for marriage and family counseling and you can imagine what a delay in such counseling might mean to a family in stress. The same is true of our maternity counseling programs. This list, I am sure, can be repeated around the country.

In addition, we are concerned that the loss of lower income givers will mean a drop in that vitally needed volunteer service which so often comes with the interest which generates the contribution. The Catholic Charities Movement does not want to become a movement supported by elite givers and involving only elite volunteers.

Gabriel Rudney of the U.S. Treasury's Office of Tax Analysis has an article in the current issue of Philanthropy Monthly, raising questions about Dr. Feldstein's data and implying that people do not give because of the inducement of the availability of the deduction. Well, in our experience people give for a lot of reasons, out of the generosity of their hearts, but they also are encouraged to give, and give more because of the incentive relative to their taxes. I don't understand his talk about elasticity, but I do understand our findings in New Orleans, Texas, New York, Colorado and other places that low income contributors are declining.

It has been the experience at Associated Catholic Charities of New Orleans that the benefits derived from private contributions are measured in more than purely monetary terms. Let me give you an example. Mrs. B is a 91-year-old woman who, upon returning home after her third operation for cancer, entered the Home Delivered Means program. Although our participant in a situation like this may receive a meal for the rest of her life, Mrs. B shows another side of this program. After six weeks of receiving a daily hot nutritious home delivered meal, Mrs. B had regained strength to the point of requesting the service be deferred to a more needy person. To this day, she continues an indepedent life. However, had it not been for the contributions from private citizens, it would have been impossible to provide the match for the public funds to provide this service.

Above and beyond the private contributions that are used as the match for public funds, some private contributions can be used to provide part-pay services for those who do not qualify for public support.

Mrs. Y was one such participant able to take advantage of a reduced fee scale. This single parent, and may like her around the country, earn too much to qualify for public support programs, but earn too little to afford to purchase services outright. In Mrs. Y's case, she needed the services of an infant day care center in order that she might be able to continue gainful employment, and thus avoid having to depend on welfare. Programs like this allow many to participate more actively in society and thereby maintain their human dignity. Without private contributions, programs like this would be non-existent.

With voluntary giving, comes an increased interest in the delivery of community social services. As people become involved in programs, particularly if it involves their own money, they become more interested in how that money is spent. This community participation takes on a feeling of a partnership in service delivery. As a group looks at its problems and begins to help each other seek solutions, a feeling of pride and community identity emerges.

Not only do cumulative effects of private contributions provide benefits to the program participant and also potential benefits to the taxpayer in the form of reduced dependence on government funding, but these added benefits often spill over to the programs themselves as well. The following examples illustrate this point:

Our Marriage and Family Counseling program has no public contributions. Instead, its $112,000 budget is made up of 73% private contributions and 27% fees. This funding situation also allows services to be provided on a sliding-scale fee basis. Mrs. R, the mother of three children, came to our counseling services program after the death of her husband. Since counseling, she is now confident that she can be of some assistance to others, particularly at a time of loss or separation. Now remarried, Mrs. R has offered her assistance by becoming a foster parent. Thus far, Mrs. R and her family have been able to temporarily house three abused infants. This example demonstrates how the ability to offer a service can increase the possibilities of providing additional services.

The counseling program's community impact is significant. One way to measure this impact is through client satisfaction, and this satisfaction is demonstrated by the fact that over 30% of new referrals come from community sources who made past referrals and heard good reports from them.

As our clients go through the program and begin to improve their personal situations, they are then able to become more involved in the community. Some of the clients return to work or begin to work because of counseling. Approximately 25 percent become associated with volunteer organizations such as Big Brothers, programs for elderly and community groups. Clients, often, not only encourage others to seek help through referrals but also are able to actively contribute to the community through volunteer or paid employment. The effects of programs like these are based on the contributions of others.

The interest stimulated by the private contributor's desire to realize the benefits of the contribution frequently results in the volunteering of his own personal time. Through private contributions comes an increased local involvement in terms of talent, time and energy. This encourages people of all positions and backgrounds to participate in services to each other and benefit from each other's experiences. As a regular contributor to fundraising drives, Ms. X learned of a new program—a shelter for battered women. She decided to volunteer her spare time assisting with child care for those shelter residents with small children. By personally meeting the residents, she became more involved in the program. As a para-professional, she has become a good resource for specific situations. Her background enables her to lend advice on personal financial management. In several incidents, this advice has enabled several residents to develop a firm financial plan to care for their families. The basis of Ms. B's volunteerism was the interest spurred by her initial private contribution.

As private support falls and demands for federal support increase, the future for private non-profit social service delivery becomes questionable. I believe that the reversal of this trend lies in stimulating the private sector support. Those private contributions allow the match for government support and support new initiatives. They allow services to be provided on a reduced fee basis. And, they encourage more personal support not only from program participants, but also from the contributors themselves.

I would like to add that introducing a "threshold" into the important and helpful legislation before us is something we oppose. We believe that now permitting the charitable deduction until contributions reached a certain percentage of income would very simply negate what S. 219 is doing. Our data about lower income contributors seems to substantiate that. So we would oppose a threshold.

The National Conference of Catholic Charities and the Board of Associated Catholic Charities of New Orleans are concerned with the decreasing private sector support and realize the value it has to our programs. We are working on the problem and see this as an opportune time to ask for your assistance. We believe that stimulating private contributions is the key to reversing recent trends, and, therefore, we urge that you seriously consider the merits of S. 219 and support this measure to its becoming law.

I also want to take this time to thank you sincerely for the opportunity to speak to you today on behalf of the New Orleans social service community, including participants, contributors, and professionals, as well as on behalf of the National Conference of Catholic Charities.

STATEMENT OF REV. RAYMOND H. HARTZELL, LUTHERAN SOCIAL SERVICES OF THE NATIONAL CAPITAL AREA

I. INTRODUCTION

Mr. Chairman, I appreciate this opportunity to present testimony on S. 219, the Charitable Contributions bill, sponsored by Senators Daniel P. Moynihan and Bob Packwood. S. 219 permits donors to take a separate tax deduction for their charitable gifts whether or not they itemize their other deductions.

My name is Reverend Raymond H. Hartzell and I serve as Executive Director of Lutheran Social Services of the National Capital Area. Lutheran Social Services

(LSS) is one of approximately 280 Lutheran social service agencies and institutions operating throughout the country.

II. DESCRIPTION OF LUTHERAN SOCIAL SERVICES OF THE NATIONAL CAPITAL AREA

Lutheran Social Services was founded 62 years ago by Lutherans to serve the poor and needy of Metropolitan Washington. Lutherans have provided most of the financial and volunteer support of the agency. Services provided are offered to everyone. Last year, with a staff of 25 and roughly 500 volunteers donating 14,000 volunteer hours, we served 10,000 people.

Several examples will highlight the services which LSS provides. In 1979, we assisted 6,300 inner city poor with food, clothing, job assistance and counseling. We helped 280 ex-offenders by providing employment training, jobs, and support in their post-prison adjustment. Over 1300 Southeast Asian refugees were aided in settling in the Washington Metropolitan area. Our Adoption Department helped over 252 people, placing 48 children (mostly with handicaps) with families throughout the area. The numbers of people served are small in relation to the universe of need; however, we place a high value on the individualized, face-to-face relationships which we have with the people to whom we have ministered.

In addition to the human services which LSS provides, we bring a unique ingredient to the mix of social services in Metropolitan Washington. On the basis of our small size, we are free to test new ways of helping people. Our successes can be duplicated and used by larger and governmental agencies, while our failures become learning experiences at relatively small cost. For example, we were one of the first to develop a Meals on Wheels program in Washington, D.C. Our program for ex-offender aid is being developed as a national Law Enforcement Assistance Administration (LEAA) model. Because of our size, we can mobilize rapidly to meet an immediate crisis like the Southeast Asian refugee influx in 1975. We believe that our size and uniqueness saves society many dollars and enables us to meet individuals' needs.

III. IMPORTANCE OF CHARITABLE CONTRIBUTIONS TO OUR WORK AND WORK OF THE CHURCH

Seventy percent of Lutheran Social Service's activities are supported by voluntary gifts emanating from individuals. Donations are received either from local congregations, judicatories, the national Lutheran church bodies, United Way, or directly from individuals. Although the majority of our financial support flows directly from various structures within the Lutheran church bodies and from the United Way, it must be stressed that support starts with and is dependent upon individual gifts, including to a large extent members of local congregations. It is these voluntary, individual gifts that make it possible for the church through its local congregations, social service agencies, institutions, and international aid agencies, to perform a diverse range of social welfare services both in this country and abroad.

Lutheran Social Services cannot exist on government contracts or foundation grants. Most of these funding sources are short-term and capricious. They are used to supplement our basic program. Our core program must be supported by individual financial donations. Further, we find that people who donate money also donate volunteer time. Their financial contribution gives them a sense of ownership which leads to involvement. Therefore, financial giving not only keeps our professional staff serving people but it increases our volunteer staff. Volunteers are critical in the ability of LSS to serve more people and to provide these services for less money than government agencies.

IV. STATEMENT OF LUTHERAN COUNCIL IN THE U.S.A. ENDORSING CHARITABLE CONTRIBUTIONS BILL

The Lutheran church bodies, through the Lutheran Council in the USA, have made strong public statements supporting enactment of S. 219 and H.R. 1785, its companion measure introduced in the House by Representatives Joseph L. Fisher and Barber A. Conable, Jr. In May of 1979, the Lutheran Council in the USA adopted the report of the Lutheran Consultation on the Nature of the Church and Its Relationship With Government. The consultation report contained a series of public policy recommendations, one of which supported enactment of the Charitable Contributions bill.

The statement noted that allowing a separate charitable deduction for all tax payers whether or not they itemize their other deductions would (a) represent an important incentive to personal giving to voluntary human services, (b) recognize the unique nature of the charitable deduction in contrast with other currently itemized deductions, (c) democratize the charitable deduction's base by extending its use to most middle and low-middle income taxpayers, (d) reverse the current trend toward decreased use of this deduction, and (e) avoid the regulatory and related governmental requirements associated with direct forms of federal assistance. In addition, it should be noted that if current tax policy continues to erode the financial base of the charitable sector and forces voluntary organizations to curtail essential health and welfare services, the responsibility by continuing these services would fall on the government.

The complete text of the consultation statement on the Charitable Contributions bill is appended to my statement.

V. CONCLUSION

In 1978, 46.6 percent of all charitable contributions—the largest single share—went to religious organizations. Thus, any piece of legislation or policy which affects the giving patterns of Americans will be of significance and concern to the religious community. The Lutheran church bodies strongly support the charitable contributions bill for the reasons previously articulated in this statement. The churches, their agencies, and other voluntary associations have proven their value repeatedly in reducing suffering, pioneering in social services, alleviating injustices and invigorating and diversifying our nation's public life. The Charitable Contributions bill will allow the voluntary sector to continue serving the common good and will also preserve and strengthen the charitable donation whereby the individual citizen can directly apply his or her own resources to a recognized public purpose.

It seems clear to me that the legislation before this Subcommittee today is a sound piece of social policy. Thank you.

APPENDIX I.—LUTHERAN CONSULTATION ON THE NATURE OF THE CHURCH AND ITS RELATIONSHIP WITH GOVERNMENT

ENHANCING THE IMPORTANCE OF CHARITABLE CONTRIBUTIONS

Studies have shown that changes in tax forms to simplify filing have had an adverse effect upon charitable giving. To reverse this trend, legislation has been introducted to make the charitable deduction available to all taxpayers, whether they elect the standard deduction or itemize their deductions.

Allowing a separate charitable deduction for all taxpayers whether or not they itemize their other deductions would (a) represent an important incentive to personal giving to voluntary human services, (b) recognize the unique nature of the charitable deduction in contrast with other currently itemized deductions, (c) democratize the charitable deduction's base by extending its use to middle and low-middle income taxpayers, (d) reverse the current trend toward decreased use of this deduction, and (e) avoid the regulatory and related governmental requirements associated with direct forms of federal assistance.

Under another proposal such a charitable deduction for all taxpapers would be allowed only if the charitable contributions exceed a certain amount or percentage of income (the "floor"). Establishing a "floor" would negate the positive effects of a proposal which permits all taxpapers to deduct gifts to charity on their individual income tax returns.

Recommended: That the Lutheran Council continue to support legislation that would allow all taxpayers to take a deduction for their charitable gifts, whether or not they itemize their other deductions;

That the Lutheran Council inform its participating church bodies and the Congress of the justification and need for such a deduction;

That the Lutheran Council continue to oppose any new limitations, such as a "floor", on the use of the charitable deduction.

STATEMENT OF ROBERT P. DUGAN, JR., DIRECTOR, OFFICE OF PUBLIC AFFAIRS, NATIONAL ASSOCIATION OF EVANGELICALS

We are grateful, Mr. Chairman, for the opportunity to testify in support of S. 219. I represent the 36,000 churches of the National Association of Evangelicals, with a composite membership of 3.5 million. Beyond that, on this issue I believe that we sense the mind of most of the 45-50 million evangelicals in the United States.

I could not be in a stronger position to testify this morning because, in a 1979 resolution, the National Association of Evangelicals in its annual convention in Orlando, Florida supported this legislation.

Evangelicals understand that the standard deduction for taxpapers was not designed to erode charitable giving, but that it nevertheless has had that effect, thus diminishing the ability of voluntary agencies to provide services. We will not attempt to document the decline in philanthropic giving, for the Senators are aware of it, and others presumably will have outlined the facts.

Here is the resolution adopted eleven months ago:

European visitor Alexis DeTocqueville noted a unique quality in colonial America. He marvelled that, when needs developed in communities, the people voluntarily associated themselves together and organized to meet those needs.

Since our earliest days, voluntary, non-profit agencies have been part of the vital strength of the United States of America. Such agencies, including religious institutions and churches, have performed necessary functions that otherwise would have fallen to Government.

Charitable contributions to voluntary agencies have diminished considerably in recent years, with increased use of the standard deduction on the federal income tax. It has reliably been estimated that between 1970, when 50 percent of Americans used the standard deduction, and 1977, when 75 percent or more used the standard deduction, philanthropic organizations lost $5 billion in contributions as the result of the loss of financial incentive to the bulk of middle class Americans. The price tag in 1977 alone has been placed at $1.4 billion.

Believing that voluntary agencies should be strengthened and that it would be tragic if their services eventually had to be taken over by the government, the National Association of Evangelicals endorses the kind of legislation espoused by Representatives Conable and Fisher in H.R. 1785 and Senators Moynihan and Packwood in S. 219. Such legislation would allow all taxpayers to deduct charitable contributions "above the line," i.e., whether or not they itemize their other deductions.

We are convinced that the independent sector is indispensible in American society. Consider the alternatives, if contributions should continue to decline and the voluntary agencies no longer could provide civic, social, religious, medical, musical, educational, and other services. Either communities' needs would be unmet, or government would have to increase taxes to provide the missing services. The former is unacceptable, while the latter is undesirable.

Unwittingly, the Federal Government is currently discouraging support of the independent sector. Lower and middle income taxpapers are penalized in employing the stardard deduction, for they are taxed on many of the dollars freely given away to benefit others. On the other hand, it dismays one to realize that some people who do not lift a finger to help others through contributions are receiving a tax-break for their non-contributions. The net effect of S. 219, by requiring itemization of contributions in order to claim deductions, will be to remove this unfair benefit from non-donors. That in turn will restore a good amount of tax dollars to the Treasury, a counter-balance to revenue lost through deductions, provided that the standard deduction is adjusted to exclude contributions completely.

Our testimony is not selfishly oriented. Church giving in 1978 amounted to $18.4 billion dollars, a 9.9 percent over 1977, while the inflation rate was 9 percent, according to the American Association of Fund Raising Council. The two previous years showed a similar real increase in contributions, over the inflation rate. Statisticians know that evangelical churches regularly experience even larger per capita contributions. Evangelical Christians, obedient to the Scriptures, will always give tithes and offerings to their churches, whether or not there is a charitable deduction allowed them.

On the other hand, if the contributions of such highly motivated people cost them 100 cents per dollar, they will have less disposable dollars to contribute. Community agencies will then undoubtedly suffer, because evangelicals will give top priority to "the Lord's work." Suffice it to say, the broad general public, lacking that sense of personal responsibility to God, may be less inclined to support the range of voluntary organizations that play a strategic role in our communities.

Many citizens may react psychologically, interpreting the government's position as one of indifference to these social needs. If the government is unwilling to offer any incentives for voluntary contributions, they may feel that the government should jolly well take care of the problems.

We express gratitude particularly to Senators Moynihan and Packwood for their wisdom in introducing S. 219, along with a significant number of senators who are co-sponsors. By all means, for the good of the nation, we urge you to extend charitable contributions deductions to all taxpapers. We applaud your effort.

Statement of Philip Bernstein on Behalf of Council of Jewish Federations, Inc.

SUMMARY

I. The problem

(A) Reduction of the use of the charitable deduction as an itemized deduction runs counter to the basic government policy to encourage participation and support by all taxpayers in meeting charitable and welfare needs.

(B) A further reduction will remove incentives for contributions which will result in losses to charities, reducing their capacity to serve those in need, and pressures for more government expenditures to provide needed services.

II. Recommendation

The law should be amended to make the charitable deduction an above-the-line deduction allowed in computing adjusted gross income.

III. Reasons for recommendation

(A) Extending the charitable contribution deduction to all taxpayers, whether or not they itemize, would encourage charitable giving at all levels and democratize philanthropic support.

(B) This change would channel tax savings to purposes which are important to society as well as to the economy.

(C) Increased incentives would result in sums contributed to support needed services.

(D) There should be a reward for generosity in the public interest; it would be doubly beneficial in also lessening burdens on the government.

Statement

The Council of Jewish Federations is a consortium of Jewish Federations in 800 communities which provide a wide variety of services to individuals in need, including refugee care, hospitals, aged care, family counselling, child care, youth and community centers, vocational guidance and other services

They are supported by contributions secured from over 1,000,000 individuals. They serve over 1,200,000 individuals annually. The amounts raised currently in Jewish Federations approximate $500 million with at least $200 million raised additionally. The gifts of $700 million by Jewish efforts made possible the provision of services with costs in excess of $3 billion annually. Thus, contributions have a multiplier effect because they generate additional support. More important, they generate additional human services.

The amounts raised in 1979 by Jewish Federations are about 5% higher than they were four years earlier—but the ravages of inflation have eroded the purchasing power of these gifts by over one-third in these four years.

This amounts to negative windfall. While the Treasury receives a positive windfall from the escalation of income into higher tax brackets, charities are faced with the obstinate fact that giving is voluntary and does not escalate automatically. A virtually stationary dollar is a declining dollar in terms of purchasing power.

Since the enactment and steady growth of the Standard Deduction (now termed the Zero Bracket Amount) the proportion of taxpayers who are encouraged to forego contributions because they receive no tax benefit for so doing has increased dramatically: it is currently from 75 to 80 percent of all taxpayers

This pattern places too heavy a reliance, relatively on the very largest gifts. These gifts are urgently needed, but they, too, can be endangered if the Standard Deduction continues to erode the incentive for charitable contributions.

We support enactment of the so-called "above the line" treatment of charitable deductions by non-itemizers so that all citizens would continue to be encouraged by their government to contribute.

It is appropriate, in a democratic society, to encourage all citizens to give regardless of the size of gifts.

A study conducted of the 1978 gifts of 600,000 contributors to Jewish Federations in 85 cities indicated that 75 percent of the gifts were at levels below $500. This is precisely where the combination of income levels and the Standard Deduction sharply diminish incentives to contribute. These gifts could be extended and expanded if the contribution deduction would be made available to these individuals.

A recent Gallup poll indicated that the giver in the income bracket of $15,000 to $20,000 who itemizes his deductions gives three times as much as the individual who takes the Standard Deduction.

The combination of these factors indicates that the "above the line" contribution deduction could result in a doubling or tripling of contributions which could provide additional tens of millions of dollars to provide human needed services.

A number of concerns have been aired with regard to the proposal to extend charitable deductions including:

1. *Revenue loss.*—Some say that if taxes are cut, revenue loss is inevitable. The key question is whether the form of the cut enriches the human qualities of our society. Charity does so uniquely.

2. *Simplification.*—Adding one line to the tax return to provide for the charitable deduction is not crucial in attaining simplification. It has been done for other types of transactions (e.g. alimony). The contention that extension of the Standard Deduction is simplification is simplistic: in the name of easing the auditing load of IRS by an extremely modest extent, potential charitable contributions may be simplified out of existence.

The ultimate beneficiary of the incentives is not the taxpayer, but the human being in need who is added by the services made possible by contributions.

People are better people if they give. This is the time to reinforce governmental encouragement for charitable giving by all levels of givers, including moderate givers, by allowing the charitable deduction for all taxpayers, regardless of whether they itemize their deductions.

We have avoided repetition of the detailed case for this proposal made by other philanthropic agencies but we share their concern most vigorously.

Senator PACKWOOD. Before calling the next panel, Mr. Chairman, I would like to ask to have inserted in the record a letter to me from Jean Babson, a close friend of mine in Portland, who is long experienced in charitable activities, and also a statement from the Child Welfare League.

Senator MOYNIHAN. I would be happy to do that.

[The material referred to follows:]

PORTLAND, OREG., *January 29, 1980.*

DEAR SENATOR PACKWOOD: As a trustee of Reed College, a former Board member of the Child Welfare League of America, a present and past Board President of two Oregon agencies which are members of the Child Welfare League, and as a member of the Oregon Association of Private Child Caring Agencies, I see first hand the vital importance of the tax deductable charitable contributions legislation to the welfare and survival of these organizations—organizations that are vitally important to the welfare of Oregon Communities.

I stand firmly behind the Child Welfare League testimony, and I urge that you introduce and read the League testimony into the hearing record.

I also strongly urge the passage of your bill, S. 219.

With most appreciative thanks,

JEAN BABSON.

Attached: Copy of the Child Welfare League testimony on S. 219. Summary page included.

STATEMENT OF CHILD WELFARE LEAGUE OF AMERICA

SUMMARY

The Child Welfare League of American thanks the Senate Finance Subcommittee on Taxation and Debt Management for holding these hearings to receive the views of many non-profit, charitable national, State, and local organizations which strongly support the Charitable Contributions legislation being considered by the 96th Congress. The League strongly supports the legislation and presents this support on behalf of the League as a national voluntary organization, but also on behalf of the hundreds of State and local voluntary child and family serving agencies affiliated with the League, and through a division of the League, the Office of Regional, Provincial, and State Child Care Associations (ORPSCCA).

We support this legislation based upon four principles:

1. *The American Way—private individuals volunteering time and money to help the needy—is still strong.*—The individual contribution is a way to maintain volunteer support, continue a pluralistic set of child and family serving agencies, fund preventive family services, and finance facility construction and renovation costs.

2. *The voluntary and governmental sectors are interdependent.*—The voluntary social services agencies, and child and family serving agencies in particular, have assumed important responsibilities in providing court mandated foster care and family support services for dependent and neglected children—children who are the responsibility of the public agencies of the State Child Welfare system. The individual contribution is an important source of funds for the voluntary agency, which must augment the government rate for cost of care, so that the agency's actual cost of care and services is met. The individual contribution also helps to supplement those program gaps and shifts experienced in child and family services programs operated by the governmental sector.

3. *Private donations provide children with the kinds of things that make life livable.*—Private contributions, particularly individual gifts from low and middle income people, make possible the kinds of activities that make a child's time in foster care or residential treatment programs more livable. These include allowances, birthday and graduation presents, special trips with school classes, even bar mitzvahs or wedding parties.

4. *The voluntary sector can provide services at a lower cost.*—A state example, the Michigan Federation of Private Child and Family Agencies report, "In Partnership with the Public: The Story of the Non-Profit, Non-Government Child Care and Placement Agencies of Michigan," proves this.

The Child Welfare League believes that there has to be a built-in governmental incentive to build a stronger base of private dollars and individual contributions for child and family serving agencies in these times of fiscal austerity. The Charitable Contributions legislation represents an important incentive, and we urge this Subcommittee to report out S. 219 and urge both the Senate and the House to pass this legislation before the 96th Congress adjourns.

STATEMENT

My name is Joyce Black, and I am the Chairwoman of the Public Policy Committee of the Board of Directors of the Child Welfare League of America, Inc. I am appearing today on behalf of the Child Welfare League, a voluntary organization founded 60 years ago, which is a federation of 402 child and family serving agencies in the United States and Canada. The League is directed by a board of lay and professional leaders from all parts of both countries. The League is supported by dues and fees paid by affiliated child and family service agencies, as well as from restricted foundation grants, Federal government project grants, charitable contributions and United Way allocations. I appear before this Subcommittee, not only on behalf of the League as a national charitable organization, but also on behalf of the hundreds of State and local charitable organizations affiliated with the League—which provide important services to children who are neglected, abused or seriously in need of help. The Child Welfare League is a member of the umbrella group, the National Assembly of National Voluntary Health and Social Welfare Organizations, Inc., which is a member of CONV, the Coalition of National Voluntary Organizations.

The Child Welfare League, by the direction of its Board of Directors, strongly supports the Charitable Deductions legislation being sponsored by Senators Moynihan and Packwood and Congressmen Fisher and Conable, along with nearly 200 other Senators and Representatives. The Office of Regional, Provincial and State Child Care Associations (ORPSCCA), a division of the Child Welfare League, also considers the successful enactment of this legislation a top priority.

As a board member of the New York ORPSCCA affiliate, the New York State Council of Voluntary Child Care Agencies, I want to express my appreciation to the New York State delegation, especially Representative Conable and Senator Moynihan, for supporting this legislation. I have devoted my career to volunteer leadership activities, and am currently serving on boards of both local and national voluntary organizations. I am the president, Day Care Council of New York, Inc.; president, Big Brothers of New York, Inc.; vice president, National Center for Voluntary Action; Vice president, Big Brothers/Big Sisters of America (first woman trustee); member, New York State Banking Board (first woman member); co-chairperson, Mayor's Voluntary Action Council; chairperson, New York State Advisory Committee on Services; member, New York State Temporary Commission of Child Welfare; trustee (first woman), New York University Medical Center; past chairperson, Resources Review Board; board member, Council on Accreditation on Services for Families and Children; board member, National Conference on Social Welfare; vice president, New York Council for the Humanities; vice president, Cancer Care, National Cancer Foundation. I have served on the Board of the Child Welfare League since 1975. Therefore, I come before this Subcommittee to discuss the importance of the legislation both as a representative of a charitable organization, and as a volunteer and "contributor of my time and resources" to the voluntary sector.

THE AMERICAN WAY—PRIVATE INDIVIDUALS VOLUNTEERING TIME AND MONEY TO HELP THE NEEDY

The social welfare system in this country began much earlier than the 1930's, with the advent of the New Deal legislation and the implementation of the Social Security pension and income maintenance programs. It existed before the early 1900's in charitable societies in volunteer efforts of such individuals as Jane Addams, the social worker who served "refugee children," and Charles Crittenton, the mission worker who founded a network of homes across the United States and the world which provided refuge for young women who were dragged or fell into prostitution or bore unwanted children; and in the philanthropic donations of business leaders to such causes. All of these represented, in a much more modest and decentralized way, the role which the Federal government, especially the Department of Health, Education and Welfare, now plays in serving the social welfare needs of the American people.

The individual charitable contribution is a mechanism to maintain that pre-New Deal spirit and pluralism in the delivery of social services to needy children, adults and families today. Some child and family serving agencies, to this day, continue to operate using only private contributions, endowment resources and volunteers. Child and family service agencies which emphasize a self-help model to treatment, such as Big Brothers, Parents Anonymous, or Hotlines for information, referral and general counseling, also incorporate into their staffing model the "helping by doing" role of volunteers who listen, share their experiences and spend time sharing and giving personal support to others in need of caring.

Some children and families, as individuals, deliberately seek help from voluntary agencies, through their church affiliations or through fraternal and community connections. The roles of Federal, State, and local governments, as well as the courts, continue to grow in many areas: in both financial and legal responsibility; cases of child abuse and neglect; family support services. In other areas, such as the care of children outside of their own homes, many children continue to be referred to private counseling services, foster home, and group care agencies by their families or churches for social services, mental health and educational treatment. In many cases, these children and families who need care have modest incomes, but those incomes are too high for them to be eligible of government-supported programs such as Title XX. Therefore, agencies which accept private referrals can serve these families only by supplementing the fees received from the family (often on a sliding scale) with private contributions.

Voluntary child and family service agencies also look to the charitable contribution to support their innovative, exploratory and groundbreaking (both figurative and literal) programs. Governmental funding of programs designed to assist families who are struggling to stay together (either emotionally or financially) is very limited, expecially in times of inflationary increases in current service programs.

Preventive services don't get funded first. For example, over the past three years we come before another Subcommittee of this body, the Public Assistance Subcommittee, and requested additional Federal funds, under Title IV-B of the Social Security Act, for child welfare services to prevent family breakup and to reunify families after children have been placed in foster care. No additional IV-B funds have been appropriated and inflation has reduced the buying power of the static appropriation.

Therefore, it is ultimately the financial responsibility of the voluntary sector to underwrite preventive services, such as parenting effectiveness service, home budgeting and management seminars, social and supportive counseling services, etc. Special contributions are also needed for supplemental services to families with special needs, such as transportation or escort service for handicapped children attending daily therapy sessions.

Private contributions are also an important source for facility construction and renovation costs. "Bricks and mortar" are a costly, yet essential expense for any social services agency and particularly important for child and family services agencies which provide residential care for children. These residential programs, along with the large numbers of voluntary hospitals and mental health institutions in this country should be supported in their efforts to obtain charitable contributions. Facilities must be repaired and maintained, and as programs expand new facilities must be constructed. Construction costs have, as a rule, been prohibited as allowable costs in governmental contracts. However, voluntary agencies can construct and operate building programs much more efficiently than governmental agencies. The citizen board of a voluntary agency has overall policy and fiduciary responsibilities to see that competitive bids for construction contracts, and efficient management of the agency's physical plant are the standard operating procedure. As an example, a children's home in Missouri conducted a needs assessment and found that two areas of the state do not have sufficient services for children in need of out-of-home care. The agency is currently conducting a capital fund drive for two new community homes which will be able to serve 10 children each. The agency and its board are conducting the campaign with a goal of $500,000 needed to construct these new facilities.

THE VOLUNTARY AND GOVERNMENTAL SECTORS ARE INTERDEPENDENT

Government supported human services programs are not only failing to move toward universal coverage in these times but also are being reduced or eliminated under the pressure for balanced budgets and government cutbacks.

Voluntary social services agencies, and child and family serving agencies in particular, have assumed important responsibilities in providing court mandated foster care and family support services for dependent and neglected children—children who are the responsibility of the public agencies of the State Child Welfare system. Receiving local, State and Federal funds under purchase of service contracts with Public Welfare departments is becoming more and more the rule, rather than the exception, for voluntary child and family services agencies. One reason for this has been the inability of federated fund raising drives in communities to keep contribution levels up—meeting the pace of inflation. The continuation of the charitable contribution is important, however, even in the case of those agencies where governmental funds represent more of the agency's budget than United Way or private contributions. These funds serve many purposes, including the seed or match money to draw down Federal dollars to a local area. This approach is utilized under Title XX and other Federal-State matching programs which allow the private dollar to be used for match. Private dollars, and especially the United Way allocations for many child and family services agencies, are used to augment the government rate for cost of care, so that the agency's actual cost of care and services is met. Currently, the United Way of Metro Atlanta, in cooperation with the local child and family services agencies and the Georgia Department of Human Resources, is studying various proposals to ensure adequate governmental rates for purchase of services for those children and families who are the legal responsibility of the State government. If adequate rates are established, then the charitable contributions can be used for other important human services activities. The use of endowment funds on a short-term basis, as well as borrowing money from local banks, to pay the costs of delays in payments from purchase of service contracts with the State or Federal governments, are also examples of the inefficient and complex problems which are too often inherent in receiving government funds. Voluntary agencies, which do not have taxing power, must be able to rely on the flexibility of private funds in order to remain fiscally responsible for operating programs.

In addition to the red tape and cash flow issues of government financed human services programs, the gaps in government programs, as well as the ever-shifting financial and political priorities are important factors. The voluntary sector must continue to provide necessary, dependable services when the seed money from the Federal government ends or when the the service is no longer a political priority of the elected officials. For example, a New York City child care agency has financed, with private contributions, a nursery school for children between two and three years of age who need to begin early special training because of handicapping conditions. The Federal and State program for the Education of Handicapped Children does not begin financial coverage until the age of three. Private funds, therefore, have filled a gap in service to promote better education of handicapped children which will prevent more deteriorating conditions later. In another State, child care has dropped out of the "top ten" priorities for State government funds, in order to make room for a new State program, UTILCARE, to pay 50 percent of the utility costs for eligible elderly. Again, the private contributions will be called upon to subsidize necessary child care arrangements. Clearly in all of these examples, the voluntary sector and the governmental sector depend upon each other for more universal coverage, and for more adequate benefits for those individuals most in need. Enactment of Charitable Contributions legislation would support, at the Federal level, the private and public efforts to finance better human services programs.

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PRIVATE DONATIONS PROVIDE CHILDREN WITH "THE KINDS OF THINGS THAT MAKE LIFE LIVABLE"

With respect to the care and services to children who are the legal responsibility of the State governments, there are many uses of the private contribution which do not represent merely a subsidy of the room, board, or salaries, of child welfare workers. Private contributions, particularly individual gifts from low to middle income people, make possible the kinds of activities which make life in foster care or residential treatment programs more livable. These include allowances, birthday, and graduation presents, special trips with school classes, even bar mitzvahs or wedding parties. For example, gifts of $50-$500 are crucial to an agency with a $14 million budget, so that holidays, educational expenses, and scholarship funds for the children in care can be provided. In an agency caring for delinquent youth, charitable dollars have provided the youth with a vocational counseling program which uses independent learning with audio-visual equipment and computer analysis as tools for exploring different career possibilities, as well as developing job search and interview skills. Charitable contributions have also financed a follow up study to determine the impact of the vocational program in terms of job results for youth no longer being served by the agency. These are contributions which should be encouraged and which enhance the quality of government financed services in a very humane way.

THE VOLUNTARY SECTOR CAN PROVIDE SERVICES AT A LOWER COST—AN EXAMPLE

In May 1979, the Michigan Federation of Private Child and Family Agencies issued a report, "In Partnership with the Public: The Story of the Non-profit, Non-government Child Care and Placement Agencies of Michigan." The Federation, an ORPSCCA affiliate, provided documentation to confirm the efficiency of the States government's "purchase of service" policy. The State decision to purchase child welfare services from voluntary agencies is saving Michigan taxpayers more than $20 million dollars in salary and fringe benefit costs alone. And Michigan's "unwanted, parentless, delinquent and otherwise 'troubled' children" are being served in equal, if not higher, quality service settings than in government operated programs.

One of the purposes of the report was to show that government policymakers who have recognized the tradition of the private, non-profit sector, and utilized the agencies through the purchase of services program, have made efficient and effective decisions. The report encourages citizens to be supportive of the continuation of this policy. This public information and education purpose is important for those voluntary child and family serving agencies who utilize both governmental and private dollars to serve needy children. (A copy of the recommendations and summary of the Michigan Report is attached as Appendix A.)

STATE CHARITABLE CONTRIBUTIONS LEGISLATION ALSO NEEDED

Recognition, at the Federal level, as well as at the State and local level, of the importance of the charitable contribution to maintaining high quality and efficient cost controls can be exemplified in the Charitable Contributions legislation. We should not only concentrate our efforts on Federal legislation, but also recognize the important role that State legislatures can play in changing State tax laws to increase the amount of charitable giving. For example, California voters will be considering a proposal to cut the State income tax in half this coming June. This proposal, known as Jarvis II for its author, would cut back state revenues by some $5 billion in 1981. In the event that the Jarvis II proposal is adopted, the State charitable contributions legislation, AB545, introduced by Assemblyman S. Floyd Mori, becomes an even more important state tax change for child and family services which must use both public and voluntary funds to run needed programs.

SUMMARY—ENACT CHARITABLE CONTRIBUTIONS LEGISLATION IN 1980

If 1980 is the year for tax reform legislation, then it is imperative that charitable contributions legislation be enacted as well. The above-the-line treatment of charitable deductions supports those individuals who are concerned about human services, child and family services, and other charitable health and social welfare activities taking place in their communities and States by recognizing their contributions in the taxation system. Budget cuts in governmental funding for social services are taking place. As this nation proceeds to increase its defense capabilities, and as State revenue surpluses diminish, Federal level encouragement to the American taxpayers to participate in voluntary contributions of money—and time—to "people programs" is an important public policy thrust to implement this session of Congress.

The Child Welfare League, along with the many other groups supporting this legislation, is confident of its success, although we are also realistic about the length of time often required to implement sound but significant changes in tax policy. We believe that this legislation is important tax policy which must be institutionalized at both the Federal and State levels. We believe that there has to be a built-in governmental incentive to build in a stronger base of private dollars for child and family serving agencies—especially in these times of fiscal austerity. The Charitable Contributions legislation represents such an important incentive. We believe that the voluntary sector is vital to a comprehensive, high quality system of social services to children and their families. Therefore, the voluntary sector should be supported by the Federal and State tax systems in the mutually dependent roles of the government and voluntary sectors in caring for those Americans most in need of financial and moral support.

Thank you for this opportunity to submit testimony.

In Partnership With the Public: The Story of the Nonprofit, Non-Government Child Care and Placement Agencies of Michigan

RECOMMENDATIONS

Total cost comparisons must be developed of the private and public service agencies

Although the Federation of Private Child and Family Agencies was able to develop an appropriate methodology for comparing salary and fringe benefit costs between the non-governmental agencies and the state operated agencies, the comparison of total program costs is impossible to compute. The Department of Social Services, at the present time, claims an inability to identify "administrative costs," making a total comparison impossible.

In all fairness, such figures would apply to both private sector and to the government operated programs. Certainly the case can be made that the department incurs significant administrative costs in implementing purchased-service child welfare programs.

The department currently possesses a form (DSS-573) that is submitted by private agencies when used to determine program costs in the non-governmental sector. With minor alterations, it would seem that the department could equally apply such a practice to its state operated agencies and institutions and, as a consequence, both public and non-governmental sectors would benefit from comparisons which could then be made.

The Federation salary and fringe benefit comparison study must be replicated

No matter how accurate the study of a comparison of salary and fringe benefits between governmental employees and employees in child welfare system may be (and we believe that this study is very accurate), both sectors, and the general public, would benefit by a replication of this study by the Department of Social Services and by a third party.

We recommend therefore, that the Department of Social Services initiate an independent assessment along the same lines as this report. Further, we recommend that the Department of Social Services, the Department of Civil Service, or the legislature, contract with an independent auditor or personnel consultant for a comprehensive salary and fringe benefit comparison between the private non-profit sector employees in the child welfare system and the employees who work within the ranks of the state civil service. A third party analysis would provide an impartial and credible comparison of current salary and fringe benefit levels.

The public sector and the private sector must continue to work together to insure that the children who become our clients get the best service possible

Without critical and impartial program evaluations conducted by an impartial source, little hard data exists to establish that the purchase of services for institutional care and placement are significantly superior to those provided by the state. One might conclude, however, from the built-in controls discussed in the previous section that the state has over the quality of services within the non-governmental sector, that the level of service within the private sector is, at least, equal to or superior to that provided by the state.

Whereas the state may be statisfied that institutional care and placement services it purchases from the private sector are of sufficient quality to merit continuation of the purchase of service policy, no qualitative statement can be made about the state operated programs.

The plain fact is that no matter how dedicated the state employees might be, no independent agency determines whether or not children should be referred to the state agencies. An independent authority should be established that includes public and private members. The authority should review state placement practices and make appropriate recommendations on placement standards.

Further, a state policy should be implemented that requires private sector participation in studies that could impact upon the broad range of child welfare services.

Finally, uniform standards must be developed by the public and private sector and applied to both in order to guarantee the protection to all children who are in need of placement or residential services.

An independent protection and advocacy authority must be established for child residential and placement services

Protection is offered to children in state and local public facilities in an uncoordinated pattern. One need not look far beyond the Plymouth State Home and Training Center to prepare an argument for the appointment of independent, impartial, permanent protection and advocacy system which can oversee the condition of our private, state and local institutions for children. Such review should not be the sole domain of random newspaper investigators and citizens groups—even though their role in protecting clients of state services has been valuable and warranted. For the public mental health system, only recently has a protection and advocacy system been developed and funded through a contract with the Michigan Association for Retarded Citizens.

This protection and advocacy system is not yet fully developed and it relies heavily on volunteers for direct contact with developmentally disabled persons. We do not have a system in place which covers all children at risk who are in protective care of a private, state or local public agency.

It would seem to be in the best interest of everyone involved if the establishment of a protection and advocacy system in all sectors of child welfare services be instituted without further delay.

An independent examination of the administrative operation of the state departments engaged in the delivery of direct and purchased services to children must be conducted

State employees who ae charged with the delivery of services to children have become enmeshed in paperwork which impedes their service abilities. Many of these individuals have quit state service to become employees of private sector agencies, at great financial expense, in order to escape this maze of redtape that accompanies state service. We believe that an impartial "time-study" expert could find significant ways to reduce the amount of red-tape and paperwork that is keeping otherwise dedicated state employees from helping the children they strive to serve. It is to the state employees of Michigan that this recommendation is dedicated.

Regular review and analysis of cost data reports

Sufficient professional staff should be provided at the state level to analyze reports submitted by the public and private sector on operational costs. These costs should be compared with audit reports. This process could result in recommendations to the state Rate Setting Advisory Committee for improvements of the cost system.

Also, the Federation suggests the implementation of a single state billing system for all children and family services, whether these children are funded by the Child Care Fund, the Board and Care Fund, or AFDC Accounts. A new and improved system would result in billings to the state by the provider agency, an approval of those billings, and speedy remittance to the private agency. Counties responsible for a portion of the costs would be charged back by the state for their share for these costs.

A thorough analysis must be conducted on the growing costs to non-governmental agencies of governmental regulation

One of the most significant factors increasing costs of purchased services is the increasing cost of overlapping government regulation. Although many of these requirements are designed to protect children and must be preserved, all require extensive agency use of personnel who otherwise could be working with children or attempting to place these children in foster homes or for adoption. The ability of the government to protect children and families is not aided when state employees are enmeshed in unnecessary paperwork created by overlapping and unnecessary regulations.

SUMMARY

The non-governmental residential child care and foster home and adoption placement system is a major provider of important services to children and families in Michigan. Although increasing pressure from a variety of sources exists for the non-governmental sector to increase its breadth and depth of services to children and families, the non-governmental system provides a remarkable example of effective cost-containment.

The are several natural or "inherent" controls that serve to contain costs of these services purchased by the state. The boards of non-governmental children's institutions and adoption and foster placement agencies are largely local business persons. These individuals bring to the institutions and agencies a "fiscal conservative" bias that is reflected in keeping costs to the public sector at a minimum for these services.

Because the institutions and agencies are viewed as "local community programs" in nature, individuals, business and local charities contribute heavily to the program. Donated services and goods also assista the institutions and agencies to operate at a low cost. Salaries and wages are geared to local standards.

External cost and quality controls also exist to contain costs in the non-governmental sector. The private institution and agency cannot adjust its budget levels by raising taxes. It must remain attuned to financial constraints. A series of audits and financial reports are required by local agencies, foundations, the State Department of Social Services and other state agencies, the local Community Chest or United Fund, and a variety of others.

The private sector is reimbursed by the state at a factor determined by the previous year's funding levels. Unfortunately, by the time the state gets around to reimbursing the non-governmental institutions, nearly two years has often elapsed since the period upon which current reimbursement levels were established.

Finally, but perhaps most important, the state controls the costs of purchased services by a free-market control that involves that state (and county's) ability to control referrals to institutions. An agency that is "too expensive" will not receive referrals from the state. By the same token, this technique of referral control also maintains a high quality of care standard within the non-governmental sector—a control that is absent in state or county court-controlled institutions.

Quality control of these institutions in the non-governmental sector is also enforced through licensing and periodic review standards. Given conditions exposed by the Detroit Free Press and others at the Plymouth State Home and Training Center, it is evident that no such stringent controls exist when the state chooses to provide child welfare services directly rather than purchasing them from a non-profit provider.

The Federation conducted a major salary and fringe benefit comparison study in which it was found that the purchase-of-service philosophy is saving the state over $20 million per year in salaries and fringe benefits alone. Said another way, if the non-governmental sector was paying the same salaries and fringe benefits to its employees as the state pays employees in comparable jobs in state institutions and agencies, over 50% salary and fringe benefit adjustment would be required immediately. This funding suggests that non-profit agencies and institutions may have to rethink some of their exisiting salary and fringe benefit policies in order to keep employee morale from suffering. The state, which is demanding increasingly complicated services from the non-governmental sector, may also have to re-evaluate current reimbursement practices to avoid being accused of exploiting the non-government non-profit sector of the child welfare system.

Further, it is estimated that if the state were to attempt to build facilities to accommodate the child welfare services currently purchased from the non-profit, private sector, a state expenditure exceeding $100 million would be required.

A series of recommendations were offered by the Federation, with the hope that these recommendations will find their way into the public conscience and by translated into state policy.

Among these recommendations are the following:

The state should adopt some means of identifying its administrative costs involving the child care institution and placement agency system;

The Federation salary study should be replicated by a third party;

A standard for comparing non-governmental service with governmental service to children in the child care and placement system should be adopted;

An independent outside authority should be appointed to regularly review conditions within the state operated child care facilities;

The antiquated billing system for purchased services should be streamlined, and;

The state should regularly review and compare private and public sector cost data reports.

The private non-profit sector whould be reimbursed by the state at full, current costs of the delivery of their services.

Senator MOYNIHAN. Now we are to have our final panel which is in the area of health and social welfare and the care of the handicapped.

Julia Crickenberger, Virginia, Heart Association; John L. Currin, counselor and secretary, American Red Cross; Dorothea Blue of Goodwill Industries, a well-known institution; and Jeanette Dunkel—I gather, Miss Dunkel, you are going to substitute for Alice Weber of the Association of Junior Leagues. Miss Weber is ill. And William Lehrfeld, counsel for the Shriners' Hospitals for Crippled Children.

We welcome you all and, as is our practice, Mrs. Crickenberger, you are first in order.

STATEMENT OF JULIA CRICKENBERGER, VIRGINIA HEART ASSOCIATION

Ms. CRICKENBERGER. Thank you, Senator Moynihan and Senator Packwood. I am Julia Crickenberger, a volunteer for the American Heart Association and today I am speaking on behalf of the American Heart Association, its Virginia affiliate and our Northern Virginia chapter which serves most of you who live across the Potomac.

It is true that Government has given more to health and welfare in the past years, but without philanthropy our growth in our charitable organizations would not be in the healthy state it is today.

Without philanthropy, there would be no American Heart Association. Without the time and dollars given to our cause by millions of volunteers and donors, few of our programs would be possible in Virginia or elsewhere.

May I say that today the American Heart Association is the Nation's only nonprofit volunteer organization devoting all of its resources to the reduction of premature death and disability from cardiovascular disease.

I would also like to add that cardiovascular disease is still our No. 1 killer. It kills more than all other diseases combined. This is a fact that I am not proud of. We are making inroads in the reduction of heart disease, but there is still a long way to go.

We are second to the U.S. Government in the amount of money spent in research. In 1978, the American Heart Association's total support was $74.5 million. Of this, $23.5 million was spent on biomedical research, research that, I might add, has brought about the pacemaker, the artificial valve, the heart-lung machine, the cardiac units with the sophisticated equipment that you see, the CPR.

These are just a few of the things that our heart research dollars have brought about.

We have, in a little over 3 years, spent over $300 million in research. I am happy to say in Virginia last year we ranked 13th in our Nation in the money that we spent on research. We have 21 research grants in our 3 medical schools in Virginia, in Charlottesville, Norfolk, and in Richmond. I am very proud of that.

From my deep personal involvement in Virginia, I know the enormous scope of the volunteer effort required to raise the money for lifesaving programs and then to see that they are effectively and economically carried out in the community.

This year, more than 1 in every 100 northern Virginians was a volunteer fundraiser for the Heart Association. The recent Gallup Poll found that health organizations such as ours has a broad support throughout the community with gifts ranging from $1 to $100.

Our Northern Virginia Chapter in 1978-79 raised just a little over a half million, and what did we give back to the community because we had the money to do so?

Well, last year more than 14,000 northern Virginians were trained in CPR. This is the program that teaches people how to keep a heart victim alive until more advanced medical help arrives. This is the reason that the Honorable John Sirica is here today, because someone knew CPR when he suffered his heart attack.

Last year, more than 12,000 northern Virginians were tested, counseled, and followed up through free clinics on high blood pressure. This is the silent killer that can lead to heart attacks, strokes, or kidney failure if left undetected or untreated.

We have other programs which I will not go into except to mention the nutrition education, cardiac rehabilitation, health programs in elementary schools, continuing education for physicians and nurses, high school heart research programs and while this list is not all-inclusive, my time has run out, but I will say that we are finding difficulty in raising money to meet the programs that our community needs.

I thank you very much.

Senator MOYNIHAN. We thank you.

May I say first that Senator Byrd had hoped to be here to introduce you, but he has been called to the floor and the way these things are——

Ms. CRICKENBERGER. I saw him in the hall.

Senator MOYNIHAN. You did see him.

There are advantages to being in northern Virginia if you have a heart condition.

Mr. Currin from the American Red Cross.

STATEMENT OF JOHN L. CURRIN, COUNSELOR AND SECRETARY, AMERICAN RED CROSS

Mr. CURRIN. Thank you, Senators Moynihan and Packwood.

My name is John L. Currin. I am legal counsel and corporate secretary of the American Red Cross. I speak for the 1⅓ million Red Cross volunteers in 3,100 Red Cross chapters in virtually every community in the Nation and the many millions of Americans throughout our country who depend on the American Red Cross for many vital services to improve the quality of human life and enhance individual self-reliance and concern for others.

For this constituency, I am here to state that the American Red Cross strongly favors enactment of S. 219 which would allow all taxpayers to deduct charitable gifts from their taxable income whether or not they itemize their other tax deductions.

Delegates at the 1979 Red Cross National Convention last May unanimously adopted a resolution which observed that "the deduction for cash contributions to the Red Cross is of no benefit to many donors who utilize the standard deduction" and urged revision of the tax laws "to provide relief to volunteers by making the deduction for charitable contributions available irrespective of use of the standard deduction."

That resolution was affirmed by the 50-member, volunteer board of governors of the Red Cross at its most recent meeting last October in its resolution which reads as follows:

> The board of governors of the American National Red Cross strongly supports tax law provisions affording all taxpayers deductions or credits for charitable contributions in computing their income taxes. The board notes that the greatest part of the voluntary public support of programs and services provided by the Red Cross is contributed by persons of moderate means. The board observes that recent and proposed tax law changes encouraging a greatly increased percentage of these taxpayers to claim the standard deduction instead of itemizing deductions, denies the tax incentive for making charitable contributions to millions of taxpayers which results in a diminution in philanthropic support. Accordingly, the board of governors urges continuation of the charitable deduction and its extension to all taxpayers irrespective of whether they elect to take a standard deduction or itemize.

This observes that the great preponderance of Red Cross support comes from people of moderate means. These are the very people who must be encouraged to become, and remain, involved in the work and funding of charitable organizations if they are to maintain an understanding of and full incentive to help meet the pressing needs of the American people.

Yet, as the number of taxpayers who itemize their deductions decreases, there is also a declining trend in contributions to charity. The percentage of taxpayers who itemize their deductions has dropped drastically in the past decade, from about 50 percent in 1970 to 25 percent today.

While charitable giving, in general, and to the Red Cross in particular, has risen in terms of absolute numbers of dollars, it has not kept pace with the percentage rise in disposable personal income or with inflation.

For example, in 1976, disposable personal income increased by 9.4 percent over the prior year while giving to the Red Cross increased by only 6.5 percent. In 1977, disposable personal income increased by 10.2 percent while contributions to the Red Cross increased only 4.3 percent. The greatly increased difficulty of meeting higher demands for Red Cross services with proportionately fewer real purchasing power dollars is obvious.

In 1979, the Coalition of National Voluntary Organizations commissioned the Gallup organization to study the amount of 1978 charitable donations given both by people who itemized their deductions and those who took the standard deduction on their 1978 Federal income taxes. The most significant finding is that on the average, those who itemize their personal deductions give more than three times as much as those who take the standard deduction. Even in the family income category of $15,000 to $20,000 the 3-to-1 ratio is evident.

Therefore, while altruism is a strong motivating force affecting charitable giving, there can be no doubt that tax incentives play an important role in determining not only whether a person gives, but how much he gives.

Voluntary organizations are having a very difficult time keeping up with inflation and maintaining their services. Unless charitable giving is encouraged by allowing all taxpayers to deduct charitable gifts whether or not they itemize their deductions, private sector funds will most certainly be insufficient to meet the increased needs of voluntary organizations and those whom they serve.

In this respect, we should remember Harvard Prof. Martin Feldstein's well known finding that each tax dollar lost through charitable deductions produces $1.30 in charitable contributions. And the multiplier effect is even greater than that in the case of volunteer organizations like the Red Cross whose human services are carried out mainly by people who receive no compensation. For example, there are 77 Red Cross volunteers for every paid employee, stretching even further each contributed dollar.

Accordingly, the American Red Cross urges the subcommittee to promptly approve S. 219 and to strongly support its enactment by the Congress.

Thank you for the opportunity to present this statement to the subcommittee.

Senator MOYNIHAN. Thank you. Extraordinary. Seventeen volunteers for every paid employee. Extraordinary.

Dorothea Blue.

STATEMENT OF DOROTHEA BLUE, PRESIDENT, GOODWILL INDUSTRIES VOLUNTEER SERVICES

Ms. BLUE. Mr. Chairman, my name is Dorothea Blue from Tulsa, Okla., and I am here today to speak on behalf of Goodwill Industries of America and the thousands of volunteers who have donated their time, services, and energies in our continuing effort to improve the quality of life of our handicapped clients.

The primary function of Goodwill Industries is to provide handicapped and disadvantaged persons with sheltered employment when they are unable to compete in the competitive labor market. These jobs are provided primarily through the repair and renovation of clothing and household articles donated by the general public. This work provides productive employment to handicapped workers—employment which develops such marketable skills as furniture repair and refinishing, cabinet making, sewing and garment repair, drycleaning and laundering, appliance repair, merchandising, clock and watch repair, carpentry, upholstering, and radio and television repair.

Jobs are also provided through contract work with industry and the Federal Government. Last year Goodwill Industries provided more than 60,000 handicapped and disadvantaged persons rehabilitation services and employment. More than half of these persons had mental disabilities such as mental retardation or behavioral or psychoneurotic disorders. Other disabilities include orthopedic disorders, blindness, deafness, epilepsy, and cerebral palsy. Almost

10,000 of these persons were placed in competitive jobs where they could be self-sustaining members of society.

This year I am the national president of Goodwill Industries Volunteer Services. This is the part of Goodwill Industries that is completely made up of volunteers. All Goodwills have volunteers, whether they are on the board of directors as members of their community and voluntary, or are they housewives or elderly.

We have volunteers in all Goodwills. We have 168 Goodwill Industries in the United States and all of them have volunteers.

Charitable giving is vital to Goodwill Industries. Our programs would quickly fold without the constant support of the communities that we seek to serve. Admittedly, not all giving is predicated on a future tax deduction.

I am sure that many people who donate items to Goodwill do so without benefit or in regard to themselves, but we live in a time where both inflation and taxes are taking an increasing toll of all paychecks.

Goodwill Industries definitely depends on the vast majority of middle-income persons to donate their usable clothing and household articles, to provide work and income for our handicapped workers. This is precisely the group that would benefit from the passage of this bill.

It is imperative that this legislation be passed to inspire continuity and strength of the private, nonprofit sector. I know, in Oklahoma, along with only four Goodwill Industries, the value of charitable contributions to Goodwill was over $1.3 million. In Tulsa, Okla., almost 75 percent of the revenue in 1978 resulted from donations and I am sure that you are aware, Mr. Chairman, that you have a Goodwill in New York and Buffalo and Mr. Packwood, in Portland, Medford, and Eugene.

I appreciate your time for having me here.

Senator MOYNIHAN. You could not be more cordial, Mrs. Blue.

Those of you on the panel would not know this, but there is a vote on, and we only have about 8 minutes left. I am sorry, but I wonder if I could ask Mrs. Dunkel and Mr. Lehrfeld to keep your statement to 4 minutes. We want to hear you. Your full statement will be part of the record, but we have to go over and vote in a few minutes.

If you see us flying away, you will know what happened.

STATEMENT OF JEANETTE DUNKEL, THE ASSOCIATION OF JUNIOR LEAGUES, INC.

Ms. DUNKEL. I am Jeanette Dunkel. I am here as a last-minute substitute for Alice Weber, the president of the Association of Junior Leagues. I, myself, am a member of the National Public Issues Committee of the association. I am also a volunteer, a community volunteer and board member, and a Junior League member in San Francisco, Calif.

The association is a nonprofit organization of 229 member leagues throughout the United States, with about 125,000 members. Our purpose is to promote voluntarism and to develop the potential of our members for community voluntary action.

Every Junior League member must make a commitment to a volunteer position in her community. During the past year, Junior

Leagues have sponsored over 1,500 projects in their communities and have returned some $8 million to the community, netted from benefits such as auctions, art shows, cookbooks and thrift shops.

The thrift shops alone raise about $3 million in the United States each year.

I would like to just touch briefly on some of the types of Junior League projects to which this money goes. In foster care, for instance, many junior leagues are working with the children in placement projects sponsored by the National Council of Juvenile and Family Court Judges to put into place a regular monitoring system for children who are removed from their homes. We are involved in this in Oklahoma City; Wilmington, Del.; Brooklyn, N.Y.; and Providence, R.I.

Often we find that we are able to start projects where there has been nothing similar in the community. In Odessa, Tex., for example, the Junior League took the initiative in helping to establish an emergency youth shelter. The league contributed more than $50,000 to this project. In addition, remember that every Junior League project also has a volunteer component, so you always have volunteers contributing their time alongside the money that they give.

We also work in collaboration and conjunction with other groups. The Junior League of Milwaukee, Wis., for instance, is one of several that is aiding victims of domestic violence. It initiated and serves as prime sponsor of Advocates for Battered Women. More than 60 volunteers have worked in this program and the league has pledged more than $83,000 in financial aid to the project. The Junior League of New York is one of two voluntary agencies that conduct a program inside the New York Correctional Facility for Women; again this program includes both volunteers and money.

We are very strongly in support of your legislation. We thank you very much for sponsoring it. We will continue to support it, because we really feel that our projects which are supported through charitable contributions can only grow and go out into the community if people are allowed to take above-the-line charitable deductions for things like donations to our thrift shops and purchases of our cookbooks.

Senator MOYNIHAN. We keep hearing this connection between a dollar contribution and a hundred hours of volunteer time. There is a linkage that we did not have until these hearings.

Mr. Lehrfeld, thank you so much.

STATEMENT OF WILLIAM J. LEHRFELD, COUNSEL FOR THE SHRINERS' HOSPITALS FOR CRIPPLED CHILDREN

Mr. LEHRFELD. Senator, my name is William Lehrfeld. I serve as tax counsel for the Shriners' Hospital for Crippled Children of Tampa, Fla. Our hospitals are the last free hospital system in the United States other than the Government.

We provide orthopedic and burns care with over 1,000 beds. We rely on contributions. However, we are cautious about this bill. As you may be aware, more than 130 Members of this Congress are Shriners and we are acutely aware of the realities of the congressional budgetary process. Senators Curtis and Hansen were

Shriners and I spent many hours with them explaining to me what the realities of tax legislation are.

With that background, our observations are basically that if the Congress is willing to spend $2.4 billion, or willing to lose $2.4 billion of revenue, we believe that the incentives should be spread around and not simply given to the alteration of the charitable deduction.

For example, we believe that the corporate percentage limitation should be raised from 5 to 20 percent to give corporations greater latitude in making charitable gifts. The horrendously complex rules governing deferred giving dealing with charitable remainder trusts and charitable lead trusts should be repealed outright for they serve no socially useful purpose.

We believe that the appreciated property contribution percentage limitation should be raised from 30 to 50 percent. There is just a host of technical corrections that could be made in the Internal Revenue Code that would spur deferred giving and we believe that if these matters were given the attention of the Congress, the $2.4 billion would provide a wider range of incentives for a whole variety of taxpayers, not simply individuals, but corporations, trusts, estates and others who are concerned.

I think the last thing we would say is we believe you should repeal the 2-percent tax on private foundations simply because that $50 million means that the charity gets $50 million less since private foundations are required to spend that money, send it to Washington, rather than distribute it within their communities.

Senator MOYNIHAN. Well, you are not going to get away that easily, Mr. Lehrfeld. You are going to have to send us a memorandums on these other measures and we would appreciate it.

Senator PACKWOOD. I agree. It is the first time I have heard these other alternatives and I would like the same information you are going to send to Pat on it.

Senator MOYNIHAN. Get it in there and we will do them all.

Mr. LEHRFELD. We will give you more details than the written statement has.

[The following was subsequently supplied for the record:]

WASHINGTON, D.C., *March 24, 1980.*

Hon. DANIEL P. MOYNIHAN,
U.S. Senate,
Russell Office Building, Washington, D.C.

DEAR SENATOR MOYNIHAN: On January 30, 1980, on behalf of Shriners Hospitals for Crippled Children, I testified before the Subcommittee on Taxation of the Finance Committee regarding S. 219. At the close of the hearing, you and Senator Packwood asked for additional suggestions on new incentives for charitable giving. As you recall, Shriners Hospitals for Crippled Chirdren did not oppose S. 219 as written. It believed that if Congress was prepared to absorb an estimated $2.4 billion revenue loss, other incentives for charitable giving should share in that tax expenditure so that it was not all allocated to the incentives contained in S. 219. Because of your personal request, this letter is submitted to you for your consideration and review.

A. OUR HOSPITAL SYSTEM

Shriners Hospitals for Crippled Children is a charitable insitution dedicated to the health of children. It owns and operates 22 hospitals in the United States and Mexico to treat children under the age of 16 suffering from orthopedic defects or diseases and from injuries from burns. What is unique about Shriners Hospitals are that with only slightly more than 1,000 beds available in all its hospitals, it has been responsible for many unique contributions to orthopedics. It has, in its fifty years, trained more than 25% of all board certified orthopedic surgeons in the United States. What is even more unique about our hospitals is that they are completely free. No one pays for any treatment provided any patient. It is, we believe, the last completely free hospital system in the United States operating outside the governmental sector. Our hospital system receives no federal grants for or in connection with its medical services, it receives no state or local government money, it receives no money from parents and it takes no money from insurance carriers such as Blue Cross or Blue Shield. The system is supported by our fraternal order and by our endowment fund. The charitable contribution deductions for federal income, estate and gift taxes do, however, provide an indirect subsidy. It is this indirect subsidy which we value because, we believe, it permits us to function more efficiently and more effectively and with greater impact on children's health, than if we were regulated or controlled by any government.

B. SUGGESTED CHANGES AFFECTING PRIVATE FOUNDATION GIVING TO CHARITY

1. Repeal of 2 percent tax on private foundation investment income

Under present law, a private foundation must distribute currently the greater of its adjusted net income of 5 percent of the value of its endowment to charities. However, before the payout to charities is made, the Government takes a 2 percent tax on the income from all private operating and nonoperating (e.g., grantmaking) foundation. This 2 percent tax, seemingly small in its bite, cumulatively removes about $40 million from the charitable sector annually. Because the foundations must distribute all of their income in all events to charity, repeal of this tax would no longer deprive charities of additional funds for their words. See, IRC Sec. 4940.

2. Increase in minimum payout of foundations

Under present law, a private foundation's minimum payout is 5 percent of its endowment. Foundations must pay out all income to the extent the income exceeds the 5 percent rate. If the 5 percent rate is raised to 6 percent or 7 percent, many foundations which are not producing a reasonable rate of return under current economic conditions, would have to increase earnings to avoid depleting corpus. Inasmuch as the total foundation community estimated to have assets in excess of $20 billion, a modest one percent increase in the mandatory payout rate could possibly yield public charities upwards of an additional $200 million per year in grants. See, IRC Sec. 4942(e)(1).

3. Repeal of excess business holdings rules

In 1969, one of the most extraordinary complex limitations on private foundation activity was enacted allegedly to curb abuses in the contribution of family businesses to charity. The excess business holdings rules bar a private foundation from, except in extreme situations, owning more than a 35 percent voting interest in a business enterprise. The statute is so complex and unmanageable that it contines to bewilder and beweary all of those affected by it. Even today, some eleven years after it was originally enacted, the Internal Revenue Service has yet to propose certain regulations under the law, has yet to finalize other regulations under the law, and only in 1977 did it provide foundations with any minimal guidance on the application of the law.

It is clear to us that excess business holdings rules were a hysterical reaction to a problem (continued family control of a business through a foundation) which could have been handled in a simpler, more appropriate and more responsive fashion.

Private philanthropy, in the form of foundations, is the well spring of public philanthropy. Foundations for years had provided much financial support for many projects for traditional charitable institutions. The inability today of families to give away some or all of their holdings in a family enterprise to a private foundation acts as a marked deterrent to creating new foundations or continuing family funding of established foundations. The excess business holdings rules, which laudable in purpose, have been a substantial distincentive for additional monies reaching public charities through the vehicle of private foundations.

Excess business holdings could be repealed because (1) the self-dealing rules are in place and have been found to be a very effective means of preventing insiders from manipulating foundations for their private gain; (2) the minimum payout requirement (paragraph 2 above) assures the foundation community that they may not simply sit on their family holdings, but must begin to divest them and make them more productive, i.e., reach a 6 percent rate of return. Failure to diversify means that the foundation's corpus will be gradually eroded by the minimum payout requirements of Sec. 4942; and (3) if the jeopardy investment rules of Sec. 4944 were strengthened and made more specific, and if the taxable expenditure rules of Sec.

4945 were properly retooled, repeal of Sec. 4943 would provide a large incentive for wealthy families to provide for new foundations and eventually provide for new support for charity. See, IRC Sec. 4943.

4. Revision of section 4945 taxable expenditures rules

Under existing law, unless an organization is a "public charity" as defined in Secs. 509(a)(1), (2) or (3), a private foundation, making a grant for charitable or educational purposes, must exercise "expenditure responsibility" over such grant. While the idea of responsibility is important, the effect of the law has been to stifle the creation of new organizations with new ideas because they cannot get funding from private foundations. The primary reason is that the foundation community is fearful that the failure to follow these rules perfectly makes them liable for a 10 percent tax. The rules are so strict, and so punitive, foundations avoid funding new organizations to avoid being the target of this tax. Indeed, the expenditure responsibility rules are such that it encourages no responsibility for a grant in that a grant to a public charity is not subject to any oversight requirements under the Internal Revenue Code. Thus, by maintaining the strict expenditure responsibility rules against certain types of grantmaking, the Congress is discouraging foundations from accepting a larger responsibility for grants to established public charities. See, IRC Sec. 4945(d)(4) and (h).

Because private foundations are an obvious and large source of support for public philanthropy, rethinking the existing rules governing their administration is an important step to enlightened regulation. With ten years experience in the foundation community on the workings and failures of the 1969 legislation, there's apt to be many more useful suggestions than those propounded here if Congress is ready to listen.

C. REMOVING CURRENT DISINCENTIVES TO CHARITABLE GIVING

We must agree that the basic income tax deduction, gift tax deduction and estate tax deduction for outright gifts to charitable institutions provide a very strong incentive for individuals, corporations, trusts, estates, partnerships, etc., to make contributions to the public charity of their choice. However, we believe that there are a number of unfortunate disincentives to charitable giving which, if removed, could provide a larger base of support for all charities, which would ultimately enhance and strengthen the private sector and, as a result, reduce the burdens of government when the private sector takes responsibility for matters that have or may shortly pass into the hands of government.

1. Increase of corporate percentage limitation

Under present law, a corporation may deduct its charitable contributions, but not in excess of 5 percent of its taxable income. We believe this percentage should be raised to 20 percent. While it is true that many New York Stock Exchange companies do not reach the 5 percent in their charitable giving, it is our strong belief, from personal experience, that there are many, many business corporations (banks and insurance companies especially) which do in fact reach the 5 percent maximum.

Unfortunately, at that point, they do not continue to give to charity because the contribution would be nondeductible. Our organization has a strong feeling that charitable giving, by the corporate sector, could be doubled by increasing the percentage limitation on corporate gifts. If the Congress, in its wisdom, thought that there should be a sliding scale on the limitation, depending upon the corporation's gross or taxable income, we would not find this objectionable, especially if a 20 percent limit was provided for smaller business enterprises. See, IRC Sec. 170(b)(2). Likewise, the 5 percent limit on exempt organization deductions for charitable gifts out of unrelated business income would encourage their giving to the charitable sector. See, IRC Sec. 512(b)(10).

The fact that the corporate percentage limitation is being pushed to its maximum is evidenced by a series of rulings the Internal Revenue Service has issued allowing banks and insurance companies to set aside income producing investment properties in a "Clifford Trust" and not have the income generated in such trusts be attributed to the company. These Clifford Trusts then make distributions to charities of all of their income and the insurance companies and banks have managed to avoid the 5 percent limitation by shifting income outside of their control for at least ten years. See, e.g., Internal Revenue Service private rulings 7928083, 7929064 and 7929096. If these techniques permit corporate taxpayers to artfully avoid the 5 percent limitation on giving, it suggests that the percentage limitation should be increased so that this device need not be used as a means of circumventing existing law.

2. Restrictions on deferred giving

Under present law, deferred giving is a most perilous form of charitable transfer. The annuity and antitrust rules found in Sec. 664 of the Code and the accompanying regulations are a nightmare for charitably inclined individuals, their advisors and for charities themselves. Many experienced practitioners counsel their clients against split interest gifts (split between charity and private beneficiary) because of the hyper-technical construction of the law by Internal Revenue Service regulations. The regulations, unfortunately, make a complex law even more difficult by establishing mandatory governing instrument rules so even where a bona fide attempt has been made to comply with the law, the regulations will cause the loss of the charitable deduction and the income tax exemption. This Congress is already aware of the problems created by the charitable remainder trust rules by reason of its amendment to H.R. 1212 extending the existing charitable reformation rights, for unqualified trusts, to December 31, 1980 under Sec. 2055(e)(3) of the Code. In addition, it is my understanding that several Senators on the Finance Committee have asked the staff to look into some form of permanent relief for unqualified charitable remainders. It seems to me to be an extraordinary commentary on an Internal Revenue Code provision where, on one hand, the Internal Revenue Service enforces a provision strictly when dealing with charitable remainder trusts and, on the other hand, Congress seeks to overturn these administrative efforts by providing executors and others relief from strict conformance through enactment of separate statutory provision. If the need for permanent relief is as acute as some Senators seem to believe, the concern should really be directed at the problem causing the need, Sec. 664 and related provisions; repeal of these provisions, and return to the old rules governing deductions for remainder gifts, would strongly encourage deferred giving. No hypothetical abuse warrants the continuation of such an unjustifiable provision as Sec. 664. See also, IRC Secs. 170(f)(2), 2055(e)(2) and 2522(c)(2).

3. Increase in individual percentage limitations

Under existing law, contributions to public charities are deductible up to 30 percent of an individual's contribution base if the contribution to a public charity is made in appreciated property. While there are always questions of valuation of property, this tier system for determining deductibility of contributions should be eliminated so that there is no distinction between gifts of cash or appreciated property when gifts are made to a public charity.

It is our suggestion that contributions of appreciated property, like contributions of cash, be deductible up to 50 percent of an individual's contribution base with additional adjustments in the carryover rules as noted below. See, IRC Sec. 170(b)(1)(C).

4. Repeal of all percentage limitations on gifts to governmental units

We do not believe there should be any percentage limitation for individuals or corporations, for contributions to governmental units described in Sec. 170(c)(1). Under existing law, if a contribution is given to a governmental unit it is deductible by the donor only to the extent of the percentage limitation contained in the provision governing the particular form of taxpayer. It seems to us that governmental units such as public schools and public hospitals, and governments themselves, could sustain or even enlarge their activities, outside the tax and budgetary process, by being a donee not subject to any income tax percentage limitation on giving. The rationale purporting to justify a percentage limitation on gifts to public charities, viz, the donor should not be able to direct or control the use of funds without some support of government, makes no sense whatsoever when a governmental unit is being supported. Indeed, the same elected public officials who control tax expenditures would control expenditures from charitable giving.

5. Carryover and carrybacks of deductions

Under Sec. 170, a contribution to a public charity in excess of the applicable percentage limitation may be carried over by the donor to the five succeeding taxable years in determining his or her income tax liability. This rule applies to both individuals and corporate donors. We suggest that this be altered and enhanced by (1) extending the carryover provisions to ten years and (2) providing for a contribution carryback of excess contributions which could be elected by a donor in connection with prior years' income tax liabilities. Thus, for example, if a major donation to a public charity is made a donor would be given the opportunity to carryback the contribution to the three prior years for income tax liability purposes and if the donation was not completely absorbed, the taxpayer would have the opportunity to carryforward the unused balance for the next ten years. In connection with a carryback of the contribution, we believe it would be appropriate, however, to limit the benefits to be derived from such carryback to the tax savings alone and not provide any interest on the refund itself. See, IRC Sec. 170(d).

6. Amendment of section 642(c)

Under present law, an estate or trust is not permitted a charitable contribution deduction unless the contribution is made by the trustee or executor pursuant to terms contained in the indenture of trust or in the will. We believe this is an unnecessary requirement and acts as an inhibitor towards trusts or estates making contributions for charitable purposes in the absence of specific authorization. We have been unable to find in our research, what Fedral public policy is enhanced by imposing a governing instrument restriction on the contributions of trusts and estates; we believe that having an enlarged deduction available to estates and trusts without regard to the actual terms of the instrument would open up a completely new source of charitable giving.

7. Treating premature death as a disclaimer

Under existing law, a charitable deduction may be increased if an interest in property falls into a charitable bequest by reason of a disclaimer in that interest by a beneficiary under a will. Similarly, a charitable deduction may be allowed or increased if the time of death of an individual beneficiary under a will terminates a power to invade property ultimately destined for charity. Both the disclaimer and death must occur before the due date for the filing of the estate tax return. It is recommended that where an interest in property falls into a charitable bequest by reason of the death of an individual, rather than by disclaimer, similar deduction treatment be granted to the increased amount passing to charity. By treating death as a disclaimer, the charitable deduction is increased by the value of property which falls into the charitable bequest. This situation occurs when a testamentary charitable remainder trust is created and the income beneficiary dies shortly after the decedent who created the trust. Under the law today, Federal tax is paid, unfortunately, on the property passing to charity because the actuarial tables overrule the actual event in determining the value of the charitable deduction. See, *Ithaca Trust Co.* v. *United States,* 279 U.S. 151 (1929).

8. Requiring the internal revenue service to rule on estate tax liability of living person

Under existing Internal Revenue practices, it will not issue a ruling or determination letter on matters involving the prospective estate tax liability of a living person. Because so many of the charitable contribution questions affecting the extent or value of deductions under Sec. 2055 need Internal Revenue Service advanced assurance, it is recommended that Congress enact a law to override this administrative practice and require rulings to be issued on the possible estate liability of a living person where charitable giving is involved. Such a rule would assure parallel treatment for the estate tax as now exists for the federal income and gift tax private rulings.

9. Repeal of section 170(f)(4), et cetera

There are indeed numerous technical changes which could be made to the Internal Revenue Code to enhance charitable giving including contributions of remainder interests. One unnecessarily complex provision deals with the reduction of the income tax deduction for the value of remainder interest in real property passing to charity by requiring that 6% depreciation be taken into account to reduce the value of the improvements. See, Sec. 170(f)(4). This particular provision acts as a considerable disincentive to the contributions of personal residences and farms which the Congress meant to encourage when it enacted certain provisions dealing with deferred giving in 1969. Additionally, it is totally unrealistic in light of today's rapidly rising real estate values.

10. Repeal of section 170(c)(1)(B)(i)

Under current law, if a donor gives a public charity appreciated tangible personal property (like antiques or art work), the full fair market value of the deduction is allowable only if the object has a "related" use to the charity's exempt function. Property given by a donor for resale by the charity is automatically treated as unrelated to the charity's exempt function. In that case, an individual will lose 40 percent (28/46 for a corporation) of the appreciation (in excess of basis) in the gift. We believe this provision presents no current justification for remaining in the law in that it stifles fundraising when property is solicited for resale. Second, it makes donors to charities wary of these types of gifts unless the donor is completely assured that the Internal Revenue Service will not challenge the relatedness of the property to the charity's purposes. It is an example of another limitation on charitable giving enacted in 1969 that was enacted based upon no real abuses, only hypothetical ones.

D. SUMMARY AND CONCLUSION

As you can see from the above comments, there are both large and small revisions of the Internal Revenue Code which could enhance charitable giving or act as a lesser disincentive for either estate tax, gift tax or income tax deductions for charitable gifts. Certainly, the listing above is not complete and, we believe, some of it may even be controversial, especially matters affecting foundations. However, it all speaks the very simple fact that the tax laws have not been fine tuned to provide the strongest possible incentives to charitable giving. We believe that if you are prepared to introduce legislation revamping many inane or archaic rules governing charitable giving, many other charities and their counsel could give you additional suggestions. We believe that a wholesale revision of the charitable giving rules could prove to be of very substantial benefit to the public sector. We believe that the abuses which Congress though existed in 1969 were far more conjectural than real. In addition, some of the changes made in 1969 simply do not work, and as much, should be summarily discarded.

Very truly yours,

WILLIAM J. LEHRFELD.

Senator MOYNIHAN. Our time has come. We are like little white mice. When the bells ring we get up and run around and do as we are told.

Mrs. Crickenberger, Mr. Currin, Mrs. Blue, Mrs. Dunkel, and you, Mr. Lehrfeld, we thank you all for coming. We thank especially Mrs. Blue and Mrs. Dunkel for coming a very long way.

We hoped we did not have to be so hurried at the end, but that is our job, and that is the bell for me.

We thank you for extraordinarily helpful testimony. We feel more encouraged about this bill than we ever have.

Thank you.

[The prepared statements of the preceding panel follow. Oral testimony continues on p. 169.]

STATEMENT OF MRS. WINSTON M. CRICKENBERGER

SUMMARY

The American Heart Association is the only voluntary health organization devoting all its resources to the reduction of premature death and disability from heart and blood vessel disease.

Thousands of Heart volunteers raised $1.6 million in 1979 in Virginia. In Northern Virginia, 12,000 volunteers raised $503,000 for our Chapter. Clearly, the American Heart Association has a broad base of support at the grass roots level. During 1979, 14,000 Northern Virginians were taught CPR, 12,000 were screened for hypertension, and more than 200,000 educational leaflets were distributed. Our Chapter conducts numerous other programs such as nutrition education, cardiac rehabilitation counselling health education in the schools, and continuing education for physicians and nurses.

Since the first national fund raising campaign in 1949, over $334 million in contributed funds have been channelled into heart research. Our research ranks second only to the U.S. Government. This research has brought significant advances in cardiac care such as the pacemaker, the development of CPR, and the establishment of cardiac care units in hospitals.

No matter how broad-based the Heart Association's support, it lives in a shadow of the twin threats of inflation and decreasing incentive to maintain a high level of contributions. The Gallup Survey shows that in 1978 people who itemize their contributions gave an average of $60. For non-itemizers the average gift dropped to $28.

I hope I have shown you that the Northern Virginia Chapter of the American Heart Association is a vital part of our community. To continue our programs, we need your help. All agencies that rely for survival on American generosity need your support of S. 219.

SUMMARY

Good afternoon, Senator Byrd, members of the Finance Committee, distinguished witnesses, ladies and gentlemen, my name is Mrs. Winston M. Crickenberger. I am speaking today on behalf of the American Heart Association, its Virginia Affiliate, and the Northern Virginia Chapter, which serves most of you who live across the Potomac from here. I am a member of that Chapter's Executive Committee and Board of Directors, and in the past served as its Chairman of the Board. I also work with other Heart Association volunteers from the Maryland and Nation's Capital Affiliates on a Metropolitan Heart Committee that coordinates public information and other services in this Greater Washington area.

At the state level, I have been a Director for nine years of the American Heart Association, Virginia Affiliate, serving as its Secretary from 1974 to 1977. And I have actively served on state-level Executive, Nominating, Assembly Planning, and Fund Raising Advisory Committees.

Government's role in health and welfare has grown much over the years, but philanthropy continues to play a far larger part in advancing American's social and physical health than many realize.

Without philanthropy, there would be no nationwide American Heart Association. Without the dollars and the days of time given to our cause by millions of volunteers and donors, few of our programs would be possible, in Virginia or elsewhere.

The medical pioneers who started the Heart Association recognized this when they opened their ranks to citizen volunteers and asked the public to support their efforts. Americans responded then and have continued to do so. Today we are the nation's only voluntary non-profit agency devoting all its resources to the reduction of premature death and disability from heart and blood vessel diseases. Our research investment ranks second only to the U.S. Government's.

In 1978, our total nationwide support from the public amounted to $74.5 M. In 1979, Heart Associations in the 50 states placed $23.5 M into biomedical research; $13.5 M into public education to help people protect their heart health; almost $11 M into professional education aimed at improving medical care; and $16 M into community service programs.

From my deep personal involvement in Virginia, I know the enormous scope of the volunteer effort required to raise the money for life-saving programs and then to see that they are effectively and economically carried out in the community.

This year, more than one in every 100 Northern Virginians was a volunteer fund raiser for the Heart Association. Thousands of their friends and neighbors contributed. The recent Gallup Survey commissioned by CONVO found that health organizations such as ours have a broad base of support, with most gifts falling between one dollar and one hundered dollars. Our Northern Virginia Chapter income in fiscal 1978-79 was $503,000.

What have we given back to the community because we had the money to do so?

Last year, more than 14,000 Northern Virginians were trained, free of charge, in cardiopulmonary resuscitation. This vastly increases the chance that a trained lifesaver will be near when minutes count to give emergency care should a Northern Virginian suffer cardiac arrest.

Last year, more than 12,000 Northern Virginians were tested, counselled, and followed-up through free clinics on high blood pressure. This is a disease with no set symptoms, that can lead to heart attack, stroke, or kidney failure if undetected.

The Northern Virginia Chapter conducts numerous other programs for the public such as nutrition education, rehabilitation counselling, health education in elementary schools, training high school youth for future community leadership, and continuing medical education for physicians and nurses. While this list is not all-inclusive, it does indicate the scope of our local Heart Association's work.

The growing participation of the medical and lay people of Northern Virginia is evidence of the high value these citizens place upon our work. The question is whether we can continue these programs.

We are finding it more difficult to make ends meet as costs run away. Our supporters are largely middle-income families who are beset by the same inflation headaches. And many of them, having switched to the standard deduction when it was increased in recent years, do not have their former tax incentive to be philathropic.

The Gallup Survey shows that, in 1978, people who itemize their contributions gave an average of sixty dollars. For non-itemizers, the average gift dropped all the way to twenty-eight dollars.

No matter how broad-based the Heart Association's support, it lives in a shadow of the twin threats of inflation and a decreasing incentive to maintain a high level of contributions.

You've heard many philosophical and economic reasons for an "above the line" charitable deduction as proposed by Senators Moynihan and Packwood. In 1977, the Heart Association asked for just such a measure. Its testimony before the House Ways and Means Oversight Committee is attached.

Less formally, I ask you to support the passage of S. 219. Reverse the tax policies that can erode public support of Heart Associations and similar agencies. Recognize that donated dollars do not enrich the donor and should not be treated as personal income.

I hope I have shown you that the Northern Virginia Heart Association is a vital part of our community—mine and yours—as the Heart Association is in communities across America. But our ability to meet community needs continues to suffer, as costs rise faster than income.

Dr. Feldstein has demonstrated how this deterioration is tied to a discouraging tax policy. Even the corporate sector recognizes this. Bank of America President A. W. Clausen noted recently that "the majority of our tax payers derive no tax benefits from giving."

In recent years, the Heart Association has been restructured and strengthened in staff to pursue its life-saving mission in the nineteen eighties. Now we need your help. All agencies that rely for survival on American generosity need your help, through support of S. 219.

Thank you.

Attachment.

STATEMENT OF ROBERT N. MCDOUGALL ON BEHALF OF AMERICAN HEART ASSOCIATION

Mr. Chairman, I am Robert McDougall, Vice President for Finance of Koplar Enterprises where in St. Louis. It is an honor to appear before you today on behalf of the American Heart Association, a nationwide voluntary organization dedicated to the reduction of death and disability due to cardiovascular disease. As a Heart Association volunteer, I have served as Chairman of the Board of the St. Louis Heart Association and am currently a member of the Assocation's national Management and Finance Committee. Two million other Americans join me every year in volunteering their time to help meet the goals of this organization.

Mr. Chairman, the American Heart Association relies almost totally on the tax-deductible gifts of the American people to finance its life-sustaining programs of heart research, education, and community service. I commend this committee for its concerned interest and diligent efforts to provide the American taxpayer with a more simplified tax system. I request that this committee consider the implications and effects that any tax reform measure may have on philanthropic giving, and on the organizations and services dependent on this giving.

For sixty years, American tax policy has recognized the unique and vital role of non-profit organizations in our society, by allowing contributions to these agencies to be deducted from personal income which is subject to taxation. This incentive for giving was originally created to maintain philanthropy at an optimum level, and reflects the belief that income given to charities should not be taxed because it does not enrich the donor. Today the charitable deduction continues to serve as a major incentive for individual philanthropy. According to Gallup surveys conducted in 1972 and 1976, more than eighty percent of Americans felt the deduction for charitable contributions should be increased or remain the same.[1]

Many of the recent tax simplification and reform packages have increased the number of individuals using the standard deduction, which replaces multiple itemized deductions with a single adjustment to gross income. Increases in the standard deduction simplify tax figuring, and can also lighten the tax burden for low and middle income tax payers. As a result of these increases, however, the number of persons itemizing deductions has dropped radically in recent years, from 48% in 1970 to an anticipated 25 percent for 1977.[2] The number of persons utilizing the charitable deduction incentive for giving has dropped correspondingly, and may partly account for the relative sluggishness of overall charitable giving in recent

[1] "Giving USA: 1977 Annual Report" (American Association of Fund Raising Counsel, Inc., 1977), p. 9.

[2] "Giving in America: Toward a Stronger Voluntary Sector," Report of The Filer Commission (Commission on Private Philanthropy and Public Needs, 1975), p. 113.

And "Statement on the Charitable Deduction," National Conference of Catholic Charities Board of Directors (June 24, 1977), p. 2. Reprinted in memo from Coalition of National Voluntary Agencies (CONVO), September 28, 1977.

years.[3] In fact, it is estimated that dollar losses to charities attributable to lowered use of the charitable deduction may have topped 5 billion dollars since 1970.[4]

More critical than the dollar loss is the increasing lack of inducement for low and middle income taxpayers to give. Estimates suggest that 5.5 million additional low and middle income taxpayers will not itemize this year as a result of provisions in Public Law 95-30, The Tax Reduction and Simplification Act of 1977.[5] Recent studies indicate a strong correlation between giving and active participation in charitable endeavors.[6] The dire implications for the voluntary sector are clear. Not only will its financial base shrink with further increases in the standard deduction, but there will also undoubtedly be a significant loss in volunteer effort. A decreased volunteer effort can only lead to a substantial drop in social services for those most in need. More services by government and fewer citizen-provided services will result.

How then can we best maintain inducements for charitable giving, yet still meet a real need for tax simplification and reform? The solution lies in extending the availability of the charitable deduction to all Americans, including those who take advantage of the standard deduction. This proposal was the first and primary recommendation of the Commission on Private Philanthropy and Public Needs, better known as the Filer Commission.[7] Projections suggest that allowing all taxpayers the privilege of a charitable deduction will increase giving by an amount fifteen to thirty percent greater than the corresponding losses to the U.S. Treasury.[8] More important, increased gifts to charities have a multiplier effect: they bring an equal dollar for dollar value in volunteer effort.[9]

Extension of the charitable deduction to all taxpayers, then, would result in increased giving; losses in federal revenue, which would be more than offset by additional contributions for public service; and an increased ability on the part of the voluntary sector to provide services, which in turn would decrease the need for federal, state, or local expenditures. Individual participation and support of non-profit activities would multiply. Increased resources would be democratically allocated by local community volunteer boards. Citizen-supported institutions would be strengthened, thereby reversing the trend to more government and a less pluralistic society.

We therefore request that proposed tax reforms avoid increasing the number of taxpayers using the standard deduction, and that taxpayers using the standard deduction be entitled to a charitable deduction in addition to the standard deduction.

In summary, reducing tax incentives for charitable giving would be detrimental not only to the 25 percent of individuals now itemizing deductions, but, also to lower and middle income Americans in general. The very taxpayers you seek to benefit will suffer because of the decline in services by charitable organizations supported by tax-encouraged charitable gifts.

Statement of John L. Currin, Counselor and Secretary, American Red Cross

Summary

1. The American Red Cross favors enactment of S. 219.
2. Charitable contributions to American Red Cross come primarily from taxpayers of moderate means who should be given greater tax incentive to donate.
3. Percentage of taxpayers who itemize deductions has decreased drastically in past decade while donations to Red Cross have not kept pace with rise in Disposable Personal Income or inflation.
4. Study indicates taxpayers, including those of moderate means, who itemize deduction give to charity three times as much as taxpayers who take standard deduction; hence, availability of charitable deduction is significant donation incentive.

[3] "Giving in America," p. 136.

[4] "Charitable Deductions for Non-Itemizing Taxpayers," Statement of Board of Governors, American National Red Cross (October, 1977), p. 2. (From Professor Martin Feldstein's econometric projections for the Filer Commission.) Reprinted in CONVO memo, November 29, 1977.

[5] "The Imperative Need for a Deduction for Charitable Contributions for Taxpayers Taking the Standard Deduction," United Way of America (May, 1977), p. 2. Reprinted in CONVO memo, July 7, 1977.

[6] "Giving in America," p. 56.

[7] Ibid., p. 135.

[8] Ibid., p. 129.

[9] "Charitable Deductions for Non-Itemizing Taxpayers," American National Red Cross, p. 1.

5. Study conclusion that more is given to charity than lost in tax revenue through charitable deductions is magnified in terms of human service delivery through Red Cross by fact that its 77 volunteers for each employee carry out Red Cross service without pay.

STATEMENT

Mr. Chairman and members of the subcommittee, my name is John L. Currin. I am legal counsel and corporate secretary of the American Red Cross. I speak for the one and a third million Red Cross volunteers in 3,100 Red Cross chapters in virtually every community in the nation and the many millions of Americans throughout our country who depend on the American Red Cross for many vital services to improve the quality of human life and enhance individual self-reliance and concern for others.

For this constituency, I am here to state that the American Red Cross strongly favors enactment of S. 219 which would allow all taxpayers to deduct charitable gifts from their taxable income whether or not they itemize their other tax deductions.

Delegates at the 1979 Red Cross National Convention last May unanimously adopted a resolution which observed that "the deduction for cash contributions to the Red Cross is of no benefit to many donors who utilize the standard deduction" and urged revision of the tax laws "to provide relief to volunteers by making the deduction for charitable contributions available irrespective to use of the standared deduction. . . ."

That resolution was affirmed by the 50-member, volunteer Board of Governors of the Red Cross at its most recent meeting last October in its resolution which reads as follows:

"The Board of Governors of the American National Red Cross strongly supports tax law provisions affording all taxpayers deductions or credits for charitable contributions in computing their income taxes. The Board notes that the greatest part of the voluntary public support of programs and services provided by the Red Cross is contributed by persons of moderate means. The Board observes that recent and proposed tax law changes encouraging a greatly increased percentage of these taxpayers to claim the standard deduction instead of itemizing deductions, denies the tax incentive for making charitable contributions to millions of taxpayers which results in a diminution in philanthropic support. Accordingly, the Board of Governors urges continuation of the charitable deduction and its extension to all taxpayers irrespective of whether they elect to take a standard deduction or itemize."

I particularly call your attention to the part of that resolution noting that the greatest public support for Red Cross services is contributed by persons of moderate means. These are the very people who must be encouraged to become and remain involved in the work and funding of charitable organizations if they are to maintain an understanding of and full incentive to help meet pressing needs of the American people.

And yet as the number of taxpayers who itemize their deductions decreases, there is also a declining trend in contributions to charity. The percentage of taxpayers who itemize their deductions has dropped drastically in the past decade, from about 50 percent in 1970 to about 25 percent today.

While charitable giving, in general, and to the Red Cross in particular, has risen in terms of absolute numbers of dollars, it has not kept pace with the percentage rise in Disposable Personal Income or with inflation.

For example, in 1976, Disposable Personal Income increased by 9.4 percent over the prior year while giving to the Red Cross increased by only 6.5 percent. In 1977, Disposable Personal Income increased by 10.2 percent while contributions to the Red Cross increased only 4.3 percent. The greatly increased difficulty of meeting higher demands for Red Cross services with proportionately fewer real purchasing power dollars is obvious.

In 1979 the Coalition of National Voluntary Organizations commissioned the Gallup Organization to study the amount of 1978 charitable donations given both by people who itemized their deductions and those who took the standard deduction on their 1978 Federal Income Taxes. The most significant finding is that, on the average, those who itemize their personal deductions give more than three times as much as those who take the standard deduction. Even in the family income category of $15,000 to $20,000 the three to one ratio is evident.

Therefore, while altruism is a strong motivating force affecting charitable giving, there can be no doubt that tax incentives play an important role in determining not only whether a person gives but how much he gives.

Voluntary organizations are having a very difficult time keeping up with inflation and maintaining their services. Unless charitable giving is encouraged by allowing all taxpayers to deduct charitable gifts whether or not they itemize their deductions, private sector funds will most certainly be insufficient to meet the increased needs of voluntary organizations and those whom they serve. In this respect, we should remember Harvard Professor Martin Feldstein's well known finding that each tax dollar lost through charitable deductions produces $1.30 in charitable contributions. And the multiplier effect is even greater than that in the case of volunteer organizations like the Red Cross whose human services are carried out mainly by people who receive no compensation. For example, there are 77 Red Cross volunteers for every paid employee, stretching even further each contributed dollar.

Accordingly, the American Red Cross urges the Subcommittee to promptly approve S. 219 and to strongly support its enactment by the Congress.

Thank you for the opportunity to present this statement to the Subcommittee.

Statement of Dorothea Blue, President, Goodwill Industries Volunteer Services

Mr. Chairman, my name is Dorothea Blue from Tulsa, Oklahoma and I am here today to speak on behalf of Goodwill Industries of America and the thousands of volunteers who have donated their time, services and money in our continuing effort to improve the quality of life of persons who are handicapped.

First let me refresh your memories as to who Goodwill Industries is and what we are doing. Goodwill Industries of America is a membership organization made up of 168 Goodwill Industries in the United States and 34 affiliated agencies in 22 foreign nations. All of the domestic Goodwill Industries are charitable 501(c)(3) (Internal Revenue Code) organizations that provide rehabilitation services, training and sheltered employment to handicapped and disadvantaged persons. Since each Goodwill is separately incorporated and governed by a board of local volunteers, the program differs at each location. Among the rehabilitation services that might be offered in a typical Goodwill would be skill training, job readiness and placement into competitive industry.

Other services include occupational and physical therapy, educational, medical, nursing, social and psychological services, personal and social adjustment, work evaluation, and on the job training. Increasingly, Goodwill Industries are providing specialized transportation, housing and recreational services in addition to vocational services.

A primary function of Goodwill Industries is to provide handicapped and disadvantaged persons with sheltered employment when they are unable to compete in the competitive labor market. These jobs are provided primarily through the repair and renovation of clothing and household articles donated by the general public. This work provides productive employment to handicapped workers—employment which develops such marketable skills as furniture repair and refinishing, cabinet making, sewing and garment repair, drycleaning and laundering, appliance repair, merchandising, clock and watch repair, carpentry, upholstering, and radio and television repair. Jobs are also provided through contract work with industry and the federal government. Last year Goodwill Industries provided more than 60,000 handicapped and disadvantaged persons rehabilitation services and employment. More than half of these persons had mental disabilities such as mental retardation or behavioral or psychoneurotic disorders. Other disabilities include orthopedic disorders, blindness, deafness, epilepsy, and cerebral palsy. Almost 10,000 of these persons were placed in competitive jobs where they could be self-sustaining members of society.

Goodwill Industries accomplishes these objectives by taking donations of used clothing, textiles, household articles, furniture, toys, etc., and repairs, cleans, refinishes, reupholsters, or refurbishes these articles and sells them through thrift stores run by Goodwill Industries. Handicapped persons do most of the work in our facilities. These are people who are not generally employable in the competitive labor market because of impaired productivity due to the severity of their handicaps or their need for special services (therapy or counseling) or special equipment. They are paid according to their ability to do the work available.

Goodwill Industries also uses the work of cleaning, repairing and refurbishing as a means to provide work experience, vocational adjustment, evaluation and skill training to persons who may be able to work in a non-sheltered environment. Many, if not most, of the people we work with have never held jobs before or worked on "real" jobs.

More and more of the people we work with have spent much of their lives in mental institutions because of mental retardation, behavioral or emotional problems. Their experience at Goodwill is often their first out of an institutional setting.

They need work experience and vocational adjustment before they can be placed in outside jobs. They need to learn good work habits and develop the ability to work with other people before going to outside jobs.

In training handicapped persons for competitive jobs, we feel that if the training is provided in a real work setting, it enhances the chances for successful placement and continued employment after placement.

I also want to tell you about the volunteer aspect of Goodwill Industries. This year I am president of Goodwill Industries Volunteer Services (GIVS). This is a part of Goodwill Industries that is completely made up of volunteers. All Goodwills have volunteers. Each Goodwill has a board of directors made up of business and community leaders volunteering their time and energy to lead and guide the staffs of the Goodwill. Most Goodwills also have volunteers providing many needed services. They range from Boy Scouts assisting in the collection of donated materials, to housewives providing independent living skills to persons recently released from hospitals, to loaned executives from major corporations to retirees teaching their trade to handicapped trainees. In 1978, 14,500 volunteers provided 1,300,000 hours of service to Goodwill Industries. The value of these services is incalcuable.

Charitable giving is vital to Goodwill Industries. Our programs would quickly fold without the constant support of the communities we seek to serve.

A short description of the finances of Goodwill Industries will graphically display our reliance on charitable contributions. In 1978 the total income for Goodwill Industries in the United States was just over $200 million. Of that total, over $122 million resulted from contributions from the public. Of that $122 million, only about $13 million came from cash type contributions. The bulk ($98 million) resulted from the sale of items donated to Goodwill and refurbished by the handicapped workers at Goodwill.

This unique relationship with the public has enabled Goodwill Industries to continue to grow and serve the needs of the communities they operate within without overreliance on state, local, or federal government aid. In 1978, only 15 percent of all Goodwills budgets were in the form of governmental fees for social services.

Admittedly not all giving is predicated on a future tax deduction. I am sure that many people who donate items to Goodwill do so without any regard to any benefit to themselves. But we live in a time where both inflation and taxes are taking an increasing toll on our paychecks.

Increasingly, Americans are having to save money whenever and however they can. With more and more people using the standard deduction there is little incentive for the average person to make donations to charitable organizations.

Goodwills have a particular problem. Sadly for us, the 1970's became the decade of the flea market and garage sale. Rather than donate used clothing and household articles to Goodwill Industries, many middle income Americans are selling these items in yard sales, tag sales, garage sales and flea markets. All too often, all that Goodwill gets are the leftovers.

Goodwill Industries depends on the vast majority of middle income persons to donate their usable clothes and household articles to provide work and income for the handicapped workers. This is precisely the group that would benefit from passage of the Moynihan-Packwood Bill.

The private nonprofit sector has long been the backbone of rehabilitative services to handicapped persons. Goodwill Industries began before 1910, long before there were government programs for this special population. Even today, 80% of the sheltered workshop services are provided in private nonprofit facilities.

It is imperative that this legislation be passed to insure the continuity and strength of the private nonprofit sector.

I want to thank you for giving me this opportunity to speak on behalf of Goodwill Industries and the handicapped persons we seek to serve.

SUMMARY

1. Goodwill Industries represents 168 local agencies that provide employment and rehabilitation services to over 60,000 mentally and physically handicapped and disadvantaged persons annually and placed over 10,000 of these persons into competitive, non-subsidized jobs last year.

2. Goodwill Industries is uniquely dependent on charitable contributions in that we need donations of used clothing and household articles to provide work and income for handicapped persons.

3. Over 60 percent of Goodwill Industries total income of more than $200 million results from donations from the public.

4. For economic reasons, many Americans sell items at garage sales and flea markets that they might otherwise have donated to Goodwill Industries.

5. Passage of the Moynihan-Packwood Bill would encourage middle income Americans to make charitable donations. This is extremely important to Goodwill since the vast majority of our donations, both in cash and in kind, comes from this segment of our population.

Statement of Alice H. Weber, President, the Association of Junior Leagues, Inc.

SUMMARY

I. The Association of Junior Leagues strongly supports the charitable contributions legislation, S. 219, sponsored by Senator Packwood and Moynihan. Enactment of this legislation is essential to preseving a strong voluntary sector.

II. Association of Junior League: Structure and Function

A. 229 Junior Leagues and 125,000 individual members in the United States, in 46 states.

B. Purpose:

1. Promote voluntarism

2. Develop potential of Junior League members for voluntary participation in community affairs, and

3. Demonstrate the effectiveness of trained volunteers.

III. Activities of Junior Leagues are illustrative of the scope and diversity of the voluntary sector.

A. In 1978-79, Leagues sponsored more than 1500 projects in community and returned to the community more than eight million dollars raised from benefits such as auctions and long-term fundraisers such as thrift shops and the sale of cookbooks.

B. Many of these projects were organized in cooperation with other public or private agencies, often at the request of a local agency or government department.

C. Many League projects demonstrate new ways of handling problems or of pioneering new ways of volunteering.

D. Often, volunteer time and money given by Leagues are essential to the successful lauching of programs.

IV. How Charitable Contributions Legislation Would Affect League Activities

A. Projects are funded by fundraisers which receive widespread community support. Many of those buying tickets to League fundraisers or donating items to thrift shops take the standard deduction. Allowing them to deduct such contributions in addition to taking the standard deduction would greatly bolster League fundraising and result in more aid to communities.

B. Many League members take the standard deduction. Allowing those taking the standard deduction to also deduct their charitable contributions would give League members increased incentive for volunteering in the community.

STATEMENT

I am Alice H. Weber of Toledo, Ohio, President of the Association of Junior Leagues. I am here today to urge you support of the charitable contributions legislation, S. 219. The Association of Junior Leagues strongly endorses this proposed legislation because we believe that its enactment is essential to preserving a strong voluntary sector which can continue to provide vital community services and encourage individual initiative to solve community problems.

The Association of Junior Leagues is a non-profit organization with 229 member leagues and approximately 125,000 individual members in the United States. The Association's three-fold purpose is: To promote voluntarism; to develop the potential of its members for voluntary participation in community affairs; and to demonstrate the effectiveness of trained volunteers.

Our commitment to effective training programs is reflected by the requirement that every Junior League member must participate in a training program before she begins work in her community. The majority of Junior League members continue to take training courses throughout their years of League membership. In addition, every Junior League member must make a commitment to a volunteer position. A substantial number of Junior League members today sit on the Boards of other voluntary organizations throughout the United States because of the leadership training with which their volunteer experience has provided them.

During the past year, Junior Leagues sponsored more than 1500 projects in their communities and returned to the community more than eight million dollars netted from benefits such as auctions and art shows and long-term money-raisers such as thrift shops and cookbooks. Almost three million dollars of these funds raised by thrift shops staffed primarily by League volunteers.

The money raised by these League fundraisers is used to support projects in the community such as services to children and their families, adolescents, the aged and populations experiencing special problems such as drug abusers, alcoholics and battered women, as well as programs concerned with the arts, urban conservation and the protection of the environment. The projects initiated by the Leagues, often in collaboration with other community groups, illustrate the types of innovative programming and individual initiatives stimilated by the voluntary sector.

I would like to highlight a few of these projects to give you an idea of the scope and diversity of League activities. In my home state of Ohio, for instance, the Junior League of Toledo has developed an Action for Newborns program, helped develop a review board for foster-care children in Lucas County and organized a program to help stroke victims. As part of the Action for Newborns program, League volunteers work with parents whose babies are in the intensive-care nurseries at Toledo Hospital and participate in a Mother-Infant Bonding Program at Mercy Hospital to teach high-risk mothers the basics of baby care. The League also developed and distributed a pamphlet, "Having A Baby," which provides the only available listing of the sources of pre-natal and post-natal care in Toledo, and trained ten volunteers from other communities in Northwest Ohio who wish to establish similar programs in the local hospitals. Four League members sit on the Lucas County Juvenile Review Board, appointed last Fall to carry out Ohio's recently enacted foster-care review law. The League also provided funds for sending coordinators of the review board to training seminars. Ten League volunteers work with 40 other volunteers from the community and 20 medical professionals in Project Counter-Stroke, a program that has received almost $6,000 in financial support from the Toledo League.

Elsewhere in Ohio, Junior Leagues have helped establish shelters for runaway youth. In Akron, Ohio, the Junior League contributed $15,000 to a 24-hour shelter which provides emergency care and initial counselling and guidance to teenagers. Twenty-five League volunteers work at the project which receives its major funding from the federal government. Five League volunters work at a shelter, Day Break II in Youngstown, Ohio, whose building was financed by the League.

In Columbus, Ohio, the Junior League has contributed a $15,000 to a court-watching program that involves 130 community volunteers, seven of them Junior League members. Eleven League members are receiving training in recruiting and public relations techniques to assist a community agency in developing an extensive recruiting campaign for volunteers to work on a one-to-one basis with adolescent girls referred to the Juvenile Court. The League has contributed more than $6,000 to this project.

In addition, the Columbus Junior League's restoration of Kelton House, a Victorian mansion in an inner-city neighborhood known as Town-Franklin, has served as a catalyst for revitalization of the area. More than 100 League members have worked on the Kelton House project since the League accepted ownership from the Columbus Foundation in 1976. Four hundred and forty-four thousand dollars raised from corporate sources plus $25,000 of League funds were used in the restoration of the House, which is now open to the public. The House and a large meeting room added by the League are available without charge for meetings of the Franklin-Town Neighborhood Association and other non-profit organizations. The Franklin-Town Neighborhood Association, which the League helped organize, and the Ohio State University Department of Architecture recently completed and published an inventory of the buildings in the area surrounding Kelton House. As a result of the survey, both Kelton House and the Franklin-Town Neighborhood are listed in the National Register of Historic Districts.

In Cincinnati, 38 volunteers over the age of 55 have formed a team to work toward the development of a total community support system for the mentally ill by conducting an assessment of the mental health after-cure system in Hamilton County.

Similar problems are being addressed by Junior Leagues in other sections of the country. Many of the League projects have been stimulated by the Association's five-year child advocacy program, which focuses on five areas: child heath, special education, day care, child welfare (including foster care, adoption, and child abuse and neglect) and juvenile justice.

In the area of foster care, a number of Junior Leagues have taken an active role in the concern for Children in Placement Project (CIP) sponsored by the National

Council of Juvenile and Family Court Judges to provide regular monitoring of children in foster care. In Oklahoma City, CIP is part of the Junior Leagues Parents and Children Together (PACT) program. Seven League volunteers spent more than 750 hours in 1978-79 reviewing some 3,000 files of children and selecting 800-900 of these for further judicial review. Another 11 volunteers participated in the PACT project's foster care/adoption clearing house which was designed to coordinate the efforts of ten private and public agencies in the Oklahoma City area in finding homes for hard-to-place children. Since the project was initiated two years ago. 44 adoptive families and five foster families have been recruited. Sixty-one children have been placed for adoption and four have found foster homes. Seven League volunteers work with the project, and the League provided $1,000 to develop a parent-training program for adoptive parents. Another 16 League volunteers work in a Post-natal Parent Education Project developed in conjunction with Mercy Health Center. The project works with parents of newborn infants when the mothers have been identified as not establishing a bonding relationship with their babies during their stay in the hospital. An effort is also made to involve the father in the training session. To date, 150 couples have participated in the program with referrals coming from hospitals and guidance centers throughout Oklahoma City. The Oklahoma State Department of Health has asked the League to help institute the Postnatal Education Program in all state guidance centers by 1981. Its experiences in the PACT program have led the Junior League of Oklahoma City to help develop the Oklahoma Alliance for Children and seek passage of a state law mandating a citizen's reviewboard for children in foster care.

The Junior League of Wilmington, Delaware, also initiated a Children in Placement Project at the request of the Family Court of Delaware. Fifty Wilmington Junior League volunteers spent more than 2,000 volunteer hours reviewing the files of 650 children in New Castle County, Delaware, since the project was initiated in 1977. The League, with the assistance of computer time donated by a local bank, also developed a statistical profile of the average child in foster care in New Castle County, Delaware, and played an instrumental role in the passage of foster-care review legislation recently enacted in Delaware. The Junior League of Brooklyn participates in a CIP project for the Manhattan Family Court. Volunteers from the Junior League of Providence, Rhode Island, staffed the first successful Children in Placement Project.

Many League projects focus on juvenile justice. In New Jersey, the Junior Leagues of Bergen County, the Oranges and Short Hills, and Elizabeth-Plainfield have joined with a private agency to establish group homes for troubled teenagers in their own communities. In each community, Junior League volunteers serve on the Board, volunteer at the homes and have provided funds to help establish the homes. In Connecticut, the Junior League of Greater Bridgeport has committed a total of $36,000 to help start a shelter for youth in crisis that provides 24-hour intervention, emergency shelter care and referral services for youth in the Greater Bridgeport area. League members also volunteer at the shelter and serve on its board. Elsewhere in Connecticut, the Junior League of Greenwich joined forces with a community agency to provide troubled youth with temporary housing, counseling and other professional services. In Hartford, the Junior League contributed $25,000 toward the purchase and renovation of a building to house a temporary shelter for youth that will provide counseling and referral services 24 hours a day.

In Odessa, Texas, the Junior League took the initiative in organizing a community effort to establish an Emergency Youth Shelter. Members of the Junior League of Odessa worked closely with the local school district, the Texas Department of Human Resources and local juvenile justice officials to establish a facility that would conform with the provisions of the Juvenile Justice and Delinquency Prevention Act of 1974. In addition to organizing a campaign for the new facility, which is scheduled to open in June 1980, the Junior League has contributed more than $50,000, part of this to match federal funds to establish the facility which will be operated by the Texas Department of Human Resources.

Often a Junior League is asked to organize a volunteer program or help initiate a new program by another community agency or branch of government. For instance, the Junior League of Dallas, Texas, worked closely with the Dallas Independent School District and Dallas County Juvenile Department to develop Letot Academy, an alternative program for status offenders. The program provides both an alternative school and 24-hour individualized family crisis counseling, referral services and short-term emergency shelter. League volunteers took a lead role in helping to develop the program and obtaining the federal funds necessary to establish the academy. Thirty-nine League volunteers have served at the academy since the academy began operating 16 months ago. The Junior League of Dallas provided

$100,000 to develop the emergency shelter and $45,000 to pay the salary of a director of volunteers for three years. The project, which has a total budget of five and one-half million dollars, has drawn volunteers from throughout the community, many of them retired older persons who receive training from the Junior League. Since it began, more than 300 youths have attended the alternative school and approximately 1,000 status offenders have received short-term emergency shelter.

In Atlanta, Georgia, the Junior League is developing a Neighborhood Support Center in cooperation with the Department of Family and Children's Services of Fulton County. The center, to be housed in a low-incone housing project, will provide an emergency shelter for families in crisis and, if successful, will be used as a model for similar programs throughout the Atlanta area.

In Kansas City, Missouri, the Florence Crittenton Agency asked the Junior League to organize a volunteer program for its community day school. More than 15 community groups now participate in the volunteer program which, in addition to the community day school (which serves 20 boys and girls) includes a home for 42 emotionally-disturbed girls, a 25-bed hospital and three group homes. In addition to organizing the volunteer program, the League made a $50,000 commitment to the program in 1977-79. Eleven League members serve in the program.

In Baton Rouge, Louisiana, the Junior League joined forces with the Volunteers of America to develop the Emergency Receiving Home, a shelter for neglected and abused children ages two to ten. The Junior League and the Volunteers of America contributed the funds necessary to obtain Title XX funding for the shelter. In addition, 15 League volunteers at the shelter worked on a one-to-one basis with the children. The shelter has serviced 182 children since it opened in June 1977. The Director of the shelter was quoted in the January 1978 issue of The Volunteer, a publication of the National Society of Volunteers of America, as saying, "Our staff gets invaluable assistance from members of the Junior League . . . their supportive services are of a very high professional caliber."

In New Orleans, the Junior League and Children's Hospital developed the Parenting Center, a program designed to meet the needs of expectant parents as well as parents of children 0-3 years of age. Included among the activities of the Center are classes for parents, counseling, a resource library, childcare, information and referral services and training for volunteers who work at the center. The League has pledged $93,000 to the Center and developed a community education and outreach program for the Center. Five Junior League members serve on the Center's Advisory Board and seven volunteers work at the Center each week.

As a result of individual League members' growing awareness of the impact of federal funding policies on local programs, delegates voted at the 1978 Association conference to advocate to see that opportunities and services essential for the optimal physical, intellectual, emotional, mental and social growth of children are provided. As a first step toward meeting the delegates' mandate, the Association Board voted in January 1979 to support legislation in the areas of child health and child welfare. The Association established a legislative network which, to date, has 148 Junior Leagues, 13 State Public Affairs Committees and one Regional Council as members. In child health, AJL supports legislation to expand and strengthen the principles embodied in the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) program, and is actively supporting passage of H.R. 4962, the Child Health Assurance Program (CHAP) recently enacted by the House of Representatives. In child welfare, it supports reform of the foster care system to strengthen family life and provide protection for children and the expansion of subsidized adoption programs, and the Association is working to obtain passage of a version of H.R. 3434 that will benefit children and their families.

Many Junior League projects demonstrate new ways of handling a problem or pioneer new areas for volunteering. The Junior League of Milwaukee, Wisconsin, for instance, is one of several Leagues that is aiding victims of domestic violence. It initiated and serves as prime sponsor of Advocates for Battered Women, a project that provides counseling as well as referrals for shelter, services, etc. to victims of domestic violence and provides an education program to inform the community about the problem of domestic violence. In cooperation with two community groups and the District Attorney's office in Milwaukee, the project has served more than 550 persons since it was initiated two years ago. More than 60 League volunteers have worked in the project and the League has pledged more than $33,000 in financial aid to it.

The Junior League of New York is one of two voluntary agencies that conduct a program inside the New York Correctional Facility for Women. The Learning Project for Women Offenders, initiated in April 1978 with a $15,000 grant from the Junior League of New York, is a cooperative venture of the League, the New York

City Department of Corrections and the Women's Prison Association, a voluntary agency that provides assistance to female offenders. The center, which provides skills training and a job placement program for residents at the New York City Corrections Institute for Women at Rikers Island and at a halfway house in Manhattan, recently received a grant of $340,000 from the New York City Criminal Justice Coordinating Council.

Often, as in the projects which I have just mentioned, the League efforts supplement government efforts. In other cases, they offer an alternative to a government program or demonstrate a new way of dealing with a problem that can be replicated on a larger scale.

Although the amount of money given by Leagues to community programs is small in relation to the total amount of funds raised for these projects, the enthusiasm and initiative of League volunteers and their willingness to pledge the first dollars for a project frequently are the essential ingredients in lauching a successful community venture.

The funds used by the Leagues as seed money come from fundraisers such as those mentioned earlier and are dependent on the generosity of the community. A portion of the price of tickets to a fundraiser is tax deductible; so are the portions of the costs of the cookbook sold by the Leagues and the clothing and other items donated by members to the thrift shops. Many tickets to League benefits are bought by people who take the standard deduction. Allowing them to deduct their charitable contributions would bolster League fundraising efforts. In addition, used clothing and other items valued at almost four million dollars were donated to Junior League thrift shops last year. Items valued at more than one and one-half million dollars were given to these same thrift shops on consignment. It is quite possible that a substantial portion of the items sold on consignment were placed by persons who take the standard deduction and would have been donated if their owners had been permitted to deduct their charitable contributions.

It is important also to recognize that, because all Active members of the Junior League are under the age of 42, many of them are in an income bracket that makes it most attractive to take the standard deduction. Their incentive for giving of their efforts and time (and in the process incurring the costs of travel, etc.) is lessened by the current tax system which permits charitable deductions to be taken only by those who itemize their tax returns.

The Junior League history amply demonstrates that those who give to a charity are most likely to volunteer for it. To increase the number of volunteers in the community and to encourage the development of community collaborations to solve local problems, I therefore urge you to approve the charitable contributions legislation.

Thank you for this opportunity to appear before you today.

Statement of Shriners Hospitals for Crippled Children, Tampa, Fla.

This prepared statement is filed by Shriners Hospitals for Crippled Children, Tamapa, Florida, in connection with the January 30, 1980, hearing on S. 219. That bill deals with the allowance of a charitable deduction to taxpayers without regard to itemization of other personal deductions. Shriners Hospitals for Crippled Children want to be on record that it supports revision of the current income, estate and gift tax incentives provided individuals, corporations, trusts and estates, in connection with contributions to charitable organizations. It wishes to express its very strong concern that the $2.4 billion revenue loss for only one form of incentive, as provided for by S. 219, is completely unjustified. The money could be better spent on a wider range of incentives including modification and revocation of certain existing disincentives to charitable giving.

A. The Hospital System

Shriners Hospitals for Crippled Children is a charitable institution dedicated to the health of children. It owns and operates 22 hospitals in the United States and Mexico to treat children under the age of 16 suffering from orthopedic defects or diseases and from injuries from burns. What is unique about Shriners Hospitals are that with only slightly more than 1,000 beds available in all its hospitals, it has been responsible for many unique contributions to orthopedics and it has, in its fifty years, trained more than 25 percent of all board certified orthopedic surgeons in the United States. What is even more unique about our hospitals is that no one pays for any treatment provided to any child. It is, we believe, the last completely free hospital system operating outside the governmental sector in the United States. Our hospital system receives no federal grants for or in connection with our medical services, it receives no state or local government money, it receives no money from parents and it takes no insurance money, though available, from carriers such as Blue Cross or Blue Shield. The hospital system is supported in part by our fraternal order, in part by our endowment and in part by the indirect subsidy of the government through the charitable contribution deduction for federal income, estate and gift taxes. It is this indirect or informal subsidy which we value because, we believe, it permits us to function more efficiently and more effectively and with greater impact on children's health, than if we were regulated or controlled by any government.

B. DISINCENTIVES TO CHARITABLE GIVING

We must agree that the basic income tax deduction, gift tax deduction and estate tax deduction for outright gifts to charitable institutions provide a very strong incentive for individuals, corporations, trusts, estates, partnerships, etc., to make contributions to the public charity of their choice. However, we believe that there are a number of unfortunate disincentives to charitable giving which, if removed, could provide a larger base of support for all charities, except private foundations, which would ultimately enhance the strength of the private sector and, as a result, reduce the burdens of government when the private sector takes responsibility for matters that have passed into the hands of government.

1. Increase of corporate percentage limitation

Under present law, a corporation may deduct its charitable contributions, but not in excess of 5 percent of its taxable income. We believe this percentage should be raised to 20 percent. While it is true that many New York Stock Exchange companies do not reach the 5 percent in their charitable giving, it is our strong belief, from personal experience, that there are many corporations, banks and insurance companies especially, which do in fact reach the 5 percent maximum and, unfortunately, do not continue to give to charity because the contribution would be nondeductible. We have a strong feeling that charitable giving, by the corporate sector, could be strongly enhanced by enlargement of this percentage limitation especially for those corporations whose taxable income is $100 million or less. If the Congress, in its wisdom, thought that there should be a sliding scale depending upon the gross income or taxable income of the corporation, we would not find this objectionable, especially if the 20 percent limit was provided for the smaller business enterprise.

The fact that the percentage limitations are being pushed to their maximum is evidenced by the series of rulings the Service has issued allowing banks and insurance companies to set aside income producing investment properties in a "Clifford Trust" and not have the income generated in such trusts be attributed to the company. These Clifford Trusts then make distributions to charities of all of their income and the trust, in effect, has no taxable income and the insurance companies and banks have managed to avoid the 5 percent limitation by shifting income outside of their control. If these techniques are permitting taxpayers to artfully avoid the 5 percent limitation on corporate giving, it suggests to us the percentage limitation should be increased so that this device need not be used as a means of circumventing existing law.

2. Restrictions on deferred giving

Under present law, deferred giving is a perilous form of charitable transfer because of the annuity and unitrust rules found in Sec. 664 of the Code and the accompanying regulations. Many experienced practitioners counsel their clients against split interest gifts because of the hyper-technical construction of the law by IRS regulations. The regulations, unfortunately, make a complex law even more difficult by establishing mandatory governing instrument rules so even where a bona fide attempt has been made to comply with the law, the regulations cause the loss of the charitable deduction. This Congress is already aware of the problems created by the charitable remainder trust rules by reason of its amendment of H.R. 1212 extending the charitable reformation rights, for unqualified trusts, to December 31, 1980 under Sec. 2055(e)(3) of the Code. In addition, it is my understanding that several Senators on the Finance Committee have asked the staff to look into some form of permanent relief for unqualified charitable remainders. It seems to me to be an extraordinary commentary on an Internal Revenue Code provision where, on one hand, IRS enforces a strict provision dealing with charitable remainder trusts and, on the other hand, Congress seeks to provide executors and others relief from this strict conformance in a separate statutory provision. If the need for permanent relief is as acute as some Senators seem to believe, it would seem to me that the effort should be directed at repealing Sec. 664, and related provisions, and returning to the old rules governing deductions for remainder gifts.

3. Increase in individual percentage limitations

Under existing law, contributions to public charities are deductible up to 30 percent of an individual's contribution base if the contribution to a public charity is made in appreciated property. While there are always questions of valuation of property, this tier system for determining deductibility of contributions should be modified or even eliminated so as to create an additional incentive for contributions of appreciated property.

It is our suggestion that contributions of appreciated property, like contributions of cash, be deductible up to 50% of an individual's contribution base with the ordinary carryovers as now permitted by law. Along this same line, we do not believe these should be any percentage limitation for individuals or corporations, for contributions to governmental units. Under existing law, if a contribution is given to a governmental unit it is deductible by the donor only to the extent of the percentage limitation contained in the provision governing the particular form of taxpayer. It seems to us that governmental units such as public schools and public hospitals, and governments themselves, could enlarge or enhance their activities, outside the tax and budgetary process, by being a completely open-ended recipient of private funds. It seems to us that the rationale purporting to justify a percentage limitation on gifts to public charities, *viz*, the donor should not be able to direct the use of funds without some support of government makes no sense whatsoever when a governmental unit is itself being provided the financial support.

4. Carryovers and carrybacks of deductions

Under Sec. 170, a contribution in excess of the percentage limitation may be carried over by the donor to the five succeeding taxable years in determining his or her income tax liability. This rule applies to both individuals and corporate donors. We suggest that this be altered and enhanced by (1) extending the carryover provisions to ten years and (2) providing for a contribution carryback of excess contributions which could be elected by a donor in connection with prior years' income tax liabilities. Thus, for example, if a major donation to a public charity is made a donor would be given the opportunity to carryback the contribution to the three prior years for income tax liability purposes and if the donation was not completely absorbed, the taxpayer would have the opportunity to carryforward the unused balance for the next ten years. In connection with a carryback of the contribution, we believe it would be appropriate, however, to limit the benefits to be derived from such carryback to the tax savings alone and not provide any interest on the refund itself.

5. Amendment of section 642(c)

Under present law, an estate or trust is not permitted a charitable contribution deduction unless the contribution is made by the trustee or executor pursuant to terms contained in the indenture of trust or in the will. We believe this is an unnecessary requirement and acts as an inhibitor towards trusts or estates making contributions for charitable purposes in the absence of specific authorization. We have been unable to find in our research, what federal public policy is enhanced by imposing such a stricture on the contributions of trusts and estates; we believe that having an enlarged deduction available to estates and trusts without regard to the actual terms of the instrument would open up a completely new source of charitable giving.

6. Treating death as a disclaimer

Under existing law, a charitable deduction may be increased if an interest in property falls into a chaitable bequest by reason of a disclaimer of such interest by a legatee. Similary, a deduction may be allowed or increased if the death of an individual terminates a power to invade property. Both the disclaimer and death must occur before the due date for the filing of the estate tax return. It is recommended that where an interest in property falls into a charitable bequest by reason of the death of an individual, rather than a disclaimer over such interest, similar treatment be granted so that the charitable deduction is increased by the amount of property which falls into such bequest. By so doing, a federal estate tax is not paid on funds which actually pass to charity when there is a premature termination of a life estate.

7. Requiring IRS to rule on estate tax liability of living person

Under existing Internal Revenue practices, it will not issue a ruling or determination letter on matters involving the prospective estate tax liability of a living person. Because so many of the charitable contribution questions affecting the extent or value of deductions under Sec. 2055 need Internal Revenue Service advanced assurance, it is recommended that Congress enact a law to override this particular practice and permit rulings to be issued on the state tax liability of a living person. Such a rule would assure paralled treatment for this tax as now exists for the federal income and gift tax.

8. Repeal of section 170(f)(4), et cetera

There are indeed, numerous technical changes which could be made to enhance charitable giving including contributions of remainder interest. One such unnecessarily complex provision deals with the reduction of the deduction for the value of remainder interest in real property by requiring that depreciation be taken into account contained in Sec. 170(f)(4). This particular provision acts as a considerable disincentive to the contributions of personal residences and farms which the Congress meant to encourage when it enacted certain provisions dealing with deferred giving in 1969.

C. SUMMARY AND CONCLUSION

We believe that if the Congress is prepared to provide an incentive to charitable giving, the incentive should not be the one contained in S. 219 since it does not take into account a range of contribution considerations today acting as disincentives to giving. We do not believe that the disincentive to giving of itemization is as substantial as some proponents may believe. Many individuals do in fact give contributions though they do not itemize their returns. These types of contributions are the one made in social situations such as at an individual's church during services, door-to-door solicitations, or direct mail solicitations. We tend to believe that many contributions are given by persons who do not itemize and the incentive for them to make their contributions is not the charitable deduction, but the honest desire to provide modest support for the church or charity of their choice. Thus, the gifts have already been made in that circumstance and the contribution deduction does not enhance or necessarily encourage additional contributions on top of what they may already have determined. These givers are not necessarily dealt unfairly because their standard deduction presumes a certain level of charitable giving. So, in effect, these individuals are getting a double deduction at a revenue totally disproportionate to other charitable giving incentives.

Senator MOYNIHAN. The committee is in recess.

[Whereupon, at 1:05 p.m. the subcommittee recessed, to reconvene on Thursday, January 31, 1980.]

CHARITABLE CONTRIBUTION DEDUCTIONS

THURSDAY, JANUARY 31, 1980

U.S. SENATE,
COMMITTEE ON FINANCE,
SUBCOMMITTEE ON TAXATION AND
DEBT MANAGEMENT GENERALLY,
Washington, D.C.

The subcommittee met, pursuant to recess, at 9:30 a.m., in room 2221, Dirksen Senate Office Building, Hon. Harry F. Byrd, Jr. (chairman of the subcommittee) presiding.

Present: Senators Byrd, Moynihan, Packwood, and Durenberger.

Senator BYRD. The hour of 9:30 having arrived, the committee will come to order.

The committee will continue its hearings on S. 219 to allow the charitable deduction to taxpayers whether or not they itemize their personal deductions. This is the second day of 2 days of hearings on this legislation.

S. 219 has been introduced by the Senator from New York, Mr. Moynihan, and the Senator from Oregon, Mr. Packwood.

The first witness this morning will be the Honorable Russell Train, president, World Wildlife Fund. He is one who has had a great deal of experience in government and one who has had a good bit of experience with this committee and with the joint committee.

Mr. Train, we are delighted to have you this morning. You may proceed as you wish.

The committee, because of time limitations, feels that it must limit the witnesses to 10 minutes. Would you proceed?

STATEMENT OF RUSSELL TRAIN, PRESIDENT, WORLD WILDLIFE FUND

Mr. TRAIN. Thank you, Mr. Chairman.

I will proceed informally with your permission. I have submitted a complete statement and I will not read it.

Senator BYRD. The complete statement will be made a part of the record.

Mr. TRAIN. Thank you, Mr. Chairman.

First, may I say that I strongly support the purposes of S. 219, the legislation before you, for reasons which I will hope to make clear.

I am president of the World Wildlife Fund of the United States which is a publicly supported nonprofit organization dedicated to the conservation of wildlife and other living resources and their habitats on a worldwide basis. In my own experience, I have a

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great deal of contact with environmental and conservation activities around the world, including those of other governments, and I have been struck forcibly by the comparison between our experience in the United States and the experience abroad.

No other nation in the world, in so far as I am aware, provides as a matter of conscious tax policy the tax treatment of charitable contributions as does the United States. No other nation encourages private, charitable activity as does this country.

Along this same line, I think that it is also true that nowhere else in the world have I ever seen and experienced the kind of private citizen involvement in conservation in environmental activities broadly defined, as one finds here in the United States, and finally, I think it is quite clear that in no other nation of the world has so much progress been made in dealing with environmental and conservation problems as has occurred within the United States over many years, but most particularly within recent years.

I am personally convinced that this is no mere coincidence, that the conjunction of these facts carries a very real lesson and that the tax policy of this Nation, which I consider an enlightened tax policy in respect to charitable giving, has had a great deal to do with the progress that our society has made in dealing with the very complex and pressing problems of the environment.

I have also been struck abroad by the different attitude that one runs into on the part of the public as to charitable giving. Most commonly among foreign countries—I am thinking particularly of Europe—the attitude seems to be that the activities which so many of our private institutions undertake here in the United States, whether they be hospitals, or educational institutions, or environmental organizations, are more properly carried out by government.

And this is a very strong philosophical difference, I think, from the deeply held beliefs and traditions of our own society.

It is considered odd, I think, abroad, as they look at experience in the United States, that private citizens undertake to do so much in our society and they do not understand why we do not just leave it to Government.

And I think that it bears underlining, this difference, because we tend to take for granted the approach which has been built in and institutionalized in our society and we have often failed to remember that it is quite different from the experience of most other nations around the world.

Having said that, I think that it is very important. Speaking—I am here today, particularly, of my own field of the environment and conservation, that a very, very strong private citizen presence, very active presence, be maintained in that area.

The private environmental movement has been enormously productive over the years in terms of setting aside private land, in terms of engendering research, in terms of public education, and as one who has spent a great deal of his life as a government bureaucrat, I think that I can say with some experience and feeling that, in most cases, the private sector can do it more economically, more efficiently and more effectively.

There are obviously cases where government only can be an effective instrument and that is in terms of enacting legislation.

You can not expect private groups to do that. On the other hand, private groups have a great deal to do with making the implementation of Government policy effective.

I think that here the development of a real and living balance between the private sector and the public sector is what, in many ways, is making our democracy a great and effective force, and far different from what we see around the world.

More directly addressing the concepts of this legislation, I think that it is clear in the environmental area—and I am sure that this is true of other nonprofit fields—but in the environmental area, to which I am directing my comments, it is the smaller contributions of many, many individuals that are increasingly making the difference in the effective support of environmental groups.

I think that it is important in this area as in others that we encourage a broad base of support and a diversity of support because I think that that kind of diversity which would derive from a large number of small contributors is an assurance of balance and effective development in the private sector.

And it is for this reason that I find that this particular legislation is highly encouraging and embodies a principal which I am very glad to endorse strongly to this committee.

Thank you, Mr. Chairman.

Senator BYRD. Thank you, Judge Train.

Yesterday, the Treasury Department testified and, under questioning by me, it stated that President Carter opposes this legislation, that the Office of Management and Budget opposes it, and that the Carter administration opposes it.

Treasury expressed the view that the fundamental problem is the precedent set by allowing deductions for charitable contributions over and above the standard deduction. In any case, they are opposed to it.

You served as judge of the Tax Court with great ability and you can look at this from both sides—from the tax side and from the public side which you now occupy.

How would you respond to the Treasury Department's concern in this area?

Mr. TRAIN. I think in a couple of ways. First, let me say, Mr. Chairman, thinking back to the days when I wore a tax hat and represented the Treasury for some years before this committee, I probably would have also opposed this legislation and I must say that I continue to be concerned that we do not permit the tax base to be eroded.

I think that is a very important consideration of tax policy. The narrower the tax base, the higher and often more inequitable the rates have to become.

So, as a matter of principle, I would like to see the tax base kept as broad as possible.

I think that there is a question here which the Congress must be sensitive to, and that is to be sure that a precedent is not being established here for extension of similar treatment to other areas of deductibility.

I think that there is a clear difference, however, with respect to charitable contributions than with respect to interest deductions or what other areas that there may be.

Here you are talking about the undertaking by the private sector of responsibilities and activities that are otherwise going to be the subject of Government expenditures and effort, and I believe that that is a very clear distinction so that I do not think that the Federal Government is giving something away in this case, but it is, indeed, assisting the private sector to take on and supplement Government responsibilities in a very effective way.

I think that a precedent here need not be considered creating a problem at all. There is a clear distinction, it seems to me, in regard to charitable giving.

Senator BYRD. Thank you very much, Judge Train.

Mr. TRAIN. Thank you, Mr. Chairman.

[The prepared statement of Mr. Train follows:]

STATEMENT OF HON. RUSSELL E. TRAIN, PRESIDENT, WORLD WILDLIFE FUND—U.S.

SUMMARY

Strongly supports the purpose of S. 219.

U.S. tax policy has encouraged charitable giving and this has been crucial to the effectiveness of private environmental efforts in the U.S. Citizen participation has, in turn, been a significant factor in the far greater progress made in combatting environmental problems in the U.S. than among other countries.

Environmental organizations are largely dependent today on the support of a large number of relatively small contributions.

Such broad-based support is essential to the continued diversity, balance and long-term effectiveness of environmental organizations and such support should be encouraged by conscious tax policy.

Mr. Chairman and members of the Committee, I appreciate this opportunity to testify concerning the role of private philanthropy in our society, with particular reference to the support of environmental organizations.

I strongly support the purpose of S. 219 to allow all taxpayers to deduct charitable gifts from their taxable income whether or not other deductions are itemized. It is vital that all appropriate steps be taken to encourage the broadest possible base of charitable giving in the United States.

I appear as President of the World Wildlife Fund—U.S., an independent, publicly-supported nonprofit organization dedicated to the conservation of wildlife and related habitats around the world. However, while I have drawn on my assoication with the World Wildlife Fund and its needs in developing these views, my personal experience extends to a number of private environmental organizations over many years, as well as to the administration of major environmental programs in the Federal government. Thus, the perspective which I hope to bring to the subject of this hearing is not based on the narrow interests of one organization but on the concerns, as I perceive them, of the environmental movement as a whole.

During my service in the past two administrations, I had a central involvement in the numerous initiatives of the United States in the field of international environmental cooperation. Today, I am a vice president of the International Union for the Conservation of Nature and Natural Resources, headquartered in Switzerland, and the program of the World Wildlife Fund with which I am associated extends to countries and regions throughout the world, as well as within the United States. Thus, I have had a continuing opportunity to assess and compare environmental developments in different nations. Nowhere in the world does any other government provide comparable encouragement through conscious tax policy for private charitable giving as does the United States. Nowhere in the world is there a strong and effective private citizens' force for environmental protection comparable to that which exists in the United States. And nowhere in the world, particularly among the major industrial nations, has so much progress been made on such a wide spectrum of environmental problems as has occurred in the United States during recent years.

I am convinced that the conjunction of these facts is no mere coincidence. I do not suggest that, absent the availability of tax deductions, the charitable impulse that seems so deeply ingrained in the American character would wither away. Nor do I suggest that tax deductible support is a prerequisite to citizen action in our society. On the contrary, active citizen participation in public issues has been a tradition in our system which goes back to the earliest settlement of the country. Nevertheless, the availability of charitable contributions has played a vital part in building environmental progress in the United States.

Private initiative has always been a major force in the conservation movement in this country. The establishement of national parks, national forests, wildlife refuges, and soil conservation programs, among other, received much of their initial impetus because of the interest of private citizens aroused by the wasteful exploitation of our natural resources. Unlike the experience of many countries abroad where hunting and fishing rights have traditionally been the exclusive privilege of an aristrocracy, in the United States these rights have been enjoyed by a broad spectrum of our people. Millions of hunters and fishermen from all walks of life have been a strong force for the preservation of natural areas, for the wise management of fish and wildlife as a renewable resource, for the protection of wetlands and, more recently, for the cleaning up of the Nation's rivers and lakes and coastal waters. This force has not only been effective within our own boundaries but has also been evidenced by such programs as the large-scale protection of waterfowl breeding and nesting areas in Canada through private U.S. funds.

By the same token, the non-hunting conservation community has likewise made tremendous contributions to the protection of wildlife and wildlife habitat, as well as other natural resources. Bird-watchers alone measure in the millions today. Moreover, the importance of nongame species of wildlife as esssential elements of our ecological systems is increasingly appreciated by hunters and nonhunters alike. Indeed, here is another area where private concern and private initiative have tended to far outpace government action at all levels.

Private philanthropy, particularly as represented by the generosity of the Rockefeller and Mellon families, made extraordinary gifts of land to the nation which made possible Grand Teton National Park, Shenandoah National Park, Acadia National Park, and Cape Hatteras National Recreation Area, among others. Other individuals have been instrumental in making major gifts of land which have enhanced the quality of our national life through the establishment of wildlife refuges, state parks, historic sites, nature centers, urban parks, and other open space resources. The role of private giving to complement public programs in the protection of critical natural areas continues to grow and to require private support. More and more, it is the smaller contributions of large numbers of people to which we must look to fill this need. The day of major gifts by a relatively few wealthy individuals has largely passed.

Starting in the nineteen sixties, the traditional emphasis of environmental organizations on the conservation of natural resources expanded to embrace the public's relatively new concern over environmental pollution. Air and water pollution, pesticides and toxic chemicals, solid waste, noise, and radiation became the new priorities. Existing organizations were leaders in pushing these concerns, and new organizations dedicated to the fight against pollution came into being. The "environmental revolution," as it has sometimes been called, has been a broad-based, public movement that reflects the widespread and rapidly growing concern among Americans over the threat to public health, represented by environmental contamination.

While this is not the occasion for measuring environmental progress over the past decade, I think it can be stated with certainty that seldom, if ever, has any society demonstrated so effectively its capacity to bring about meaningful and permanent change and improvement by orderly process. The outpouring of environmental legislation of these years has been the reflection and the result, not the cause, of aroused public concern. It is surely one of the glories of our democracy that citizen participation could so decisively and constructively influence the political process. While other concerns, particularly over energy, have assumed a new priority in our affairs, it is clear that environmental values have become institutionalized in our society and are here to stay.

Among the new organizations which came into being during these years are the public interest law firms, specifically those active in environmental matters. Initially dependent to a substantial degree on foundation funding, these organizations today are increasingly receiving broad public support. In my opinion, they play an extremely important role in our system. When I was Administrator of EPA, I was frequently the subject of their attentions and the target of their lawsuits. However, there was never any question in my mind but that by holding bureaucratic feet to the fire these groups were performing a vital public service, uncomfortable and inconvenient as the process often seemed at the time. Moreover, the tradition of our society is an adversarial one. We look to the interaction of opposing viewpoints and of different interests in a free and open society to help shape and direct the course of events. For such a process to be meaningful, there must exist a reasonable balance of forces among the competing interests. Given the fact that in a market economy most of the normal economic incentives encourage resistance to environmental requirements, it is desirable to support the existence of effective centers of environmental advocacy within the private sector. There are those who say that representation of the public interest is the proper responsibility of government—and, of course, it is. But it cannot be the exclusive role of government in a free society. The definition of "public interest" will differ at different times among different people and under different circumstances. It follows that there should be a number of diverse public interest groups and that they should possess adequate resources derived from as broad and diverse a public base as possible.

Having emphasized the adversarial approach to problem-solving which so characterizes our society, it is worth noting that a number of private, nonprofit groups are actively engaged today in exploring alternative approaches to environmental conflict resolution, such as mediation. These efforts recognize that, while adversary process is often essential, excessive reliance on legal remedies alone can be costly and productive of delay. I think we have all seen enough confrontation and polarization of issues in the environmental field to recognize the need for fresh approaches. Environmental mediation and related approaches to problem-solving are essentially experimental at this time, although important results are already being achieved. Such experimentation is particularly appropriate to the private sector and major government involvement would probably be self-defeating.

I must add in this connection that for mediation to appear as an attractive alternative to the parties to an issue, there is again a need for a reasonable "balance of force" among the contending groups. Moreover, my own experience suggests that it requires far more resources on the part of a public interest group to prepare for a mediation process than to pursue the more accustomed route of litigation. Thus, I perceive a major need for increased charitable giving to public interest law firms specifically directed to support of mediation activities.

World Wildlife Fund-U.S. raises its funds from a wide variety of sources, including primarily individuals, corporations, and foundations. We are not a membership organization but receive support from approximately 65,000 active individual contributors. Our average individual contribution is under $20. Over half of our income is derived from individual support. Corporations provide the next largest source of our income and, in our last full fiscal year, we raised about $450,000 from this source. It has been highly gratifying to me to see the growing acceptance by corporations of the conservation/environmental area as an appropriate field for corporate giving. Nevertheless, the conservation/environment area still receives overall a very minor share of corporate giving, particularly when compared to the educational, health, and cultural fields, and I believe that this allocation must change. The continued health of the natural systems of the earth is the foundation for all human activity and growth, including economic. The business community has a vital, long-term stake in the health of those systems.

While we can all be gratified by the progress made in recent years in combatting environmental contamination, the stark reality around the world is the accelerating biotic improvishment of the planet, particularly in tropical regions. The depletion of fisheries, the loss of soils,[1] the spread of deserts, the destruction of forests, the snowballing extinction of species, and the rising tide of human numbers all spell a progressive deterioration of the quality of life in the future for all people, including our own. Herein lies the overriding environmental challenge of the years ahead.

Mr. Chairman, I have tried to emphasize in this brief statement the enormous importance of the role of private giving in supporting and sustaining the activities of private environmental organizations. These organizations do an invaluable job in public education, research, open space acquisition, in public policy advocacy, and in conservation action here and abroad. In many cases, their role is complementary to that of government. However, my own experience convinces me that, as in other areas, where environmental tasks can be undertaken appropriately by the private sector they will often be accomplished far more cheaply, efficiently, and effectively than if attempted by government. Thus, encouraging the support of private environmental activities is, in my opinion, highly cost-effective.

The environmental movement embraces a wide area of concerns which cut across our entire society. These concerns touch directly on public health, the economy; energy policy, transportation policy, the urban environment, agricultural policy, land use, the protection of species and habitats, and foreign economic development assistance policy, among others. A great diversity of interests are clearly involved in these matters. Thus, it is important in a free society that there be the fullest possible citizen participation in affecting the issues involved. To this end, it is

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[1] Estimated by the Department of Agriculture at 9 tons per cultivated acre per year in the United States.

essential that private organizations not only exist but that their support be broadly based. Today, most environmental organizations have of necessity moved away from reliance on the generosity of a few major sources of funds. This trend is a healthy one. However, it is all the more vital that growing support by the general public, particularly smaller contributors, be encouraged. Such broadly based support, encouraged by enlightened tax policy, is our best guarantee of the continued diversity, balance, and long-term effectiveness in the public interest of our environmental organizations.

Senator BYRD. The next witness will be the Honorable Newton N. Minow, Chairman of the Board of the Public Broadcasting Service.

Welcome, Mr. Minow.

Mr. MINOW. Thank you, Mr. Chairman.

STATEMENT OF NEWTON N. MINOW, CHAIRMAN OF THE BOARD, PUBLIC BROADCASTING SERVICE

Mr. MINOW. Mr. Chairman, I am very pleased to be here as Chairman of the Board of the Public Broadcasting Service. The public broadcasters of the nation appreciate your invitation to participate in these hearings.

With your permission, Mr. Chairman, I would like to submit my statement for the record and summarize it briefly.

Senator BYRD. Fine.

Mr. MINOW. Mr. Chairman, we, I am pleased to say, are not here asking you for public funds to help us. We are asking you to let us help ourselves by getting the widest public support we can for what is an increasingly important independent part of our society.

We now have public television stations in nearly every state in the United States. We have some 282 local public television stations which are serving the people with multiple program choices throughout the day. I am sure that you, because we have such fine stations in your State, Senator, are very familiar with the work that we do.

Senator BYRD. Yes; I am, and I think that they do a fine job.

Mr. MINOW. I feel that what we have done in this country is unique. We have created a nonprofit public television service which is basically financed privately with some public support, which this Congress has passed on a matching basis.

The way it works is that we must raise $2 from the private sector in order to qualify for $1 of Federal matching funds. Coming from Chicago where I had been the Chairman of our station for many years, let me just give you the numbers to give you an idea of how it works.

In Chicago, which is one of the larger public television stations in the Nation, we have an annual operating budget of about $10 million. Twenty percent of that will come from public funds in one form or another: Federal, State, National Endowment for the Arts, Corporation for Public Broadcasting, and so on.

Eighty percent comes from the private sector. Of that 80 percent, we have 135,000 contributors in the Chicago area who give us an average of $32 per family per year. That means 43 percent of our operating budget comes from gifts in the range of $32. That is the best kind of support that we can raise, because when we raise $32 contributions there are no strings attached of any kind. We are free to do the best job independently to serve the public that we can.

And it strengthens us in maintaining our independence, which is vital. We do not want and we will not become dependent on the Government because we see our role as being totally independent.

We very often, as you know, will cover a public hearing, for example, here at the Senate. We must be free to make our own judgments and hire the people who we feel will be objective without Government interference.

That is why it is so essential for us that we have private support.

Mr. Chairman, I have spent a lot of my life, apart from my professional life, in this independent, voluntary world. I am a trustee of the Mayo Clinic. I am a trustee, have been a trustee, of Notre Dame University and a trustee of Northwestern University and the Jewish Theological Seminary and I see what is happening in the private world.

Mr. Chairman, we have too much governmental intervention in too many areas. We have to maintain the strength of the private, voluntary sector if we are going to continue the vital premises on which this country is based.

When you asked Mr. Train the question the moment ago about the view of the Treasury on the standard deduction, I would say to you, Mr. Chairman, it is imperative that we not become standard Americans. The whole idea of this country is that we are to be individuals with discretion and freedom to make our own decisions. Certainly we must be free, and we must encourage people to make voluntary charitable contributions to the cause of their choice. Otherwise we are all going to be a part of the government.

As I understand it, only 16 percent of the people in the United States are today itemizing their charitable deductions because of the enlargement of the standard deduction.

Senator BYRD. I believe it is greater than that.

Mr. MINOW. Greater than that?

Senator BYRD. I think the testimony yesterday showed that 70 percent, took the standard deduction.

Mr. MINOW. It is a minority of people, in other words, of the total who are itemizing?

Senator BYRD. Yes, that is correct.

Mr. MINOW. I think that is most unfortunate because what that means is that people are not being encouraged to make their own choices and incentives about supporting independent causes.

We are satisfied that public broadcasting will continue to get its share of support. Half the people in the United States are watching public television every week. There are something in excess of 3 million families in the United States that are privately contributing to public broadcasting.

We want that to be much more. We feel that with this legislation we will have a better chance of attracting more support and of maintaining our independence and of doing an ever-increasing and improving job of serving the American people.

Thank you.

Senator BYRD. Thank you. That is very strong testimony that you gave. I certainly agree with you that we have too much government projection into the private sector. I think we have too much government, period, and I would like to see less government.

And if we would get spending under control, we would have less problems. We would not have any real problem in accommodating this legislation.

I think the great problem facing the country, the dominant problem facing the country today, is inflation, and I am persuaded to the view that the accumulated deficit spending by the government is a major cause, if not the major cause.

So I am glad to get your testimony today, Mr. Minow.

Mr. MINOW. Mr. Chairman, I would mention to you one thing that we are trying to do is educate the public on inflation and economics. We have had, in the last few years, one series by one school of thought, Professor Galbraith. We have a series by Professor Milton Friedman.

We would hope that, out of this, the public interest and public level of understanding of these problems would increase, which is another reason why I think it is important that public broadcasting be encouraged to get private support and do an ever-better job of educating the public.

Senator BYRD. I am glad that you are doing that. I think that it is important that attention be focused on government finance because it affects every man, woman and child in this country, one way or the other—mostly directly, if not directly through taxes, indirectly through the worst tax of all, namely inflation.

And the great problem, as I see it, with the question of government finance and how to get it under control is that there is no political sex appeal to government finance.

Maybe by public broadcasting, on both sides of the issues a greater public awareness will emerge.

Mr. MINOW. I hope so. Thank you, sir.

[The prepared statement of Mr. Minow follows:]

STATEMENT OF NEWTON N. MINOW, CHAIRMAN, PUBLIC BROADCASTING SERVICE

SUMMARY

The Public Broadcasting Service and its member stations have pioneered in bringing high quality educational, public affairs, and cultural programs to the American public.

Public television's outstanding children's programs, such as "Sesame Street" and "The Electric Company," have transformed television into a positive force in the education and development of American children.

Public television's unique broadcast coverage of the major political debates of the past decade has given a new meaning to democracy by allowing Americans to watch their government in action.

Public television is making important contributions to the continuing education of Americans in the fields of science, history, and economics.

Public television is making it possible for virtually all Americans to enjoy artistic performances of the highest quality.

This programming reflects public television's commitment to develop the full potential of television in the public interest. In recent years, Americans have demonstrated their approval of public television's efforts in the clearest way possible—they are watching public television in ever increasing numbers.

Contributions from the general public are essential to the continued health and vitality of public television. Contributions from individuals account for almost 20 percent of public television's non-federal funding. This financial link between local public television stations and their viewers insures greater responsiveness to the needs of the community. Moreover, because these contributions are unrestricted, they can be used wherever the public need is greatest. As such, they are one of the principal guarantees that public broadcasting will have the financial independence that is essential if it is to serve the public interest.

By revitalizing the tax incentive for charitable giving, S. 219 will provide important stimulus for the continuation and growth of this vital public support. By enacting S. 219, Congress will be making a wise investment in the future of public broadcasting and in the future of our country.

My name is Newton Minow. I am Chairman of the Board of the Public Broadcasting Service. Public broadcasters appreciate the Subcommittee's invitation to testify on the proposed Charitable Contributions legislation.

The Public Broadcasting Service is a private, nonprofit membership organization which is owned and governed by 155 public television licensees throughout America. Each local licensee is independent and autonomous. We have joined together in PBS to operate a program distribution service that provides some 282 local public television stations with multiple program choices throughout the broadcast day.

To appreciate the significance of our public broadcasting system and to understand why it should be fostered by our federal tax structure, a brief look backward is helpful. The development of the broadcast media has revolutionized communication in this century. From radio, to television, to instantaneous satellite transmissions, this revolution has quickened the pace and broadened the bounds of our lives.

It was clear from the beginning that these remarkable new media:

Could help to educate us and our children.

Could give a new meaning to democracy by allowing us to watch our government at work and to join in the great national debates over its actions.

Could bring artistic productions of the very highest quality into our homes. The new broadcast media could break down the barriers of geography, class, and culture, and, thereby, immeasurably enrich the lives of all Americans.

However, experience quickly revealed that commercial broadcasting, for all its accomplishments, did not fulfill the media's full potential. Long before it existed, the need for noncommercial, public broadcasting, committed to developing the full potential of the broadcast media in the public interest, was clear.

In the past decade public broadcasting has become an important reality—a reality which is breaking down barriers and bringing new possibilities to all Americans. In that decade public broadcasting has made tremendous contributions to the quality of American life. It can make still greater contributions in the future.

PUBLIC TELEVISION: PROGRAMS THAT MAKE A DIFFERENCE

Children's programs

Many Americans, young and old, first discovered public television through "Sesame Street." That fact reflects one of public television's most important successes—the development of high quality, and highly popular, education programs for children. When I was FCC Chairman almost twenty years ago, we discovered that the average American child spent more time in front of the television set than in the classroom. Public television has transformed this television viewing into a positive force in the education and development of our children. Public television's outstanding children's programs include:

"Sesame Street," now in its 11th season of helping millions of children to develop basic learning skills;

"Misterogers' Neighborhood," another long-running series which helps children interpret the often complicated and confusing world of adults;

"The Electric Company," a series specifically designed to help children develop reading skills, and which is now used in more than a quarter of all schools throughout the country; and

"3-2-1 Contact," a major new science series designed to spark children's curiosity about the world around them.

These programs are having a beneficial effect on the education of our children. They have demonstrated convincingly that effective educational programming can also be popular programming.

"Sesame Street" is watched by more preschoolers than any other program on television. Particularly gratifying is the popularity of the program with children from disadvantaged backgrounds. A 1978 survey of households with preschool children in East Harlem and Bedford-Stuyvesant showed that children in 95 percent of the households surveyed watched "Sesame Street" at least once during a six week period, and the average child watched two to three times per week.

Not only are children watching "Sesame Street"—they are learning from it. An Educational Testing Service study showed that preschool children watching "Sesame Street" developed basic learning skills significantly faster than did other children. Further, the more children watched, the more quickly they learned. These results held true for children in every socio-economic group tested.

Comparable learning gains have also been produced by other programs. For example, the reading levels of third graders in an elementary school in Ohio were tested after a year of watching "The Electric Company" as a part of their regular instruction. Their scores averaged a full five months higher in vocabulary and three months higher in comprehension than third graders tested a year earlier. Results like these multiplied many times over around the country, will continue to yield dividends for years to come.

Public affairs

A second major accomplishment of public television has been to allow citizens to observe and understand the functioning of government in ways never before possible. For example, public television has provided unique broadcast coverage of the major public debates of the past decade:

Only public television provided gavel-to-gavel delayed broadcasts of the Watergate hearings during prime time, thereby enabling millions of Americans to observe these historic proceedings.

Only public television carried live coverage of the Panama Canal hearings, the Senate Foreign Relations and Armed Services Committees' hearings on SALT II, and most recently, the UN Security Council debates on the Iranian crisis and the overthrow of the Afghanistan government.

Only public television carried live coverage of the Republican Presidential Debate from Iowa.

In addition, public television has helped to put these events in perspective through its public affairs programming. Such outstanding series as The "MacNeil/ Lehrer Report," "Washington Week in Review," "Bill Moyers' Journal," "Firing Line," and "Wall Street Week" reflect public broadcasting's commitment to go beyond a mere reporting of the news. They provide in-depth analysis and discussion of the important issues of our day, and in so doing, they elevate the level of public debate.

Special reports on important social issues contribute to the same result. During its last season, public television specials probed such problems as child abuse, drug addiction, juvenile delinquency, and the difficulties of the displaced homemaker. The current season will bring special reports on such diverse subjects as the energy crisis, the "information revolution," and economic development in important areas of the United States.

Continuing education

Public broadcasting is making important contributions to the continuing education of Americans in the fields of science, history, and economics. Programs such as "The Ascent of Man," "Classic Theatre," "Age of Uncertainty" and "The Adams Chronicles" have become vehicles for formal learning when used in conjunction with other resources. Currently, a PBS distributed series, "Connections," which traces the evolution of major scientific inventions, is being offered as a formal college credit by institutions of higher learning across the country. In 1978–79 an estimated 2,129 colleges and universities made some use of television; 1,824 used it for instruction, either public, commercial, cable or closed circuit; and 735 offered total courses over television. An estimated 6,884 courses were offered and generated an estimated 498,200 student enrollments.

Public television is also helping to bring our economic problems, and the contemporary debate over economic policy, into sharper focus. It is giving the public the chance to see and hear leading exponents of the major competing schools of economic thought. For example, during the current season, in a 10-part series titled "Free to Choose," Milton Friedman is conducting a detailed examination of the problems and prospects of the free enterprise system. In an earlier series, John Kenneth Galbraith presented his very different views on the sources of our economic problems.

The arts

Bringing artistic performances of the highest quality to the public is yet another major accomplishment of public television. Until very recently, opera, ballet, orchestral concerts, and serious drama were the exclusive domain of the affluent residents of our major urban centers. A single example demonstrates the extent to which, thanks to public television, this is no longer the case. On March 15, 1977, a live broadcast on public television of a performance of La Boheme by the Metropolitan Opera was viewed by 5.1 percent of all American households—an audience equivalent to 2,500 soldout performances at Lincoln Center.

This is not an isolated example. The scope of public television's artistic programming has expanded to the point that during the current season public television will broadcast performances by virtually every major orchestra, opera company, and dance company in the country. Public television will also take its viewers backstage for a new perspective on the arts and artists. A special five-part series will capture the behind-the-scenes activities surrounding the San Francisco Opera's staging of "La Gioconda." Another series will follow world renowned tenor Luciano Pavarotti as he conducts master classes for young performers.

To round out its musical offerings, public television will also present the very best in gospel and country music, with the continuation of popular series like "Austin City Limits," "Soundstage," "The Great American Gospel Sound," and "Live From the Grand Ole Opry." In addition, it will offer an outstanding schedule of full-length dramatic productions, and "Visions," the only series on the air devoted to the presentation of original drama. Taken together, this artistic programming immeasurably enriches the cultural life of our country.

Minority programing

Public broadcasting has recogniaed its clear obligation to be responsive to the needs of minorities and other groups with special needs in our society. The first program production grant made by the Corporation for Public Broadcasting in 1969 was to fund the production of "Black Journal." This commitment to minority programming continues, and is evidenced by series such as *Another Voice*, a series which deals with currrent affairs from the perspective of Black Americans, and "Que Pasa, U.S.A.?" an award-winning bilingual situation comedy which provides a fresh look at our multicultural society.

PUBLIC TELEVISION: TECHNOLOGY IN THE PUBLIC INTEREST

Public broadcasting's commitment to a minority of another sort is manifested by the large investment being made to allow the millions of Americans whose hearing is impaired to participate in television. Already a version of the ABC Evening News with visible captions, or subtitles, is a regular feature on most public television stations. Since 1972, PBS has been testing closed captioning for television. This system operates through the imposition of encoded visual subtitles on line 21 of the TV screen—a portion of the screen that does not ordinarily contain a televised picture. This material becomes visible only when decoded by a special device attached to the TV set. Viewers with normal hearing ability not using the decoders are not able to see the captions, nor does the encoding disrupt normal viewing. By the end of 1980, PBS hopes to distribute 12½ hours per week of closed captioned television to our stations. This effort is typical of public broadcasting's commitment to develop and apply new technology in order to better serve the needs of all segments of the public.

Public broadcasting has pioneered in the application of other types of new technology as well. In 1978 public television became the first broadcast system to be distributed nationwide, from the Virgin islands to Hawaii, by its own satellite system. This satellite system will significantly reduce long-run broadcasting costs. Of still greater importance, it provides public television with a multiple channel capability that allows the distribution of several programs simultaneously.

Public television stations are already formulating plans to utilize this new capability to provide better service to the public. At their 1979 Membership Meeting, the stations adopted a plan calling for the creation of three separate national program services to replace the one existing at present. The first will concentrate on high quality, prime time series and specials directed at a national audience. The second will provide programs of special interest and usefulness to particular target audiences, such as regional and ethnic groups the third will develop educational programs for both children and adults.

The satellite system's multiple channel capability will allow simultaneous distribution of programs from all three program services. Local stations will be able to choose which programs to broadcast, and could make the other programs available in their community through cable TV, a second broadcast station, or by other means. The result will be a tremendous increase in public television's ability to serve the varied needs of the public. As part of this effort, PBS has made satellite time available for non-programmatic purposes to public service users whenever possible.

Public television has also been the prime mover in improving the quality of television sound. The poor quality of television sound is television's most serious inadequacy as a medium for the enjoyment of musical and dramatic productions. To remove this inadequacy, public television has already introduced a new high fidelity, four channel audio system. It is also advocating regulations that would require that all new television sets have the capacity to receive these improved audio signals.

PUBLIC TELEVISION'S AUDIENCE

Both through its programming and its use of new technologies, public broadcasting has sought to bring the full benefits of the broadcast media to the public. Its efforts have been received with great enthusiasm. Americans have demonstrated their approval in the clearest way possible. They are watching and listening to public broadcasting in ever increasing numbers.

A recent survey showed that nearly 34 million households nationwide—45 percent of all households with television—tune to public television on a weekly basis. The same survey showed that public television's prime time audience has climbed 47 percent in only five years. Of equal importance, the diversity of the public television audience has been growing as well. While in the past, persons of above average income and education made up a disproportionate part of that audience, today public television's audience increasingly reflects the demographic profile of the nation.

PUBLIC BROADCASTING AND S. 219

Public broadcasting is a success that all Americans can be proud of, and it deserves continued support. Last year, the Carnegie Commission concluded that public broadcasting is "a national treasure." The enactment of S. 219 is of great importance in insuring that we continue to serve the public interest.

Other witnesses have detailed the way in which increases in the zero bracket amount in recent years have seriously eroded the traditional tax incentive for charitable giving. The cost to charity has been estimated at $5 billion in lost contributions. These witnesses have also described the way in which S. 219 would revitalize the tax incentive for charitable giving.

I will not duplicate their testimony. Instead, I will speak briefly about the great importance of S. 219 to public broadcasting.

In its recent report, the Carnegie Commission on the Future of Public Broadcasting recommended an annual budget of $1.2 billion for public broadcasting. By contrast, the current income of all public broadcasting entities in the U.S. is slightly above $500 million. The gap between these two figures gives some measure of the as yet unrealized potential of public broadcasting. The increased contributions from the public that would result from S. 219 would be a vital force in transforming this potential into a reality.

What is more, the importance of these individual contributions extends beyond their dollar value. In fiscal year 1977, public television received approximately 19.4 percent of its non-federal support in contributions from individuals, amounting to about 11.7 percent, or a critical amount, of its total funding. This percentage must continue to grow if public television is to sustain its diversified funding base. Membership contributions to public television are expressions of our viewers' support. They insure close relationships between the station and its local community, providing for greater responsiveness to local needs. Moreover, as we all know, this form of support is the most broad-based unfettered funding on which any organization can depend. While funds received from corporate contributors or foundations are often designated for a particular program or other specified use, individual contributions are subject to no such restriction. They may be used wherever the public need is greatest and, as such, these unrestricted contributions are of vital importance. They are one of the principal guarantees that public broadcasting will have the financial independence that is essential if it is to serve the public interest. S. 219 will provide important stimulus for the continuation and the growth of this vital public support. By enacting S. 219 Congress will be making a wise investment in the future of public broadcasting and in the future of our country.

Senator BYRD. The next witness will be Mr. Raul Yzaguirre, president, National Council of La Raza; cochairperson, National Committee on Responsive Philanthropy; chairman, Coalition of Neighborhoods.

You have quite a series of jobs. Welcome.

STATEMENT OF RAUL YZAGUIRRE, PRESIDENT, NATIONAL COUNCIL OF LA RAZA; COCHAIRPERSON, NATIONAL COMMITTEE ON RESPONSIVE PHILANTHROPY AND CHAIRMAN, COALITION OF NEIGHBORHOODS

Mr. YZAGUIRRE. Thank you very much, Mr. Chairman. My testimony today, however is solely on behalf of the National Council of La Raza. With your permission, I would like to submit my testimony for the record and briefly summarize it for your convenience.

Senator BYRD. It will be published in the record.

Mr. YZAGUIRRE. Mr. Chairman, I would like to first explain to you that the Hispanic community, which I hope to be able to represent before you today, is a community which has a great many problems. The National Council of La Raza is trying to deal with that.

Unfortunately, the resources to deal with a very real problem, despite the fact that Hispanics will probably be the largest minority in this country, are quite limited. Private philanthropy has not seen fit to give the kind of assistance to our community that our problems and numbers would suggest.

As you know, Mr. Chairman, a recent poll by the Gallup organization has shown that taxpayers are less interested in itemizing their deductions and there is a concern on the part of the National Council of La Raza that the base for supporting private charity is dwindling so much because of the tax laws that we are going into a situation where only the rich will be able to contribute to private charity.

Now, as a community who feels it important to finance its own structures, we support the proposed legislation because it will give us an ability to reach those middle income and lower income people to support the causes that are important to them.

Our organization is made up essentially of local grassroots community organizations which take on the problems of housing, and education and rehabilitation in the respective communities. They are largely dependent on Government funding.

Our records show that most of our organizations have the majority of their funds coming from public sources. We feel there is a serious danger in that kind of a pattern. We feel that the kind of flexibility, the kind of independence, that we would like to see in these community organizations will not exist if they are solely and totally dependent on Government funding.

I would also like to make one point that I did not make in my testimony and that is that it is important to preserve the plurality of our contribution base. We feel that organizations such as Harvard University, Brookings, these kinds of well-established institutions will always get funding, will always receive the benefit of the alumni association. But organizations such as ours, local community grassroots organizations are not likely to be the benefactors, the recipients, of the largesse of the more well-off people.

Mr. Chairman, I call to your attention the fact that the National Council of La Raza has not always agreed with traditional charities. We have had differences of opinion as to how one shouid impose a tax policy, but on this issue of trying to build a large base for private giving, for private initiatives, we are together and we stand before this committee and before the Senate in support of this particular bill before you.

I want to thank you very much.

Senator BYRD. Thank you, sir. We are very glad to have you today and the text of your statement will be published in the record.

Thank you, sir.

[The prepared statement of Mr. Yzaguirre follows:]

TESTIMONY OF RAUL YZAGUIRRE, PRESIDENT, NATIONAL COUNCIL OF LA RAZA

Mr. Chairman and members of the Subcommittee. I am Raul Yzaguirre, President of the National Council of La Raza and Chairperson of the National Coalition of Neighborhoods. I am pleased to testify in support of S. 219, a bill which would enable all taxpayers to deduct their charitable contributions, whether or not they itemize other deductions.

For your information, NCLR is a private, nonprofit organization headquartered here in Washington, D.C. The National Council of La Raza was founded in 1968, and exists for the improvement of the economic, social, educational and cultural well being of the 20 million Chicanos and other Hispanic people of the United States. Our Board of Directors includes elected officials, business leaders, academicians, agency administrators, attorneys and leaders of community organizations, from throughout the United States. Over one hundred local community organizations from throughout the country are affiliated with the National Council. Among those organizations are community development corporations, private social service organizations, and local federations. These affiliates serve over a million people.

Mr. Chairman, a recent Gallup Poll, commissioned by CONVO, the Coalition of National Voluntary Organizations, showed that taxpayers who itemize their deductions give to charity three times that of nonitemizers. The poll also showed that lower income groups give proportionately as much as, and usually more than, upper income groups.

In 1970, fifty percent of all taxpayers itemized their deductions. In the interim the standard deduction was raised five times, causing taxpayers to be less and less motivated to itemize. Due to this, the independent sector has lost an estimated five billion dollars in that period.

Independent organizations can and do espouse minority viewpoints and are free to fight inequality and injustice. These independent organizations are governed and operated by private individuals, through their contributions of money and time. The easier it is for them to give, the more they will be participating in their own organizations—therefore, having a larger say in their neighborhoods and, indeed, in their own lives.

More and more these private community groups have become dependent on government funding and are indeed major deliverers of publically-financed services. The proporationate decrease of private dollars into these very important community efforts has created an unhealthy dependence on government funding. It is our belief that passage of S. 219 would reverse this trend and allow local communities to better determine their own priorities.

Voluntary organizations meet a deep seated need of people to band together to help others and to help themselves. From this comes the ability to explore and to innovate. Many of today's government functions are yesterday's volunteer innovations. As government-supported human service programs are reduced or eliminated under pressure for balanced budgets, "Proposition 13"-type cutbacks and other factors, more and more of the gap must be filled by voluntary organizations.

The independent sector is the natural home of minority movements and values. The sector permits the forgoing of linkages between individual and community to tackle a small neighborhood problem or large national issue.

Local, neighborhood, grass roots groups are the key of any successful action to improve our cities for everyone. Local groups know local needs. They know the people and the traditions. They are serious and resourceful in their creation and management of programs. They have to be. They live there.

This legislation will benefit low and middle income families and the community programs which are so important to them. During the past few years, the drive towards tax simplification has provided welcome relief for low income Americans and simplified filing for many. But, these tax code changes have also taken away incentives to charitable giving by low and moderate income families. This Charitable Contributions legislation will stimulate support of charities by low and middle income families.

Given the opportunity to itemize deductions, low and middle income families will give more to their local organizations and indeed have more control of them. Currently, only the wealthiest 30 percent of all taxpayers itemize their deductions. Only this group now has the tax incentive to give to charities. This is unhealthy because it undermines the democratic giving base and it concentrates charitable policy formulation in the hands of the wealthy.

We're extremely proud of what we've done and of what we're doing in communities across this country. The additional dollars in charitable giving from the passage of this legislation will enable us to improve our efforts—to be more responsive to the needs of our citizens in the neighborhoods where they live. It will increase their involvement through contribution—of dollars and of time.

I have not always agreed with my friends in the more traditional charities on matters regarding tax policy and its effects on low income people. On this issue, however, we can agree. And, together we stand for the passage of this legislation.

We do not view this legislation as the final word on charitable contributions and tax policy. Indeed there may be a need for modifications in the future, after we have evaluated the impact of this legislation. Also, a tax credit rather than a tax deduction would have been preferable for poor and moderate income people. But, we understand the fiscal and political realities and are prepared to support Senate Bill 129 as the best viable alternative to our current system.

A vote for S. 129 is a vote in favor of the most cherished of American ideals—people helping each other in a private capacity, volunteer citizen action, and freedom of association. These American ideals so eloquently described by Alexis de Tocqueville over 150 years ago, are very much worth the possible cost in terms of lost revenue.

Senator BYRD. The next witness will be Mr. Robert S. McIntyre, Public Citizen, Tax Reform Research Group.

Mr. McIntyre?

Mr. McIntyre is not here at the moment.

Next, there will be a panel on community groups and the family consisting of Sara-Alyce P. Wright, executive director YWCA of the U.S.A.; Mary Margaret Carr, executive director, Child Service and Family Counselling Center; and Thomas P. Whitten, United Neighborhood Centers of America.

This panel is allotted a total of 15 minutes, or 5 minutes per individual.

Ladies, the committee is glad to have you. You may proceed as you wish, either one of you. I see that Mr. Whitten is not here. You may determine who would like to go first.

STATEMENT OF SARA-ALYCE WRIGHT, EXECUTIVE DIRECTOR, YWCA OF THE U.S.A.

Ms. WRIGHT. Thank you, Mr. Chairman.

I am Sara-Alyce Wright, executive director of the national board of the YWCA of the U.S.A. and president of the National Assembly of National Voluntary Health and Social Welfare Organizations.

My full testimony has been submitted and I would just like to lift up a few points.

I first of all want to say that I am pleased to present testimony on behalf of these two organizations in support of a bill which is of crucial importance to the health and even to the survival of the voluntary sector. The benfits to our society of a strong, voluntary sector cannot be emphasized enough and every effort must be made to strengthen and not to deplete the resources of that sector.

Literally millions of Americans have had opportunities to experience and advance the concept of democracy through their involvement and participation in the programs and activities of the organizations that I know best, programs and activities which have served to improve community life and enhance the well-being of all people.

The rich diversity of minorities in our population has found expression in voluntary associations and their ability to move with confidence into the mainstream of American life has been enhanced and they have had opportunities to assert their rights to full citizenship.

Voluntary organizations have intentionally been able to provide women with opportunities to develop leadership, management, and professional skills, and to move into some of the nontraditional occupations, thus creating a valuable resource to the whole of society, politically, socially, economically and also creating the sense of developing their full potential as persons.

Youth of all backgrounds have learned firsthand, with adults as partners, the meaning of democracy and what will be required of them in the years ahead, to protect and advance essential aspects of a democratic society in education, employment, sports, the arts, and various opportunities for citizenship participation.

Through voluntary organizations people of all ages have been able to affect what happens to them by learning, speaking, and acting collectively on issues which make an impact on their lives. Voluntary organizations provide the setting for innovative ideas.

We can move more quickly than it is possible to move through a huge bureaucracy. We can initiate, not only respond. We can move to prevent, not only to rehabilitate. We can assemble easily ad hoc or more permanent coalitions and collaborations and approach problems with flexibility and creativity.

I feel that these elements are too precious to risk limiting or losing by inadequate funding which has been brought on by the decrease in charitable contributions forthcoming from, particularly, low- and middle-income taxpayers who know only to use the standard deduction and thus are denied their right to participate in causes which are bigger than themselves and which are important to the society as a whole.

The proposed charitable contributions legislation will rectify this and it is essential to the continued vitality of the voluntary sector. It is essential to preserve the individual initiative, sense of community, and search for a better life which has characterized our country from its beginnings.

Thank you.

Senator BYRD. Thank you, Ms. Wright.

Ms. Carr?

STATEMENT OF MARY MARGARET CARR, EXECUTIVE DIRECTOR, CHILD SERVICE AND FAMILY COUNSELING CENTER OF METROPOLITAN ATLANTA, GA.

Ms. CARR. Thank you, Mr. Chairman. I appreciate the privilege of being here today. I am Mary Margaret Carr, executive director of Child Service and Family Counseling Center of Metropolitan Atlanta, Ga. I have submitted written testimony and I would like to highlight it.

I am reminded this morning that one of the roots of our agency goes back to the early 1900's when a snowstorm and icestorm was responsible for the establishment of the Associated Charities of

Atlanta. We began with barrels of flour and today we require essential dollars.

As I speak in support of this legislation, I regret very much, as a Georgian, although I am very well-aware that the administration gives strong support to family life, that the essential voluntary contributions as a tax incentive are not being supported.

The concerns that I would speak to, I believe, also reflect concerns of over 300 accredited member agencies who provide family counseling services and other vital services to families who are a part of a Family Service Association of America. We have been increasingly concerned over the last years about the lack of adequate increase in voluntary dollars to provide for a continuation of existing services and further the lack of funds to be responsive to emerging needs in metropolitan areas.

Our history, which, as I have commented before, dates back to before the turn of the century, has evolved over the years to provide those specialized services which government had not developed. Until recent years private funds in Georgia provided for all foster care, unwed parents, and mental health services.

We were responsible for the establishment of the early children's playgrounds in our area, for the treatment of tuberculosis in free clinics, for the establishment of a prison association.

We have always worked with Government at the local and State level but as an independent partner and it seems essential that it remains so.

Today, in Atlanta, we have a budget of $3 million and of that, approximately 53 percent will come this year from the United Way. We have established offices in the inner city suburban areas, semirural housing projects and police precincts in seven counties.

One program that I would speak to specifically is that of family violence where, since 1974, beginning with entirely voluntary dollars, we provided training to all police recruits in domestic crisis intervention and today we have teams of police and social workers covering the entire city and to the present date, where they have intervened in a domestic violence situation, there has not been a homicide.

Now the voluntary agency, in my opinion, has the flexibility to meet need without categorization of client eligibility, which is often necessary in a public program. It can advocate for people, the aged, the child, the abused.

It is not idle speculation to be concerned about what is happening in the voluntary sector, if you examine trends. In 1975, I said to the board of directors of the Metropolitan United Way that, over an 8-year period, we had had a 96-percent increase in United Way dollars but a 1,027-percent increase in Government grants and purchase of service.

In 1969, our dollars were 83 percent voluntary. Today they are 53 percent. A recent study done by the Alliance for Human Services in our community pointed out that child care programs in Georgia could not be provided if there was not a full partnership of the private sector because: (1) The state did not have the dollars to provide them; and (2) they did not have the agency resource.

The modest contributor has always been one who has supported these services, and I would recommend that you seek to provide a tax incentive.

Thank you for the privilege of being here.

Senator BYRD. Thank you, Ms. Carr. Thank you ladies, for your testimony today.

[The prepared statements of the preceding panel follow:]

TESTIMONY OF MRS. SARA-ALYCE P. WRIGHT, EXECUTIVE DIRECTOR, NATIONAL BOARD, YWCA OF THE U.S.A.

I am Mrs. Sara-Alyce P. Wright, Executive Director of the National Board of the YWCA of the U.S.A., and President of the National Assembly of National Voluntary Health and Social Welfare Organizations. I am very pleased to present testimony on behalf of these two organizations in support of a bill which is of crucial importance to the health and even the survival of the voluntary sector, the Moynihan-Packwood bill, S219.

The benefits to society of a strong voluntary sector as a balance between big government and big business are many. Innovative ideas that can be tried out without moving through a huge bureaucracy, smaller agencies that preserve interpersonal relationships, the preservation of people's sense of self-worth at being able to choose a private agency and not having to receive public aid, are among them. Most important of all is the benefit to the volunteer and donor, who through membership and contributions of time and money feels that he or she can make a vital contribution to the community or for a worthy cause, that he or she is an actively responsible citizen rather than a meaningless cog in the vast machinery of society.

Without voluntary organizations, the minorities that make this society so richly diverse would never have the strength to assert their rights to full citizenship. Without voluntary organizations, women would have far fewer opportunities to develop leadership, management, and professional skills or entrance into non-traditional jobs that are enabling them to become full and responsible members of society. Without voluntary organizations, the right of the people to affect what happens to them by learning, speaking, and acting collectively on issues that affect their lives, would be drastically curtailed.

We believe that virtually all Americans value and respect the voluntary sector. We therefore believe that the drive towards tax simplification, which has somewhat relieved low income Americans, was not intended to discourage charitable giving. However, since 1979, charities have lost about $5 billion in contributions. The Moynihan-Packwood Bill will give tax relief to those who need it most while rectifying the inadvertent serious damage to the voluntary sector.

Under present law, the taxpaper does not have to contribute to charitable causes to receive the full standard deduction. This removes all tax incentives for charitable giving. Only the wealthiest 23 percent of all taxpayers itemize their deductions—thus only this group has any incentive to contribute. This dangerous situation undermines the democratic giving base and concentrates charitable policy formulation in the hands of the wealthy. We are sure that the Senate Finance Committee will agree that it is important to encourage all donors, not just the wealthy, to contribute and actively participate. In the years between 1969 and 1974, the percentage of GNP given to charities fell from 1.98 to 1.80. Meanwhile, our costs have skyrocketed. This has resulted in severe curtailment of services and programs, cutbacks of staff, and economic strains that threaten our survival.

We do not believe that the Senate Finance Committee could happily envisage a society in which government is the sole provider of social services. Too many democratic values would be lost if the people, through associations of their own choosing, could no longer take responsibility for meeting community needs or addressing issues that mutually concern them.

Yet, the present tax code, rather than encouraging people to contribute, actually penalizes their giving and threatens the independence and survival of the entire voluntary sector. We urge you to allow all taxpayers, whether they elect to take the standard deduction or itemize their deductions, to deduct gifts to charity. We ask your support of the Moynihan-Packwood Bill not merely in our own self-interest, but because of the broad range of services our organizations provide, the healthy participation and responsibility they promote, the efforts they engender for improvement in the quality of our democratic society, and their vital function as an important bulwark of freedom.

SUMMARY STATEMENT OF MARY MARGARET CARR OF ATLANTA, GA., FOR THE FAMILY SERVICE ASSOCIATION OF AMERICA

The Child Service and Family Counseling Center, Inc., of Metropolitan Atlanta, Georgia has been serving the families of its community since 1892. In its 88 year history, this agency has been able to change with the needs of the community, to innovate, to sponsor new projects and to design demonstration programs.

Among the services it has provided the Atlanta community (and in some instances the entire state of Georgia) are foster care, permanent placement of hard-to-adopt children, residential maternity care, counseling and other forms of help to pregnant adolescents. Family centered counseling and other services are provided to 2,600 families per year—from all income levels and at 18 different locations in the community.

The budget required to meet the needs of the Atlanta community will be $3 million in 1980. Half this budget is provided through voluntary contributions to the United Way. These voluntary contributions have allowed the Child Service and Family Counseling Center to work with government—but as an independent partner of local and state government. We believe it is in the interest of the community and the country for voluntary agencies to retain this independence and capacity for innovation. But we believe this indepencence of the voluntary sector is threatened.

At our agency, the dependence on government dollars is increasing annually: In 1975 my report to the Board of Directors of the Metropolitan Atlanta United Way pointed out that over an eight year period we had received a 96 percent increase in United Way allocations and a frightening 1027 percent increase in government grants. Since 1969, the proportion of agency funding coming from voluntary sources has shrunk from 83 percent to 53 percent in 1979. This trend is a direct product of decreased limited financial growth of local United Way voluntary giving. When voluntary dollars decrease, the major avenue to serve the needs of an expanded population is through Government grants and Purchase of Service. I believe this trend could be reversed if tax payers who take the standard deduction are allowed to deduct their charitable contribution.

To preserve the health, vitality and independence of the voluntary sector, I urge you to recommend the tax incentive provisions of the Fisher-Conable/Moynihan-Packwood legislation.

TESTIMONY

I am Mary Margaret Carr, Executive Director, of Child Service and Family Counseling Center, Inc. of Metropolitan Atlanta, Georgia. The agency has primary support from voluntarily contributed dollars through the United Way. Currently, I serve as a volunteer board member of the Atlanta Civic Opera, Consumer Credit Counseling Agency, and Catholic Social Services in Atlanta. In addition, since 1958, I have been active almost continuously on the Boards and Advisory Committees of several national voluntary federations of family and child welfare agencies.

Today, I wish to focus on our local concerns and interests in the provisions of the Fisher-Conable/Moynihan-Packwood legislation. In my opinion, these local concerns can be translated into those of over 300 accredited family counseling agencies in this country who are in the membership of the Family Service Association of America.

Why does Child Service and Family Counseling Center support passage of the Fisher-Conable/Moynihan-Packwood legislation? We have a firm commitment to the plurality of community services being available to people in the public and private sector. In recent years we have expressed concern about the lack of voluntary dollars to support either adequate continuation of services or responsiveness to emerging needs for services in rapidly growing metropolitan areas. We consider our services vital to Metropolitan Atlanta. Several years ago, we joined family counseling agencies in Boston, Philadelphia, Cleveland and Chicago to express in a position paper our concern regarding the question of voluntary support for voluntary services.

Emphasis of the agency I administer is on strengthening the ability of families to function in the society through the provision to them of preventive and counseling services. During 1979 we worked directly with almost 12,000 individuals most of whom were a part of family groups. Until the development of community mental health services in Georgia around 1970, the agency was the only non-sectarian source of help for families in the Atlanta area and it continues as a major provider of family centered counseling to approximately 2,600 families per year. These families, if able, pay fees based on their income and the size of the family. For many of them, the costs of care, in full or part, must be met by voluntary contributions which are allocated to Child Service by United Way.

Beginning in 1892, and to the present, through the Florence Crittenton services of our agency, we have offered residential maternity care to young single parents with attention given to the future life plan for the young girl and for the child. Each year about 800 to 900 young women beginning as young as 12 years of age have counseling, special education, medical care and help in either preparing for the care of a child or in releasing the child for adoption. The State of Georgia has no public facility for this service.

Until the passage of the Social Security Act in the 1930's, the agency was the only provider in Atlanta of foster care for children. Today we have specially trained foster parents and social workers to care for emotionally disturbed and physically handicapped children. Child Service established the first specialized foster homes in Georgia in the 1960's and to our knowledge the first group homes for disturbed adolescents in the southeast.

It will be apparent by now that the agency has early roots in the Atlanta area. A total of eleven proedecessor agencies are included in our history which dates back to 1890. All of these agencies were voluntary services supported by voluntary contributions and governed by a board of volunteers. Two of these early agencies were in response to winter blizzards, ice storms and an epidemic resulting in the deprivation of families and loss of family wage earners. These were among the first strong attempts in Georgia to organize the operation of charities. One of the early names was the Associated Charities of Atlanta. Under able leadership during the formative years, resources were developed for many unmet needs of the community: children's playgrounds, a dispensary for free treatment of tuberculosis, founding of the Prison Association of Georgia, passage of the first juvenile court act, establishment of adult probation in the Police Department and many others. The agency has always worked with government but as an independent partner of local and state government.

We are now a merged, multi-service organization considered a 501(c)(3) agency under the Internal Revenue provisions. We serve seven counties in the metropolitan area and accept maternity clients and foster children from throughout Georgia. Service is provided through 18 locations and a professional social work staff of 80. In 1980 the budget will be close to $3,000,000. Of this amount, the United Way will allocate approximately $1,500,000. Offices are located in the inner city, suburban and semi-rural neighborhoods, public housing projects and police precincts. In addition to the services mentioned earlier, we have delinquency prevention programs through a behavior modification plan where the youngsters, ages nine to fourteen who are delinquency prone have older sponsors, 14 to 18, who serve as peer models and incentive awards are given for behavior change. In a Comprehensive Youth Program, we have used MARTA ads (that is our rapid transit system) to encourage inner city Atlanta youth, ages 11 to 25, to seek counseling on school, personal and job placement problems. This service is confined to Atlanta's Community Development Impact Areas. We were invited to provide this service based on earlier, successful performance in the Model Cities' area.

Believing that preparation for working, for marriage and parenthood, for communicating with others in a constructive way is needed and desired by many people, we offer family life enrichment groups which may include socio-dramas of the nationally recognized Plays for Living, an affiliate of the Family Service Association of America.

Two illustrations of other essential services will highlight public-private cooperation made possible by the existence of a voluntary agency:

The recent report of the National Commission on Children in Need of Parents, funded by the Edna McConnell Clark foundation cites the problems of children who grow up in long term foster care. Since 1970 we have on a year-round basis placed for adoption special needs children, who because of race, age, emotional and/or physical handicap are considered hard to place. The children we place for adoption are in the custody of the Georgia Department of Human Resources. The cost of this time consuming, painstaking service has been paid for by voluntary dollars, contributed to the United Way and by a Foundation. The children achieve the security of a family, and the state realizes tremendous savings.

Let me tell you about Joy. Now age 12, she came into our care from a county agency when she was 4. Removed from her parents because of severe neglect, she was termed a failure-to-thrive child. She had no speech, appeared extremely malnourished, could not sit up or walk and could not completely turn over in bed. The county agency was concerned about her, but they did not have a foster home which could meet her needs. One of our specially trained foster families accepted her. Not any of us had much hope. This very caring family, who had four children of their own, with the support and advice of the social worker and other specialists began the patient work of instilling the will to live in Joy. Today, Joy is functioning well in a private school, paid for by scholarship funds contributed by interested persons. The family and the agency rejoiced when legal barriers were finally removed and the foster parents became the adopted parents. They have in fact been the real parents for seven years.

The other illustration relates to another growing concern nationally—that of family violence. In 1972, concerned about the growing incidents of domestic assaults and non-stranger homicides in the Atlanta area, we offered to provide Domestic Crisis Intervention training for the Atlanta Police Department. Our other concern was the evidence that nationally more police were injured or killed on domestic calls than on any other police work. Since 1974, every police recruit has had 25 to 40 hours training, which includes experimental simulation of domestic violence and methods of intervention. Beginning in 1975, we developed police-social worker teams. As of this month, we have seven social workers on our staff and eleven police officers in the Domestic Crisis Intervention unit which is city-wide. A network of social agencies is responsive to referrals from these teams and assures that there will be follow-up within 24 hours after referral. To present date there is no recorded homicide where there has been a crisis response by one of the teams. In addition, training has been given to other police officers through the Georgia Police Academy. Several communities in Georgia and Tennessee, after consultation and training by our staff have initiated similar programs.

I would like to give you an illustration of a family who has utilized help through the Domestic Crisis Intervention Service: A 35-year-old university professor was shocked when he beat his wife, and neighbors in their apartment house called the police. The wife, a graduate student, had had no previous exposure to violent behavior. They came to the family agency for ten weeks during which they focused on current problems and positive rather than negative answers to them. Further, he gained understanding of why he, the victim as a child of his father's abuse, reverted to primitive behavior under severe tension.

Initially, we offered the police training through our voluntary funds because of our belief in the need of such training. Today we have a LEAA mini-block subcontract with the City of Atlanta but the agency continues to fund part of the management and the development costs. An Advisory Committee of volunteers work with the project.

The services I have briefed for you, and other innovations through the years could be undertaken because of the availability of this voluntary agency. It has a flexibility to meet need without categorization of client eligibility which is often necessary through public programs. It can advocate for people, the child, the aged and the abused. We have just completed the first phase of a child advocacy project. For two years we were able to employ a lawyer, as a child advocate, to examine the needs for programs related to the foster care and permanency planning for children. One of the results of this project will be a handbook to enable social workers to be better prepared when they appear in court on children's situations.

The strong citizens support of the agency which holds staff accountable for service and which has policy and fiscal responsibility is a tremendous asset to the community. The availability of the voluntary dollar has provided our agency with the "risk money" or the "venture capital" for program innovations. The funds available have many times been modest but they were sufficient to demonstrate. Some of the innovations or locally demonstrated programs have become funded by government agencies after they were proven valuable.

If Child Service and Family Counseling Center and other voluntary agencies cease to exist as independent voluntary agencies—what would happen? For one thing, government agencies would either have to take responsibility for providing our services or the service would no longer be offered in the community. In the case of our agency this means service to the 12,000 people I mentioned earlier.

It is not mere idle speculation to be concerned about the existence of independent voluntary agencies. There is a very real danger that just such an event might occur when one examines trends. In a report to the Board of Directors of the Metropolitan Atlanta United Way in 1975, I pointed out that over an eight year period we had received a 96 percent increase in United Way allocations and a frightening 1027 percent increase in government grants. From 1969 to present date, the proportion of agency funding coming from voluntary sources has shrunk from 83 percent to 53 percent in 1979. Government funding has risen from 5 percent ten years ago to 40 percent in 1979. This is due to the limited financial growth of local United Way voluntary giving. The major avenue for the agency to serve an expanded population is through Government grants and Purchase of Services. I believe this trend could be reversed or at least halted if tax payers who take the standard deduction are allowed to deduct their charitable contributions.

In many cases, even with government grants and purchase of service, the government funding agency does not fully finance the service. For example, in our service for unwed, pregnant, young women, 92 percent of our residential clients come referred by public agencies, yet the public expense or reimbursement is only one-third of the actual cost of the service. Two-thirds of the cost is borne by voluntary donations. Likewise for children in foster care the government does not pay the full cost of care when purchasing for children who are legally its responsibility. Without voluntary dollars, it is questionable whether these vital services would be able to function at all.

The Alliance for Human Services consisting of the Georgia Department of Human Resources, the Atlanta Regional Commission, United Way of Metropolitan Atlanta and Economic Opportunity Atlanta recently (September--1979) received a Task Force Report on the Need for the Costs of Child Welfare Services as a Public Mandate to Be Met Fully By Public Funds. The report acknowledges the need for full cost of care to be met by the public sector but states that in Georgia, for the foreseeable future, it is essential for public and private dollars to be available to provide for the care of children. Further, that the provision of service by the private sector is desirable, both from the standard of service and the seeming ability to provide it at a lower cost of care than in the larger public sector. In arriving at this conclusion, the Task Force met with a number of persons at the regional, state and local level in government supported services.

It is the vital voluntary contributions beginning with barrels of flour in the early part of the century to the essential dollars given in 1980 which have made Child Service and Family Counseling Center the responsive agency we believe it to be. We need to strengthen the voluntary sector which I believe the Fisher-Conable/Moynihan-Packwood legislation would do. The Gallup Poll data shows, at every income level, those who itemize their tax returns give considerably more in charitable donations than do those who do not itemize.

Over the years I have had considerable evidence of the concern of people with modest incomes for the needs of others. The widow's mite does exist. It is received by charitable organizations. However, the trend of the past few years when the spector of inflation appears more real, indicates the small or modest contributor feels less incentive. The availability of a tax incentive would encourage individuals to make charitable contributions. It is my belief that a strong voluntary sector is as vital to this country as a strong, free, enterprise system. Both must have the capacity to work with the public sector as partner, advocate and critic. I appreciate very much the privilege of appearing before this sub-committee. I wish you well in your deliberations, and I hope that you will recommend the tax incentive provisions of the Fisher-Conable/Moynihan-Packwood legislation.

Senator PACKWOOD. I am sorry for my delay. I was at the White House for breakfast this morning.

At this point Senator Bradley would like his statement made a part of the hearing record.

[The prepared statement of Senator Bradley follows:]

STATEMENT OF SENATOR BILL BRADLEY—"ABOVE THE LINE CHARITABLE DEDUCTIONS"

Mr. Chairman, I welcome the opportunity to contribute my thoughts on this worthwhile and timely piece of legislation. As you know, I am one of 35 co-sponsors of this bi-partisan bill which would provide a Federal income tax deduction to any taxpayer who makes a charitable contribution whether or not he or she itemizes his or her other deductions.

First, I want to commend the invaluable efforts put forth by my distinguished colleagues, Mr. Moynihan and Mr. Packwood, regarding S. 219, and which has gathered widespread support because it redresses some problems in a sector of our economy which is fundamental to the American way of life.

In most other countries, major social institutions such as schools, hospitals, universities, libraries, museums, and social welfare agencies are primarily state run and state funded. In the United States many of these same organizations are privately owned and voluntarily supported. We do not exaggerate the extent of our national generosity to recognize that voluntary benevolence has played a major role and performed important functions throughout American history.

Charitable groups were in the forefront of ridding society of child labor.

Abolitionist groups in tearing down the institution of slavery.

Civic-minded groups in purging the spoils systems from public office.

The benefits of nonprofit scientific and technological research include the great reduction of diseases such as tuberculosis, polio, malaria, typhus, influenza, and amoebic dysentery.

Approximately half of our hospitals are private community hospitals.

One-quarter of all colleges and university students who attend private institutions of higher education, primary and secondary nonpublic schools, such as parochial schools, which depend on voluntary giving, play a vital and long established role in adding to the strength and diversity of our educational system.

Private giving often plays a role which government by its own institutional nature is unable to play, that of helping to empower the powerless of American society, often non-white, non-middleclass groups which lack significant political and economic influence. Examples include the welfare rights movement as spearheaded by the National Welfare Rights Organization, the growth of minority business enterprises, and American Indians' rights. All of these worthwhile causes have been supported in part by various church groups and foundations which in turn are dependent on private giving.

Everyone is aware that religious, educational, charitable, and scientific organizations have been exempt from federal income taxes ever since today's basic income tax law was enacted in 1913. Not so obvious is the fact that possibly the single largest financial instrument which sustains the voluntary sector is the "charitable deduction" from personal income taxes. Economist Martin Feldstein has documented that approximately one-quarter of all giving is induced by the charitable deduction. The charitable deduction provides a direct link to the amount of giving to and the financial status of nonprofit organizations in the Uniteds States. As the following figures will illustrate, private support is the key to survival of our nonprofit sector.

REVENUES OF THE VOLUNTARY SECTOR—ESTIMATES OF AMOUNTS OF PRIVATE AND GOVERNMENT FUNDS RECEIVED BY PRIVATE NONPROFIT ORGANIZATIONS IN MAJOR RECIPIENT AREAS, 1974

[In billions of dollars]

	Private funds			Government funds	Total
	Philanthropy	Service charges and endowment income	Total		
Health	4.0	17.8	21.8	15.7	37.5
Education	4.2	7.5	11.7	1.6	13.3
Other (welfare, culture, etc.)	5.4	6.0	11.4	5.9	17.3
Total (except religion)	13.6	31.3	44.9	23.2	68.1
Religion	11.7	0.8	12.5	—	12.5
Grand total	25.3	32.1	57.4	23.2	80.6

Source.—Commission on Private Philanthropy and Public Needs.

Another point that people should beware of is that the charitable deduction is different from other tax deductions and warrants special consideration. The two largest types of deductions are, firstly, those enacted for extranormal health expenses, and, secondly, deductions for interest on home mortgages, designed to promote home mortgages, designed to promote home ownership. These deductions involve expenditures to satisfy personal needs.

Tax allowances for philanthropic giving cannot be looked at or measured in the same way. But the charitable deduction provides an incentive for an expenditure whose essential purpose is promotion of public needs, not personal gains or material satisfaction.

Although the concept of "income" remains unsettled, the testimony of Boris I. Bittker of Yale Law School to the Commission on Private Philantropy and Public Needs points out the unique characteristic of expenditures made to charities in the form of contributions. He stated that:

There are many definitions of income . . . But at the very core of the only definition that has the benefit of a consensus, there is a concept of consumption . . . I would assert that consumption certainly consists of what one spends on food, shelter, and clothing for himself, his family, his friends, what one saves to pass on to heirs and so on . . . But 2,000 years of religious, philosophical, and ethical views suggest that what one gives to charity can properly be viewed differently. . . . I see no reason at all why in defining income one shouldn't exclude those items like charitable contributions that our whole history tells us represent a special kind of use of one's funds.

Although we are not here today to question the worthiness of their charitable contributions, or to urge their exclusion from the definition of income, I believe that the Moynihan-Packwood bill which we are considering is essential to continuing and reaffirming the important role of the charitable deduction to American society.

I state this because within the past decade we have witnessed an erosion of our charitable giving base. In 1970, 2.32 percent of all disposable income was contributed to nonprofit organizations by American taxpayers. By 1978, this figure had declined to 2.26 percent. Though this constitutes a difference of only .06 percent of disposable income, the difference in dollar terms is $870 million per year. This erosion of giving can be traced, to a large degree, to one essential cause—more and more people are filing for the standard income tax deduction rather than itemizing their taxes. Since 1970, the level of the standard deduction has increased up to the present maximum level of $3,400 for a married couple filing a joint return. As the level of the standard deduction has increased, so has the proportion of standard deductors. In 1970, 48% of the tax filing population itemized their taxes versus 52% who filed the short form. By 1979, the proportion had changed to 72% who did not itemize and only 28% who itemized. Encouraging this trend has become accepted policy of the Treasury Department and in Congress.

Those who take the standard deduction can effect appreciable tax savings. Because no actual outlays need be made to take the standard deduction, the savings do not act as an inducement to any particular form of expenditure. As a result, charitable giving suffers. As an example, in the $10,000 to $15,000 adjusted gross income bracket, those who itemized gave an average of $407 whereas those who did not itemize gave only $201. (Michigan Survey Research Center 1973).

The increased use of the non-itemized tax form not only creates a quantitative loss in charitable giving, but raises problems of equity as well. As then-Senator Walter Mondale found in a study done for fiscal year 1974, of the $3.8 billion in tax expenditures accounted for by the charitable deduction (with education in a separate category), 66.7 percent went to families with adjusted gross incomes of more than $20,000, representing only 14.6 percent of all taxpayers. This disproportionate benefit to high income taxpayers rises directly with the increase in the use of the short tax form because the proportion of persons utilizing the short form is much higher in lower income brackets than upper income brackets. In the $5 to $10,000 income class, only 8 percent of all taxable returns were itemized versus 81 percent itemization in the $30 to $50,000 income bracket. A recent Gallup poll found that in every income bracket, itemizers gave 2 to 1 over non-itemizers and in the $15 to $20,000 group this ratio was 3 to 1.

As we get closer to the IRS goal of greater than 90 percent use of the short form, 1040A, the base of contribution becomes further narrowed toward the class of wealthier individuals. Stated succinctly by then ranking Republican member of the House Ways and Means Committee, Representative John Byrnes, "The real problem is that certain people have a choice as to how the tax aspect of their income is going to be spent. Others have to let government say how it is going to be spent." In the effort to simplify taxes, we are sacrificing involvement and participation in the voluntary sector by the lower income portion of our population.

Not only has the base of giving diminished, but the costs of running organizations has steadily risen. This is due primarily to the fact that in recent years, labor costs have risen faster than other prices, coupled with the fact that voluntary organizations cannot substitute capital for labor as readily as other sectors of our economy. In the last year, as recent news articles demonstrate, the cost of energy has put an even greater pinch on these institutions. The combination of the declining base of giving and the rising costs of operation has resulted in financial crises for many of these nonprofit organizations. The charitable crisis of the 70s could very well continue into the 80s unless substantive action is taken to reverse present trends. Indeed, the existence of whole areas within the nonprofit sector may be threatened.

The plight of education in recent years has been sell-stated by my colleagues. I would like to reiterate, as an example, that almost 150 private colleges have already shut down since 1969. Congress wisely has made efforts to ameliorate this situation. Another area of nonpublic education, private pre-college schooling has been in worse financial shape than the private colleges. "In the long run," according to Donald A. Erickson, "if the economic trends continue, the vast majority of nonpublic schools seem doomed." Parachial schools, which account for the large majority of private primary and secondary institutions, have been closing their doors by the hundreds around the country in recent years.

Non-profit arts organizations have similarly been in financial trouble for a number of years on nearly every front, from symphony orchestras to museums. Social service organizations have been slashing their budgets and reducing their staffs in order to stay afloat, or in a number of cases, have gone out of business entirely.

Mr. Chairman, there is another aspect of this change which we should keep in mind, although I do not suggest that it be determinative by itself. This is the opportunity it affords to induce additional financial aid to private secondary and elementary schools. Although opinions are widely divergent on the appropriateness of federal aid to parochial schools, all sides of that issue recognize that private schooling supported by religion provides an important and essential element in the nation's educational system. Without private schools, the richness of the educational experience offered our children would be reduced. There would be little or no alternative to state run education. And without private schooling, the cost of providing education imposed on taxpayers and on society, and on state and federal governments, would be massive.

Yet this sector of the educational system has been sorely hurting in recent years because of financial shortages. Efforts to find a way to direct governmental assistance run unto near-insoluble constitutional problems, and raises many disputes over policy that the First Amendment is designed to avoid.

This proposal would have a small but important impact on the problem. A significant portion of charitable contributions finds its way to private parochial education. Estimates are that 6 to 7 percent of every charitable dollar contributed goes to parochial schooling. Of the approximately $4.1 billion in additional contributions that this bill would induce, we can estimate that about $250 million would be used for parochial schooling.

I do not suggest that this should be our major incentive for adopting the reform. Nor do I think that it could be a substitute for efforts to find acceptable means of assisting parochial schools. But this is indeed one method by which that kind of assistance can be given with little danger of policy disputes or constitutional conflict.

The examples of failing support for volunteer organizations are numerous. Let me give one example from my own state, which can be multiplied I'm sure elsewhere in the country. The Boys Clubs of Passaic have been losing contributions in the two appeals which they run every year. A camp which they run for underprivileged youths netted only $1,600 worth of donations in 1979 versus $2,500 just one year earlier. Secondly, their Christmas campaign, which usually nets around $3,000 in contributions, brought in only $1,200 this past holiday. As the contributions to these kinds of programs decline, the number of youths who can participate and benefit from them diminishes significantly.

As Martin Feldstein has documented, the charitable contribution represents an effective and efficient way to redress these problems. Studies that he has done utilizing IRS data have shown that for each dollar of tax revenue lost by virtue of the charitable deduction, charitable organizations receive between $1.13 and $1.29 in additional contributions. According to Feldstein's econometric projections, extending the charitable deduction to non-itemizers would increase giving by $4.1 billion and reduce tax revenues by $3.6 billion—a net increase of $500 million. Extending the deduction would give approximately 60 million taxpayers in effect at least a 14 percent tax writeoff on every charitable dollar, where they now receive no tax savings directly attributable to the process of giving.

A less quantifiable, yet irrefutable, result of an above the line charitable deduction would be its impact on the donation of peoples' time. Studies done jointly by the University of Michigan Survey Research Center and the U.S. Census Bureau indicate that for every dollar given by individuals, an equivalent dollar's worth of labor is given in the form of volunteer work. As the number of people who donate dollars increases, so will the amount of time they contribute to nonprofit organizations. An above the line charitable deduction thus will serve as a catalyst which stimulates interest, commitment, and involvement in the voluntary sector.

The Moynihan-Packwood proposal particularly targets the incentive to make charitable deductions to low and middle income groups. Senator Packwood has pointed out that, according to the Joint Committee on Taxation, 77.3 percent of the tax returns affected by this amendment are related to incomes below $20,000. 57.5 percent of the revenue would be gained from the same income group. The overall democratic framework of the voluntary sector will be enhanced and the growing inequity of influence will be countered by stimulating an increase in giving by lower and middle income groups. Although these groups donate substantially to religious organizations, these religious organizations, in turn, donate approximately 15 percent of their receipts to nonpublic schools. When people are given the incentive to use their extra income for charitable purposes, I am sure that they will avail themselves of the opportunity to spend their dollars wisely.

Mr. Chairman, I believe that for the little we lose in terms of simplification due to this amendment, we are more than adequately compensated for in terms of gains to the American public. Moreover, this amendment does not run counter to the goal of tax-simplification. As I have already stated, the charitable deduction deserves special consideration. The reform would not raise questions of constitutionality nor would it set a precedent for other above-the-line deductions. Secondly, use of an above-the-line charitable deduction would, of course, not be required. It would simply be available, in addition to the standard deduction, for every taxpayer willing to put up with a little extra inconvenience. Those who still desire a simplified tax filing process will not be significantly inconvenienced.

Mr. Chairman, there have been growing doubts about the need for the charitable deduction in order to maintain essential organizations and services. In recent years, as private giving has become a shrinking element in the support of traditional objects of philanthropy, the need for this giving has become more subtle and in some ways may appear to be a less compelling proposition. Meantime, the nation has moved from vigorous growth to an economy of high unemployment and inflation, with public budgets exhibiting signs of severe strain. We have an opportunity with this piece of legislation to reinforce the public sector by allowing for increased private initiative. No doubt you have heard me speak of the need to establish energy security in the United States and the fact that this effort starts first and foremost with individual people. With the issue being considered today, there exists a strong analogy. Our primary resource to combat the crisis in giving, as well as the crisis in energy, is the American people, not the American government.

The charitable deduction is a proven mechanism familiar to donor and donee, easy to administer and not discriminatory against or prescriptive for donation to any particular type of organization, religious or otherwise.

By providing added opportunity for people to utilize the charitable deduction, S. 219 serves to strengthen an essential sector of our economy which recently has been eroding due to what can be termed "benign neglect." Above all, S. 219 will enhance people's freedom of choice, both in their giving of time and of dollars. Moreover, the rewards we will reap from the enactment of this amendment will be commensurate with the combined satisfaction that every additional contributor feels after knowing that he or she has enriched the life of another human being.

Senator PACKWOOD. Mr. McIntyre? Go right ahead.

STATEMENT OF ROBERT S. McINTYRE, PUBLIC CITIZEN'S TAX REFORM RESEARCH GROUP

Mr. McINTYRE. Thank you, Senator. We appreciate the opportunity to be here today to present our views on the above-the-line charitable contributions bill.

Public Citizen is a strong supporter of the voluntary sector and we think that it plays a very important role in our society. Nevertheless, we are opposed to S. 219 because we think it is very bad tax policy and because we do not think it will do very much for charitable organizations.

Let me point out at the outset that Public Citizen is a 501(c)(4) organization, and therefore is not eligible to receive tax deductible contributions. On the other hand, we are affiliated with some 501[c](3] groups so, in a sense, the bill would affect us.

On a personal note, it would also affect me, I suppose. As a nonitemizer, it would be worth $75 to $100 a year to me. But I do not think it would affect my charitable giving.

Several serious, negative effects would result if S. 219 were enacted:

First of all, it would cost a large amount of money at a time when we are trying to keep the budget within constraints, both to try to deal with inflation and to keep Federal borrowing down to help the supply of savings in the economy.

Second, from the point of view of tax policy—and this is our biggest concern—we are very worried about the possibility of some 40 or 50 million Americans having to keep the kind of records and fulfill the kind of form requirements that would be needed to take the charitable contribution deduction.

That is especially true in terms of the form 1040A which, up to now, has been administered without any supportive schedules. That really has been the key to that form, to make it easy for moderate-income taxpayers to use it, and we really are distressed about the idea of adding such schedules to the short form.

We are also worried about the problems that the Internal Revenue Service is going to have if 50 million more people take the charitable deduction. The IRS is going to have to be auditing at least one million of those forms and we are going to have hundreds of thousands of taxpayers who are going to have adjustments. This is going to mean a burden on the Service at a time when its budget really is stretched very thin and when energy credits are going to stretch it even thinner.

It is also going to create taxpayer resentment and anger. That is not what we need at a time when Congress and the IRS really have taken some important steps to make the tax system easier and less unpleasant for taxpayers to deal with.

Now, balanced against these bad effects, one has to look at whether the bill would have a real effect on charitable giving. We do not think that it would have a very substantial effect and we base that conclusion mainly on the historical record and commonsense.

First of all, over the years, the share of personal income which has gone to charity does not seem to have been very sensitive to the percentage of taxpayers who itemize their deductions. According to the figures that the Treasury Department has presented, the percentage of income going to charity over the last 25 years has remained virtually constant while the percentage of people itemizing has varied between a quarter and over a half. The kind of sensitivity to deductibility which some people intuitively feel might be there does not seem to exist according to the historical record.

Second, when one looks at the primary group of taxpayers who would be affected by the bill, two-thirds of them are in tax brackets in the 14- to 18-percent range. And virtually all of the remainder are in brackets that go sometimes as high as 25 percent.

So, for most of the affected people we are talking about a subsidy on the order of 15, 16, 17 percent on their charitable contributions. We do not think that is going to make a significant difference in people's decisions about whether to put money in the collection plate, or have a payroll deduction for the United Way, or send money to CARE, or the other things that people in those groups typically contribute to.

Obviously there may be some psychological effect, and charities would try to exploit that. But we really do not think that the ultimate result will be very much increase in charitable giving at that very low level of subsidy.

One of the tests people seem to have used in evaluating the bill is to assume that, if Treasury only loses as much as the charities gain, maybe it is OK. But even for this bill to break even, we would have to see something on the order of a 30-percent increase in nonitemizer giving. We do not think this is at all likely.

Furthermore, given the very serious problems that would result from the bill, we should require a better return than just breaking even. But for the charities to gain even twice as much as Treasury loses, we are talking about an 80-percent increase in nonitemizer given. This is not conceivable given the very low level of the subsidy.

So, in conclusion, given the very serious problems that exist with this bill, and the biggest one is the complexity, especially on the short form, we think that there should be a heavy burden on the part of the charities to show that the bill is really necessary and that it will work. Given the record of contributions over the years and their consistency as a percent of personal income and given the low ra.e of subsidy and the unlikelihood that this bill would have a significant effect, we do not think that charities have shown either the need for or the efficacy of the bill, and we urge the subcommittee to reject the proposal.

Senator PACKWOOD. Generally, Public Citizens' philosophy bends toward the simplified tax form and against tax expenditures, does it not?

Mr. MCINTYRE. Yes.

One of the reasons we have problems with tax expenditures is that we really think it should be easy for people to fill out their forms.

Senator PACKWOOD. That is a respectable philosophy, but not one that I agree with. If we are going to try to encourage things without tax incentives, and we still want to encourage something in the marketplace, the alternative is a Government program from grants or appropriations.

I admire your consistency, but it is fair to say that usually, with some exceptions, Public Citizen would testify against most of these so-called tax expenditures?

Mr. MCINTYRE. That is true.

Senator PACKWOOD. On the basis of simplification?

Mr. MCINTYRE. That is one of the reasons.

Let me point out, Senator, that the charitable deduction in general is one that I feel rather kindly toward because I think it does have an effect on people in the higher brackets. It really does help the voluntary sector.

But this is a case where I really think that the complexity problems overwhelm any small incentive effects that might exist.

Senator PACKWOOD. I am not sure that it is more unduly complex than child care expenses, or alimony or the other above-the-line deductions that are allowed.

Mr. McINTYRE. The difference is that alimony and energy credits and some of these other particular things that are available are not as universal as the charitable deduction. We are talking about tens of millions of taxpayers—I would guess three-quarters of the people who use the short form are going to have to start filing a supportive schedule.

Everyone puts something in a collection plate or has something deducted from his salary for the United Way, or whatever. We have a giving society.

Senator PACKWOOD. The argument made yesterday by all of the groups, I think without exception who favor this, is that they are trying to reach the $15,000 taxpayer group. The taxpayer who now makes immensely more money and itemizes is not going to be affected one way or the other by this particular bill. The argument was made by group after group, that if a person would contribute $50, $100, volunteer time would probably also be contributed. Do you think that is a valid argument?

Mr. McINTYRE. I think it is useful to get people to contribute a little bit. I just do not think this bill would have a significant effect on it.

I get all kinds of solicitations—I am sure you do, too—and I respond to some of them. The fact that it might save me 20 or 25 cents on the dollar really is not that crucial. It is just not big enough.

Senator PACKWOOD. Yesterday, the people who are literally in the trenches raising money, thought that saying this was a tax deduction was an incentive. Indeed, where they have seen their biggest downturn in numbers of contributors, is in the younger age group using the standard deduction and that while their collections have been going up, their numbers of contributors have been going down—this is discouraging, if that is true.

At least they thought, based upon their pragmatic, day-to-day fundraising experience, that it would be of significant help in getting new, small contributions.

Mr. McIntyre. My organization, obviously, is in the fundraising business, too. We are into small contributions and they are not tax deductible, and we have had a fair amount of success.

I do not think it would make much difference to our donors, for example, if we could tell them that they would save $2 or $3 at tax time.

So I suppose the bottom line comes down to what your commonsense tells you. But with the alleged benefits so speculative and the damage to tax simplicity and administrability so senous and sure, we hope the Congress will accept our counsel and reject S. 219.

Senator PACKWOOD. Thank you very much. I appreciate it.

[The prepared statement of Mr. McIntyre follows:]

STATEMENT OF ROBERT S. MCINTYRE, DIRECTOR, PUBLIC CITIZEN'S TAX REFORM RESEARCH GROUP

Thank you for the opportunity to present our views on S. 219. Public Citizen is a strong supporter of the voluntary sector in America. We believe that non-profit organizations play a unique and vital role in our pluralistic society. But we are opposed to S. 219, which would allow the charitable deduction to taxpayers who do not otherwise itemize their deductions, because we believe it is bad tax policy and would do little if anything to aid charitable groups.

At the outset, I should point out that, as a 501(c)(4) organization, Public Citizen does not receive tax deductible contributions. Our donors, most of whom contribute $15-20 per year, support us without this particular form of government assistance. Public Citizen is, however, affiliated with several non-lobbying groups which are eligible for tax deductible gifts. I should also point out that, personally, I am a married homeowner who does not itemize for federal income tax purposes (but does itemize on the District of Columbia tax form, which has a much lower standard deduction). Based on my current level of charitable contributions and tax bracket, S. 219 would be worth about $75-100 a year to me in reduced taxes. I would not expect the bill to have any effect on my future giving, were it to pass.

It is distressing to see so many charitable organizations—supposedly concerned about the public interest—lined up behind a bill which would have the following sure effects:

It would cost the Treasury at least $2-3 billion per year, increasing the deficit and thereby reducing societal savings, at a time when budgetary restraint to help curb inflation and aid savings is considered imperative.

It would complicate tax forms and record-keeping for tens of millions of Americans, flying in the face of recent Congressional and IRS attempts at simplification.

It would increase the audit burden of the IRS at a time when its budget is already stretched very thin.

It would decrease tax fairness by reducing the alternative minimum tax on some very high income individuals already paying very low effective tax rates.

It appears to us to be extraordinarily selfish of these charitable petitioners to be willing to accept all these negative effects—especially since the benefits they hope to gain are so chimerical. We urge this Subcommittee to reject S. 219.

I. THE NEGATIVE EFFECTS OF THE BILL

A. Cost to the Treasury.—If charitable giving were completely unaffected by S. 219, the revenue loss to the Treasury would be some $2-3 billion annually. If giving increased, the cost would be greater. At a time when Americans are being asked to make rather substantial sacrifices to aid the fight against inflation by accepting a real increase in tax rates due to "bracket creep," expensive new tax expenditures should be almost unthinkable. Adoption of S. 219 would both add to demand pressure on inflation and, by increasing federal borrowing, reduce the supply of savings available for productive investment.

B. Tax complexity.—Recent Congressional actions concerning the zero-bracket amount and IRS steps to improve tax forms have been directed toward making it easier for most taxpayers to deal with the unfortunate duty to file tax returns. These efforts have shown an impressive level of success. The number of taxpayers able to use the short form 1040A has increased dramatically and the error rate on all returns is down substantially.

S. 219 would move us a large step in the opposite direction. Several new lines would have to be added to the tax forms, including the 1040A. In fact, it would appear that taxpayers utilizing the 1040A would have to file a supporting schedule, a requirement which up until now has been successfully avoided. A very high percentage of taxpayers would have to start keeping records of contributions, such as collection plate donations. Tens of millions of moderate income individuals would have to learn to tell a 501(c)(3) charity from a 501(c)(4) social welfare organization.

C. Internal Revenue Service problems.—To be sure that taxpayers have acquired the new sophistication that S. 219 would require, the IRS would have to audit charitable deductions on as many as a million additional returns. If past experience is any guide, this would result in hundreds of thousand of small tax adjustments, creating taxpayer anger and resentment.

At a time when the IRS is trying hard to improve compliance and taxpayer relations, and when its audit budget is already spread too thin, S. 219's new burdens are not only unneeded, they are seriously harmful.

D. Effects on the alternative minimum tax.—S. 219 would also, because of its technical operation, reduce by some $30 million the alternative minimum tax on a relatively small number of very high income taxpayers who already pay low effective tax rates. This could damage the perceived fairness of the tax system, an important element of our self-assessing system.

II. THE LIKELIHOOD OF INCREASED CHARITABLE GIVING AS A RESULT OF S. 219

No one knows for sure, of course, what effect, if any, S. 219 would have on charitable giving by non-itemizers. Econometric studies attempting to quantify the changes in giving which could result are contradictory and ultimately rather inconclusive, with their results dependent largely on key assumptions made by their authors. But historical evidence and common sense indicate that the increases in giving generated by the bill would be very modest.

First of all, charitable giving as a percent of total personal income, while showing a slight upward trend as real personal income has increased, has been remarkably stable over the years, in spite of large shifts in the percentage of taxpayers itemizing their deductions. Although the percentage of taxpayers itemizing deductions has ranged over the past 25 years from barely a quarter to almost half, the share of personal income going to charity has hardly fluctuated, and there is no apparent correlation between the rate of giving and the percent itemizing.

	Giving as a percent of personal income	Percent of taxpayers itemizing
1955	1.7	29
1960	1.8	40
1965	1.7	42
1966	1.8	41
1967	1.8	42
1968	1.8	44
1969	1.8	47
1970	1.8	48
1971	1.8	42
1972	1.8	35
1973	1.7	35
1974	1.7	36
1975	1.7	32
1976	1.9	31
1977	1.9	26
1978	1.9	29

Source.—Based upon data supplied to the Subcommittee by the U.S Department of the Treasury, Jan 28, 1980

Second, the rate of subsidy which would be provided by S. 219 to charitable giving would be very small. Two-thirds of the taxable, non-itemizing returns which might be affected by the bill reflect incomes of less than $15,000, and marginal tax rates of 14 to 18 percent. And virtually all the remaining affected returns are in the $15,000-$30,000 range, with marginal tax rates averaging 25 percent. Thus, the effective subsidy for most affected taxpayers would be about 15 percent, and only rarely would the tax subsidy go as high as 25 percent. These figures are consistent with the Joint Tax Committee staff's estimate of the "deadweight" revenue loss from S. 219 (that is, the loss with no increased giving), which works out to an average tax reduction for all taxable non-itemizers of $34, which is 17 percent of the average non-itemizer contribution of $200.

DISTRIBUTION OF TAX BENEFITS OF S. 219 TO NONITEMIZERS BASED ON CURRENT GIVING LEVELS (DEADWEIGHT LOSS) (1979 LEVELS)

Expanded income class in thousands	Total benefit in millions	Average benefit per return	Average benefit per taxable return	Percent of taxable nonitemizer returns
Less than $5	$44	$2	$10	10.4
$5 to $10	259	16	20	30.4
$10 to $15	260	22	24	25.4
$15 to $20	287	42	43	15.6
$20 to $30	432	69	69	14.4
$30 to $50	159	106	106	3.5
$50 to $100	37	207	207	0.4
$100 to $200	4	220	220	0.0
$200 and over	1	333	333	0.0
Total (average)	1,483	24	34	100.0

Source.—Based upon data supplied to the Subcommittee by the staff of the Joint Committee on Taxation, Jan 28, 1980.

It simply does not seem likely that many taxpayers would significantly increase the amount they put in the collection plate or have taken out of their salaries for the United Way or send to CARE because of a 15 or 17 percent refund when they file their tax returns. Doubtlessly, of course, charitable fundraisers would attempt to emphasize to prospective donors the enhanced benefits of charitable giving. And perhaps some solicitees would be impressed by statements like "Your contribution is deductible for federal income tax purposes, even if you use the standard deduction." But we believe that a 16 percent subsidy is too marginal to have much effect on giving. In fact, in the Michigan survey, even most respondents who itemized (and were presumably in higher brackets than those who would be affected by S. 219) denied that tax considerations influenced their charitable giving.

Certainly, the increase in giving would not be likely to approach the revenue loss to the Treasury. Charitable giving by non-itemizers would have to increase by at least 30 percent to reach such a "break-even point." Furthermore, simply breaking even does not seem to be a sufficient justification for S. 219, given the serious problems which the bill would create. Yet for the charities' gain to be even double Treasury's loss would require non-itemizer giving to increase by over 80 percent.

CONCLUSION

To justify such a significant assault on budget austerity and tax system simplicity, we believe that the proponents of S. 219 should be required to show both a pressing need for their proposal and a strong likelihood that it would achieve its goals. Given the continued strength of charitable giving as a percentage of personal income and the improbability of above-the-line deductibility having a significant effect on donations, we believe that such a case cannot be made. We urge that S. 219 be rejected.

Senator PACKWOOD. Next, we have a panel on the environment and public-interest law. David Sive, attorney at law, Winer, Neuberger & Sive; John Anderson, director, Wildlife Sanctuary, the National Audubon Society; and Neil Gaston, executive director of the Nature Conservancy.

Mr. SIVE. Would you be able to have the people sitting around you state who they are?

Senator PACKWOOD. They are not quite a jury, but they border close to it. They are the staff of different members of the committee. Some are on my staff, some are on other Senators' staffs who are sponsors of the bill and who cannot be here today.

Mr. SIVE. Please forgive me. I will be very brief, just to supplement the written testimony, which I appreciate your filing.

STATEMENT OF DAVID SIVE, WINER, NEUBERGER & SIVE

Mr. SIVE. I am talking in terms of public-interest law groups. I defined this in the written submission. I will simply repeat it here. It is the law which is developed out of a fairly recent representation of previously unrepresented or underrepresented groups, primarily in legal proceedings, essentially environmental interests, consumer interests, and interests really in public integrity.

And as I see it, I think the issue which has developed right here this morning is whether the funds which would go into the private organizations if this legislation passes—and I very strongly support it—would be better used than those funds if they did not go into those organizations.

And pursuing that logically, I think the answer is yes, because if those organizations serve valid public purposes and the law requires that they do, and if those public purposes would have to be served by Government itself——

Senator PACKWOOD. Let me ask you this. Of course, Senator Moynihan and I are the principal sponsors of this bill and a number of others are cosponsors. We agree with that conclusion. I am curious as to what you think about Mr. McIntyre's statement that indeed, the incentive will not make any difference.

Mr. SIVE. By that, if he means that the incentive will not secure the contributions because people who otherwise would not contribute would contribute, I think he is wrong, utterly wrong. I do not have any expertise, but I rely on the information developed by your and Senator Moynihan's staffs.

I can tell you in addition the money problem is a very profound problem which the public-interest law movement has and that is the constant charge made, with good faith, but I think wrong, that those movements represent an elitist groups, that they are aspects of elitism.

Part of the reason for those charges is I think the fact that those groups have been supported largely by foundations such as Ford, Rockefeller, and others, the support which is now being withdrawn.

More than anything else, what is needed for those groups in addition to the financial support is the support and backing of larger numbers of smaller groups in the larger population, not in the upper-level, elitist foundations based upon ancestral wealth.

That is a very profound change that would be affected by this legislation on the public-interest law movement, and related movements, that they would then receive their direct support from large numbers of persons who can identify with the interests which they represent.

Senator PACKWOOD. That was the testimony of most of the groups yesterday and they were broad-based groups: churches, Red Cross, groups that draw from large numbers of small contributors. I think they would agree with you and dispute Mr. McIntyre's point that this deduction is not an incentive. If Mr. McIntyre is right, that there is no incentive, then there is no point in passing it, no point in the Treasury losing $2 or $3 billion. We do not need to lose it if it is not going to result in increased giving anyway.

Mr. SIVE. There I would simply state that I rest on the information which has been developed by the staffs.

Just one other point—I will take half a minute.

If the question is, as I heard the gentleman raise just before me, as to the money that goes to these groups would be well used, I can state without equivocation, and I can document in 2 hours, if given the time, that every dollar which has gone into any of the groups for which I speak, primarily the public-interest, law, and environmental groups, is twice as well spent and more than the dollar that goes to a governmental agency to perform the same purpose and this is not any criticism of any such agencies. It is the nature of the whole institution of private giving and private voluntary service.

Senator PACKWOOD. The Red Cross had an interesting statistic yesterday that for every one paid employee they had 77 volunteers. One of the reasons the Red Cross can be more efficient in disaster relief is because there are few Government programs that can claim that kind of ratio.

It is very difficult to get people to enthusiastically give and volunteer their time to a Federal program for which most people are being paid.

Mr. SIVE. Absolutely. The same would follow for the Environmental Defense Fund, the Natural Resources Defense Council, Audubon, and all of those other groups which are represented and are on the panel of which I am a part.

Senator PACKWOOD. Thank you very much.

Yes, sir?

STATEMENT OF NEIL GASTON, EXECUTIVE DIRECTOR, THE NATURE CONSERVANCY

Mr. GASTON. Senator Packwood, my name is Neil Gaston. I represent the Illinois chapter of the Nature Conservancy. I will summarize briefly my written testimony which has been presented.

The Nature Conservancy is a not-for-profit national organization. Since 1951, the Nature Conservancy has been involved in identifying, protecting and acquiring natural areas throughout the United States.

Recently we completed our acquisition in Delaware, which made 50 States that the Nature Conservancy had projects in. More than 1,600,000 acres of land have been purchased by the Nature Conservancy and been set aside, permanently protected.

I represent the State of Illinois where, since 1967, we have acquired more than 15,000 acres and 29 separate projects. These are projects which initially had little support from the public sector.

Our first acquisition, I think, is illustrative of what the Nature Conservancy is doing and why this bill is so important. We purchased an area called Volo Bog. Volo Bog is the only glacial bog left in the State of Illinois.

There is the Volo Bog, a quaking, stagnant moss bog is located in Lake County, approximately 40 miles from Chicago. It was going to be turned into a golf course.

For $15,000, the Nature Conservancy in 1957 purchased that bog with very small contributions, $1, $10, coffee klatches held at people's houses. That land was ultimately transferred to the Illinois department of conservation. It became the first national area that the department of conservation had ever acquired.

Volo Bog was added to by later public acquisitions and, today, it is the keystone of the natural area system of the department of conservation. There are some 15 areas across the States now owned by them because of the Nature Conservancy's leadership.

We have some statistics that I would like to add to Mr. Sive's. The Nature Conservancy, for every dollar which we receive from the public sets aside 26 dollars' worth of natural land. A few years ago, that statistic was $1 to $32. Inflation is having a ravaging effect on us, as well. We must compete ever harder for those dollars.

Senator PACKWOOD. Could you repeat that?

Mr. GASTON. For every dollar the Nature Conservancy takes in from private sources, we set aside $26 worth of land.

Senator PACKWOOD. How?

Mr. GASTON. Because the Nature Conservancy, as not-for-profit, can offer a bargain sale to a seller of land and show him how he can sell the land for less to us than he can on the open market and at the same time realize more after taxes.

In fact in some cases, if you are in a sufficiently high bracket, your land is sufficiently appreciated and your basis is low enough, you can actually make money by giving it away, and that is something that we show people how to do.

The area that the Nature Conservancy has been involved in in Illinois extends not only to Volo Bog, but our most recent acquisitions, the Little Black Slough, a 25-acre bank, trees 30 feet in diameter, some more than 30 years old. This is the closest thing we have to open space in Illinois. Illinois, incidentally, ranks 49th in publicly owned open space. We are a State which is blessed with very rich soil, a great deal of oil, coal, agricultural resources, and many people. Unfortunately, we compete for natural space with those other interests.

Forty-ninth in publicly owned open space. The acres came on sale, and our interior could not buy that. We purchased it and gave it to the State and Federal grant. We made a gift of $1 million of land to the State of Illinois. During the last 3 years, the department of conservation has not had a capital budget of larger than $2 million. We are buying some $5 million to $6 million worth of land every year.

We are the primary land acquisition agency in the State of Illinois. There is no other Federal agency other than the Forest Service.

Without the Nature Conservancy in Illinois, without the support that we receive from many contributors, some 4,000 members now in the State up from 1,100 3 years ago, we would not be able to carry out our mission.

Thank you, sir.

Senator PACKWOOD. Do you have a comment on Mr. McIntyre's statement that the availability of the deduction really would be a sufficiently small incentive, that it would not make any difference anyway and therefore we do not need it?

Mr. GASTON. I cannot speak to Mr. McIntyre's comment except to say that my experience has been slightly difference. The Nature Conservancy in Illinois—as Mr. Sive has said, the environmental movement has been criticized by many as an elitist movement. The

Nature Conservancy, because of the sophistication of the arguments we have put forward, has often had that criticism leveled at us.

Recently, the Nature Conservancy determined we needed the broad support of the public. We began direct mail campaigns and went out looking for new members in Illinois, our chapter, a volunteer chapter, determined to do this on its own, and we made a mailing to 100,000 people throughout the State.

That is how we raised our membership from 1,100 to 4,000. The average member contributes $17.89. We split that equally with our national office. That means that $40,000 of a $120,000 operating budget is coming from small contributions. That is $40,000 that was not there 3 years ago.

I think that experience is indicative and illustrative of the need for small contributions.

Senator PACKWOOD. Let me ask you a quick professional question as an aside. Did you do the direct mail yourself, are you familiar with the statistics of it?

Mr. GASTON. Yes; I am.

Senator PACKWOOD. You mailed out 100,000?

Mr. GASTON. We had a response rate of slightly more than 1 percent, 1.1 percent.

Senator PACKWOOD. What average contribution on that response?

Mr. GASTON. The average contribution on that response was a little more than $17.89. The $17.89 figure is one that our national organization has had. We use mostly volunteers for making our mailing. We had professional work done on the mailing piece, but the actual posting of the envelopes was done by other environmental groups—the Audubon Society, the Sierra Club, et cetera. They distributed to their members, so we were mailing to the committed and we had a better response.

Senator PACKWOOD. Now, how long ago did you do that?

Mr. GASTON. It took us 6 months to do that mailing.

Senator PACKWOOD. When did you finish it?

Mr. GASTON. When did we finish it?

Senator PACKWOOD. Yes.

Mr. GASTON. A year ago last November.

Senator PACKWOOD. What success have you had in mailing back to those people who contributed once for more contributions?

Mr. GASTON. We have asked them to renew their membership and we have had a mixed result. Our national organization's direct mail in that campaign has not been as successful in keeping those members as we have been. We have asked the organizations that pledge initially did this mailing for us to go back to their members and their publications, ask them to renew.

Our renewal rate for people solicited by direct mail is frankly not as high as our other membership is. I think our ratio is for members who come in normally is about 90 percent, an extremely high figure. I believe the response ratio is about 60 percent for those who came in in the direct mailing campaign.

Mr. SIVE. There are two other answers I just thought of. First, if that is so, then that destroys the argument that Treasury will lose. One cancels out the other.

Second, one of the things that I recall, 12 years ago the Sierra Club's advertising for contributions in connection with the controversy over Grand Canyon's dams it advertised and made the mistake of saying these contributions you make are deductible. It lost its tax deductibility.

Certainly Treasury must have believed that they would lose money because people would make small contributions in order to fight the Grand Canyon dams. So the Treasury Department must have concluded that what Mr. McIntyre says is utterly wrong.

Senator PACKWOOD. Refresh my memory on this. Did not the Sierra Club lose its tax status because it was lobbying?

Mr. SIVE. That is right. This appeal for funds saying it was tax deductible at the same time it was arguing what was really legislative is why it lost its deductibility.

Senator PACKWOOD. In theory, aren't a number of groups separating their educational functions from their political functions and the political part is not deductible other than the political tax credit which exists for political contributions to political organizations?

Mr. SIVE. That is right. That institution is separating, developed after that Sierra Club problem.

Senator PACKWOOD. Gentlemen, thank you very much. I appreciate it.

[The prepared statements of the preceding panel follow:]

STATEMENT OF DAVID SIVE ON CHARITABLE CONTRIBUTIONS LEGISLATION

My name is David Sive. I am an attorney and a member of the law firm of Winer, Neuburger & Sive, with offices at 425 Park Avenue, New York, New York 10022. I reside at 89 Lark Street, Pearl River, New York 10965.

I submit this statement in suport of HR 1785 and S 219, each of which would allow all taxpayers to deduct charitable gifts from their taxable income regardless of whether or not other deductions are itemized. I understand that a number of other witnesses are to testify in support of the legislation on behalf of their interest groups. I speak on behalf of the large number of Public Interest Law groups whose work has in the past fifteen years become a vital part of our legal and governmental system and who are supported primarily by contributions which are deductible from taxable income as charitable gifts.

My thesis can be simply stated: without such deductible status most such contributions would not be made; the great majority of Public Interest Law groups could not exist; and the role they play in our legal and governmental system would be fatally handicapped.

I make this seemingly dogmatic statement on the basis of my own work in the Public Interest Law movement since its beginnings in the early sixties. In that period I have served as an organizer and governing board member of a number of such organizations and represented them and their clients in a number of court cases in the environmental field which I believe constitute a part of the body of Public Interest Law. While my own cases have been primarily in only one of the important fields of law in which the public interest component is vital—the environmental law field—my remarks are addressed equally to the several other fields of law in which that component is vital. Among the organizations with which I have been and am associated are the Natural Resource Defense Council ("NRDC"), the New York Lawyers for the Public Interest ("NYPLI") and the National Center for Preservation Law ("NSPL").

THE NATURE AND FUNCTION OF PUBLIC INTEREST LAW

Although Public Interest Law is often considered together with, and is not distinguished from, legal aid it is important I believe to consider them separately. Legal aid is aid for the poor, the provision of legal services for those who cannot afford them. The services may be criminal defense, representation in civil proceedings, or legal advice. The interest represented is that of a particular client, for example one charged with a criminal offense or needing an attorney in a landlord tenant proceeding, or requiring advice concerning a debt. The interest is the client's personal interest.

Public Interest representation is the representation of an interest of a large number of people whose interest is not represented, or is underrepresented by attorneys practicing commercially. The reason for the lack of adequate representation is the generally non-economic nature of the interest. There is a very small economic stake of any particular person in it, often despite the fact that the people sharing that interest are middle or even upper middle class.

The clearest definition of Public Interest Law is that provided by the Council for Public Interest Law, formed in 1974 after an important assembly of public interest groups, in its 1976 report, entitled, "Balancing the Scales of Justice [;] Financing Public Interest Law in America" (the Council Report").

Public interest law is the name that has recently been given to efforts to provide legal representation to previously unrepresented groups and interests. Such efforts have been undertaken in recognition that the ordinary marketplace for legal services fails to provide such services to significant segments of the population and to significant interests. Such groups and interests include the poor, environmentalists, consumers, racial and ethnic minorities, and others.

It is not necessary to rank the interests "previously unrepresented", such as environmental and consumer interests, as more or less important than other and competing interests. It must only be acknowledged that the interests which would otherwise be unrepresented, or underrepresented, are important to the determination of particular controversies or questions. The importance of that representation can be illustrated by reference to one of the three national environmental public interest law firms, NRDC. It was founded by leaders of the earlier Scenic Hudson Preservation Conference, the organization which first secured the right of environmental groups to sue, their standing in court, in connection with a proposed pumped storage power plant at Storm King Mountain along the Hudson River.

NRDC has played a principal role in the development of our whole body of environmental law. Much of that law, both court made and statutory, exist where NRDC and its sister organizations, The Environmental Defense Fund and The Sierra Club Legal Defense Fund, are not able to represent the environmental interest. That interest could not have access to even a small fraction of the resources available to the opposing industrial, commercial, or governmental interest as the superior interest in any particular matter or policy area. It is only necessary to acknowledge that it is an important public interest. The great body of environmental statutes, federal and state, enacted since 1969 is clear proof that it is an important public interest.

I cite only one case from my own experience. In the case entitled *Citiens Committee for the Hudson Valley* v. *Volpe*, 425 F.2d 95, it was adjudged by a federal district court and Court of Appeals, with certiorari denied by the Supreme Court, that the construction of an expressway along the shore of the Hudson River near Tarrytown, New York was absolutely illegal. The expenditure of a quarter billion (1969) dollars was permanently enjoined. An associated attorney and I provided the legal services. The fees we were paid were less than one sixth of the fair compensation. We represented a public interest of numerous citizens, each of whom had a very small economic stake, or none at all, in protecting the river shore. That is the kind of representation that began to be furnished in 1969 by the three principal environmental public interest firms which I have mentioned.

The environmental and other public interest law firms have been funded from two sources, charitable foundations and individual charitable contributions. The deductibility of the contributions has not been questioned since 1970. The organizations account to the Internal Revenue Service concerning the public interests they serve.

Whether it be the environmental or consumer or other public interest, the importance of its representation cannot be overstated. The response of our courts and other institutions to the advocacy of those interests is perhaps one of the principal items of proof of the viability of our system of laws. Unless that system is responsive to all legitimate interests, reform and change must be sought outside the system. That was what happened in the sixties. In the decade just closed we all saw how the system responded. The response was in large part the new law and changed institutions created at the instance of public interest lawyers and law firms.

Perhaps the clearest statement of the importance of Public Interest Law lies in the statement on Public Interest Law from the 1975 report of the American Assembly "Law In a Changing Society" set forth in the American Bar Association Journal.

Essential to the solution of future problems is the assurance of fair representation in the decision-making process—vindication of the "public interest" in the public and private sectors—and representation of persons and causes who have previously not been effectively represented. These principles have been established and generally accepted. We must complete their implementation.

"Public interest law" is an important recent development. While there may be ambiguity of definition and scope, a serious void in our legal institutions is being filled by the activities of lawyers who engage in representation of groups and interests that would otherwise be unrepresented or underrepresented. Such public interest law activities are major responsibilities of the legal profession. Adequate support measures should be adopted.

Public Interest Law is accepted as an important part of our legal institutions by the American Bar Association and all state associations. It has lost both its newness and any radical image that it may have held. Virtually every one of our greatest law firms in every large city has a strong public interest component. Perhaps the most important and prestigious of all city or state bar associations, the Association of the Bar of the City of New York, established its own public interest law firm five years ago. The New York Lawyers for the Public Interest was headed for two years by our present Secretary of State, Cyrus Vance. He had been President of the Association.

THE INDISPENSABILITY OF CHARITABLE CONTRIBUTIONS

From its beginnings in the mid-sixties Public Interest Law, like its precursors, the NAACP Legal Defense Fund and Civil Liberties Union, could not exist without the contributions of services and funds. This fact is the basis of the provision in the citizens suit section of each of the major environmental statutes, beginning with the Clean Air Act of 1970, for the award of costs of litigation including reasonable attorneys fees. Each of the public interest law firms started between 1969 and 1975 received virtually all of its funding from charitable foundations, particularly the Ford Foundation. The staffs of attorneys were generally paid and are still paid from 25 percent to 60 percent of the compensation they would receive in the private sector. Much of the work of the public interest firms is the *pro bono* work of attorneys who are associated with them on a case by case basis. Those attorneys are generally like younger attorneys from the major law firms.

The Public Interest Law movement is now in jeopardy. The foundations which have supported it, particularly the Ford Foundation, have determined that support must come primarily from the firms' own resources, primarily by the membership and other contributions of large numbers of relatively small contributors. This is in one sense a healthy development because it will help dispel the notion that Public Interest Law is somehow the instrument of an elite class. It is of course precisely the opposite; it begins to balance the unmonied public interests against those which are monied. It is elite only in the sense that the ranks of the attorneys, scientists, and others associated with them include a high percentage of the most dedicated and able young people in the nation. They have a faith in our system of laws and government which directs their efforts at reform *within* the system. The withdrawal of much of the support of Public Interest Law by the foundations is in part based upon their traditional desire to lead, not permanently support, important new movements. They have determined, I think correctly although it does foist heavy burdens upon many of the groups, that broad mass support by small contributors and large memberships, coupled with continually increasing support by attorneys through bar associations and otherwise, should be the long term foundation of public interest law. This renders all the more necessary the enactment of S. 219.

We are all familiar with the cynicism, now widespread, held for our laws and legal institutions and law as a profession, based in part on the exposures that we refer to as Watergate. (The first exposure of the laundering of monies was in and by a suit brought by a public interest group, Common Cause). A critical part of the answer to that cynicism, of the effort to instill faith in our system is the Public Interest Law movement. Without deductible contributions that movement will die. H.R. 1785 and S. 219 can be a tremendous insurance policy, a necessary one in my opinion, for that survival.

TESTIMONY OF NEIL GASTON, EXECUTIVE DIRECTOR, ILLINOIS CHAPTER, THE NATURE CONSERVANCY

SUMMARY OF TESTIMONY

The Nature Conservancy is a private, nonprofit membership organization which directly acquires natural areas for biological conservation purposes and compatible public use and enjoyment. Since 1951, the Conservancy has acquired over 1.6 million acres of land, including 1.0 million acres during the past decade. Our membership includes 70,000 individuals and 278 corporations.

The Illinois Chapter of the Conservancy has helped preserve 15,000 acres of natural land in 29 different areas, including Cedar Glen, the winter roosting site of approximately 500 bald eagles on the Mississippi River. In saving land through direct action, the Illinois Chapter is filling a need not being accomplished by government or profit making organizations. The 1,000 remaining natural areas of Illinois are being destroyed at the rate of 15 percent annually; the Conservancy is trying to preserve the best of these 1,000 areas for future generations.

Over half of the $20.7 million in cash contributions received by the Conservancy in 1978 came from individual contributors. The average annual contribution is $18. Of our new members, nearly all pay the minimum $10 dues. Thus, it is clear that small individual contributions are an extremely important revenue source.

The Nature Conservancy supports the passage of S. 219 because it will stimulate more small contributors to join and donate to the Conservancy, and will undoubtedly raise the average annual contribution given by our current membership.

The Nature Conservancy is a national conservation organization whose resources are devoted to the protection of natural areas and the diversity of plants and wildlife they support. First priority is given to preserving those areas which safeguard rare or endangered plants and animals. The Conservancy works to:

Identify lands which contain the best examples of all the components of the natural world;

Protect natural areas, usually through gift or purchase, for Conservancy management or for transfer to local, state, or federal agencies;

Manage 670 Conservancy-owned preserves using volunteer land stewards and staff, and encourage compatible use by researchers, students, and the public;

Increase public awareness of the need to safeguard natural areas.

Since 1951, The Nature Conservancy has acquired and protected more than 1.6 million acres of land in 50 states. Among our projects are barrier islands off the Virginia coast, the Great Dismal Swamp in North Carolina, mangrove forests and islands in the Florida Keys, sweeping prairie lands in Kansas and South Dakota, and refuges for big horn sheep and endangered birds of prey.

The Nature Conservancy is a private, nonprofit, scientific and education organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. The activities of the Conservancy are made possible through contributions, foundation grants, membership dues, and corporate gifts. All contributions are tax deductible.

A membership organization, the Conservancy is organized into 31 state chapters, and governed by a national health board. Current membership is 70,000 and is expected to reach 100,000 by 1982. We also have a corporate membership of 278 corporations.

THE ILLINOIS CHAPTER

The Illinois Chapter, of which I am the Executive Director, has 4,000 contributing members. Since 1957, the Chapter has protected 29 unique natural areas totalling nearly 15,000 acres. Examples of our land conservation projects include:

1. *Cedar Glen Eagle Roost, Hancock County.*—A 483 acre preserve, Cedar Glen is the most significant winter roosting site in the United States for our vanishing national symbol, the bald eagle. One-third of the eagles using the Mississippi Flyway flock to the natural bowl of Cedar Glen every December and stay until early March, roosting each night in the sycamore trees. In mid-March, the eagles migrate north.

Bluffs at the Glen vary from 50 to 100 feet in height. The forest is composed of maple, basswood, oak, hickory, and sycamore. The area is now leased to Western Illinois University as part of the Kibbee Research Station.

2. *Volo Bog, Lake County.*—Fifty miles northwest of Chicago's Loop, amid the rolling farmland of Lake County, is situated the only remaining tamarack, or quaking bog, in Illinois. This unique, 48-acre remnant of the Ice Age was purchased by the Nature Conservancy in 1958 and deeded to the University of Illinois which maintained it until it was turned over to the Illinois Department of Conservation in 1970. Since then, the Department has purchased additional surrounding land and today, the 551 acre Volo Bog Nature Preserve provides an exceptional opportunity for observing many rare plant species. It was declared a natural landmark by the National Park Service in 1974.

3. *Gensburg-Markham Prairie, Cook County.*—One of the last living examples of the native lacustrine prairie on which Chicago was founded. The 120 acre preserve supports a prairie community of 230 native plant species and a variety of animals

such as the hoary bat, the red fox, and the short-tailed shrew, and many grassland birds.

4. *Little Black Slough, Johnson County.*—The 2,506 acre Little Black Slough could easily be the largest truly wild area left in Illinois. It varies from huge expanses of tupelo and bald cypress swamps to rugged upland forest and ravines to 140 foot rock bluffs and cliffs. The meandering Cache River runs through the preserve.

The preserve provides habitat for three species of poisonous snakes, a heron rookery, and the rare Swainson's warbler, Indiana bat, and bantam sunfish. Besides this, many areas have trees that are 100–300 years old. This area is managed by the Department of Conservation.

In saving unique land through direct action, the Illinois Chapter fills a public need not being accomplished by any existing public or profit making agency or organization. Consider these facts. The Illinois Department of Conservation has recently determined through research that only 0.07 percent of the state's landscape has escaped serious alteration by man. The Department also determined that the 1,000 remaining tracts of relatively undisturbed "natural" lands left in Illinois are being destroyed at the rate of 15 percent per year. Illinois, which ranks 49th nationally in public open space availability, can ill afford to lose those remaining vestiges of its natural heritage.

Many species face extinction now, and we don't know what this loss might mean. We could lose the source of a new medicine to combat disease, another penicillin perhaps, or a source of food or fiber to feed and clothe tomorrow's world. Like Noah in biblical times, The Nature Conservancy is setting aside examples of all our living species and ecosystems for the benefit of future generations to come.

PUBLIC SUPPORT

The Conservancy's role in Illinois and throughout the nation in natural area conservation is made possible by charitable giving and volunteer manpower donated by its members. Of the $20.7 million received by the Conservancy through 74,000 cash contributions in 1978, over half came from individual givers:

Source of cash contributions

Category:	Percent of total
Individuals	54
Foundations	38
Organizations (corporations, etc.)	8
Total	100

Source.—Annual Report, The Nature Conservancy, 1978.

For our existing membership, the average individual contribution is $18 annually. Ninety-nine percent of our new members, however, pay the minimum $10 dues. Thus, it is clear that small individual contributions are an extremely important source of revenue for our activities.

The productivity of the Conservancy in utilizing contributions, large and small, has been outstanding. For every dollar of operating expense in 1978, we saved $11 worth of natural land. Our fund raising costs in 1978 were 4.4 percent of total contributions received—a ratio well below the national average for nonprofit corporations. Thus, we not only serve the public interest by doing things that government is not accomplishing, but we are doing so in cost-effective fashion.

S. 219

Any legislation which strengthens charitable giving to nonprofit organizations is strongly supported by The Nature Conservancy. I believe S. 219 would be extremely helpful in increasing contributions from small contributors who do not currently itemize, and attracting new members to the Conservancy. Consequently, I urge this Committee to act favorably on the legislation.

Senator PACKWOOD. Now we will take Mr. Whitten, who has just arrived, for the United Neighborhood Centers. He was to be part of the previous panel.

Mr. Whitten, you have a 5-minute presentation. Then we will take the economics panel.

Mr. Whitten?

STATEMENT OF THOMAS P. WHITTEN, UNITED NEIGHBORHOOD CENTERS OF AMERICA

Mr. WHITTEN. Thank you, Mr. Chairman.

I come to represent the John Hope Settlement House in Providence, R.I., and the settlement houses and neighborhood centers all over the United States through our affiliation with the United Neighborhood Centers of America.

John Hope Settlement House is a member of the Rhode Island Council of Community Services but, more importantly, we are a member of the United Way of southeast New England.

We provide services to a community comprising some 35,000 people in the West Elmwood, South Providence areas of the cities. Each year, the John Hope Settlement House serves approximately 4,000 to 5,000 of those residents. We provide services in day care, after-school day care, social services, teen recreation programs, teen counseling.

We run a group home for girls aged 13 to 17 and we provide a number of other kinds of social service programs.

John Hope Settlement House depends heavily on charitable giving through the United Way and foundations in the State of Rhode Island.

Our budget of one-half million dollars, or slightly over one-half million dollars, is provided in half by charitable giving. Significantly, our day care program is funded 50 percent by the United Way; approximately 90 percent of our after-school day care and our recreation program is funded by charitable giving through the United Way and our social services program is funded approximately 75 percent through the United Way allocations.

We feel that significantly we would be adversely affected if we were not able to receive these charitable dollars and we would like to share with you a couple of illustrations to give you an example of the impact of some of our services.

Our people's service center, which is our social services end, operates a furniture bank which provides furniture free of charge to our neighbors which we pick up and deliver to the families who need it.

In one instance we had an Hispanic family who was burned out and through our furniture bank we were able to locate temporary housing for the family for 3 days and subsequently we found permanent housing and through our outreach, we were able to provide through the churches clothing and food for this family.

We do not know where the family would be if not for that unique service, which is the only one of its kind in the State of Rhode Island.

We had a mother of a child who is now in our after-school day-care program who complained of the special education program that her child was involved in and so we got involved in the situation, enrolled the child in our day-care program. The child went to day care for a half day and to special education for a half day.

The John Hope Day Care Center was a focal point of the treatment plan which included a therapy program. The child did well enough to graduate from the program and is now functioning normally in public school.

We also had a situation with a teenager who got in trouble with the law for shoplifting.

Senator PACKWOOD. Let me stop you for a minute because your time is going to run out in a second.

Senator Chafee has very well briefed me on the merits of the John Hope Settlement House. He is very impressed with it and, as you know, he is a supporter of this bill.

But I am particularly interested in your comments about what you think will or will not happen depending on whether or not this deduction is allowed for charitable giving.

Mr. WHITTEN. If it is not allowed, we feel that the base of our funding will continue to be eroded.

Senator PACKWOOD. Do you think that the ability to tell someone making $15,000 or $20,000 a year that this is a deduction you can take above the line, is an incentive for fundraising?

Mr. WHITTEN. Very definitely I think it is. Our United Way raises some $10 million a year and I am involved in that process. Most of the people I have talked to earn between $10,000 and $15,000 a year and I definitely feel that that is an incentive to give.

Senator PACKWOOD. Senator Durenberger?

Senator DURENBERGER. I have no questions.

Senator PACKWOOD. Mr. Whitten, thank you very, very much.

Mr. WHITTEN. Thank you, Mr. Chairman.

[The prepared statement of Mr. Whitten follows:]

TESTIMONY OF THOMAS P. WHITTEN, JOHN HOPE SETTLEMENT HOUSE, PROVIDENCE, R.I.

I appear before you today as the executive director of the John Hope Settlement House in Providence, Rhode Island on behalf of my agency and on behalf of settlements and neighborhood centers across the country through our affiliation with United Neighborhood Centers of America. John Hope Settlement House is also a member of the Rhode Island Council of Community Services, but perhaps more importantly we are a United Way agency.

The neighborhoods we serve are the West End, West Elmwood, and South Providence sections of the city. John Hope serves 4,000 clients each year, out of a total population of 35,000. Our target population is primarily black and Hispanic. As a multiservice agency, John Hope provides day care, after-school day care, participatory recreation, a teen program, a day camp, social services and advocacy. In addition, we maintain a group home for girls ages 13-17. Social services, including a furniture bank, family counseling, and vocational counseling, primarily for youth, are offered through our People Service Center, an aptly-named department because we deal directly with the "people needs" of our community.

Since the founding of the first settlement in America in the late 1800's, this unique institution has adopted as its major concern the local needs identified by the residents of the neighborhood it serves. The John Hope Settlement House has been proud to carry on this tradition for the past forty years.

To maintain our programs, we depend heavily on charitable donations, which come to the agency, for the most part, through our local United Way and foundations. Half of our budget of almost $500,000 is derived from this source. The relationship with the United Way is especially significant; United Way dollars account for 50 percent of the budget for our day care program, 90 percent of the after-school program, and 75 percent of social services.

Without this support, we would have to double the fees for day care. The furniture bank, which serves over 400 families yearly, would be one of the first casualties. Even those programs that are financed with government funds would be adversely affected since overhead and administrative costs are currently met through charitable contributions as part of the United Way allocation.

I would now like to share with you three illustrations that I feel will be helpful to you in understanding the role the agency plays in its community and the negative effect it would have on the lives of local residents were we to be unable to provide effective services to meet their needs:

An Hispanic family of five came to the attention of the John Hope Furniture Bank following a fire that destroyed their home with all their possessions. Agency staff found the family temporary shelter while searching for new, permanent lodgings. After three days, an apartment was located. Furniture was provided at no cost to the family, and clothing and household goods were obtained through outreach to churches and other social agencies in the area. Who would have helped this family if we were not there?

A sixteen-year old female was referred to Family Counseling after a brush with Family Court on shoplifting charge. The teenager had a history of problems at school and at home. After she came to the program, she continued to experience difficulty in school and we eventually helped her to enroll in an alternative school setting. In a period of eleven months, her interest in her studies increased significantly, but the most dramatic behavioral change took place at home. There was no further contact with the police. Who would have helped this young woman if we were not there?

A six-year old black male who is now in our after-school day care program first came to our attention when his mother contacted the regular day care staff because she was very dissatisfied with the special education he was receiving at that time. The staff developed a treatment plan for the youngster that called for special education half a day and kindergarten at our agency for the other half. A therapy program was instituted as well. The special education bus picked the child up at our day care center and returned him there each day, establishing our program as the reference point. The boy progressed well enough to graduate from the program, and he is now attending regular, full-time school. Who would have given this child the special attention he needed if we were not there?

Although these are particularly dramatic stories, I can assure you that they are not isolated cases. Every day, my staff is dealing with the basic survival needs of our clients, helping them through individual counseling, group work and advocacy to live their lives with dignity. The decline in contributions to charities is of vital concern to those of us providing services at the neighborhood level. We are in the best position to understand and respond to the concerns of the community, but it is evident that we cannot do our work effectively or maintain our standards of quality service if our base of support continues to be eroded.

I would, therefore, like to request respectfully that the Subcommittee give favorable consideration to the proposed change in the tax law that would provide all taxpayers with a deduction for charitable contributions regardless of whether they choose to itemize or take the standard deduction.

Thank you for the opportunity to appear before you today and express my views on this most important issue which is of deep concern to all community-based agencies.

SUMMARY OF TESTIMONY

The John Hope Settlement House is a multi-service center meeting the needs of local residents in the West End, West Elmwood, and South Providence sections of the city for the past forty years. The agency serves 4,000 clients, primarily black and Hispanic, each year.

Charitable contributions, in the form of the annual United Way allocation and foundation grants, account for 50 percent of the agency's budget of approximately $500,000. United Way dollars represent 50 percent of the budget of the day care program, 90 percent of the after-school program, and 75 percent of social services.

If, because of the reduction in contributions to the United Way, this support should be severely curtailed, the settlement would have to double day care fees. The furniture bank, which serves more than 400 families each year, would not be able to operate. Even programs that are supported by government funds would be adversely affected since the United Way allocation currently covers their overhead and administrative costs.

The neighborhood center plays a vital role in its community. Located in the inner city with a predominantly poor, minority constituency, it is the service provider for all age groups and the primary advocate for local residents. We cannot afford to allow settlements and other community-based agencies to be forced into that most difficult position of having to choose among equally valuable services because the funds necessary to support all programs have been decreased.

On behalf of the John Hope Settlement House and all neighborhood centers across the country, I would like to request respectfully that the Subcommittee give favorable consideration to the proposed legislation that would provide all taxpayers, even those who use the standard deduction, with a deduction for charitable contributions.

Senator PACKWOOD. Now, we will take Mr. John Anderson, Director of the Wildlife Sanctuary. Go right ahead, sir.

STATEMENT OF JOHN ANDERSON, DIRECTOR, WILDLIFE SANCTUARY, THE NATIONAL AUDUBON SOCIETY

Mr. ANDERSON. My name is John M. Anderson, director of the Wildlife Sanctuary Department, National Audubon Society. My office is in Sharon, Conn.

The citizens of Connecticut are in trouble, and they know it. The State stocks the Housatonic River with trout but warns the fisherman at West Cornwall not to eat them. Because of heavy PCB contamination, the fish in many Connecticut rivers are no longer fit for human consumption.

The Connecticut farmer must apply additional lime and fertilizer to his land to counteract acid rain.

In Lakeville, Conn., the beautiful Lake Wononscopomuc has on occasion turned pink. The village has paid the Union Carbide Company thousands of dollars to measure water quality and diagnose the cause of this pollution. A remedy has not yet been found.

Citizens from all corners of the State are asking for advice and help in conservation of energy and the use of alternate sources of fuel for heating their homes.

It is not feasible for the local, State or Federal governments to assume responsibility for teaching the citizens of Connecticut the causes of our environmental problems, nor to demonstrate ways of coping with those problems. A primary goal of the National Audubon Society for over 70 years has been conservation of wild plants and animals.

Originally, simple protection of wildlife from over-harvest by hunters and fishermen was an effective means of preventing their extinction. Today, we recognize that hunting and fishing pose little threat to the welfare of wild plants and animals, yet the ability of our land to support certain forms of not only wildlife, but people as well is declining.

Citizens of Connecticut want to learn the proper care of our land—its soils, water, air, and vegetation. In general, our public school system is ill-equipped to provide this kind of education. Consequently, citizens of all ages are turning to privately endowed organizations such as the National Audubon Society for basic knowledge of agriculture, forestry, hydrology, botany, and zoology.

Admittedly, formal courses in these subjects have been taught in university classrooms for generations. But in most cases the knowledge was used only by professional farmers, foresters, wildlife managers, and by teachers whose teaching was largely confined to the classroom. What was happening out in the farmer's fields, our forests, rivers, and atmosphere—and how it affected the lives and times of people in Hartford, New Haven, Waterbury, and Greenwich—remained pretty much of a mystery to the ordinary citizen.

In response to that situation the National Audubon Society has over 70 wildlife sanctuaries across the Nation in which visitors can learn firsthand about our native flora and fauna and the environmental factors by which they live and die. Not much is happening to wildlife that is not happening to people. Therefore, the basic ecology learned on our wildlife sanctuaries enables our visitors to better understand and cope with problems they face in their daily lives.

As is true of operating a dairy farm or managing any type of land, our operating costs have risen steadily with inflation. To operate our nationwide chain of sanctuaries, it will cost about $868,000 this fiscal year. And the sanctuary department is only one of several departments of the National Audubon Society dedicated to keeping our land fit for people.

In addition to wildlife sanctuaries, in which the primary goal is wildlife conservation, we operate several environmental education centers. In Sharon, Conn., for example, the operating budget for this year is $84,070. The basic program offers field trips to about 4,000 local school children, training for 6 to 8 interns who will make a career of environmental education, plus demonstrations of timber management, solar energy units, and other sound land management practices.

A similar but somewhat larger program is in effect at Greenwich, Conn., at an annual cost of about $193,380. The total National Audubon Society budget for this fiscal year calls for $14,700,400 and anticipates an income of $13,946,944, an operating deficit of $753,456.

The need for public service of this kind has never been so vital. It is a service that the Government cannot provide, and must be financed through private support. I, therefore, urge this committee to favorably report out Senate bill 219, so that not for profit organizations such as National Audubon Society can keep pace with inflation.

Thank you very much for the privilege of appearing before this committee.

Senator PACKWOOD. Thank you, sir, and thank you for the excellent work that you are doing.

Senator Durenberger, any questions?

Senator DURENBERGER. No.

Senator PACKWOOD. I would like to start on the economics panel, even if Dr. Penner has not yet arrived, and take Dr. Feldstein and Dr. Clotfelder in that order on the panel, because the conclusions that this bill addresses is based so much on the economic evidence that this groups presents, and I want to get them on and have ample chance to listen and question them.

Dave, do you have any statement you want to make?

Senator DURENBERGER. If it would help timewise, I have a couple of thoughts. Would it be appropriate now to do it now, or later?

Senator PACKWOOD. Why don't we take the panel first.

Are you going to start first, Dr. Feldstein?

Mr. FELDSTEIN. Yes; I am.

STATEMENT OF MARTIN FELDSTEIN, PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY

Mr. FELDSTEIN. I am certainly pleased to have this opportunity to testify about the impact of income tax rules on charitable giving and about the potential impact of the Moynihan-Packwood, Fisher-Conable bills. I am sorry I was not able to be here yesterday, but my teaching obligations—this was the first day of our term—made it impossible for me to come.

I have, however, studied the Treasury's statement and I hope we will have a chance during the discussion to go back to some of the statements that they made, which I would like to comment on.

Senator PACKWOOD. I would appreciate that, because they commented extensively on yours.

Mr. FELDSTEIN. So I noticed.

The other witnesses have already made clear that a great many issues must be considered in shaping the policies that affect the role played by nonprofit institutions in our society. Even the most limited problem of the proper tax treatment of charitable giving raises a number of legal and philosophical questions. My remarks this morning will focus on the much narrower subject of the impact that changes in tax rules would have on the amount of charitable giving and on the Treasury's tax receipts.

As an economist, I have been interested more generally in the many ways in which our tax rules affect the behavior of individuals and firms. One of the subjects that I have studied in considerable detail is the effect of tax rules on charitable giving. More recently, a group of us at the National Bureau of Economic Research have been developing a computerized model that can be used to calculate the impact of tax rule changes on total tax revenue and on such economic magnitudes as the volume of charitable giving and the supply of working hours.

This computerized model, like the one used by the Treasury and by the staff of the Joint Committee, bases its calculations on the large sample of individual tax returns that is provided for this purpose by the Internal Revenue Service.

But unlike the Treasury and joint staff computer models, the NBER TAXSIM model is specifically designed to take into account the response of taxpayer behavior to changes in tax rules. The development of this behavioral response model, which I should note is being financed primarily by a grant from the National Science Foundation, is still at a relatively early stage. We are therefore very pleased to have been asked by Congressmen Fisher and Conable to use the tax model to calculate the effect that their proposal would have on charitable giving and on tax rates.

Before discussing these calculations, it will be useful to begin by reviewing briefly the statistical evidence on which the calculations are based.

The deductibility of charitable contributions by individuals who itemize their deductions has two effects. First, it obviously reduces their taxable income and thereby reduces their tax liability. Second, it reduces the price of charitable giving and thereby increases their incentive to give to charity.

Let me clarify this second effect. Someone who does not itemize his deductions gives up $1 or every dollar that the charitable organization receives. In contrast, an itemizer with a 30-percent marginal tax rate gives up only 70 cents for every dollar that the charitable organization receives. For such an individual, the deductibility of charitable gifts lowers the price of giving from 100 cents per dollar received by the charity to only 70 cents. This reduction in price encourages individuals to give more than they would if gifts were not deductible. Let me emphasize that I am not saying that people make charitable gifts only because they are tax deductible. I am only saying that deductibility causes them to give more than they otherwise would.

The basic economic question issue is the relation between the lost tax revenue that results from the deductibility of charitable gifts and the extra charitable giving that is induced. More specifically, how much does charitable giving increase per dollar of tax revenue foregone?

The answer to this question depends on the sensitivity of individual giving decisions to the price per dollar of charitable gift. Economists use the term "price elasticity" to measure this sensitivity. The price elasticity of charitable giving is the percentage increase in the amount given to charity per percentage point decrease in the price of giving.

For example, if a 30-percent decrease in the price of giving induces a 30-percent increase in the amount of giving, we say that the price elasticity is 1. Similarly, if a 30-percent decrease in the price of giving induces a 45-percent increase in the amount of giving, we say that the price elasticity is 1.5.

The higher the price elasticity, the more increased giving there is per dollar of foregone revenue. An elasticity of 1 represents a particularly important value. If the elasticity is 1, deductibility increases giving by just as much as the lost tax revenue. If the elasticity is greater than 1, deductibility increases giving by more than the lost tax revenue while, if the elasticity is less than 1, giving rises by less than the lost revenue.

In a more complex legislative proposal like the Fisher-Conable bill, the relationship between the price elasticity and the efficiency of the deduction is more complicated. I will return later to the nature of this complication. It is still true, however, that a higher elasticity implies a greater efficiency; that is, more additional giving per dollar of lost tax revenues.

Of course, I am not saying that a tax proposal is good only if charities gain more than the Treasury foregoes. The dollars that the charities do not get go to the taxpayers and are not wasted. Nevertheless, the relation between foregone tax revenue and increases charitable giving is an important consideration in judging any tax proposal that is aimed at stimulating charitable gifts. It is important therefore to ask what we know about the price elasticity of charitable giving.

In collaboration with several other economists from 1974 to 1976, I have done a number of statistical studies to measure the price elasticity of charitable giving. The statistical method separates this price or the tax effect from the effect of income and other factors that influence charitable giving.

This is a point that the Treasury seemed, in their testimony, not to understand.

The studies found that the price elasticity is between 1.0 and 1.4. There is a remarkable degree of consistency and relative precision in these studies, even though they are based on different years and different types of data.

This is not the place for an elaborate or detailed analysis of these studies. The results have been published in several economic journals; I am submitting these articles for the record of these hearings. Let me point, however, to the key findings.

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The first study—published in the National Tax Journal in 1974—examined the data published by the IRS on charitable giving in each of 27 adjusted gross income classes between 1948 and 1968. The changing tax rates as well as differences in the rates among income classes were used to estimate the price elasticity. The basic estimate in this study showed a price elasticity of 1.24.

This is somewhat greater than 1.

The second study, which was done jointly with Professor Charles Clotfelder, who is here on the panel this morning, analyzed data that were collected by the Census Bureau in a survey of more than 1,400 households in 1963 and 1964. The basic estimate in this study found a price elasticity of 1.15.

The third study, which was done jointly with Dr. Amy Taylor, used a very large sample of individual tax returns. The Treasury's tax file, that was made available to us by the Treasury Department.

This was a sample of more than 13,000 tax returns for 1962 that implied a price elasticity of 1.09 while a similar sample of more than 15,000 returns for 1970 implied an elasticity of 1.29.

Senator PACKWOOD. Let me interrupt you for a moment. I read your statement. All of us who support this bill have no conceivable quarrel with the good that the institutions who will benefit from this will receive.

The testimony that these gentlemen have is so critical to the rebuttal of our opponents that this deduction will do no good, that it will cause a greater loss than the increase in giving. That is the foundation upon which we based this whole bill.

Let me ask, do all of the studies that you and Dr. Clotfelder did and the combined study with Dr. Taylor indicate elasticity greater than 1?

Mr. FELDSTEIN. That is correct. The Treasury raised questions whether that elasticity is valid for lower and middle income givers as well as high income givers. I talk about that a bit in the testimony and provoke what I have read in the Treasury's statement. I went back and examined that issue more carefully.

In our own previous studies, I can say more about it.

Senator PACKWOOD. I wish you would address yourself to that issue, because they hit that hard.

Mr. FELDSTEIN. Do you want me to continue with the remainder of the statement at which we look at the calculations of the effect of Fisher-Conable?

Senator PACKWOOD. From mine and Senator Durenberger's point of view, I do not think it is necessary because I read the statement and I know the data. But I would surely appreciate it if you would address yourself to what the Treasury Department said about the invalidity of the data.

Mr. FELDSTEIN. Fine.

Let me then very briefly comment on—summarizing more briefly than the statement does—the findings and then address myself to the comments made yesterday by the Treasury.

What I go on to say on page 6 is that these estimates that I referred to are all in the range of between 1 and 1.4 were calculations for the entire population. It is difficult with that data to separate price elasticities by narrower income classes and yet, because we were aware, even then, of the particular interest in the question of the nonitemizers, we carried out a separate and special study for the low-income group.

The University of Michigan Survey Research Center collected data for individuals with incomes less than $30,000, essentially the group where all of the nonitemizers are concentrated and we were able on the basis of this data, which gave us giving for itemizers and nonitemizers at every income level, to make a better estimate than we could on the basis of these tax return files.

That produced a very high-priced elasticity for this low-income group, a price elasticity of 2.5. Certainly there was no indication in that study of an elasticity of less than 1.

Now, 2.5 seems to me to be too high and it seems to me to be contrary to some other findings which I will mention in a minute for the lower income groups in the previous studies. But it is not all the question.

What we are talking about, after all, is a price differential for low-income taxpayers which is not very large; the individual who itemizes there may face a price of 80 cents on the dollar rather than 100 cents on the dollar. So he is facing a price which is 20 percent lower and roughly speaking, if his elasticity is 2, he will give about 40 percent more. Since we are talking about dollar amounts in the range of $300 to $350, we may be talking about the itemizer giving $500 and the nonitemizer giving $350, somewhere around $15,000 in income.

That certainly does not run counter to my intuition of what the effect of itemization would be. I would not rule out an elasticity as high as 2. I would say that the strict, statistical evidence has to be interpreted as saying that the best estimate produced by that survey data is around 2 and that the probability of its being significantly lower than 1 is very, very small.

Now, I do not go at any length into this prepared statement to talk further about that survey, but I think it is an important one. I will say one other thing about it.

The question that we worried about is that really a price effect—is it because it is cheaper for itemizers to give, or that itemizers are somewhat different. They are homeowners, more stable, they have greater routes in the community.

Is it an itemization effect rather than a price effect?

We estimated that, in a way—it is a little technical to describe it, but I think worth at least mentioning—one of the things that the Treasury said in its testimony was it is hard to separate the effects of price from the effects of income because the higher your income, the lower your price.

That is not true among nonitemizers. They all face a price of 100 cents on the dollar. So we could focus down on the nonitemizers and calculate the effect of income alone for that group.

Since they all face exactly the same price, we could look at the sample of nonitemizers whose giving we knew from the survey and calculate the effect of income.

We did that, and then we said, taking that estimate of the impact of income as known we could then find out for the itemizer group what the effect of price was. We could use the nonitemizers to estimate, in a pure way, the effect of income. We could then treat that effective income as known, look just at the itemizers and find out the effect of price.

That produced an elasticity of 2.32. In other words, that produced almost exactly the same effect that we had gotten when we pooled the two groups. That told us, first, that our estimate of slightly greater than 2 for the low-income group was not likely to be a bad estimate.

Second, that we were not seeing an itemization effect as such, we were seeing the true price effect. It was not the group of itemizers was somehow more sociologically or demographically different, it was that they were responding to the lower price.

I think that was a particularly important thing that we were able to do with the help of that survey data.

Now, let me talk more about—are there any other questions about what I just said, Senator?

Senator PACKWOOD. I want to ask you this, and I have to go vote in a minute. Your bottom line conclusion is that the Fisher-Conable-Moynihan-Packwood bill, if passed, would probably induce either new or increased contributions from middle-income taxpayers, more than they now get, with more givers. Would it induce new giving, or new people to give?

Mr. FELDSTEIN. No question about that. The question is the magnitude there. I think the evidence is that it is harder to be confident about the numbers when you break out narrow income classes, but there is no reason to believe that they are lower than 1.

Therefore, the efficiency in terms of extra giving per dollar is quite substantial.

Senator PACKWOOD. Then the argument becomes, assuming it is one, that Treasury loses $3 billion, charities gain an additional $3 billion. Some people—although they are very few who I heard testify recently—might make the argument that the government could better spend that money than the charities. I have seldom heard that argument made by anyone who has watched the government operate.

Mr. FELDSTEIN. To interrupt a second, there is also the issue about the people who are currently itemizers and who would switch to be nonitemizers.

Senator PACKWOOD. And take the standard deduction?

Mr. FELDSTEIN. And take the standard deduction. They would clearly get a tax reduction and would get very little extra. We have quantified that and that is around the order of $300 million. That is very small and really does not affect the conclusions that you have stated.

Senator PACKWOOD. Let me ask you one question, then I have to go and Senator Durenberger will come and preside, then I think we ought to move on to Dr. Clotfelter.

Have you done any studies on the political tax credit and the inducement towards giving?

Mr. FELDSTEIN. No, I have not.

Senator PACKWOOD. There I can only give you a gut reaction from political fundraising in Oregon. We have a credit similar to the Federal Government.

On an individual return, you can give $50 and get a $50 credit on your State and Federal and joint return, $100 is an amazing incentive.

The people who have never given say, look, if you give $25 you can take it all off your taxes. I have never seen a statistical study but I know what the reaction is from people who have never given before.

If you will forgive me, Senator Durenberger will be right back and I will go to the floor and vote.

[A brief recess was taken.]

Senator DURENBERGER. The committee will come back to order.

I understand that, Professor Feldstein, you may have a few more comments?

Mr. FELDSTEIN. Senator Packwood had asked me to address more specifically Treasury's concern about the applicability of these price-sensitivity, price-elasticity estimates to middle- and low-income individuals.

I was describing for him the study that is mentioned in the prepared statement that Professor Boskin and I did using the data collected by the Michigan Survey Center. They collected a sample of 1,600 households, including itemizers and nonitemizers.

This was not an attitudinal survey; it was simply a factual survey. They added to their usual questions the questions about charitable giving.

And on the basis of that, we were able to see how people in this middle- and low-income group responded and the evidence there was an even greater response than we had found for the population as a whole.

While the elasticity for the population as a whole seems to be between 1 and 1.4, the elasticity for this low-income group estimated by that data was about 2.5.

I commented—I am sure you do not want me to repeat—the alternative ways that we use that data in order to make clear that this is really a price effect and not a difference between the behavior of itemizers and nonitemizers.

I would like to say something more about some of the other studies that we did, particularly pointed out this question of the low- and middle-income individual, since I did not discuss that at any length in the prepared statement. But after I saw the Treasury's statement yesterday, I went back and examined the evidence in our earlier studies and I think it is well worth having before you and having in the record.

In the first study that I did, which was published in the National Tax Journal in 1975 and which is submitted for the record now, we found for taxpayers as a whole, limiting it to $4,000 at the bottom and $100,000 at the top.

We found a price elasticity of 1.2. We then broke it down into three separate classes: $4,000 to $10,000; $10,000 to $20,000; and $20,000 to $100,000. It is harder to make precise statements about them. The position of the estimates is less good, but I think the numbers themselves give no reason to think that the lower income group is less sensitive.

In the $4,000 to $10,000 range, we found an estimated elasticity of 1.8. In the $10,000 to $20,000, 1.0; and the $20,000 to $100,000, 1.1. And when a statistician estimates a number like this, although he can give you a particular point and say this is my best guess, the data are consistent with the range around that and those ranges are wider here than they are for the overall sample and yet I think the margin of error, the standard errors, are, on an average of one-half.

There is no reason to believe that those three numbers are really different from each other. If anything there is some indication that the lowest income group is more sensitive than the higher income groups.

Remember, more sensitive does not mean that they give more. It doesn't even mean that they are induced giving in response to the deduction is larger, because the deduction means a smaller difference in price for them.

As I commented to Senator Packwood before, an individual in the 20 percent marginal rate bracket gets to make charitable contributions that cost him 80 cents, rather than 100 cents on the dollar.

That 20-percent reduction, if the price elasticity were even two, would mean roughly a 40-percent increase in giving and since, in these middle ranges, we are talking about gifts on the order of $300, $350, the increased giving is on the order of $100 to $150. So that is not at all implausible.

What sounds like a very high elasticity does not necessarily mean a very big increase and yet, in the aggregate it amounts to the billions we are talking about here.

In the study that Professor Clotfelder and I did a year later, and published in the Journal of Public Economics, we used Census data, a survey of 1,400 households collected by the Census, and the special study for the Federal Reserve System, and we found an overall price elasticity of 1.15.

Then in one of the estimates we did, we estimated separate price elasticities for different tax rate ranges with people with marginal tax rates below 0.3, between 0.3 and 0.7 and above 0.7. Back in 1963, 1964 when there were people in that above 0.7 range. Again, the estimates indicate no significant differences among those three income classes.

The lowest group showed a price elasticity of 1.2. The 0.3 to 0.7 showed an elasticity of 1.3. The highest group in this case showed an elasticity of 1.8. Those differences are not statistically significant.

They are consistent with an overall single price elasticity.

Perhaps the numbers most worrying, most damaging to our conclusion were found when we took the Treasury-IRS tax files for 1962 and 1970. Those are large samples, 15,000 tax returns. We divided those samples by income tax and estimated separate occasions for each class.

In both studies, we found overall price elasticities greater than one, but the impact in the lowest income group, those with incomes between $4,000 and $20,000, differed very substantially between the 1962 study where we found a very high elasticity of more than three, and the 1970 study where we found a lower elasticity, less than one-half.

In the technical paper that was prepared, published in Econometrics, we pointed out the substantial difficulty in making precise estimates on the basis of itemizers in this low income class alone. That is more of a problem.

By 1970 when the range between $4,000 and $20,000 represented a smaller part of the income distribution than 1972 when $20,000 was a larger income. On the basis of the tax return data, where we have only itemizers, it is just not possible to make an accurate estimate of the separate price and income elasticity in the $4,000 to $20,000 range.

Income and tax rates just move too closely together.

When one expands that to deal with the higher income groups, that is no longer true. For a variety of reasons, which you all know very well, income levels and tax rates are not nearly as highly correlated in that higher range.

Nevertheless, the information out of that 1970 sample we said we will do the following. We will estimate separate price elasticities for each income class while allowing a single income effect to carry through the entire sample.

When we did that, we were able to get much better, much more precise, much more plausible price elasticities and they were as follows: for people with incomes less than $10,000, the elasticity was 2.3. $10,000 to $20,000, 1.8; $20,000 to $50,000, 1.5; $50,000 to $100,000, 1.2; $100,000-plus, 1.3.

In other words, if anything, the evidence again points to higher price effects at the lower end than at the upper end.

So I cannot see how, on the basis of all of this data, that one can conclude that there is any case for believing that the elasticity is lower for middle- and low-income people.

I would say that the evidence—either one should accept the overall elasticity about 1.2, 1.3 for the entire population—or one ought to believe that the low income groups for whom the price difference is relatively small are more sensitive.

That is a long answer to the question, but I think that the Treasury's focus on the question of price effects for low- and middle- income people warranted putting out all of that evidence in the reply.

Senator MOYNIHAN. A good answer; a better one than we got yesterday.

Mr. FELDSTEIN. Your fine, former institution prevented me from coming yesterday. It is the beginning of our term. As you know, our strict rules——

Senator MOYNIHAN. We had that good economist, Mr. Sunley, who introduced us to the dread affliction known as the Clotfelter lag and we are going to learn more about that before the morning is out.

But I wonder if I could just keep Dr. Feldstein for a moment to say that one of the things we learned yesterday—this is somewhat outside your field, but not necessarily—one of the things that we heard from a succession of witnesses representing the widest range of voluntary activities eligible for charitable deductions of one kind or another, from churches to universities to the Junior League of America, was that if you can get people in the habit of giving small sums when they are fairly young and their incomes are low, that will continue and grow and you will fix a behavioral pattern which in the end has large consequences, although the initial ones, in fact are small. This is important even if you could not show that a large increase in giving would come about in terms of the exchange of giving and taxing here. You indicate it is not a vast amount of money, but a significant amount of money, but just as importantly, it would sustain a pattern of supporting voluntary operations as against turning to public sector services, and that has a social value.

Does that make any sense to you?

Mr. FELDSTEIN. It makes sense, but I do not have a professional view on it. I have heard that from fundraisers, particularly higher education in the past, and I believe that they know their business, so that if they think it is worth putting a lot of effort into getting small contributions from recent graduates because eventually recent graduates grow up and give more, they must know what they are doing.

Senator MOYNIHAN. We had quite a bit of testimony about the disappearance of the independent sector in Europe where even those organizations who continue to present themselves in the Victorian guise, Dr. Bernardo's Own Foundlings, are 95 percent paid for by government now. People do not contribute to them.

It is not necessary. In some cases, it is thought to be not a good idea, and we saw some rather surprising figures. Many of the charitable activities that we think of as private now are not private at all. The Catholic Charities of Louisiana has been there a long time. They have an orphanage. They started in the 18th century. At this point, only 10 percent of their actual expenditures come from private contributions. The rest is government, or fees of some kind.

That is already happening here.

If you could stay with the panel, we might move on.

Professor Clotfelter—and explain yourself, Professor Clotfelter. What is this lag?

STATEMENT OF CHARLES CLOTFELTER, ASSOCIATE PROFESSOR OF PUBLIC POLICY, STUDIES AND ECONOMICS, DUKE UNIVERSITY

Mr. CLOTFELTER. Thank you very much. I have a prepared statement that I would like to put into the record.

As to the lag, since economics is the dismal science, I feel somehow I am doing my duty to be involved with such a dread inflicton.

Senator MOYNIHAN. The Treasury Department was delighted with you. It is a sure sign that you have bad news, or found bad motives, or improper behavior.

Mr. CLOTFELTER. As Martin Feldstein has explained, this bill would create an incentive for giving because it would reduce the net price to taxpayers for contributions. What I would like to do is focus on three points: (1) What is the importance of an elasticity of one? (2) What are the likely effects of the bill in the long run? And, (3) will the effects in the short run differ materially from those in the long run?

I should mention at the outset that I, like many other economists who have worked in this area in the last few years, owe a great debt to Martin Feldstein for leading the way empirically and theoretically. His work is sound, rigorous, and thorough.

My first point has to do with the interpretation of the elasticity. As Martin Feldstein pointed out first, an elasticity of one implies the increase in giving would exactly equal the associated revenue loss. This would be true if one ignores the problem of switching—the itemizers switching to nonitemization status.

This relationship is useful because it makes it easier to understand the magnitudes involved.

What has been pointed out by Professor Feldstein is that it does not necessarily follow that a deduction, is necessarily efficient or desirable in any general sense if the elasticity is one or more. Rather, the desirability has to be judged on the basis of the cost of the revenue loss against the benefits of the increased contributions.

Thus, while it is necessary to measure this elasticity for a complete assessment, it does not constitute a sufficient assessment of the bill.

My second point has to do with the actual magnitude of the elasticity and the effects in the long run. I recently took part in a review of a number of empirical studies in this area. They included studies by Professor Feldstein and others.

In seven studies that look at taxpayers in general, the elasticities fell in a rather narrow range of 1.1 to 1.3 and were comparatively precise in their range. However, the price response relevant for considering S. 219 is the one applying to nonitemizers, not taxpayers in general, so we need to know about nonitemizers' behavior.

If we take the results based on low income itemizers and then some of the estimates produced by Professor Feldstein and others, my conclusion is that the estimates of the price response vary considerably and are typically subject to greater statistical error than the ones for taxpayers in general.

For example, estimates for low and middle-income taxpayers range in several studies from a low of about 0.4 to a high of 2.5 which was the estimate Professor Feldstein mentioned, and the errors are typically larger—a lot larger, depending on the studies—compared to the studies on general taxpayers.

Let me just illustrate the implications of this range of elasticities. If you take the midpoint of estimates which I mentioned in the first group of studies, about 1.2, which would probably be a good estimate for the population in general, this would imply that contributions would increase about 20 percent more than revenues would fall.

But at the lower end, we would find that contributions would increase less than half of the loss in revenues, and at the upper end contributions would increase over twice the size of the revenue loss.

Senator MOYNIHAN. Could I interrupt, Professor, and say that economics is not an exact science but it gets its quantities a little closer than that. Somewhere between 0.4 and 2.5—that does not sound like you are measuring the same thing. You are not measuring very well yet. Is that the problem?

Mr. CLOTFELTER. There are a lot of statistical problems in measuring this elasticity for low incomes. If you look at itemizers, as

Professor Feldstein has mentioned, itemizers in those income groups are not typical of other taxpayers in those income groups.

In addition, there is a problem that income and price vary quite closely. Therefore, it is difficult to sort out.

Senator MOYNIHAN. What I am asking—please, any of you interrupt—is whether studies of the same statistical quality found ranges of 0.4 to 2.5?

Mr. FELDSTEIN. I think, Senator, that there is one estimate below one. There is this 0.4 estimate that refers to a particular study and it is off the curve.

Then one has to ask, Why did that study come up with a number that is off the curve?

This study was based on data that I think are very good for estimating the impact for the entire population—that is, Treasury-IRS tax file for 1970—and for the entire population, it comes up with 1.3.

The problem is, when one looks at the lower income group in isolation, $4,000 to $20,000 group of itemizers, there just is not very much variation in price to begin with. So that, to be unfortunately more technical than I should be in this context, that price elasticity carries with it what statisticians call a standard error of 0.5.

What that means, roughly speaking, one cannot reject any kind of conceivable number for that price elasticity. It is measured with tremendous uncertainty. It is measured with tremendous uncertainty because there is so little information about price differences, when you limit yourself to itemizers with adjusted gross incomes between $4,000 and $20,000, how much variation in price can there be between 0.78 and 0.85?

So there is not any information there to get anything out of it.

The same $4,000 to $20,000 range back in 1962 was a much more informative sample.

The problem is also you are not trying to measure the effect of price, but simultaneously measure the effect of price and income. As income goes up between $4,000 and $20,000, the price goes down and you are trying to separate those.

If you look at people between $50,000 and $100,000, that is not hard. There is substantial variability in the tax rates at every income level. When you get down to the $4,000 to $20,000 and concentrate just on itemizers, there is just not going to be very much variability in price not caused by differences in income.

If you take the 1970 sample as a whole, and you say well, use the whole sample to estimate the effect of income, and at the same time we will estimate a separate price effect in each income class, then you are not asking the sample to work quite as hard. You are allowing the sample as a whole to tell you something about income and you are using each separate group to tell you something about price.

When you do that, the price elasticity for that same body of data for the individuals with incomes below $10,000 is 2.2. For those with incomes between $10,000 and $20,000, it is 1.8.

So I would say that that 0.4 number is just off-the-curve. It is off-the-curve because the sample is not informative. That is what Dr. Taylor and I said in our scholarly article on the subject. We presented it because that is what scholars do, but we did not present it as a number to be believed. We presented it and commented in our technical publication, that that number cannot be estimated independently on the basis of the available sample.

Senator MOYNIHAN. I see.

Professor Penner?

Mr. CLOTFELTER. I have a couple of more points.

Senator MOYNIHAN. I hope you will feel collegial as a panel. You go right ahead.

You take all the time you want.

Mr. CLOTFELTER. I will just go on.

These revenue loss figures also do not count any losses due to itemizers switching to nonitemization status which the Treasury and the committee for the Joint Tax Committee estimate at about half of a billion dollars.

The final point I want to make before concluding concerns the speed with which nonitemizers would respond to this new incentive.

Because of habit, and lags in receiving information and solicitations, nonitemizers are unlikely to respond completely or immediately to this new deduction. Instead, it is likely that only a portion of the long run change would occur in the first few years following implementation.

The question is, then, how much will this lag in giving immediately be?

The numbers I am going to give are based on the following assumptions. They are based on evidence from itemizers, giving over time, not nonitemizers. This prediction is subject to a statistical uncertainty just like the rest of the estimates, and also, I think the lag, and I think Professor Feldstein would agree, would be dependent on how much information the Government puts out on a new law such as this. It may be that this law would have much less lag than what I have found with itemizers.

But what I have found with itemizers is that it would take 4 to 8 years for 90 percent of the long-run increase in giving to be realized after the change in incentive, and in the first 2 years following enactment, probably less than 70 percent of the long-run giving increase would be achieved based on these estimates.

Those are the points I wanted to make.

Senator MOYNIHAN. Before we turn to Professor Penner, Senator Durenberger, I understand that you have to be somewhere else and you have a statement that you wanted to make. Is that so?

Senator DURENBERGER. Yes, it is and was so. I do have to leave and I am going to be very brief in my statement.

Senator MOYNIHAN. It is good for the academics to hear from us for a change.

Senator DURENBERGER. You are not going to get anything very academic from me.

As I think most of you know, and Senator Packwood knows in particular, I never wanted to be a U.S. Senator until I talked to him about a year and a half, 2 years ago—going on 2 years ago—and he persuaded me that elective life was just as good as all the time I was spending in community service.

But what I guess I have to add to my cosponsorship and the testimony on behalf of the bill is most of an adult life that has been spent in at least 30 different community organizations where I have served as chairman or an officer or director and I have raised as much money for nonprofits as I have spent for nonprofits. I created a medium-sized corporation, a social responsibility unit, that cranked up our corporate giving by 5 percent.

I was chairman of a group in the Twin Cities that is now being touted as a model for the country on 5 percent corporate giving. I am the author of several other pieces of legislation, including the mileage bill around here, and it is that experience and the reactions to it that have led me to the conclusions without computerized models and economic backgrounds and everything else, that what you two have provided the leadership for in this country is accurate.

I wanted to include these informal remarks with perhaps a repetitive reference to a story that I know is true and has been used repeatedly to encourage private giving in Minnesota in particular, a story about an older gentleman, a former public servant, who back in 1969 or 1970 accepted the position as a trustee of the Mayo Foundation in Rochester, Minnesota.

He had been in the Congress of the United States for 12 years. He had been a Senator for 12 years. He served as Vice President for a little over a year and President of the United States for 4 years.

And at the first meeting that he attended of the foundation board, his admonition to his fellow board members, who represented a variety of business and professional backgrounds was,

> As I look over philanthropic giving in this country I see that corporations are something less than 1 percent of their profits in giving, and I see certain other levels that inspire me to the conclusion that, despite all the criticisms of my Presidency and my service in the U.S. Congress, that all of you have come to the conclusion somehow that we, in Government, can spend money better than you can with your charitable giving.

Well, of course, no one agreed with him in that room and I think that there is little agreement with that, and I think that story has always, in our community, been the genesis of increased giving. And it is a part of the philosophy and the practical side of giving that I bring to my support of what the two of you are doing here. And what I trust will be a substantial and important change in public policy in this country.

[The prepared statement of Senator Durenberger follows:]

STATEMENT OF SENATOR DAVE DURENBERGER

Mr. Chairman, Thank you for this opportunity to appear today before the Subcommittee on Taxation and Debt Management to urge favorable consideration of S. 219, the Charitable Deduction Bill.

I have joined as a co-sponsor of this important legislation because I want to preserve the vitality of our nation's charitable and volunteer community. During the past decade, private philanthrophy, like all other sectors of our society, has suffered from the mounting financial strains of inflation. Many individuals who would like to contribute to the arts, to their church, or favorite charity can no longer justify their contributions—not when the price of the essentials for daily living are steadily and rapidly rising. After paying for food, clothing and shelter, there is little left for charities. And, I might add, no tax incentives for the millions of taxpayers who do not itemize.

The major government incentive to private giving, the charitable tax deduction, needs to be revised if we are to continue to have a vigorous, broad-based voluntary sector in the United States. It is my strong belief that S. 219 will help bring about that revitalization and reverse the dramatic decline in private philanthropy.

By allowing taxpayers a deduction on charitable contributions, whether or not they itemize, this legislation will correct a present inequity in the tax code. Under existing law, individuals who take a standard deduction can be taxed on private dollars contributed to nonprofit organizations. This form of taxation certainly poses a philosophical challenge to the rationale that income which goes to charitable activities should not be taxed because it does not enrich the giver.

The spirit of public service and voluntarism has been transferred from generation to generation of Americans. It has shaped the patterns and traditions of the American way of life. As Daniel Boorstin once noted, "Communities existed before governments were there to care for public needs." Indeed, the practice of attending to community needs with private dollars has created some of America's greatest institutions.

Government cannot and should not provide every social and community service. We in government must support and encourage the work of the private, non-profit sector, for if we do not, governments at all levels will surely be called upon to fill the gap. The gap will be filled, if history is a good teacher, by programs that become so complex and expensive they eventually cave under their own weight. The private, non-profit sector often shows us a better way. It is there, in the non-profit organizations, with their freedom to explore and innovate, where some of the nation's most creative responses to community needs are born and nutured.

It is nearly impossible to look around and not find a school, hospital, library or other similar institution which has not been the beneficiary of private philanthropy. Unfortunately, however, most of these institutions have been affected by the marked decline in private giving during recent years. In the absence of essential financial incentives for giving, more and more non-profit organizations will be forced to close their doors. I do not want to see that happen. S. 219 gives us the opportunity to reinforce the financial underpinning of the voluntary sector.

Thank you for this opportunity to speak on this major piece of legislation. It has my greatest support, and I look forward to working with Senators Moynihan and Packwood on passage of this bill by the Senate.

Senator MOYNIHAN. Thank you very much.

It is literally the case that Senator Packwood persuaded Senator Durenberger that if he was going to do public service he might as well do it in Washington as Minnesota.

One of the points that we made yesterday several times was to precisely this point. Have people concluded that the government spends money better than they do in their own community? Obviously, they have not and yet they act as if they have.

In terms of elasticity, certainly in the field of education, where we have real comparisons between what it costs to educate an eighth grade student in a Lutheran school and in a public school in St. Louis, the private sector is far more efficient. And a transfer of $1 million from educational activity in the public sector to the private sector—it may be the equivalent of a multiplier here in terms of the end product and it may be considerable. You may get more.

Years ago, Al Smith began talking to the New York State Power Authority about the idea of a public yardstick that would measure private monopolies like utilities and keep them honest by saying this is what it really costs, what a kilowatt really costs.

There is an equivalent need in our time for something like a private yardstick to measure what government does to a natural monopoly.

These independent sector enterprises do exactly that.

Senator PACKWOOD. I do not know whether or not you are familiar with the study done by the General Accounting Office on the cost of paying a medicare claim. We set up a public yardstick when we passed the medicare bill called the Division of Direct Reimbursement.

If you are a health provider, which is our language for hospitals, by and large you can submit your bills directly to the Division of Direct Reimbursement, thereby cutting out the evil middle man.

The General Accounting Office studied Blue Cross of Chicago, Blue Cross of Maryland, which are nonprofits, and Aetna and Travellers, I think, which are profits.

The interesting comparative is that the Blue Cross of Maryland headquarters is located reasonably close in suburban Maryland. The Division of Direct Reimbursement did a study which is about 4 years old. What they discovered is roughly this: It costs Blue Cross $3.70 to pay a claim. It costs the Division of Direct Reimbursement $12.20 to pay a claim.

Blue Cross can process about 7,400 claims per employee per year. The Division processed 2,200.

Senator MOYNIHAN. This is something to be pursued.

We thank you, sir.

Senator DURENBERGER. Thank you.

Senator MOYNIHAN. Professor Clotfelter, have you finished?

Mr. CLOTFELTER. Yes.

Senator MOYNIHAN. We will turn to Professor Penner.

STATEMENT OF RUDOLPH PENNER, RESIDENT SCHOLAR, AMERICAN ENTERPRISE INSTITUTE FOR PUBLIC POLICY RESEARCH

Mr. PENNER. Thank you, Senator. I appreciate this chance to testify. In Professor Feldstein's words, I guess that I am outside the curve, because I am the only one on this eminent panel——

Senator MOYNIHAN. You cannot be outside of a curve. You are off the curve.

There is a single line.

Mr. PENNER. In any case, I am the only one on this panel who has not done any statistical work myself on the question at issue and I was invited to act as something of a referee in this discussion of numbers.

You commented a few minutes ago on the wide range of estimates that can be found in the literature, and I think that you gave economists more credit for their ability to be precise than we really deserve. Unfortunately, we are confronted by a lot of statistical problems and we are, after all, dealing with human behavior. Individuals out there often refuse to act according to the rules we would like to lay down for them.

There are major statistical problems involved in estimating the affect of tax policy on donations. A lot of the variables that are important, like age, income, marginal tax rates and so on, tend to vary together and it is always difficult to separate their impact. In addition the taxpayer always goes through a rather complex strategy game. Marginal tax rates are, to some degree, subject to his control as he chooses what to deduct from his income and, indeed, chooses the type of income. This adds to the theoretical problems involved in the analysis.

On the other side, however, it is a problem that is easier than many in economics because we have had long experience with the charitable deduction and there is very good data from tax returns and consumer surveys. And while a range of estimates can be found in the literature, there is absolutely no doubt in my mind that the amount of charitable giving is very sensitive to its tax treatment.

You can find only a few studies that contradict that conclusion, but they are very old and are not based on very good data.

It becomes a little more difficult to say precisely how sensitive giving is to tax policy—and here, I would like to reemphasize a point made by Professor Clotfelter. There is a lot of discussion about whether the giving stimulated by some more lenient tax treatment would be more or less than the revenue loss. I really think that is almost irrelevant for the purposes of this discussion because of some of the things that Senator Moynihan pointed out earlier.

As you might know, we have an AEI project called "mediating structures" and the thesis of the project is very much based on the kind of experience Senator Moynihan cited in Europe. As government has intruded more and more into social problems at the neighborhood level, there may well have been a crowding out of charitable activities which AEI scholars believe were really more equitable and more efficient than the government programs that took their place.

If you accept this idea—and I certainly have a lot of sympathy with it—then an extra dollar of charitable giving could very well be more socially productive than an extra dollar in the coffers of the Treasury. But as I read the evidence, it is indeed a fact that the vast bulk of the evidence is in favor of the proposition that charitable giving will go up more than the tax loss due to any increase in the leniency of the tax treatment.

If some future evidence contradicted that conclusion, it would say essentially nothing about the desirability of a particular tax proposal. When I say that a dollar in the Treasury may be less socially productive than a dollar in the hands of charities, I am reflecting my own personal values. I am not being a professional economist.

I can understand other people reaching opposite conclusions.

Senator MOYNIHAN. You could be a professional economist and say the cost of processing a hospital bill is twice as high in this bureau as in that agency.

Mr. PENNER. That is true.

Senator MOYNIHAN. We have a lot of that sort of data.

Mr. PENNER. Yes.

In any case, my conclusion regarding the statistical evidence is that the elasticity of giving with respect to the tax rate is indeed greater than one.

For the purposes of the bill under consideration, of course, it is necessary to know more about the response of those particular taxpayers who would be influenced by the bill. I came in in the middle of Professor Feldstein's discussion of that point.

I gather that his conclusion was that the evidence showed that the responsiveness of giving to tax factors does not change much by income group.

He felt that the evidence on that point was pretty convincing. I feel a little less certain about that in my own mind. You can find both results in the literature. Some say that sensitivity goes up with income and others say that it goes down.

My own intuition tells me that taxpayers should be much more sensitive to tax factors at the higher income levels simply because it is hard to take any action when you are wealthy without considering the tax implications of what you do. In any case, I do think that there is evidence on both sides of the picture.

I know of only one analysis of the particular impact of the bill under discussion today. That is by Professor Feldstein. I have not had a chance to see Professor Clotfelter's study. In passing I should note that I made an error in my prepared testimony when I suggested the study was sponsored by CONVO. Professor Feldstein tells me that it was really sponsored by the National Science Foundation.

I would like to correct that.

Mr. FELDSTEIN. It was really a part of the National Bureau of Economic Research Study of Tax Effects and the major grant for that is from the National Science Foundation.

Mr. PENNER. I apologize for that error.

In any case, that simulation does, indeed state that the amount of giving simulated by this bill will exceed the amount of the revenue lost.

While I have not been able to study Professor Clotfelter's work in detail, it certainly does seem reasonable that there would be a lag before the bill had its full impact, mainly because it would take a while for people to become conscious of the new law and to modify their behavior.

There are many good things about the bill and I think they are quite obvious. As an economist, I am obliged to point out that it also has costs. The lost revenues could be used for all sorts of other good purposes. For example, inflation is pushing people into higher tax brackets at a very rapid rate, and there is good reason for more general tax relief.

You can also make very good arguments for easing the tax burden on capital, and so on. And the other cost that does worry me is that this is another measure that would make the tax laws somewhat more complex. The good thing about the present standard deduction is that it does ease the preparation burden for taxpayers.

Senator MOYNIHAN. Could I ask you, sir, you were the senior economist in the administration of President Ford's OMB, were you not?

Mr. PENNER. That is right.

Senator MOYNIHAN. You do not have to answer, obviously, but supposing, you know, you were back where you have been and Treasury's testimony came to you to be cleared, as it were.

Mr. PENNER. When we were lucky sir.

Senator MOYNIHAN. How would you have responded? Would you say you would want the administration for this bill or against this bill?

Mr. PENNER. Putting myself in the shoes of testifying for an administration at this moment in time—if that is the context——

Senator MOYNIHAN. Representing the administration headed by President Ford. There are such things as philosophy.

Mr. PENNER. That puts a huge burden on me. I am not sure how the Ford administration would have come out.

Let me just state my own personal views and tell how I would vote, without putting any blame or credit on President Ford.

I do feel a bit ambivalent toward the bill, not because I have any doubt about its goal and the merits of its goal, but because there are all sorts of other claims for tax relief. So, to me, it would depend on the context in which the bill arose.

If I really thought that there was not going to be any major tax legislation this year and that this would be one of the few items that would come up, I would vote for it. I think the cause is good, and tax burdens are going up so fast that almost any excuse for a tax cut looks very good to me.

If, however, you look at it in the context of a major, comprehensive bill where there is direct competition between this bill and easing the inflation burden on the ordinary taxpayer and easing the inflation burden on the recipients of capital income, I am afraid that I would probably put my money toward those priorities.

Senator MOYNIHAN. We may be able to do both, in any event, and we may end up doing neither. But we are addressing ourselves here to what we think of as much as a problem of the social order as a question of public finance.

You know, we can find $2.3 billion in this nearly $2 trillion economy. But what you cannot find is the Red Cross again. If you lose it, you have lost something that takes a hundred years to create.

You cannot recreate those schools that have been there for 150 years and are closing down.

There are things that it takes a long time to create. If it disappears, something of value is lost.

We had John Gardner in here yesterday speaking with great eloquence on this. We began our hearing with testimony from President and Mrs. Carter, who made a film for CONVO which the President ended by saying, "This is a nation with a soul." Then the soulless technocrats from the Treasury appeared and said no.

But we thank you very much.

Not every man lends his name—attains his immortality as an economic doctrine. Mr. Laffer, I think, was the last one and he never really caught on at the Treasury.

We thank you very much for your help. I cannot tell you how important it is to this committee. We are dealing with a subject to which scholars of the highest order have addressed themselves and we feel that when we do go to the full committee we will do it on the basis of some serious work and we thank you for having done it for us.

[The studies and prepared statements of the preceding panel follow. Oral testimony continues on p. 316.]

THE INCOME TAX AND CHARITABLE CONTRIBUTIONS: PART I—AGGREGATE AND DISTRIBUTIONAL EFFECTS

MARTIN FELDSTEIN*

"If charity cost nothing, the world would be full of philanthropists."

— quoted in Leo Rosten's Treasury of Jewish Quotations

ABSTRACT

Because charitable contributions are deductible in defining taxable income, the "price" of such gifts is less than the price of other consumption. This paper assesses the importance of this price effect by using a pooled time series of cross sections of charitable contributions by income class for the period 1948 through 1968 to estimate price and income elasticities. Alternative estimates of the price elasticity are generally greater than one and the cluster around 1.1. These results indicate that charitable contributions are increased substantially by the current provision of deductibility.

PRIVATE nonprofit organizations play a central role in the provision of a wide variety of public services. Higher education, research, health care, the visual and performing arts, welfare services, and community activities rely heavily on voluntary institutions. In 1972, American families contibuted $17 billion to support these philanthropic and religious organizations.[1] The volume and distribution of these contributions is affected by the personal income tax and by the special provisions with respect to the deduction of charitable contributions. The current paper provides new estimates of the effects of the income tax provisions on individual philanthropy.[2]

The income tax affects charitable contributions in two important ways. First, by decreasing disposable income the tax reduces all forms of philanthropy. Since effective average rates are higher for upper income families, the reduction in disposable income falls more heavily on education, health, the arts and other nonreligious charities.[3] Second, because contributions are deductible in determining taxable income, the tax makes the "price" of charitable contributions less than the price of other goods and services. More specifically, an individual with a marginal tax rate of 40 per cent can give $100 to charity by forgoing $60 of personal consumption; for him the net price of charitable contributions is only 0.6.[4] In 1970, approximately 90 per cent of individual contributions were itemized as tax return deductions; these contributions had an average net price

*Professor of Economics, Harvard University. I am grateful to Charles Clotfelter and Daniel Frisch for assistance with this research and to W. Andrews, M. Bailey, J. Brittain, R. Freeman, R. Musgrave, J. Pechman, J. Schwartz, H. Smith, S. Surrey, and W. Vickrey for useful discussions and comments on a previous draft. This paper is part of a larger study of the effects of fiscal policies on capital formation and income distribution.

[1]American Association of Fund-Raising Counsel (1973). Philanthropic organizations also received $2.7 billion from bequests, $0.8 billion from corporations and $2.2 billion from foundations.

[2]Earlier studies of this subject were reported by Kahn (1970), Schwartz (1972), Taussig (1967), and Vickrey (1962); see section 5 below.

[3]The most recent information on the distribution of contributions among types of charities in each income class is the Internal Revenue Service analysis of 1962 tax returns (Internal Revenue Service, 1965). In 1962, religious organizations received 61.0 per cent of total itemized contributions but only 31.3 per cent of the contributions of individuals with adjusted gross income over $25,000 and only 19.6 per cent of the individuals with adjusted gross income over $50,000. (Internal Revenue Service, 1962, p. 6).

[4]The implied price is lower and more complicated to compute when the contribution includes a gift of appreciated property; this is considered in sections 1 and 3 below.

of less than 0.74.[5] This price effect increases charitable contributions. Moreover, since marginal rates are higher in upper income groups, the induced increase in giving favors the same charities that lose most by the reduction of disposable income. The net impact of the tax on the total amount and distribution of contributions depends on the relative magnitudes of the income and price effects.

There are today a number of widely discussed proposals for changing the tax treatment of charitable contributions. These include the complete abolition of the deduction, the substitution of a system of tax credits, the introduction of a "floor" with a deduction or credit only for contributions above that level, and various modifications of the treatment of appreciated assets.[6] The issues raised by these proposals are complex and wide ranging. They involve the appropriate definition of income, problems of horizontal and vertical equity, the desirability of decentralized finance of public and quasi-public services, and the effects of the tax provisions on the level of contributions.[7] The current paper will not attempt to deal with this full range of analytic and philosophical questions. The focus is rather on the empirical issue of the income and price effects of the tax structure. With estimates of these effects it will be possible to evaluate the "efficiency" of the current tax treatment as a stimulus to charitable deductions, i.e., the amount of additional contributions received by charities per dollar of potential tax revenue forgone by the Treasury.[8] The price and income elasticities can also be used to assess the potential impact of any proposed tax change. Section 4 presents estimates of the effect that abolishing the charitable deduction would have on the distribution of charitable contributions, of tax payments and of net disposable income (income net of tax and charitable contributions).

The results presented in this paper indicate that charitable contributions are increased substantially by the current provision of deductibility. The alternative estimates of the price elasticity are generally greater than one and cluster around 1.1. This implies that the "efficiency" of the deduction as a stimulant to giving exceeds 100 per cent; the deduction increases the amount received by charities by more than it reduces the revenue collected by the Treasury. These results stand in sharp contrast to Taussig's (1967) widely cited conclusion that the price

[5]Total individual giving in 1970 was $14.4 billion (American Association of Fund-Raising Counsel, 1973) while itemized deductions for contributions were $12.9 billion (Internal Revenue Service, 1972). The average net price was calculated by applying the marginal tax rate for joint returns to the contributions in each taxable income class. Since gifts of appreciated assets and state income taxes are ignored, this overstates the average net price of charitable contributions.

[6]See, for example, the discussions in Brannon (1973), Goode (1964), Kahn (1960), McDaniel (1972a, 1972b), Pechman (1971), Rabin (1966), Surrey (1972), Weidenbaum (1973) and U.S. Treasury Department (1969). These proposals were considered in the 1969 Hearings of the House Ways and Means Committee and of the Senate Finance Committee, and in the 1973 Hearings of the House Ways and Means Committee.

[7]For thoughtful discussions of these issues, see the references cited in the previous footnote and papers by Andrews (1972), Bittker (1972), Vickrey (1962, 1973) and White (1959). None of these authors gives attention to the question of whether the charitable deduction is justified as a method of offsetting the income effect of the tax on charitable contributions. It is interesting in this context that the income tax law was amended to allow the charitable deduction in 1917 when tax rates were sharply increased to finance the war; the introduction of the deduction was intended to prevent the higher tax rates from substantially reducing philanthropy.

[8]This measure of the "efficiency" of the current tax rules has been central to much of the previous analysis. Taussig's (1967) widely cited study concluded that the "efficiency" was very low, approximately 5 per cent. Several writers have argued that such low efficiency in stimulating contributions is a sufficient reason to abolish the current deduction or to modify it very substantially; see, e.g., McDaniel (1972a), Taussig (1967) and Surrey (1972). In contrast, others have argued that the efficiency is irrelevant because the charitable deduction should not be regarded as a "tax subsidy" but as a necessary correction in the calculation of an appropriate taxable income; see Andrews (1972) and Bittker (1972).

effect is very small, that charities receive only five cents for each dollar of revenue forgone by the Treasury. They are closer to the estimates presented by Schwartz (1970) but indicate somewhat greater sensitivity to the deduction at all income levels. Possible reasons for these differences are discussed in section 5.

Since the present study is based on a richer sample of the same type of data used by Taussig and Schwartz, I believe that the current results should be given more weight in evaluating the evidence. Moreover, since this study was completed, Charles Clotfelter, Amy Taylor and I have used a variety of other microeconomic data sources to estimate the basic price and income elasticities of charitable giving. The results, presented in Feldstein and Clotfelter (1974) and Feldstein and Taylor (1975), are remarkably similar to those described in the current paper.

There are a number of problems that cannot be investigated adequately with the data used in this or previous studies. These limitations are discussed in Section 5. Most of these shortcomings can be overcome with the microeconomic data that I have studied with Clotfelter and Taylor. It is reassuring that explicitly incorporating such things as the individual's wealth or demographic characteristics does not alter any of the conclusions of the current study.

1. *Data and Specifications*

Every second year the Internal Revenue Service publishes the value of itemized charitable contributions in each adjusted gross income (AGI) class.[9] The current study uses a time series of these cross-sections for the even years from 1948 through 1968. With 17 AGI classes,[10] the sample has 187 potential aggregate observations. By pooling data in this way it is possible to obtain substantial variation in real income and in the price of charitable contributions without the collinearity between these variables that exists within a single year.

It is inevitable in empirical research that the available data does not correspond exactly to the relevant theoretical quantities. Fortunately, the current data provides some scope for testing the sensitivity of the results to alternative measures of particular variables. When this is possible, the different estimates generally support the same conclusions. The substantial variation in prices and incomes imply that any bias that might be introduced by certain stochastic measurement problems (e.g., errors or transitory components in measured income) will be small. There are however other potentially serious problems, e.g., the lack of data on wealth and the aggregation of charitable contributions to all donees, that cannot be remedied until new sources of data are examined.

A variety of functional specifications relating charitable giving (G) to income (Y) and price (P) have been investigated. The most basic specification is the constant elasticity equation:

$$\log G_{it} = \alpha + \beta \log Y_{it} + \gamma \log P_{it} + \epsilon_{it}. \quad (1)$$

The subscript i denotes the AGI class and the subscript t denotes the year. The variable ϵ_{it} is an unobservable residual that reflects random disturbances and specification errors. The more general specifications described below allow the income and price elasticities to vary with the levels of income and price.

The variable G_{it} is the average charitable contribution per return in AGI class i and year t. The contribution is defined as the *gross* amount given by the individual to the charity and not as the *net* cost of that contribution to the individual. These amounts include the value of donated assets as well as gifts of money. Contributions are measured in

[9] See, for example, Internal Revenue Service (1968), p. 65.

[10] The AGI class limits are \$1000; \$2000; \$3000; \$4000; \$5000; \$6000; \$7000; \$8000; \$9000; \$10,000; \$15,000; \$20,000; \$50,000; \$100,000; \$500,000; \$1,000,000; \$1,000,000+.

constant 1967 dollars by deflating with the consumer price index. Of course, only those taxpayers with itemized returns are included in the sample.[11]

An ideal measure of economic income cannot be obtained from the data provided in the tax return. Nontaxable income, accrued capital gains, and accounting losses make the reported values different from the appropriate theoretical variable. Two alternative definitions of disposable income have been used in this study: (1) adjusted gross income minus the tax that would have been paid if no contributions had been made, and (2) taxable income plus charitable contributions minus the tax that would have been paid if no contributions had been made.[12] The value of Y_{it} is the average real income per return in AGI class i and year t, measured in constant 1967 dollars. In some of the equations reported in section 3, this real income variable is supplemented or replaced by a measure of relative income; the specific definition of relative income will be described at that point. Analyzing data that is grouped by income class reduces the potential bias that arises from using current income instead of permanent income. If the income groups correctly classify individuals by permanent income, the parameter estimates are consistent even if individual current incomes differ from permanent income.[13] More generally, the very great variance in permanent incomes in the population of taxpayers relative to the average transitory variance implies that the bias from this source would be quite small.

The price variable (P) measures the individual's opportunity cost per dollar of charitable contribution in terms of forgone personal consumption or saving. An individual whose marginal tax rate is *m* can choose between (1) contributing one dollar to charity and (2) having 1-*m* dollars for additional personal consumption or saving. We therefore define that individual's price of charitable giving by P = 1-m. In practice, P_{it} is measured by using the marginal tax rate for a joint return with the average taxable income in class i and year t.[14]

Contributions of appreciated assets create a special problem for measuring the price of charitable giving. When an asset is given away, its full value can be deducted from the donor's taxable income but there is no constructive realization and therefore no tax to be paid by the donor on the capital gain.[15] The opportunity cost (price) of a gift that is given in the form of an appreciated asset therefore depends not only on the individuals' marginal tax rate but also

[11]In 1970, 90 per cent of all individual contributions were deducted on itemized returns; see footnote 5 above. While only 47.7 per cent of all taxpayers itemized their deductions, 91.4 per cent of taxpayers with AGI over $15,000 itemized their deductions.

[12]Subtracting the tax that would have been paid if no contributions had been made is preferable to subtracting actual taxes paid because the latter depends on the contributions themselves. The results presented in an earlier version of this paper (Harvard Institute of Economic Research Discussion Paper No. 337, January 1974) were based on adjusted gross income minus tax actually paid.

[13]It is well known that the use of current income instead of permanent income is an example of the classical errors in variables problem. This use of grouped data is a generalization of Wald's (1940) method of instrumental variable estimation.

[14]The marginal rate is actually calculated for taxable income plus charitable contributions, i.e., it is the marginal rate for the first dollar of contribution. With the current aggregate data, the choice between the first dollar price and the last dollar price has little effect. When appropriate, the marginal rate is modified for the existence of a tax surcharge. To allow for the effect of using the alternative tax computation, average taxable income in class i and year t is adjusted by subtracting one-half of the net capital gains reported on returns using the alternative tax. No attempt is made to allow for income averaging. A more exact method of evaluating P_{it} would be to (1) cross-clarify returns in each AGI class according to taxable income class; (2) find the marginal tax rate at the average taxable income in each sub-class; and (3) find the weighted average of these for the AGI class using the distribution of total taxable income among the taxable income subclasses. This calculation was performed for 1968, the only year for which such data are available. Fortunately, the correlation between these P_{it}'s and the more easily calculated P_{it}'s described in the text is very high: r = 0.99.

[15]Since income of the donee organization is not taxable, it can sell the appreciated asset without paying any tax.

on the fraction of the asset's value that is accrued capital gain and on the alternative disposition of the asset. An example will clarify the way in which these variables determine the relevant price. Consider an individual whose marginal rate is 40 per cent and who contemplates donating an asset that is now worth \$100 and for which he originally paid \$30. If he gives the asset away he reduces his taxable income by \$100; he therefore reduces his tax liability by \$40 and thus increases his after tax income by \$40. If he instead sells the asset, he pays a tax of \$14 (half of his marginal rate on the capital gain of \$70) and increases his after tax income by \$86. For this individual, the opportunity cost of the \$100 contribution is therefore \$46 of foregone consumption. If the price is defined in terms of forgone consumption, the price of the gift is $P = 0.46$. This price clearly depends on the ratio of the asset's original cost (or basis) to its current value: an original cost of \$1 implies $P = 0.40$ while an original cost of \$100 implies $P = 0.60$. More generally, $P = 1 - mc\,(1\text{-}B/A) - m$ where A is the current value of the asset, B is its basis or original cost, m is the marginal tax rate on income and mc is the marginal tax rate on capital gains; during the sample period, $mc = 0.5m$ with a maximum of 0.25.

The preceding calculation defined the opportunity cost of a donated asset in terms of forgone immediate consumption, i.e., it assumed that if the asset were not given away it would be sold in the current year. The price is higher and the calculation is more complex if the opportunity cost is defined in terms of forgone saving or wealth, i.e., if it is assumed that the asset would not otherwise be sold in the current year. The individual in the preceding example could retain the \$100 asset or he could give it away and add the \$40 tax saving to his wealth. Viewed in this way, his opportunity cost price is 0.60, the same as for contributions of money; moreover, this price is independent of the ratio of the capital gain to the present asset value. Since the individual who does not give away the asset also has a future tax liability, this tends to overstate the opportunity cost of a prospective contribution. However, by postponing the sale of the asset the individual can substantially lower the present value of the tax and, if the asset is never sold during the individual's lifetime, the capital gains tax liability is completely eliminated when the asset passes at death.[16]

It has not been possible to reflect the full complexity of appreciated asset gifts in the current study. Although the fraction of total contributions in the form of assets is known for each income class, there is no reliable data on the ratio of original cost to current value for such assets.[17] There is of course no information on what would have been done with the assets if they had not been contributed. In practice, I have used the information about the share of contributions in the form of appreciated assets and examined the implications of different assumptions about the ratio of basis to current value. These results are reported in section 3.

Before 1952, the deduction of charitable contributions was limited to no more than 15 per cent of the taxpayer's adjusted gross income. An individual who contributed more than 15 per cent of his income would face a price of one for marginal giving.[18] The limit was in-

[16]If the individual gives the asset away to another person, there is no constructive realization and the tax is postponed until the recipient sells the asset. The original owner can also consume most of the value of the asset by using it as collateral to borrow funds which he then consumes, thus enjoying the consumption while postponing or avoiding the capital gains tax. See Bailey (1969) for evidence that a very large share of accrued capital gains are never subject to capital gains taxation.

[17]The Treasury published "estimates" of the ratio of cost to current value for charitable contributions deducted in tax returns for 1962. (Internal Revenue Service, 1962, p. 8). These "estimates" imply that most assets are worth exactly their original cost. It is clear that this data is without value. I inquired directly at the Treasury and was advised that these "estimates" were meaningless and should be disregarded.

[18]The special provision for individuals whose contributions plus taxes exceeded 90 per cent of their taxable income in eight out of the last ten

creased to 20 per cent in 1952 and then to 30 per cent in 1954. Since a significant number of high income taxpayers had previously been contributing at the maximum rate, these increases constituted reductions in their price of charitable contributions. The effective magnitude of these reductions depends on the number of taxpayers at each income level who had previously given the maximum and on the extent to which the effect of the limit was reduced by the carryover provision. The impact of these limits is examined in section 3.

Table 1 presents the values of G_{it}, Y_{it} and P_{it} for each AGI class for 1968, the most recent year in the sample.[19] The income variable is adjusted gross income minus taxes. The price variable is based on gifts of money. For each income class, the table also shows the ratio of contributions to net income after tax and the cumulative proportion of total contributions.

Preliminary analysis indicated that the information in the current data is not sufficient for studying the behavior of taxpayers in the lowest and highest income groups. Low income individuals who file itemized returns are an unusual group with a disproportionately high fraction of aged persons and those with substantial negative transitory income. At the other extreme, adjusted gross income is an inadequate measure of economic income and no information is available about wealth. Moreover, the special features of private foundations and charitable trust make it extremely difficult to measure price for the highest income groups. The analysis of this paper focuses on AGI classes with mean real net income between $4000 and $100,000.[20] Table 1 shows that in 1968 this group accounted for 91 per cent of all itemized contributions. Although the parameter estimates for this group are very similar to the results obtained when all 187 observations are used, restricting the sample provides more reliable estimates. Additional information on contributions of non-itemizers and on the income and assets of the wealthy is required to extend the current analysis to cover all individuals in a satisfactory way.

Each of the observations represents a different number of individual tax returns. However, the published values of total contributions and incomes are themselves estimates prepared by the Internal Revenue Service on the basis of a very large stratified sample of returns. The number of returns in each AGI class is selected to yield approximately the same sampling error in the resulting estimates. This suggests that relatively little gain in the efficiency of the parameter estimates could be obtained by using a weighted generalized least squares estimator.[21] The procedure of giving equal weight to all of the observations is therefore used in this study.

2. *The Basic Estimates*

For the estimates of this section, income (Y) is defined as the average real value per return of adjusted gross income minus taxes. The price of giving (P) is the opportunity cost of contributions of money, one minus the marginal rate of tax. Equation 2 presents the estimated equation with constant income and price elasticities:[22]

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years affected very few individuals and does not alter the basic point of this paragraph.

[19] Although data for 1970 is now available, a variety of changes in the tax treatment of charitable contributions in the Tax Reform Act of 1969 suggests that it would be unwise to pool 1970 with previous years without additional study.

[20] More specifically, an observation is included in the sample if the mean of AGI minus tax in 1967 dollars in that class and year is between $4000 and $100,000. This reduces the sample from 187 potential observations to 117 observations.

[21] The weighting would be complicated not only by the IRS sampling procedure but also by the fact that a log-linear specification is used. Only for returns with incomes below $6000 did the relative error of the estimate of giving exceed 4 per cent; above $10,000 the relative error was less than 1 per cent. See Internal Revenue Service, 1968, pp. 65 and 189.

[22] An earlier version of this paper (Harvard Institute of Economic Research Discussion Paper No. 337, January 1974) reported a price elasticity of -1.18 with P_{it} defined in terms of actual taxable income and Y_{it} defined as AGI minus actual

TABLE 1
CHARITABLE CONTRIBUTIONS BY INCOME CLASS, 1968

AGI Class ($1000)	Average Contribution (G)	Average Income* (Y)	Average Price** (P)	Contribution Ratio (G/Y)	Cumulative Percentage of Contribution
0-1	$ 90	$ 724	.86	.124	0.1
1-2	109	1,570	.86	.069	0.8
2-3	145	2,439	.85	.059	2.3
3-4	164	3,329	.84	.049	4.6
4-5	178	4,216	.83	.042	7.5
5-6	183	5,507	.83	.033	11.2
6-7	207	5,968	.82	.035	15.6
7-8	220	6,825	.82	.032	20.4
8-9	232	7,694	.80	.030	26.0
9-10	258	8,533	.80	.030	31.7
10-15	305	10,710	.80	.028	55.6
15-20	428	14,542	.76	.029	67.7
20-50	761	22,541	.66	.033	82.9
50-100	2,267	45,745	.43	.050	88.9
100-500	9,695	96,689	.31	.100	95.6
500-1000	68,749	366,594	.25	.188	97.2
1000+	287,651	1,111,360	.25	.259	100.0

*Income is adjusted gross income minus tax paid.
**Price is based on gifts of money; P = 1−m.
All amounts in 1968 dollars

$$\ln G_{it} = -1.922 + \underset{(0.032)}{0.822} \ln Y_{it} - \underset{(0.101)}{1.238} \ln P_{it}$$

$$\$4000 < \frac{\text{Mean Real}}{\text{Net AGI}} < \$100{,}000$$

$$\bar{R}^2 = 0.98 \quad SSR = 1.772 \quad N = 117 \qquad (2)$$

The income elasticity is 0.822 and the price elasticity is −1.238. The equation provides a very good explanation of the overall variation in the volume of contributions ($\bar{R}^2 = 0.98$). Despite the potential problem of collinearity between income and price, the standard errors of the estimated elasticities are quite small.

Several modifications of this basic specification are presented below. In general, these have elasticities of approximately the same size as equation 2. Before studying the additional estimates, it is therefore useful to consider the implications of these elasticity values. Since a full analysis is presented in section 4, only some individual examples are now examined. In 1968, taxpayers with adjusted gross income between $10,000 and $15,000 contributed an average of $305.[23] The average marginal rate for these taxpayers was 0.20, implying an average price of 0.80. If contributions were not deductible, the price would rise by 25 per cent (from 0.80 to 1.00) and therefore, given a price elasticity of −1.24 contributions would fall by about 24 per cent or $74.[24] The amount is not implausible nor contrary to the common assertion that the deductibility of contributions is likely to have only a "small" effect on the amount given by lower income households.[25]

tax. The income elasticity was very similar (0.828). The sum of squared residuals was lower (1.730) but this reflects the spurious simultaneity of giving and the explanatory variables.

[23] These amounts are all in 1968 dollars.

[24] More exactly, $(1.25)^{-1.24} = 0.76$ implying that contributions are decreased by 24 per cent or $73.72. These calculations assume that an additional small change is made in tax rates to leave total taxes paid (and therefore net income) unchanged.

[25] This point has been stressed by Aaron (1972), Kahn (1960), McDaniel (1972a) and Vickrey (1962) among others. In 1968, 55 per cent of the total itemized deduction for charitable gifts was on returns with AGI below $15,000 and 31 per cent on returns with AGI below $10,000. Although the implied effect on the average indi-

For taxpayers with adjusted gross incomes between $50,000 and $100,000, the average contribution was $2,267 and the average price of giving was 0.43. Most of the difference in average contributions between the $10,000 and $15,000 class and the $50,000 to $100,000 class is obviously due to the difference in income rather than the difference in price; lowering the price from 0.80 to 0.43 for the $10,000 to $15,000 AGI class would only raise their average giving to $659 per taxpayer. The low average price in the $50,000 to $100,000 class implies that the deductibility of charitable contributions has a substantially greater effect than in the lower AGI class. Eliminating the deductibility of contributions would raise the price by 133 per cent (from 0.43 to 1.00) and would therefore lower contributions by about 65 per cent or $1473.[26]

During the 20-year sample period, there have been a great many gradual changes in economic and social factors that may influence the rate of charitable giving. The rise in college attendance, the increase in government activities in areas previously dominated by philanthropic organizations, the changing role of religion and the growth of the suburbs are all likely to have different and countervailing impacts. To test whether these trends had any *net* effect on giving or on the previously estimated elasticities, an exponential time trend is added to the specification of equation 2:

$$\ln G_{it} = \underset{}{-1.649} + \underset{(0.023)}{0.806} \ln Y_{it} - \underset{(0.071)}{1.272} \ln P_{it} + \underset{(0.001)}{-0.014}\, TIME \quad (3)$$

$$\$4000 < \frac{\text{Mean Real}}{\text{Net AGI}} < \$100{,}000$$

$$\bar{R}^2 = 0.99 \quad SSR = 0.88 \quad N = 117$$

The coefficient of the time variable implies a moderate negative trend in relative contributions; the income and price elasticities are essentially unchanged from equation 2.[27]

Although constant income and price elasticities are convenient simplifications, the log-linear form is an unnecessary restriction on the analysis. As a more general specification, the price elasticity is allowed to vary linearly with the level of the price and the income elasticity is allowed to vary linearly with the logarithm of the level of income. The estimated equation

$$\ln G_{it} = 3.647 + (\underset{(0.702)}{-0.404} + \underset{(0.039)}{0.069} \ln Y_{it}) \ln Y_{it} - (\underset{(0.220)}{0.981} + \underset{(0.578)}{0.545}\, P_{it}) \ln P_{it}, \quad (4)$$

$$\$4000 < \frac{\text{Mean Real}}{\text{Net AGI}} < \$100{,}000$$

$$\bar{R}^2 = 0.98 \quad SSR = 1.709 \quad N = 117$$

shows that the income elasticity increases with the level of income but that the variation in the price elasticity is not significantly different from zero.[28] If the income elasticity is allowed to vary but a constant price elasticity is assumed, the estimated price elasticity is −0.910 (S.E., 0.207), slightly lower than the result in the basic specification of equation 2. But such differences must be regarded with great caution. It is always difficult to assess second order properties with any precision. It is therefore interesting to note that two quite different specifications with varying income and

vidual gift is small, the aggregate effect is substantial. I return to this in section 4.

[26] The price increases imply $(2.33)^{-1.24} = 0.35$ or a 65 per cent decrease in charitable giving.

[27] This may partly reflect the fact that the *relative* income of this group is declining slightly with time; when the entire sample is used, the coefficient of TIME is much smaller, positive and insignificant.

[28] The *logarithm* of the level of income is used so that the variable is not dominated by the top income classes. However, very similar results are obtained when the income elasticity is allowed to vary linearly with income and the price elasticity with price. The income elasticity is an increasing function while the variation in the price elasticity is not significant. There is no statistical basis for choosing between the equations; SSR = 1.707.

price-elasticities also support the basic result of equation 2.

The first alternative method of generalizing the constant price elasticity specification is to reestimate the basic equation with different price elasticities in different parts of the price range. For this purpose, the observations are grouped into those for which price exceeds 0.70, those for which price is between 0.30 and 0.70, and those for which price is less than 0.30. Estimating an equation with three price elasticities is equivalent to estimating three separate equations for the three groups of observations while constraining the income coefficients and constant term to be the same; i.e., three separate price variables appear in the equation but only one is non-zero for each observation. The estimates in equation 5 indicate a slightly lower price elasticity for the high of the price range (low income individuals) and a slightly higher price elasticity for the high end of the price range,

$$\begin{aligned} \ln G_{it} = {} & 6.752 \\ & + (-\underset{(0.731)}{1.121} + \underset{(0.041)}{0.109} \cdot \ln Y_{it}) \ln Y_{it} \\ & - \underset{(0.206)}{0.865} \ln PL3_{it} - \underset{(0.217)}{0.775} \ln P37_{it} \\ & - \underset{(0.268)}{1.173} \ln PG7_{it} \qquad (5) \end{aligned}$$

$$\$4000 < \begin{matrix}\text{Mean Real}\\ \text{Net AGI}\end{matrix} < \$100{,}000$$

$$\bar{R}^2 = 0.98 \quad SSR = 1.616 \quad N = 117$$

where ln PL3 is the logarithm of the price if the price is less than or equal to 0.30 but is zero otherwise; similarly, ln PL37 refers to the price if it is between 0.30 and 0.70 while ln PG7 is the logarithm of the price when greater than 0.70. The differences, however, are small and not significantly different from each other. The large standard errors emphasize the difficulty of assessing variations in price elasticity with this data but again show that allowing for the possibility of such variation provides no indication that the simpler specification distorts the price elasticity.

The second alternative generalization is to reestimate the basic equation separately in several income classes without any constraints on the coefficients. The limits of the income classes were defined by mean real adjusted gross income. Equation 6 reports the result with adjusted gross incomes of less than \$10,000:[29]

$$\ln G_{it} = -0.803 + \underset{(0.060)}{0.679} \ln Y_{it} - \underset{(0.564)}{1.796} \ln P_{it} \qquad (6)$$

$$\$4000 < \begin{matrix}\text{Mean Real}\\ \text{Net AGI}\end{matrix} < \$10{,}000$$

$$\bar{R}^2 = 0.75 \quad SSR = 0.774 \quad N = 64$$

The income elasticity is below the overall value and the price elasticity is above the overall value. But the relatively large standard errors show the difficulty of estimating when the variation in income and price is substantially limited. Among taxpayers with real incomes between \$10,000 and \$20,000, the price and income elasticities are very similar to the basic equation:

$$\ln G_{it} = -2.053 + \underset{(0.225)}{0.846} \ln Y_{it} - \underset{(0.757)}{1.035} \ln P_{it} \qquad (7)$$

$$\$10{,}000 < \begin{matrix}\text{Mean Real}\\ \text{Net AGI}\end{matrix} < \$20{,}000$$

$$\bar{R}^2 = 0.66 \quad SSR = 0.514 \quad N = 27$$

Because of the limited range of variation and the very small number of observations, the standard errors are again quite large. It is reassuring therefore that very similar results are obtained for the next income class, from \$20,000 to \$100,000:

$$\ln G_{it} = -2.734 + \underset{(0.169)}{0.906} \ln Y_{it} - \underset{(0.250)}{1.132} \ln P_{it} \qquad (8)$$

[29] More specifically, an income class observation is included in this subsample if the real value in 1967 dollars of the mean AGI minus tax in the class is below \$10,000.

$$\$20{,}000 < \begin{matrix}\text{Mean Real}\\ \text{Net AGI}\end{matrix} < \$100{,}000$$

$$\bar{R}^2 = 0.97 \quad SSR = 0.355 \quad N = 26$$

In spite of the small number of observations, there is sufficient independent variation in both income and price to permit estimates with relatively small standard errors. Comparing the SRR value of equation 2 with the sum of the SSR values for equations 6, 7 and 8 shows that the disaggregation does not significantly increase explanatory power; the SSR is reduced by only 0.129 and the corresponding F statistic of 1.5 is not significantly different from zero.

Only in the highest income group (taxpayers with net income above \$100,000) is the price elasticity substantially lower than the basic estimate:

$$\ln G_{it} = -6.772 + \underset{(0.063)}{1.377} \ln Y_{it} - \underset{(0.106)}{0.290} \ln P_{it} \qquad (9)$$

$$\begin{matrix}\text{Mean Real}\\ \text{Net AGI}\end{matrix} > \$100{,}000$$

$$\bar{R}^2 = 0.97 \quad SSR = 1.622 \quad N = 31$$

This low price elasticity is very surprising in view of the widely held opinion that the high income taxpayers are likely to be most sensitive to changes in the price of charitable giving. It is clear that this low estimate of the price elasticity is associated with an estimated income elasticity that is higher than the value obtained in other equations. For taxpayers with incomes over \$100,000, the ratio of contributions to income increases rapidly as income rises and price falls; equation 9 attributes this increase primarily to the higher income rather than to the lower price. The standard error of the income elasticity in equation 9 is quite small and the standard error of the price elasticity, although large relative to the coefficient, is small enough to imply that the estimated price elasticity is very much less than the average price elasticity of equation 2. However, these formal sampling properties of the parameter estimates are misleading; problems of measurement and specification are more important potential sources of error in this equation than the random sampling variability. At these very high income levels, adjusted gross income is a less adequate measure of economic income and wealth is a more important influence on giving. The measurement of price is also more clouded by the tax treatment of gifts of appreciated assets, by the limits on deductible contributions, and by the use of trusts and other indirect methods of giving. The next section deals briefly with some of these problems but the issues cannot be fully resolved with the current data. It is for this reason that the current study has been restricted to the sample of observations under \$100,000.[30]

If these difficulties are ignored and all of the 187 possible observations are used, the resulting estimates are quite similar to the basic results of equation 2:

$$\ln G_{it} = -1.784 + \underset{(0.027)}{0.811} \ln Y_{it} - \underset{(0.077)}{1.455} \ln P_{it} \qquad (10)$$

$$\text{All observations} \quad \bar{R}^2 = 0.98 \quad SSR = 16.19 \quad N = 187$$

At the present, however, it is best to remain agnostic about the income and price elasticities of individuals with incomes over \$100,000 and under \$4000.[31]

[30] After this study was complete, I was able to use the Treasury Tax Files for 1962 and 1970 to calculate the average of the individual prices in each AGI class rather than the price for the average taxable income in that class. The values agree quite closely below \$100,000 but are substantially higher above \$500,000. This biases down the estimated price elasticity of equation 9.

[31] After this paper was accepted for publication, Joe Pechman and John Brittain suggested adding the term $\ln Y \cdot \ln P$ to the basic equation as a further test of the varying price elasticity. This variable is significant and implies that the price elasticity is an increasing function of income; the

Each of the equations of this section has been reestimated with the alternative definition of disposable income: taxable income plus charitable contributions minus the tax that would have been paid if no contribution were made. In each equation the estimated income elasticity is lower and the price elasticity is greater than in the corresponding equation with income measured by AGI minus tax. Comparing the sums of squared residuals for the corresponding equations shows that the AGI variable (Y) explains the variation in giving substantially better than the taxable income variable (YT). For example, equation 11 should be compared with equation 2 in which the estimated price elasticity is -1.24 and the sum of squared residuals is only 1.772.

$$\ln G_{it} = \underset{}{1.69} + \underset{(0.031)}{0.445} \ln YT_{it} - \underset{(0.128)}{2.044} \ln P_{it} \tag{11}$$

$$\$4000 < \text{Mean Real Net AGI} < \$100{,}000$$

$$\bar{R}^2 = 0.95 \qquad SSR = 4.354 \qquad N = 117$$

Although an after tax measure of income seems more appropriate, as a further test of the robustness of the estimated price elasticity the basic specification was reestimated using real AGI (not net of tax) to measure income. The parameter estimates are similar to the original specification but the estimates of equation 2 are preferable because net AGI is a theoretically better measure of income:

$$\ln G_{it} = -1.617 + \underset{(0.030)}{0.787} \ln Y_{it} - \underset{(0.112)}{0.903} \ln P_{it} \tag{12}$$

$$\$4000 < \text{Mean Real Net AGI} < \$100{,}000$$

$$\bar{R}^2 = 0.98 \qquad SSR = 1.772 \qquad N = 117$$

These alternative estimates lend some weak support to the relative high price elasticities reported in equations 1 through 9. They also suggest the possibility of substantial bias from using an inappropriate measure of income. If a broader definition of income than AGI is the true determinant of charitable giving, the use of AGI might bias the estimated price elasticity. To evaluate the likelihood that this would cause an upward bias in the absolute price elasticity, it is useful to examine the way in which the bias occurs. Let the true specification be given by:

$$\ln G = \alpha + \beta \ln I + \gamma \ln P + \epsilon \tag{13}$$

where I is the "true" measure of income. Consider the effect of using adjusted gross income (y) as the measure of income and estimating

$$\ln G = \alpha + \beta \ln y + \gamma \ln P + u. \tag{14}$$

The residual u in equation 12 is equivalent to $\epsilon + \beta \ln I - \beta \ln y = \epsilon + \beta \ln (I/y)$. From the usual formula for the analysis of specification bias (Theil, 1966), it follows that the expected value of the estimate of γ in equation 12 would be:

$$E(\hat{\gamma}) = \gamma + \beta E[\text{reg}(\ln(I/y), \ln P \mid \ln y)] \tag{15}$$

where reg $(\ln (I/y), \ln P \mid \ln y)$ is the coefficient of ln P in the regression of ln (I/y) on ln P and ln y. If this auxiliary regression coefficient is negative, the expected value of $\hat{\gamma}$ will be less than the true value γ, i.e., the absolute value of the price elasticity will be biased upwards. The auxiliary regression

specific point estimates imply a *positive* price elasticity for income below \$8300, a price elasticity of -0.98 at \$50,000 and a price elasticity of -1.36 at \$100,000. Although a specification that implies a positive price elasticity is clearly unacceptable, the evidence does strongly suggest that the absolute price elasticity increases with income. Some preliminary analysis with a rich body of microeconomic data (the 1970 Treasury Tax file) supports this conclusion and indicates that the price elasticity is relatively constant and below one for low and moderate incomes but then rises rapidly with income. These results will be discussed in detail in Feldstein and Taylor (1974).

coefficient will be negative if at each level of adjusted gross income (y), those taxpayers with higher marginal tax rates (i.e., lower value of P) have higher ratios of "true" income to adjusted gross income.

It is not clear whether this is more likely than the opposite. There are two countervailing effects. First, at each level of adjusted gross income, those with the highest marginal tax rates have the greatest incentive to reduce their taxable income through such things as the holding of tax exempt bonds, home ownership and the substitution of accrued capital gains for realized income. All of these things would increase the ratio of total economic income to AGI. Such a positive association between marginal tax and the ratio of "true" income to AGI would cause an upward bias in the absolute value of the estimated price elasticity. Against this reason for an upward bias one must balance a reason for a downward bias. It follows from the definitions of AGI and taxable income that, at each level of AGI, those with the highest marginal tax rates have the least deductions for interest, taxes and charitable contributions. These smaller deductions are likely to indicate smaller amounts of "other income" not included in AGI: imputed income on residences and accrued gains on assets used to secure loans. This would imply a negative correlation at each level of AGI between the marginal tax rate and the ratio of true income to AGI. This in turn would imply that the absolute price elasticities of this section are actually biased downwards rather than upwards. Unfortunately, only when estimates have been made with more comprehensive data will it be possible to know whether the use of AGI imparts any substantial bias.

3. *Additional Specifications*

This section presents several alternative modifications of the basic model. The use of relative income instead of real absolute income is examined first. The implication of the special tax treatment of gifts of appreciated assets is then studied. Finally, the effects of the limits on deductible gifts are examined.

Relative Income. Charitable contributions support activities that produce positive externalities. A philanthropic activity generally benefits not only those who are the direct recipients of its service but also those who, like the individual donor, believe that the service should be provided. Thus, an alumnus who contributes to his college's scholarship fund benefits not only the scholarship student but also the other alumni who enjoy seeing their college support students in this way. In deciding how much to contribute, an alumnus may consider how his own income compares with the other alumni who are also potential contributors and "indirect beneficiaries." Similarly, a member of a church congregation may apply a relative "ability to pay" criterion in deciding what he believes to be his "fair share" of his church's expenses. Such considerations suggest that some measure of relative income should be added to the basic specification examined above.[32] An extreme form of this hypothesis would use relative income instead of real absolute income.

The examples of college and church donations indicate the difficulty of developing an appropriate measure of relative income. Moreover, the options are severely limited by the aggregate form of the current data. Only the most obvious possibility has been examined in this study: the ratio of donor's income (AGI minus tax) to average per capita income for that year. This is denoted YR.

Equation 16 shows that when the relative income variable is added to the basic specification, its coefficient is highly significant but the price elasticity is essentially unchanged. The result is similar

[32] Note that this reason for including relative income is quite different from Schwartz' (1970) emphasis on the relative incomes of donors and recipients.

$$\ln G_{it} = 2.882 + \underset{(0.064)}{0.199} \ln Y_{it} - \underset{(0.072)}{1.255} \ln P_{it} + \underset{(0.059)}{0.613} \ln YR_{it} \quad (16)$$

$$\$4000 < \frac{\text{Mean Real}}{\text{Net Income}} < \$100{,}000$$

$$\bar{R}^2 = 0.99$$
$$SSR = 0.904$$
$$N = 117$$

if YR is added to the specification with varying price and income elasticities.

The more extreme assumption that contributions depend only on relative income and price does not explain the variation in contributions as well as the basic model. Equation 17 shows that substituting YR for Y slightly increases the price elasticity and reduces the sum of squared residuals from 1.772 to 0.980.

$$\ln G_{it} = 4.428 + \underset{(0.022)}{0.784} \ln YR_{it} - \underset{(0.071)}{1.329} \ln P_{it} \quad (17)$$

$$\bar{R}^2 = 0.99$$
$$SSR = 0.980$$
$$N = 117$$

Appreciated Assets. The special problems raised by gifts of appreciated assets have already been discussed. Gifts of appreciated property lower the effective price of giving. Since such gifts are more common in higher income classes,[33] the basic price series used above does not decrease rapidly enough as marginal tax rates increase. The result is likely to be an overestimate of the absolute price elasticity.

The available data severely limits the possibility of dealing adequately with this problem. There is information on the value of contributions in each AGI class that are in the form of assets but no information on the original basis of those assets or the fraction of those assets that would have been sold if they had not been given away. Separate calculations have been made using different assumptions about the ratio of appreciation to asset value. In each calculation, the ratio of appreciation to value is assumed to be the same for all taxpayers. It is further assumed that all assets that are donated would otherwise be sold, an assumption that biases downward the price associated with each ratio of appreciation to value. The resulting estimates must therefore be regarded as a very imperfect attempt to deal with gifts of appreciated assets.

Equation 18 shows the result of assuming that 50 per cent of the value of donated assets is the original basis while the remaining 50 per cent is appreciation. The estimated price elasticity (-1.11) is only slightly smaller than in the basic equation while the estimated income elasticity is unchanged.[34] Comparing the sum of squared

$$\ln G_{it} = -1.934 + \underset{(0.031)}{0.825} \ln Y_{it} - \underset{(0.094)}{1.166} \ln P50_{it} \quad (18)$$

$$\$4000 < \frac{\text{Mean Real}}{\text{Net AGI}} < \$100{,}000$$

$$\bar{R}^2 = 0.98$$
$$SSR = 1.754$$
$$N = 117$$

residuals with that for the original specification (1.772) suggests that the current assumption is barely preferable.[35] In interpreting these results, the statement that "an average of X per cent of the value of donated assets is appreciation" should be interpreted a

[33] In 1966 the fraction of contributions in the form of assets rose from 3.8 per cent for adjusted gross incomes between \$10,000 and \$15,000 to 47 per cent for adjusted gross incomes over \$100,000.

[34] The variable $P50_{it}$ is defined as the weighted average of $(1-m_{it})$ and $1 - m_{it} - .50mc_{it}$ where m_{it} is the marginal rate on income and mc_{it} is the marginal tax rate on capital gains; the weights are the fractions of donations in money and in assets in income class i.

[35] Comparing the sums of squared residuals is equivalent to a likelihood criterion in the context of the current specification. The assumed ratio of appreciation to asset value with the lowest sum of squared residuals yields the maximum likelihood estimator of that ratio and of the other regression parameters.

shorthand for the more correct statement that "taxpayers respond to both the actual appreciation ratio and the opportunities to postpone realization by acting as if the assets had to be realized immediately if not donated but that the appreciation ratio is only X per cent." This implies that the ratio of appreciation to value implied by the estimate will be appropriately lower than the actual (unknown) appreciation ratio of donated assets.

Alternative assumptions about the ratio of appreciation to value have only very slight effects on the estimated elasticity and the sum of squared residuals. If the ratio of appreciation to value is 0.25, the price elasticity is −1.202 and the SSR is 1.762. With an appreciation ratio of 0.75, the price elasticity is −1.128 and the SSR is 1.749. It is clear that there is too little information in the data to estimate the appreciation ratio. Fortunately, the choice of appreciation ratio does not affect the estimated price elasticity.

Deduction Limits. Raising the limit on the maximum charitable deductions increased the amount of giving by high income taxpayers. The ceiling was raised from 15 per cent of adjusted gross income to 20 per cent in 1952 and then to 30 per cent in 1954. Internal Revenue Service data show that the early limits were reached by a significant fraction of taxpayers with adjusted gross incomes over $50,000 but by almost no taxpayers with lower incomes (Kahn, 1960, p. 79). A natural way to express the effect of these changes in deduction limits is as proportional reductions in contributions by high income taxpayers in the years before 1954. In equation 19, the variable DL1 is equal to 1 for 1948 and 1950 in income brackets over $50,000 and equal to zero otherwise; DL2 is 1 for 1952 in those income brackets and zero otherwise.[36] The coefficients of these dummy variables are estimates of the proportional reductions in giving due to the limits in those years and should therefore be negative.[37]

The estimates of equation 19 imply that the limits on deductions before 1954 reduced total contributions in the specified income

$$\ln G_{it} = -1.857 + \underset{(0.034)}{0.812} \ln Y_{it} - \underset{(0.123)}{1.332} \ln P_{it} - \underset{(0.093)}{0.163}\, DL1 - \underset{(0.114)}{0.145}\, DL2 \quad (19)$$

$$\$4000 < \frac{\text{Mean Real}}{\text{Net AGI}} < \$100{,}000 \qquad \bar{R}^2 = 0.98 \quad SSR = 1.711 \quad N = 117$$

groups. The income and price elasticities are essentially unchanged from equation 2.

Because the sample is restricted to observations with mean real net AGI below $100,000, equation 19 does not provide any estimate of the overall effect of the deduction limit on all high income donors. Equation 20 uses the full sample of 187 observations to obtain some very tentative values of this effect for the three high AGI groups:

$$\ln G_{it} = -1.731 + \underset{(0.027)}{0.803} \ln Y_{it} - \underset{(0.078)}{1.533} \ln P_{it} - \underset{(0.111)}{0.176}\, DL1 - \underset{(0.158)}{0.511}\, DL2 \quad (20)$$

$$\text{All Observations} \qquad \bar{R}^2 = 0.98 \quad SSR = 15.19 \quad N = 187$$

4. *Aggregate and Distributional Effects*

The current parameter estimates are clearly preliminary and may be subject to serious error. Some possible sources of bias are discussed in the next section. It is nevertheless interesting to examine what these estimates imply about the effects of the current tax treatment on

[36] Here the income bracket is defined by the *current* dollar AGI *before* tax.

[37] They will, of course, also reflect other specific factors that caused the behavior of those years to depart from the remainder of the period.

the volume and distribution of charitable contributions, tax payments and net personal income. More specifically, this section examines the effects of eliminating the deduction for charitable contributions and reducing all tax rates (on itemized returns) proportionately to keep government revenue constant. The elimination of the deduction reduces giving while the reduction in the tax rates increases giving. However, since income after tax remains unchanged while the price of giving rises, the net effect is a fall in charitable contributions.

To develop estimates of the full aggregate and distributional effects requires estimates of the income and price elasticities for all income classes. The basic method used in this section is to assume that the values obtained for incomes between $4000 and $100,000 hold for other incomes as well. Although this group contains about 90 per cent of the itemized contributions, the dangers of such an extrapolation are obvious. With this method, the calculations show that the reduction in total contributions is large, probably about 35 per cent of itemized giving and therefore about 30 per cent of all individual contributions. Since the reductions are particularly large in high income groups, religious organizations are affected relatively less than educational, cultural and other nonreligious organizations.

Table 2 presents detailed results for 1968. These illustrative predictions use the basic specification of equation 2 with constant income and price elasticities. Eliminating the deduction would raise the price of giving to 1 in all income classes. The additional tax revenues that would result are redistributed in this calculation by a proportional reduction in the effective tax rate in every income class.[38] The resulting change in contributions in each income class is then calculated from the equation:

$$\ln G'_{it} - \ln G_{it} = 0.822\,(\ln Y'_{it} - \ln Y_{it}) + 1.238 \ln P_{it} \quad (21)$$

Where G'_{it} is the predicted average contribution after the tax change and Y'_{it} is the average adjusted gross income minus the new tax on that income. Since eliminating the deduction raises the price of giving to 1, $\ln P'_{it} = 0$ and therefore does not appear in equation 21.

The average contribution in 1968 is given for broad income classes in column 3 and the corresponding predicted contribution if the deduction is eliminated appears in column 4. Total 1968 giving falls from $11.1 billion to $7.3 billion.[39] The ratios of predicted contributions to actual contributions that are presented in column 5 show that the relative reduction in giving is much greater among high income individuals than in lower income groups. While taxpayers with adjusted gross incomes of $10,000 to $15,000 would cut contributions by 24 per cent (from $305 to $233), a reduction of 75 per cent is predicted for taxpayers in the $100,000 to $500,000 class (from $9,695 to $2,380).

Eliminating the charitable deduction and returning the additional revenue by a common proportional tax reduction

[38] The new tax at each income level in 1968 is calculated as follows: (1) The additional tax revenue due to eliminating the deductible is calculated for each income class as the product of the 1968 deduction and the corresponding marginal rate. (2) The sum of these additional tax revenues is added to total 1968 tax collections. (3) The ratio of actual tax collections to the new sum is the factor by which all tax liabilities are scaled down. The value of this was 0.943 reflecting additional revenues of $3.3 billion and a 1968 total collection from itemized returns of $56.9. (4) This factor is then applied in each income class to the sum of the 1968 tax and the additional revenue from eliminating the charitable contribution deduction. All dollar amounts are in current 1968 dollars.

[39] Two things should be remembered in interpreting these numbers. First, these totals refer only to itemized giving; all individual giving in 1968 was estimated to be $12.6 billion. Second, although the reduction reflects the redistribution to taxpayers of the additional tax revenues, this has very little effect on total contributions; if the additional revenues were retained by the government, predicted giving would fall by $3.9 billion.

TABLE 2

BASIC PREDICTED EFFECTS OF ELIMINATING THE CHARITABLE DEDUCTION 1968*

AGI Class ($1000) (1)	Number of Itemized Returns (1000's) (2)	Average Charitable Contributions G_{it} (3)	G'_{it} (4)	G'_{it}/G_{it} (5)	Tax Ratio† (6)	Net Disposable Income Ratio (7)
0-5	5,328	156	126	0.810	1.076	1.005
5-10	12,233	221	172	0.778	1.000	1.007
10-15	8,731	305	233	0.764	0.982	1.009
15-20	3,132	428	307	0.718	0.982	1.012
20-50	2,232	761	460	0.605	0.988	1.017
50-100	294	2,267	816	0.360	1.002	1.032
100-500	77	9,695	2,380	0.245	1.037	1.056
500-1000	2.6	68,749	12,827	0.187	1.101	1.083
1000+	1.1	287,651	54,117	0.188	1.152	1.104
Average		$348	$238	0.657	1.0	
Total	32,030	$11,139 million	$7,316 million	...	...	...

Based on parameter values of equation 2. Total government revenue remains constant.
Biased upward by the presence of nontaxable returns. See text.
Totals may not agree because of rounding.

would raise the taxes paid by high income individuals and lower the taxes paid by low income individuals. Column 6 shows the ratios of the tax payments if the deduction were eliminated and tax rates cut to maintain the actual total tax payments in 1968. Middle income individuals pay reduced taxes while those with incomes above $50,000 would pay increased taxes.[40] The differences are quite substantial. Although average taxes fall by only two per cent in the $10,000 to $15,000 class, taxes rise by 10 per cent in the class of taxpayers with incomes of $500,000 to $1,000,000.

The distributional effect of eliminating the deduction is quite different if we focus on the change in net disposable income rather than the change in tax payments. Net disposable income available for personal consumption or saving is defined as adjusted gross income minus taxes and charitable contributions. Because charitable contributions fall sharply in higher income groups, their predicted personal consumption and savings increase despite the greater taxes that they pay. Column 7 presents the ratio of predicted net disposable income to actual 1968 net disposable income. Net disposable income rises at every income level, with the increase ranging from less than two per cent for incomes under $50,000 to more than 8 per cent over $500,000.

Although the effect of eliminating the charitable deduction is of course greater if government revenues are not constrained to remain constant, the difference is quite small. Eliminating the deduction would yield an additional $3.3 billion in tax revenues in 1968.[41] If this revenue is not returned to the taxpayers through a general tax cut, total charitable contributions would fall by $3.8 billion. The gross "efficiency" of the deduction as measured by the ratio of additional contributions received by charities per dollar of potential tax revenue forgone is 1.15.

[40]These are of course only averages for each income class. The tax ratio falls below one at an AGI of $7000. Since no distinction is made between taxable and nontaxable returns, the increased taxes are overstated for the lowest income classes. Many of those returns are nontaxable and would remain so even if the charitable deduction were excluded. The amounts involved are so small that the resulting misestimate of additional revenue would have no significant effect on higher income classes.

[41]This ignores the additional revenue that would result if some of the donated appreciated assets were sold instead.

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Generally similar results are obtained from calculations with other equations for charitable contributions. When gifts of appreciated assets are distinguished and an effective appreciation ratio of 0.5 is used (based on equation 18), charitable contributions in the absence of the deduction are estimated to be $7.4 billion. Finally, equation 10 (which uses the entire sample of 187 observations) implies contributions of $6.9 billion. Although there are some differences in the distributional impacts, in each case eliminating the deduction would reduce giving proportionately more in high income groups and would result in greater increases in their net disposable income than that of lower income groups.

5. *Conclusions and Caveats*

The empirical findings of this study are clear. The aggregate Internal Revenue Service data for 1948 through 1968 imply that the volume of charitable contributions is quite sensitive to the price of giving that is implied by the tax treatment. Almost all of the estimates of the price elasticity are greater than one. Eliminating the current deduction of charitable contributions would reduce total itemized giving by approximately 28 to 56 per cent,[42] depending on the particular equation specification. The loss of contributions would be relatively greatest for educational, medical and cultural organizations. Philanthropies would lose more in the contributions they receive than the government would gain in additional tax revenues. Net disposable income after tax and charitable contributions would rise in all income groups with the highest percentage increase in the highest income groups.

These empirical results must however be regarded with substantial caution. Those who wish to assess the impact of our tax system on charitable giving must balance the current results against the conclusions of previous research on this subject and must consider the important factors that have been neglected in all of this work. It is appropriate to conclude this paper by reviewing these problems.

Although a number of writers have discussed the impact of the tax treatment of charitable contributions,[43] only two studies have used explicit statistical models to separate the income and price effects. The most frequently cited of these studies is the research of Michael Taussig (1967). Taussig examined a sample of 47,678 itemized individual tax returns for 1962. He found extremely low price elasticities (absolute elasticities not greater than 0.10) and concluded that the current tax deductibility of charitable contributions therefore does little to stimulate charitable giving.[44] Taussig's own paper is full of warnings about the shortcomings and potential biases of his results; these need not be repeated here.[45] However, three basic problems with Taussig's method should be emphasized. First, he used the marginal rate for actual taxable income, i.e., net of the individual's charitable contribution. An individual who gives more to charity therefore has, ceteris paribus, a lower marginal rate and a higher price. This introduces a spurious positive association of price and giving and therefore biases the negative price elasticity towards zero. Although this is relatively insignificant for aggregate data, it is quite important for microeconomic data.[46] Second, in-

[42] Since itemized giving accounts for approximately 90 per cent of total individual giving, these reductions in itemized giving correspond to between 25 and 50 per cent reduction of total individual giving.

[43] See the works cited on pages 81 and 82.

[44] Taussig's estimates are based on a specification like the current equation 2 except that the logarithm of the marginal tax rate is used instead of the logarithm of the price. The corresponding price elasticities were derived from these marginal rate elasticities by Schwartz (1970, p. 1280).

[45] See also the discussion of Taussig's work in Schwartz (1970), pp. 1280-82.

[46] After this study was complete, I was able to reanalyze the original 1962 microeconomic data that was studied by Taussig. The results of this reanalysis, presented in Feldstein and Taylor (1975), indicate the importance of the bias due to Taussig's endogenous price variable.

come was also measured net of taxes actually paid rather than of the taxes that would have been paid with no charitable contribution. This introduces a spurious simultaneity between income and contributions since the relevant budget constraint is defined by disposable income before any contributions are made. Third, because Taussig's sample is limited to only one year, the marginal tax rate and the price of charitable giving is an exact function of the individual's taxable income. Although relating charitable contributions to adjusted gross income net of tax avoids the existence of an exact functional relation, the problem of collinearity between income and price is exacerbated by Taussig's procedure of dividing his sample into five income classes. Taussig notes that within each class "the main source of variation in the tax rate facing the taxpayer still remained the tax schedule used by the filer of the return" (Taussig, 1967, p. 8). Since these different types of tax schedules (i.e., married couples, single individuals and heads of households) represent demographic differences that would be expected to have substantial effects on giving, the primary source of variation in the tax price in Taussig's sample is itself mainly a reflection of other important influences.[47]

The study by Schwartz (1970) is methodologically closer to the current research. Schwartz used aggregate time series data based on the summaries of tax returns that are published by the Internal Revenue Service. Instead of developing a time series of cross sections as in the current study, Schwartz aggregated the data into only three time series and estimated separate equations for each time series.[48] For the period from 1929 through 1966, this produced 31 observations for each regression. Since the introduction of the standard deduction in 1941 and its extension to incomes over $3000 in 1944 had a very substantial effect on the extent of itemizing, Schwartz also estimated his equations for the subsamples 1929 through 1943 and 1944 through 1966.[49] The recent sample contained only 16 observations. With this data, Schwartz estimated equations like equation 3 of the current study (the basic constant elasticity equation with a time trend).[50] For each annual observation, the income variable was the average disposable income for the entire income class (e.g., $10,000 to $100,000) and the price variable was the average price of money gifts for that income class.

The relatively small number of observations and the use of separate samples by income groups preclude precise estimation; in more than half of the cases, the estimated price elasticity is less than twice its standard error. These difficulties are compounded by the use of single annual averages to represent the very wide range of incomes and prices *within* each of the three groups.[51] In spite of these problems, the evidence does indicate the existence of considerable price elasticities. For the interval 1929 through 1966, Schwartz found a price elasticity of −0.69 for incomes below $10,000; −0.76 for incomes of $10,000 to $100,000, and −0.41 for incomes over $100,000. The corresponding standard errors are 0.49, 0.20, and 0.10. For the period after 1943, the elasticities in the groups with incomes below $10,000 and above $100,000 are almost identical to the value for the entire period. In

[47] Single individuals have a higher marginal rate and therefore lower price than married couples. Since single individuals tend for other reasons to make smaller contributions, Taussig's procedure introduces a further spurious positive association between price and giving.

[48] The three time series corresponded to taxpayers grouped by current income into those with less than $10,000 of adjusted gross income, those between $10,000 and $100,000, and those with more than $100,000. The use of current dollar limits to define these groups implies that the real income limits change substantially over time.

[49] When the complete sample was employed, a dummy variable was used to represent the shift in giving after 1943. No allowance was made for the effect of the change in deduction limits in 1952 and 1954.

[50] A more general equation with a relative income variable was also estimated; see above, footnote 34.

the middle range ($10,000 to $100,000), the estimate is substantially less (−0.17) and has a large standard error (0.32), reflecting the very narrow range of price variation (except for one year, the price remained between 0.558 and 0.671). In short, Schwartz' estimates are imprecise but generally imply a substantially higher price elasticity than that found by Taussig and a lower elasticity than that found in the current study.

The current study as well as the research of Taussig and Schwartz suffers from the limits imposed by the use of the official tax return data. Perhaps the most serious problem is the lack of information on permanent economic income and wealth. Adjusted gross income becomes a less adequate measure as income rises. Similarly, the influence of wealth rather than current income is likely to be very important at the highest income levels. A second important shortcoming is restriction to analyzing the contributions of taxpayers with itemized returns. While this restriction is unimportant for high income individuals, it eliminates substantial information on the behavior of those with lower income. In addition, demographic characteristics, educational background, religious affiliation and other factors that influence charitable giving[52] may be correlated with the income and price variables in a way that biases the estimates of the structural parameters and the derived predictions of the effects of tax changes. Feldstein and Clotfelter (1974) have analyzed survey data on households[53] which contains better measures of income and wealth, income on demographic characteristics, and the contribution of households that did not itemize. The estimates obtained with this data strongly support the current conclusions.

Explaining aggregate charitable contributions to all types of organizations by a single equation may hide important differences in the relations governing gifts to different philanthropies. The different effects of prospective tax changes on the major types of philanthropies is at least as interesting as the total effect on all charitable contributions. The substantial differences in the distribution of religious and nonreligious giving suggests the potential importance of such decomposition. An analysis of the differences in the impact of alternative tax policies on religious, educational and other charitable organizations is presented in the second part of this article and will appear in the next issue of the *National Tax Journal.*

[51]If the log-linear model is appropriate at the individual level, an aggregate log-linear specification should use *geometric* means for the income, price and contributions variables. The error involved in using arithmetic mean increases with the size of the interval and therefore represents a more serious problem in Schwartz' work than in the current study.

[52]On the importance of such factors, see Morgan *et al.* (1962) and Barlow and Morgan (1966).

[53]The data is the Federal Reserve Board Survey of Consumer Finances (Projector and Weiss, 1966).

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TAX INCENTIVES AND CHARITABLE CONTRIBUTIONS IN THE UNITED STATES

A microeconometric analysis

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1. Introduction

The American public sector relies substantially more on private nonprofit institutions than is common in most other countries. Higher education, health care, the visual and performing arts, and general community services are produced by voluntary institutions. Even when these institutions receive most of their income from user charges and public funds, they depend on private contributions to provide the basic 'equity capital' and to support new ventures.[1]

The federal income tax law allows the value of contributions to be deducted in calculating taxable income. The 'price' of one dollar's contribution to a philanthropic organization, measured in terms of foregone income after tax, therefore varies inversely with the individual's marginal tax rate. There are today a number of widely discussed proposals for changing the tax treatment of charitable contributions. These include the complete abolition of the deduction, the substitution of a system of tax credits, the introduction of a 'floor' with a deduction or credit only for contributions above that level, and various modifi-

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[1]Ginsburg (1970) discusses the analogy between charitable contributions in nonprofit organizations and equity capital in profit-making organizations. The charitable endowment provides the basis on which to borrow and the income with which to subsidize services that receive public support of less than 100 percent. In 1973, philanthropic and religious organizations received \$18.2 billion from individual contributions, \$3.1 billion from bequests, \$0.95 billion from corporations and \$2.4 billion from foundations [American Association of Fund-Raising Counsel (1974)].

cations of the tax treatment of appreciated assets.[2] The current paper will not attempt to deal with the complex and wide-ranging issues raised by these proposals. Our focus is on the empirical issue of the magnitude of the price and income elasticities of charitable contributions. These parameters are crucial for the evaluation of the impact of any proposed change.

There has been substantial controversy about the extent to which current tax rules affect the magnitude of charitable contributions. The earliest econometric evidence was Taussig's (1967) study of the 1962 Internal Revenue Service Tax File, a stratified sample of 70,596 individual federal income tax returns with itemized deductions. Taussig's often quoted conclusion was that the deduction has little or no effect on the total volume of charitable contributions. More specifically, Taussig's parameter estimates indicated a price elasticity of less than 0.10 and therefore implied that, for each dollar of potential revenue foregone by the Treasury, charities receive less than ten cents in contributions. An error in Taussig's analysis, the accidental omission of 22,918 observations, makes this conclusion questionable.[3] There are, moreover, serious problems with Taussig's specification and method of estimation; these are discussed in Feldstein (1975a) and Feldstein and Taylor (1975). A reanalysis of the 1962 data with the full sample indicates a price elasticity of approximately one.[4]

Schwartz (1970) used aggregate time series based on the summaries of tax returns that are published by the Internal Revenue Service. The estimated price elasticities differed among income classes and between the prewar and postwar periods but averaged about 0.6. Unfortunately, the relatively small number of observations and the use of separate samples by income groups precluded precise estimation; more than half of the estimated price elasticities are less than twice their standard error. Feldstein (1975a) used a time series of cross sections based on the value of itemized charitable contributions in each adjusted gross income class for even years from 1948 through 1968. The estimates indicate that the volume of charitable contributions is quite sensitive to the price of giving that is implied by the tax treatment; almost all of the estimates of the price elasticity are absolutely greater than one.

The studies by Taussig, Schwartz and Feldstein are all limited to the use of official tax return data. This is the source of several potential problems. First, there is no information on permanent economic income or on wealth. Adjusted gross income becomes a less adequate measure as income rises. Similarly, the influence of wealth rather than current income is likely to be important at high

[2]See, for example, the discussions in Andrews (1972), Bittker (1972), Brannon (1973), Goode (1964), Kahn (1960), McDaniel (1972a, 1972b), Pechman (1971), Surrey et al. (1972), Vickrey (1962, 1973), Weidenbaum (1973), White (1959), and U.S. Treasury (1969).

[3]We are grateful to the Bookings Institution for making available a copy of the 1962 Tax File Tape. Taussig has explained to us that he was aware that his copy of the tape was missing a large number of itemized returns and that he had tried to see if there was anything systematic about the missing observations.

[4]The results of this reanalysis are described in Feldstein and Taylor (1975).

income levels. A second shortcoming is the restriction to taxpayers with itemized returns. While this restriction is unimportant for high income individuals, it eliminates substantial information on the behavior of those with lower income. Demographic characteristics (age, sex, marital status and race), educational background, occupation and other personal attributes that influence giving may be correlated with income and price variables in a way that biases the estimates of the price and income elasticities. Although these limitations might not affect the estimated price and income elasticities, the reliance on tax data alone is a source of uncertainty about all previous estimates.

The current study presents a new type of evidence about the effects of the income tax treatment of charitable contributions that avoids the restrictions imposed by the official tax return data. By using household survey data, we are able to relate charitable giving to economic income, wealth, tax rates and personal characteristics. It is very reassuring that the estimated price elasticities are very close to the values obtained in Feldstein (1975a), despite the substantial differences in the nature of the data and the level of aggregation.

The next section describes the survey data and indicates the definitions used to construct the key variables. Sections 3, 4 and 5 present the basic parameter estimates and examine whether the price elasticity varies among wealth or income groups. The special problem of gifts of appreciated property is studied in detail. Section 6 specifies and estimates alternative models of interdependent behavior in which each individual's contribution depends on the volume of contributions made by others. Simulations of the effects of four possible tax changes are presented in section 7. There is a brief concluding section.

2. Data, specification and definitions

In 1963 and 1964, the Board of Governors of the Federal Reserve System conducted a national survey of the income, assets and savings of 2,164 households [Projector and Weiss (1966)]. With the assistance of the Internal Revenue Service, the survey greatly over-sampled the very high income individuals; e.g., 18 percent of the sample, but less than one percent of the population, had 1962 incomes over $25,000. For the current analysis we eliminated a relatively small number of households that did not report one or more key variables (charitable giving, income, age, children and saving) or that reported a negative net worth. A further group with very low 1963 adjusted gross income (less than $1,721) was also eliminated.[5] The final sample contains 1,406 households.

The equations that we have estimated relate charitable giving (G) to disposable income (INC), the price of giving (i.e., net cost to the donor per dollar received by the donee) (P), net worth (W), and additional variables measuring age and

[5]The value $1,721 represents the 20th percentile of adjusted gross income. These households were excluded to eliminate observations in which current income was very different from permanent income. Other methods of dealing with this problem are described below.

other personal characteristics (X). The basic specification uses a log-linear equation to estimate constant elasticities with respect to INC, P and W,

$$\ln G_i = \beta_0+\beta_1 \ln INC_i+\beta_2 \ln P_i+\beta_3 \ln W_i+ \sum_{j=4} \beta_j X_{ji}+\varepsilon_i. \qquad (1)$$

Alternative specifications allowing more general nonlinear relations will be described below.

The survey obtained information on all charitable giving in 1963(G), including gifts of assets as well as of cash. The survey estimate of aggregate giving is relatively close to the official internal Revenue Service value; actual 1962 giving was $7.5 billion for itemizers and the corresponding survey estimate for those whom we identified as itemizers in 1963 was $6.2 billion.[6] One can only speculate on how much of the difference is due to underreporting in the survey and how much to overreporting in the tax returns.[7] In principle, the survey contains information on the value of gifts to trusts but it is not clear how accurately this information reflects the actual value of such gifts. There is no information on gifts of services, gifts made by corporations that the donors control or anticipated testamentary bequests.

The correct concept of disposable income for this study is total income minus the taxes that would be due if no charitable contributions were made.[8] The basic measure of disposable income (YD) in this study uses total income received in 1963 minus an estimate of the tax that would be due with no contribution; the method of estimating the tax is described below. To approximate permanent income, an average of this disposable income measure for 1962 and 1963 has also been used, $YDP = 0.5\,(YD+ YD62)$.[9]

There are two disadvantages with this common measure of permanent income: (1) it uses only income received and excludes the accrued gains on various assets, and (2) it uses only two years' income data while the individual may base his own perception of permanent income on much more information.

[6]No information or actual itemized giving is published for odd-numbered years.

[7]The difference may also reflect the methods of valuing gifts for tax purposes and errors in the division of the sample into itemizers and nonitemizers; one method of identifying itemizers is described below. Although we used all of the available observations in this calculation (not just the 1,406 observations used in the regression), households that refused to tell how much they gave were treated as giving zero; these households were excluded in the regression sample. The definition of charitable giving in the survey was intended to correspond exactly to the definition in the tax law.

[8]The usual measure of disposable income, i.e., income minus taxes *actually* paid, is endogenous because such taxes depend on the amount of charitable contributions. This is unimportant for low income individuals and for aggregate data but could matter with the current sample.

[9] $YD62$ is converted into 1963 dollars by the consumer price index. The value of $YD62$ cannot be calculated as accurately as the value for 1963 because the tax for 1962 must be approximated on the basis of 1963 data by assuming the same average tax rates.

The first of these may not be a very serious problem because the basic specification of eq. (1) includes the value of wealth. Nevertheless, this allows neither for the fact that different portfolios have different amounts of accrued income and realized income nor for the differences in the contribution of wealth to permanent income at different ages. We have therefore constructed as an alternative measure of permanent income the value of the annuity that the individual could obtain from his current wealth and labor income. More specifically, *YDA* is the sum of the current labor income and the annual payment of an annuity based on the head of the household's age and an interest rate of 5 percent, net of the tax that would be due if no charitable contributions were made.[10]

The annuity measure of permanent income is still restricted to using current labor income to approximate permanent labor income. A quite different approach to measuring permanent income can be based on the permanent income theory of consumption. Because of the log-linear form of eq. (1), we must restate the permanent income model in a multiplicative form,

$$\tilde{C} = k Y_P \tilde{U}, \tag{2}$$

$$\tilde{Y} = Y_P \tilde{V}, \tag{3}$$

where $\tilde{C}$ is actual consumption, Y_P is permanent income, $\tilde{Y}$ is actual income and $\tilde{U}$ and $\tilde{V}$ are multiplicative random errors. In addition, $\ln U$ and $\ln V$ are independent of each other and of $\ln Y_P$. If permanent income is more closely correlated with current consumption than with current income, it is advantageous to replace *INC* in eq. (1) by consumption and to use current income as an instrumental variable in the estimation procedure.[11] For this method of measuring permanent income, we include charitable contributions in the definition of total consumption[12] and use *YD* as the measure of current income.

The price of charitable giving (P) is the amount of after-tax income or wealth that the individual foregoes to add one dollar to the receipts of a donee. If the individual uses the 'standard deduction', i.e., if he does not itemize his deductions, his price is 1 regardless of his marginal rate. If the individual itemizes his deductions and his marginal rate is m, the price of a one dollar cash contribu-

[10]It would be interesting to try alternative definitions of this annuity, including the use of a human wealth measure, allowing for social security benefits, income for the surviving spouse, etc.

[11]Since $\ln V$ is uncorrelated with $\ln U$, this is a consistent procedure. A more efficient method could be developed by extending this along the lines suggested by Zellner (1971) and Goldberger (1972).

[12]The definition of consumption used by Projector and Weiss (1966) is inconsistent; it includes *cash* contributions but not gifts of assets. It therefore underestimates consumption relatively more for high income households. We also estimated with consumption defined net of contributions; the two sets of coefficients are very similar.

tion is $1-m$.[13] For this purpose, we define m as the marginal rate applicable to the first dollar of charitable contributions.[14]

Contributions of appreciated assets create a special problem for measuring the price of charitable giving. When an asset is given away, its full value can be deducted from the donor's taxable income but there is no constructive realization and therefore no tax to be paid by the donor on the capital gain.[15] The opportunity cost (price) of a gift that is given in the form of an appreciated asset therefore depends not only on the individual's marginal tax rate but also on the fraction of the asset's value that is accrued capital gain and on the alternative disposition of the asset. An example will clarify the way in which these variables determine the relevant price. Consider an individual whose marginal rate is 40 percent and who contemplates donating an asset that is now worth $100 and for which he originally paid $30. If he gives the asset away, he reduces his taxable income by $100; he therefore reduces his tax liability by $40 and thus increases his after-tax income by $40. If he instead sells the asset, he pays a tax of $14 (half of his marginal rate on the capital gain of $70) and increases his after-tax income by $86. For this individual, the opportunity cost of the $100 contribution is therefore $46 of foregone consumption. If the price is defined in terms of foregone consumption, the price of the gift is $P = 0.46$. This price clearly depends on the ratio of the asset's original cost (or basis) to its current value: an original cost of $1 implies $P = 0.40$, while an original cost of $100 implies $P = 0.60$. More generally, $P = 1-mc(1-B/V)-m$, where V is the current value of the asset, B is its basis or original cost, m is the marginal tax rate on income and mc is the marginal tax rate on capital gains; in 1963, $mc = 0.5m$ with a maximum of 0.25.

The preceding calculation defined the opportunity cost of a donated asset in terms of foregone immediate consumption, i.e., it assumed that if the asset were not given away it would be sold in the current year. The price is higher and the calculation is more complex if the opportunity cost is defined in terms of

[13]A deduction was not allowed in 1962 for contributions exceeding 30 percent of adjusted gross income, but any excess can be carried forward. The limit affects extremely few individuals, especially after the carryover is taken into account. No attempt was made to take this into account.

[14]An individual who gives a substantial amount in relation to his income will lower his marginal rate as well as his tax liability. If we used the marginal rate applicable to the last dollar of charitable contribution, we would introduce a spurious correlation between price and giving; since more giving would, ceteris paribus, raise the individual's price, the estimated price elasticity would be biased up toward zero. There is no satisfactory way to reflect the *entire* exogenous price *schedule* that the individual faces. The only other candidate for an exogenous price variable would be to use the marginal rate that the individual would have if he gave the average gift at his income level. This would have almost no effect at low incomes but would raise the price at higher incomes. Although we have not investigated this price variable, it would seem that reducing the rate at which price declines with income would tend to increase the estimated price elasticity.

[15]Since income of the donee organization is not taxable, it can sell the appreciated asset without paying any tax.

foregone saving or wealth, i.e., if it is assumed that the asset would not otherwise be sold in the current year. The individual in the preceding example could retain the $100 asset or he could give it away and add the $40 tax saving to his wealth. Viewed in this way, his opportunity cost price is 0.60, the same as for contributions of money; moreover, this price is independent of the ratio of the capital gain to the present asset value. Since the individual who does not give away the asset also has a future tax liability, this tends to overstate the opportunity cost of a prospective contribution. However, by postponing the sale of the asset the individual can substantially lower the present value of the tax and, if the asset is never sold during the individual's lifetime, the capital gains tax liability is completely eliminated when the asset passes at death.[16]

It has not been possible to reflect accurately the full complexity of appreciated asset gifts. Although the fraction of total contributions in the form of assets is known for each individual, there is no data on the ratio of original cost to the current value for such assets. There is of course no information on what would have been done with such assets if they had not been contributed. The price of gifts of appreciated assets can therefore be known only conditional on an assumed ratio of basis to value. Moreover, with the same ratio of basis to value for all households, the prices of cash gifts and of asset gifts are very highly correlated. In practice, we have constructed a price index as a weighted average of the cash price and asset price using the share of contributions in the form of assets for all households in the same broad income class.[17] A maximum likelihood procedure, described below, was used to estimate an appropriate ratio of basis to current value.

The survey did not specifically ask for the individual's marginal rate or taxable income or even whether the taxpayer itemized his deductions. To estimate this information we begin by calculating adjusted gross income (AGI) as the sum of income from all taxable sources plus short-term capital gains plus half of long-term capital gains.[18] We then classify the taxpaper as an itemizer or non-itemizer in the following way.[19] We calculate the exemptions and standard

[16]If the individual gives the asset away to another person, there is no constructive realization and the tax is postponed until the recipient sells the asset. The original owner can also consume most of the value of the asset by using it as collateral to borrow funds which he then consumes, thus enjoying the consumption while postponing or avoiding the capital gains tax. See Bailey (1969) for evidence that a very large share of accrued capital gains are never subject to capital gains taxation.

[17]Using weights based on the household's own contributions would be inappropriate because it would make the price variable a function of contributions.

[18]These items of taxable income refer to the husband and wife but exclude income of other family members. Unfortunately, the data on contributions is for the entire family. We can assume that the difference is likely to be small. The estimates reported below actually use pretax income and wealth of the entire family but tax variables based on the husband and wife. We have also reestimated equations using pretax income of the husband and wife only and obtained virtually the same results.

[19]The classification actually finds whether they would or would not itemize in the absence of charitable contributions. This is in keeping with our definitions of price and disposable income.

deduction that the taxpayer would have if he did not itemize and find the resulting tax liability by consulting the appropriate tax schedule. We then estimate the taxpayer's potential deductions (excluding charitable contributions) as the sum of 5 percent of the value of owned residences[20] plus a percentage of *AGI* that varies by *AGI* class to represent other itemizable deductions.[21] The tax liability, if the taxpayer itemizes, is then calculated and compared with the liability if the standard deduction is used. The taxpayer is assumed to choose the method that minimizes his tax liability. The appropriate tax schedule then defines the marginal tax rate and the corresponding rate for capital gains.[22]

Each family's net worth (W) is defined as the algebraic sum of the value of portfolio and other investment assets, business assets, real estate and automobiles, minus the value of all debts. This definition thus omits consumer durables (except automobiles), the cash value of life insurance and the present value of future pension rights and social security benefits.

The remaining variables will be defined as they are introduced.

3. The basic parameter estimates

Parameter estimates for the sample of 1,406 households are presented in eq. (4),

$$\begin{aligned}\ln G = {} & \underset{}{-5.42}+\underset{(0.15)}{0.80}\ln YD-\underset{(0.31)}{1.55}\ln P \\ & +\underset{(0.06)}{0.10}\ln W+\underset{(0.21)}{0.12}\,AGE3554+\underset{(0.25)}{0.25}\,AGE5564 \\ & +\underset{(0.30)}{0.49}\,AGE65+, \\ R^2 = {} & 0.20, \quad N = 1{,}406.\end{aligned} \tag{4}$$

The income elasticity is 0.80 and the price elasticity is -1.55; despite the potential problem of collinearity between income and price, the standard errors of the

[20]This is intended to reflect the deductible mortgage interest on the owner's equity plus the local property tax.

[21]Together with the 5 percent of the value of owned residences, the percentages of *AGI* are intended to estimate all itemized deductions other than charitable contributions (including interest, medical expenses, state and local taxes). A search procedure was used to find the percentages, within each broad *AGI* class, which made the weighted proportion of taxpayers who itemized in the sample equal to the actual proportion of returns which were itemized in 1963. These percentages are for all itemized returns, not just those that would have itemized if there were no deduction for contributions.

[22]The calculation ignores state income taxes. There is no information on the taxpayer's state of residence. These rates were generally still quite low in 1963.

elasticities are quite small. Although the wealth elasticity is relatively low, the very substantial range of wealth within each income class implies that wealth differences are responsible for a substantial part of the variation in contributions. Although the individual age dummies are not statistically significant, the coefficients suggest that giving rises substantially with age: families in which the head is between 35 and 54 years old give 12 percent more than similar families in which the head is under 35; for those 55 to 64 the difference is 25 percent and for those over 65 the difference is 49 percent.

Table 1

Price and income elasticities of charitable giving based on alternative definitions of price and income.[a]

Equation	Price		Income		SSR
	Definition	Elasticity	Definition	Elasticity	
1.1	P	−1.55 (0.30)	YD	0.80 (0.15)	9,836
1.2	P	−1.57 (0.30)	YPD	0.83 (0.15)	9,823
1.3	P	−1.54 (0.31)	YDA	0.79 (0.15)	9,856
1.4	P	−1.44 (0.31)	$\hat{C}$	0.95 (0.17)	9,836
1.5	$P[50]$	−1.14 (0.20)	YD	0.84 (0.14)	9,792
1.6	$P[50]$	−1.15 (0.20)	YPD	0.87 (0.14)	9,780
1.7	$P[50]$	−1.10 (0.21)	YDA	0.81 (0.15)	9,832
1.8	$P[50]$	−1.07 (0.20)	$\hat{C}$	0.99 (0.16)	9,793

[a]The equations all contain a constant term, a wealth variable and age variables. All estimates relate to the sample of 1,406 observations. The price variables are: $P = 1-m$, where m is the marginal tax rate; $P50$ is a weighted average of P and $1-m-0.50\,mc$, where mc is the marginal rate for capital gains if an asset test is satisfied, and P if the test is not satisfied. For nonitemizers, $P = 1$. The income variables are: disposable income (YD), permanent disposable income (YPD), disposable annuity income (YDA) and consumption with an instrumental variable estimator ($\hat{C}$). See text for additional details.

Table 1 compares the basic parameter estimates for different definitions of income and price using the same specification as eq. (4). The constant terms and the coefficients of wealth and of the age variables are not shown. The price elasticity of approximately −1.5 is essentially unaffected by the choice of income definition (equations 1.1 through 1.4). Before considering the implication of these elasticity values, it is important to study the alternative price definitions that reflect the contribution of appreciated assets.

The special problems raised by gifts of appreciated property were briefly discussed in section 2. The available data severely limits the possibility of dealing fully with this problem. The price for the gift of appreciated property that would otherwise be sold is $1-m-mc(1-B/V)$, where mc is the marginal tax rate on capital gains and B/V is the ratio of the basis (usually cost) to the current value of the asset. There is unfortunately no data on the B/V ratio for property gifts. Moreover, if the asset would not otherwise be sold immediately, the present value of the reduction in the capital gains tax is less than $mc(1-B/V)$. If we denote the present value of this reduction in the capital gains tax by $\alpha mc(1-B/V)$, where $0 \leq \alpha \leq 1$ is the relevant discount factor, the price of a gift of appreciated property is $1-m-\alpha \cdot mc \cdot (1-B/V)$. Since neither α nor B/V is known, and since only their product enters the price variable, we have used a maximum likelihood search procedure (described below) to estimate the composite parameter $\alpha(1-B/V)$. The value of $\alpha(1-B/V)$ is assumed to be the same for all taxpayers.

For any given value of $\alpha(1-B/V)$ there is still a problem of how to combine the separate price variables for gifts of cash and for gifts of appreciated property. Although the price for gifts of property is always less than the price for cash gifts, individuals who make gifts of property almost always also make gifts of cash. These individuals may prefer cash gifts for contributions below some minimal size or for contributions to particular types of donees. Since there is a very high correlation between the two prices,[23] it is better to use a weighted average of the two prices than to use the two prices separately. The relative importance of the two prices clearly differs among the income classes: the survey indicates that gifts of assets accounted for less than one percent of total giving by households with income below $15,000, but for more than 60 percent of total giving by households with income over $100,000. Although weights could be assigned to each taxpayer on the basis of the composition of that taxpayer's gifts, doing so would introduce a very substantial element of inappropriate simultaneity in the definition of price. Instead, households are classified into seven income classes, with the relative weights for all households in each class based on the average composition of the gifts in that class.

Not all taxpayers can take advantage of the option to contribute appreciated property. An individual who does not own common stock is unlikely to have an appreciated asset that is suitable for making charitable gifts.[24] As a precautionary measure, we assume that any taxpayer who does not have common

[23]The correlation between $1-m$ and $1-m-mc(1-B/V)\alpha$ would be 1 if mc were proportional to m. In fact, $mc = 0.5\,m$ for all taxpayers with marginal rates below 0.50 and $mc = 0.25$ for all other taxpayers. For nonitemizers, both prices are 1.

[24]Other forms of liquid assets do not, in general, appreciate. Bond prices were generally falling in the period before 1963. Although gifts of real estate, works of art and other property are possible, these are relatively uncommon and are unlikely for individuals who do not hold common stock. Our analysis takes no account of gifts of 'income property', e.g., personal papers and artists' own creations.

stock worth at least three percent of his adjusted gross income will make only cash gifts.[25]

The final price variable will be written $P[\alpha(1-B/V)]$ to emphasize that it is conditional on the parameter $\alpha(1-B/V)$. The variable is defined by

$$\begin{aligned} P[\alpha(1-B/V)]_i &= 1 \text{ for nonitemizers,} \\ &= 1-m_i \text{ for itemizers with insufficient common stock,} \\ &= W_i(1-m_i)+(1-W_i)[1-m_i-\alpha(1-B/V)mc_i] \\ &\quad \text{for others,} \end{aligned} \tag{5}$$

where the weight W_i is the ratio of the value of cash gifts to total gifts for the income class of which household i is a member. For eight values of $\alpha(1-B/V)$ between zero and one, the logarithm of $P[\alpha(1-B/V)]_i$ is substituted for $\ln P_i$ in the basic specification of eq. (4). The value of $\alpha(1-B/V)$ for which the regression has the lowest sum of squared residuals is the maximum likelihood estimate of this composite parameter and the estimated coefficients for this value are the maximum likelihood estimates of the corresponding parameters.[26]

The likelihood function is relatively flat between $\alpha(1-B/V) = 0.25$ and $\alpha(1-B/V) = 0.75$, but reaches a maximum at $\alpha(1-B/V) = 0.50$. The income, wealth and age coefficients are not substantially different from the results obtained in eq. (4) with the simple price variable. The price elasticity falls from 1.55 to 1.14 (S.E. = 0.20). This specification implies a smaller response to any given change in price. The estimated price elasticity is again quite insensitive to the definition of income (see eqs. 1.5 through 1.8).

The alternative definitions of income have little effect on the estimated price elasticity. Because permanent disposable income (YPD) corresponds to the lowest sum of squared residuals, we present the full equation,

$$\begin{aligned} \ln G = &-5.90 + \underset{(0.14)}{0.87} \ln YPD - \underset{(0.20)}{1.15} \ln P(50) \\ &+ \underset{(0.65)}{0.10} \ln W + \underset{(0.21)}{0.14}\, AGE3554 + \underset{(0.26)}{0.26}\, AGE5564 \\ &+ \underset{(0.30)}{0.45}\, AGE65+, \end{aligned} \tag{6}$$

$$R^2 = 0.21, \quad N = 1{,}406, \quad \text{SSR} = 9{,}792.$$

[25]The three percent is arbitrary but conservatively small. A comparison of the sum of squared residuals with and without this qualifying test shows that the test improves the explanatory power of the model.

[26]This, of course, assumes that the disturbances are normal, independent and homoskedastic. This overstates the price for nonitemizers who do avoid capital gains tax on gifts of property. However, since there are almost no gifts of property by individuals with incomes below $20,000 and almost no nonitemizers above that income level, the effect of this is extremely small.

The wealth and age coefficients are almost identical to those of eq. (4) and are thus not sensitive to the measurement of income or price.

Before studying additional modifications of this basic equation, it is useful to consider the implications of these elasticity values. Since a full analysis is presented in section 5, only some individual examples are now examined. In 1963, households with incomes between $8,000 and $10,000 contributed an average of $165. The average price for these taxpayers was 0.84. If contributions were not deductible, the price would rise by 19 percent (from 0.84 to 1.00) and therefore, given a price elasticity of −1.15, contributions would fall by about 18 percent or $30.[27] This amount is neither implausible nor contrary to the common assertion that the deductibility of contributions is likely to have only a 'small' effect on the amount given by low income households.[28]

For households with disposable income between $25,000 and $50,000, the average contribution was $2,125 and the average price was 0.49. The lower average price in this income class implies that the deductibility of charitable gifts has a substantially greater effect than in the lower income class. Eliminating the deductibility would raise the price by 104 percent (from 0.49 to 1.00) and would therefore lower the contribution by about 56 percent, or $1,190.

It is interesting to note the special implication of a price elasticity of exactly minus one. With this price elasticity, the value of giving responds to changes in price in such a way that the *net* cost to the individual donor is unaffected by the deductibility. Donees receive an amount equal to the sum of the net cost to the donors (which remains constant) plus the revenue foregone by the Treasury. The efficiency of the incentive to charitable giving, i.e., the ratio of additional funds received by donees to revenue foregone by the Treasury, is 100 percent. The actual estimated price elasticity of −1.14 implies an efficiency greater than 100 percent, i.e., philanthropic organizations receive more in additional funds than the Treasury loses in foregone revenue.

In concluding this section, it is useful to compare the current parameter values with the estimates based on aggregate data by income class for the years 1948 through 1968. Feldstein (1975a, eq. 18) reported an income elasticity of 0.82 (S.E. = 0.03) and a price elasticity of −1.17 (S.E. = 0.09).[29] The two estimates are remarkably close to the current values of 0.87 and −1.15 in spite of the great differences in the source of the data and level of aggregation.

[27]More exactly, $(1.19)^{-1.15} = 0.82$, implying that contributions are decreased by 18 percent or $30. This assumes that the increased tax revenue is not redistributed to the taxpayers; allowing for such a tax cut would have almost no effect since the individuals would spend only about 2 percent of the increased disposable income on charitable giving.

[28]This has been stressed by Aaron (1972), Kahn (1960), McDaniel (1972a) and Vickrey (1962) among others. Although the effect on the average gift is small, the aggregate effect is substantial. We return to this in section 5 below.

[29]These aggregate equations defined income as adjusted gross income and did not contain wealth or age variables. The maximum likelihood price variable also assumes a basis to value ratio of 0.50.

4. Additional specifications and tests

This section and the next section test the sensitivity of the basic results to a number of generalizations of the specification and restrictions of the sample. The evidence all tends to confirm the conclusions that the price elasticity is slightly greater than one and that the income elasticity is slightly less than one. We begin by restricting the sample, first to taxpayers who itemize and then to taxpayers under age 60. A variety of demographic factors associated with giving are examined next. Section 5 considers alternative specifications in which the price and income elasticities are allowed to vary with income and wealth.

4.1. Taxpayers with itemized deductions

A taxpayer who does not itemize his deductions has a price of 1 for all charitable contributions. Section 2 explained how we decided whether each household would (in the absence of any charitable contributions) have itemized its deductions or used the standard deduction. A total of 486 of the original 1,406 households were treated as nonitemizers. To see whether the price effect of itemizing is similar to the price effect due to the variation in the marginal rate for itemizers, we reestimated the basic regression of eq. (6) (with price defined as $P[50]$) for the sample of 920 households who itemized (and would have itemized even in the absence of charitable contributions). The price and income elasticities are very similar to the values for the entire sample that were presented in eq. (6). The itemizers' income elasticity (0.93, S.E. = 0.20) is a little higher than for the full sample (0.87), and the price elasticity (1.39, S.E. = 0.24) is also slightly higher than the value of 1.15 obtained for the full sample. Although this suggests a somewhat stronger response to change in marginal rate than to itemizing per se, the difference is very small and well within the standard error of the parameter estimate.

4.2. Aged and nonaged taxpayers

It seems plausible that the philanthropic behavior of older taxpayers may differ substantially from the behavior of younger ones. Decisions about current giving and charitable bequests are likely to be more interdependent than at earlier ages.[30] Current income may be a very poor measure of permanent income and current giving may reflect patterns established earlier in life. For both reasons, wealth may be more important than at younger ages. Our sample contains 304 households in which the head was 60 years old or older.[31] The

[30] See Aronson and Schwartz (1960), Feldstein (1974) and Shoup (1966) on the effects of taxation on charitable bequests.

[31] This group contains some who are completely retired and others who have reduced their work without being completely retired. Because it is not possible to distinguish the 'partly retired' from those who are fully employed, we focus on age alone.

income elasticity (0.79, S.E. = 0.26) and the price elasticity (0.84, S.E. = 0.30) are smaller for this group, and the wealth elasticity is substantially larger (0.22, S.E. = 0.14), than in the entire sample. The size of the sample (N = 304) results in larger standard errors, and the usual analysis of variance test shows that dividing the population into aged and nonaged does not significantly improve the explanatory power of the model.[32]

4.3. Other demographic and economic factors

The survey data provide other information about the demographic and economic attributes of each household. An analysis of the effects of these factors on charitable giving is both interesting in its own right and useful as a way of testing whether the previously observed price and income elasticities are biased because of the simpler specifications. For this purpose, households have been classified with respect to seven factors in terms of the characteristics of the head of the household: age, sex, race, community size of residence, employment, home ownership and education.

Table 2 shows that allowing for the influence of these factors has almost no effect on the estimated price, income and wealth elasticities. In particular, the price elasticity of −1.098 is extremely close to the value of −1.15 obtained in eq. (6) when the other explanatory variables are omitted. The additional variables are themselves also generally insignificant: only 6 of the 11 coefficients exceed their standard error and only one is more than twice its standard error. The one factor with a substantial effect is community size: households in medium size cities contribute the most (given their income, price, wealth and other characteristics), while households in large cities contribute the least.

The insignificant impact of such factors as home ownership and education appears contrary to the common observation that home owners and college graduates give more than renters and those who did not graduate from college. Such observations do not, of course, adjust for the effects of price and wealth. Column 3 presents the unadjusted average[33] gifts in each group. These averages conform to the usual presumptions. For example, college graduates contribute more than three times as much as nongraduates and the difference of $275 is more than four times the standard error. Comparing columns 1 and 3 thus shows that many of the factors associated with greater contributions are simply indirect reflections of income.

[32]For the complete sample, the sum of squared residuals is 9,792, while for the two subsamples it totals 9,760. The F statistic is 0.91, less than the 5 percent critical value of 2.21 with 5 and 1,394 degrees of freedom. The price elasticity for those below age 60 is −1.43 with a standard error of 0.27.

[33]These are weighted averages in which the relative weight is the inverse of the sampling probability for the household.

Table 2

Effects of demographic and economic factors on charitable giving.

	Adjusted effects		Unadjusted effects	
	Coefficient (1)	Standard error (2)	Mean ($) (3)	Standard error (4)
Income (ln *YPD*)	0.772	0.156	–	–
Price (ln *P*50)	–1.098	0.201	–	–
Wealth (ln *W*)	0.095	0.057	–	–
Age				
< 35	–	–	91	(48)
35-54	0.170	(0.212)	159	(33)
55-64	0.300	(0.258)	169	(54)
65+	0.466	(0.320)	247	(65)
Sex				
Male	–0.085	(0.264)	163	(24)
Female	–	–	98	(70)
Race				
White	0.250	(0.194)	166	(25)
Nonwhite	–	–	111	(55)
Community size				
< 250,000	–	–	103	(35)
250,000–1,000,000	0.517	(0.157)	211	(33)
> 1,000,000	–0.257	(0.246)	123	(72)
Employment				
Self-employed	0.161	(0.200)	268	(58)
Employee	–	–	133	(26)
Not working	0.138	(0.318)	161	(77)
Home ownership				
Renter	0.005	(0.189)	104	(39)
Owner	–	–	182	(28)
Education				
College graduate	0.293	(0.201)	397	(64)
Other	–	–	122	(24)

5. Varying price elasticities[34]

The specification of a constant price elasticity is clearly an assumption of convenience. We have therefore examined several alternative specifications in which the price elasticity is allowed to vary as a function of income, price and wealth. Although there is some variation in the price elasticity, the evidence supports the conclusion that the average elasticity is approximately one.

Three different forms of varying price elasticity have been estimated. The

[34]A more detailed discussion of this subject is available in an earlier version of this paper that was distributed as Harvard Institute of Economic Research discussion paper no. 381 in September 1974.

first modifies the basic specification by replacing the constant price elasticity by a price elasticity that varies linearly with the logarithm of income, price or wealth. For example, when the price elasticity is posited to depend on price, we obtain

$$\begin{aligned}\ln G = & \underset{}{-5.85}+\underset{(0.14)}{0.86}\ln YPD-(\underset{(0.44)}{1.16}+\underset{(0.106)}{0.004}\ln P50)\ln P50\\ & +\underset{(0.056)}{0.096}\ln W+\underset{(0.21)}{0.14}\,AGE3554+\underset{(0.26)}{0.26}\,AGE5564\\ & +\underset{(0.30)}{0.45}\,AGE65+,\end{aligned} \tag{7}$$

$$R^2 = 0.21,\quad N = 1{,}406,\quad \text{SSR} = 9{,}780.$$

The coefficient of ln $P50$ varies only very slightly with ln $P50$, and the additional coefficient is very much smaller than its standard error. Using the same form of the equation to allow the price elasticity to vary with income (YPD) or wealth also produces completely insignificant effects.

The second method of generalizing the constant price elasticity specification is to reestimate the basic equation with different price elasticities in different parts of the price range:

$$\begin{aligned}\ln G = & -5.97+\underset{(0.15)}{0.88}\ln YPD-\underset{(0.20)}{1.16}\ln P50(<0.3)\\ & -\underset{(0.42)}{1.26}\ln P50(0.3\text{–}0.7)-\underset{(0.64)}{1.82}\ln P50(>0.7)\\ & +\underset{(0.057)}{0.084}\ln W+\underset{(0.21)}{0.13}\,AGE3554+\underset{(0.26)}{0.26}\,AGE5564\\ & +\underset{(0.30)}{0.48}\,AGE65+,\end{aligned} \tag{8}$$

$$R^2 = 0.21,\quad N = 1{,}406,\quad \text{SSR} = 9{,}771,$$

where ln $P50(< 0.3)$ is either the logarithm of $P50$ if $P50$ is less than 0.3 or is equal to zero, and ln $P50(0.3\text{–}0.7)$ and ln $P50(> 0.7)$ are defined similarly. Each of the separate price elasticities is absolutely greater than the overall value of 1.15 but the differences are not statistically significant. Similar equations with separate price elasticities for different income groups were also estimated. The price elasticities vary substantially but have large standard errors: -2.75 (S.E. = 0.80) for income below \$8,000, -0.75(S.E. = 0.32) between \$8,000 and \$40,000, and -1.16 (S.E. = 0.18) above \$40,000. A corresponding specification by wealth group shows that price elasticities decrease as wealth increases but the standard errors are again very large: -3.22(S.E. = 0.85) for wealth less than \$10,000, -1.68(S.E. = 0.45) for wealth between \$10,000 and \$100,000, and -1.09(S.E. = 0.20) above \$100,000.[35] In short, the evidence appears strong that the price elasticity exceeds one, but the data does not permit inferences about differences in the elasticity among income or wealth groups.

The third and most general specification is to allow all of the coefficients to vary among the income and wealth classes. Although there are rather substantial elasticity differences among the income classes, the standard errors are large and the disaggregation is not statistically significant.[36] The results are very similar for the disaggregation by wealth groups: the elasticities differ greatly but the standard errors are quite large: with net worth below \$10,000, the price elasticity is -3.69(S.E. = 0.97); for net worth from \$10,000 to \$100,000, it is -1.83 (S.E. = 0.62). Although in the group with net worth over \$100,000 the price elasticity is only -0.52(S.E. = 0.31), this is primarily due to the very large fraction of older persons in this sample of wealthy households. For households in which the head is less than 60 but net worth exceeds \$100,000, the price elasticity is -1.09, essentially the same as for the whole sample. It is the wealthy aged for whom the complex interaction between estate taxes and income taxes makes the current model least appropriate; only further work on data that links bequests and lifetime giving will be able to provide an estimate of the price elasticity for this group with an adequate adjustment for the effect of estate taxes.[37]

6. Interdependence among individuals in charitable giving

It is widely believed that the amount that each individual contributes to charity is substantially influenced by the amounts that he perceives others to be giving. Social experiments confirm that individuals on the street who do not know they are participating in an experiment are more likely to make charitable contributions if they have just witnessed someone else making a contribution [Krebs (1970)]. Fund raisers emphasize the importance of 'leadership gifts', large gifts by some high income individuals that motivate similar individuals to make comparable gifts and lower income individuals to make gifts that are larger than they would otherwise make.

[35]Although the value of -3.2 for low wealth households seems inappropriately large, it should be noted that the average price is so close to one that even an elasticity of -3.2 only implies that tax deductibility raises giving by 35 percent.

[36]The price elasticities and standard errors are: -2.50 (0.91) for income < \$8,000, -0.89 (0.41) for \$8,000 < income < \$40,000, and -0.70 (0.39) for income > \$40,000. The F ratio of 1.27 is less than the 5 percent critical value of $F(14, \infty) = 1.69$.

[37]For example, a wealthy aged individual may prefer to forego the income tax deduction and make a charitable bequest, because this increases the size of his gross estate and therefore the amount that can be given free of estate tax to his wife under the 50 percent marital deduction.

It is not clear, however, whether this demonstration effect appreciably alters each individual's total giving or only changes the distribution among different charities. The existence of an interdependence among individual behavior is both an interesting question in itself and a matter of substantial importance for the impact of alternative tax treatments of charitable contributions. If each individual's giving does depend positively on the gifts of individuals with the same or greater income, an increase in the price of giving for the highest income groups will not only depress their giving but would depress the giving of lower income individuals as well.

The current section extends the previous specification to a model in which each individual's giving is a function of the average giving in his own income class and in the income classes above him. More specifically, to the previous equation we add the variable

$$g_i^* = \frac{\sum_j W_{ij} \ln \bar{G}_j}{\sum_j W_{ij}}, \tag{9}$$

where $\bar{G}_j$ is the mean giving per household in income class j, and W_{ij} measures the 'economic proximity' of individual i and income class j. The summation is taken only for the individual's own income class and the classes above him.[38] The economic proximity is defined by

$$W_{ij} = \left(\frac{\bar{Y}_i}{\bar{Y}_j}\right)^{\lambda}, \qquad \lambda \geq 0, \tag{10}$$

where $\bar{Y}_j$ is the mean income in income class j, and $\bar{Y}_i$ is the mean income in the income class of individual i. With a positive value of λ, the economic proximity of an income class declines with the difference between the individual's income and the mean income of that class.

The new variable g_i^* is thus a weighted average of others' contributions with weights that are specific to each individual. The basic equation has been re-estimated after introducing values of g_i^* corresponding to all integral values of λ between 0 and 15. The sum of squared residuals increases with λ until $\lambda = 10$ and then remains constant. This value of λ implies that the weights on all other income classes are so small that the giving by other classes can be ignored;[39] the value of g_i^* is effectively $\ln \bar{G}_i$, the logarithm of the mean giving in the individual's own income class. Moreover, the coefficient of this variable is itself insignificant (0.22, S.E. = 0.24). When the estimated price coefficient

[38] The specification of g^* uses 7 income classes, with lower limits of: zero, \$5,000, \$10,000, \$15,000, \$25,000, \$50,000 and \$100,000.

[39] Only the values for income class i matter because of the high value of λ. With $\lambda = 10$, the relative weight to giving in other classes is always less than 0.006.

(-0.96, S.E. $= 0.28$) is adjusted for the effect of interdependence, the implied total price elasticity is -1.23, slightly higher than in the original specifications.[40]

The essentially negative conclusion about interdependence prompted us to consider an alternative specification. A potential donor might focus on how much others give relative to their income rather than on the absolute amount that they give. We therefore redefined the interdependence variable of eq. (9), replacing $\ln \bar{G}_j$ by $\ln (\bar{G}_j/\bar{Y}_j)$. The results with this new specification were very similar to those with the old specification: a high value of λ, a similar coefficient (0.15, S.E. $= 0.19$) and an implied price elasticity of -1.19.

The estimates presented in this section thus provide no support for the view that the total amount that an individual contributes is a function of the amount given by others. Although these results are clearly not definitive evidence against the notion of such interdependence among individuals, we believe that the burden of proof now rests with those who support a theory of interdependent giving.

7. Simulated effects of alternative tax changes

This section uses the estimated price and income elasticities to calculate the effects of alternative changes in the income tax treatment of charitable contributions. The simulations show, for each income class, the change in the average gift,[41] the change in the average income tax and contributions.[42] It is a perhaps ironic and unintended effect of several of the proposals that, although they increase the taxes paid by the higher income groups, they also increase the net disposable income after tax.

Four possible tax changes have been examined. The first alternative is the complete elimination of the deductibility of charitable contributions, i.e., raising the price of giving to 1 for all households. The second proposal is to replace the deductibility with a tax credit at the rate of 20 percent, i.e., changing

[40]To evaluate the full effect of price on individual giving, we must recognize that g_t^* is a function of price. We can approximate the total price effect by assuming that all individuals within each class are identical except for age. The values of $\ln G_t$ (the dependent variable) and g_t^* are then identical for each age class, and the basic equations can be solved, i.e., the total price elasticity is the partial price coefficient (-0.96) divided by 1 minus the g_t^* coefficient of 0.22, i.e., $-0.96/0.78 = -1.23$.

[41]No attempt is made to calculate the effect on total giving because the simulations are done with the same restricted sample of 1,406 households as the original regressions.

[42]Net disposable income is equal to personal consumption expenditures plus savings. Although individuals obtain satisfaction from making charitable gifts, we believe that there is a significant difference in kind between personal consumption and charitable giving. Tax policy decisions that are concerned with distributional equity should not be indifferent between a dollar of personal consumption and a dollar of charitable giving. Moreover, charitable giving has much greater positive externalities than most other forms of consumption. Net disposable income (*NDI*) understates the individual donor's welfare but *NDI* plus charitable giving would overstate welfare since the individual pays less for charitable giving than for other types of consumption whenever $P[50] < 1$.

the price of giving to 0.8 for all households, including those that do not currently itemize.[43] Note that this is equivalent to a matching scheme in which the donor receives neither a credit nor a deduction but the donee receives a matching grant from the government equal to 25 percent of the total contributions that it receives. The third proposal is also a tax credit but with a rate of 30 percent, or, equivalently, a matching system with a matching rate of 43 percent.

The final alternative is to continue the deduction of charitable contributions but to eliminate the taxpayer's ability to contribute appreciated property without paying any tax on the capital gains. More specifically, this proposal is to tax the donor on the capital gains component of his gift, i.e., to make the price of all gifts $1-m$, where m is the marginal rate of income tax.[44] The importance of this change for each taxpayer obviously depends on that taxpayer's current use of gifts of appreciated property. For the simulations, we have treated this proposal as equivalent to changing the price from P50 to $1-m$.[45]

Associated with each of these proposals is an across-the-board change in all tax rates designed to keep the tax revenue unchanged. The calculation of this compensatory change and the actual process of simulation can be described most easily for the first proposal. Complete elimination of the deductibility of charitable contributions has two effects: (1) for itemizers, it raises the price of giving from $P50$ to 1; (2) this yields additional tax revenue to the government equal to $\sum_i (1-P50_i)G_i f_i$, where G_i is the amount given by individual i before the change in the tax rate and f_i is the weight to individual i based on the original sampling probabilities.[46] The ratio of this additional tax revenue to total tax receipts is the factor by which all tax rates can be reduced and leave the government with the same total tax revenue that it had before the elimination of the deduction. This reduction in all tax rates reduces each individual's tax liability and therefore increases his value of 'income after tax that would be due if no contributions were made' (YD and YPD). The resulting change in each individual's contribution is then calculated from the equation[47]

$$\ln G_i' - \ln G_i = 0.87\,(\ln YPD_i' - \ln YPD_i) + 1.15 \ln P50_i, \tag{11}$$

[43] I ignore the possibility that some households pay no taxes and cannot benefit from a tax credit. Alternatively, the proposal might be regarded as paying a cash subsidy to any household in which the credit exceeds the tax liability.

[44] Nonitemizers would be unaffected by this proposal and would continue to face a price of 1.

[45] Recall that $P50$ for household i is equal to $W_i[1-m_i]+(1-W_i)[1-m_i-0.50mc_i]$, where W_i is the ratio of cash gifts to total gifts for households in that income class, m_i is the marginal rate of tax on income and mc_i is the marginal rate of tax for capital gains. See section 3 above.

[46] If the entire sample were used, $\Sigma_i f_i$ would equal the total number of households. All of the current calculations are based on Σf_i for the restricted group of 1,406 households.

[47] The parameter values are taken from eq. (6); although there is some evidence that the price elasticity varies with income and wealth, the varying parameter values are too uncertain and unreliable. Recall that G_i is one dollar more than the contribution actually reported by the individual. Note that the age variables, wealth variables and constant terms can be ignored because the equation calculates only the relative change in each individual gift.

where G_i' is the predicted contribution after the tax change and YPD_i' is the original value of 'permanent income minus the tax that would be due if no contributions were made' plus the value of the tax reduction for individual i. Since eliminating the deduction raises the price of giving to 1, $\ln P50_i' = 0$, and therefore does not appear in eq. (11).

The analysis of the effects of a 20 percent tax credit is more complicated. First, each individual's price is changed from $P50$ to 0.80. If each individual's giving remained unchanged, this would yield additional tax revenue to the government equal in value to $\sum_i(1-P50_i-0.20)G_if_i$. If all tax rates are cut by the ratio of the additional tax revenue to the original revenue, the individual's income increases to YPD'. This 'trial' value of YPD' is then used to calculate a new gift according to

$$\ln G' - \ln G = 0.87\,(\ln\ YPD' - \ln\ YPD) - 1.15\,(\ln 0.80 - \ln P50). \tag{12}$$

The new G' values of giving imply a different cost to the government of the tax credit and therefore a different total revenue gain from the tax change: $\sum(1-P50-0.20)G'$. The incomes are again adjusted (to YPD'') and a new set of gifts (G'') are calculated using a specification analogous to eq. (9). Although this process might be repeated again, the additional accuracy that could be gained at this stage is too small to warrant the additional computations.

A similar iterative procedure is used to assess the effect of changing the tax treatment of appreciated assets, but this time the tax reduction alters the price term as well as the income term. Thus, the first round simulation becomes

$$\begin{aligned}\ln G' - \ln G = {} & 0.87\,(\ln\ YPD' - \ln\ YPD) \\ & - 1.15\,[\ln(1-m') - \ln P50],\end{aligned} \tag{13}$$

where m' is the marginal tax rate after the tax cut has been put into effect.

Table 3 presents the predicted effects of the four tax changes on the average contributions per household in each gross income class.[48] Consider first the complete elimination of the deductible. The simulations indicate that this would reduce the average gift (in 1963) from \$157 to \$116, a reduction of 26 percent.[49] Of course, the relative change differs substantially among income classes. Households with incomes below \$5,000, a group that includes many nonitemizers, had an average current price of 0.94. Removing the deductibility of contributions only raises the average price by 6 percent. It is not surprising, there-

[48]The income classes are defined in terms of total income before tax.

[49]Because these averages include the gifts of both itemizers and nonitemizers, the reduction of 26 percent is necessarily smaller than the 34 percent reduction for itemizers only that was previously reported in Feldstein (1975a). For nonitemizers, this proposal raises giving since price is unchanged while income rises.

fore, that the average contribution only falls from $59 to $53, or 11 percent.[50] In contrast, households with incomes over $100,000 faced an average price of only 0.14 and would respond to the tax change by cutting their contributions by 95 percent.[51,52]

The replacement of the deduction by a 20 percent tax credit (including a credit

Table 3

Effects of alternative tax changes on average contributions.

Income class ($000)	Average charitable contribution ($)				
	Current law	Eliminate deduction	20% tax credit	30% tax credit	Constructive realization of asset gifts
0–5	59	53	60	64	60
5–10	150	126	156	177	158
10–15	193	148	185	211	196
15–20	315	228	284	325	321
20–50	670	381	475	545	684
50–100	2,062	767	940	1,063	2,198
100+	22,528	1,173	1,380	1,521	8,029
Average	157	116	141	159	155
	Contributions relative to actual 1963 gifts				
0–5	1.00	0.89	1.02	1.08	1.02
5–10	1.00	0.84	1.04	1.18	1.05
10–15	1.00	0.77	0.96	1.09	1.02
15–20	1.00	0.72	0.90	1.03	1.02
20–50	1.00	0.57	0.71	0.81	1.02
50–100	1.00	0.37	0.46	0.52	1.07
100+	1.00	0.05	0.06	0.07	0.36
Average	1.00	0.74	0.90	1.01	0.99

[50]It might seem at first that contributions should fall even less since a six percent price increase and a price elasticity of −1.15 imply a fall of only seven percent, which the tax cut, by raising incomes, partly offsets. But the relevant price change is not the unweighted average but the weighted average in which the weights are the original amounts of the contribution. Since lower original prices are associated with larger original contributions, the weighted average effect is larger than the unweighted effect.

[51]An increase in price from 0.14 to 1.00 would in itself cut giving by 90 percent. But, as the previous footnote indicated, the negative correlation between original price and original giving implies that this underestimates the effect of the tax charge.

[52]This represents a substantially greater change than the 78 percent decrease calculated in Feldstein (1975a) because that calculation made no allowance for the effect of gifts of appreciated assets. Although the average price for this group is $P50 = 0.14$, the average price of cash gifts is 0.22.

to nonitemizers) only decreases average giving by 10 percent, while a 30 percent credit actually increases average giving by one percent. This substitution does, however, have a substantial effect on the distribution of contributions among different income classes. A 30 percent credit raises the average gift of households with incomes below \$20,000, but decreases the average gift of households with \$50,000 to \$100,000 by 48 percent and the average gift of households with income over \$100,000 by 93 percent. Such a change in the sources of total giving would have an important impact on the distribution of gifts among different types of donees. Religious organizations receive a large share of the gifts of low and middle income families while higher income families give primarily to education, health, cultural and community organizations.[53]

Finally, the constructive realization of gifts of appreciated assets causes a substantial reduction (64 percent) in giving in the highest income class and very small increases in all other classes. These increases occur because the tax change and the reduced contribution yield substantial additional tax revenue from the highest income class which permits increasing disposable income in all other classes. These increases in income outweigh the small increases in price. Just as with the introduction of a credit, there is almost no effect on total giving but a large change in the relative importance of different donors, and therefore a significant shift in the distribution of total giving among different types of donees.

Table 4 shows the effects of the four tax proposals on the tax paid in each income class and on the net disposable income after both tax and charitable contributions. As in table 3, each of the changes in the tax treatment of charitable contributions is accompanied by a proportional change in all tax rates to keep current total tax collections unchanged. The tax ratios, i.e., the ratio of the taxes under the proposed alternative to current taxes, are all between 0.98 and 1.04 for households with incomes (before tax) of less than \$100,000. The only significant changes in tax liability occur for households with incomes over \$100,000. The smallest increase in tax liability (11 percent) results from the constructive realization of appreciation in gifts of assets. The largest increase (21 percent) occurs when the current deduction is replaced by a 30 percent tax credit.

The net disposable income ratios show a rather surprising result. Although there is almost no change (less than 3 percent) for households with incomes below \$100,000, the highest income households actually have an increase in net disposable income of between 5 and 12 percent. The fall in charitable contributions in this highest income group exceeds the increase in taxes, leaving the households with a greater net income for personal consumption or accumulation.

[53]See Feldstein (1975b) for an analysis of the impact on different types of donees of alternative changes in the tax treatment of charitable contributions.

Table 4

Effects of alternative tax changes on tax payments and disposable income.

Income class ($000)	Eliminate deduction	20% tax credit	30% tax credit	Constructive realization of asset gifts
	Tax ratios[a]			
0–5	0.99	0.98	0.97	1.00
5–10	1.00	0.98	0.97	1.00
10–15	0.99	0.98	0.99	1.00
15–20	0.99	0.99	1.00	1.00
20–50	1.00	1.01	1.02	1.00
50–100	1.01	1.02	1.04	0.99
100+	1.17	1.19	1.21	1.11
	Net disposable income ratios[b]			
0–5	1.00	1.00	1.00	1.00
5–10	1.00	1.00	1.00	1.00
10–15	1.01	1.00	1.00	1.00
15–20	1.01	1.00	0.98	1.00
20–50	1.01	1.01	1.00	1.00
50–100	1.03	1.01	1.00	1.00
100+	1.12	1.08	1.05	1.10

[a]The tax ratio is the ratio of taxes due under the alternative to 1963 taxes under the current law. All ratios are rounded to the nearest 0.01.

[b]The net disposable income ratio is the corresponding ratio of income minus tax minus contributions. All ratios are rounded to the nearest 0.01.

8. Conclusion

This paper has presented a detailed analysis of the sensitivity of charitable giving to alternative tax treatments. The evidence indicates that the elasticity with respect to the price or net cost of giving is slightly greater than one. This implies that any increase in price will reduce the total contributions received by charitable organizations by more than it increases the taxes collected by the Treasury.

The price and income elasticities estimated in the current study are very similar to the values obtained by Feldstein (1974a) with a very different type of data: total contributions on itemized returns as reported by the Internal Revenue Service for each adjusted gross income class in the even years from 1948 through 1968. Some preliminary analysis of a yet different type of data, a large sample of individual tax returns for 1962 and 1970, appears to provide further support for these elasticities.

The appropriate tax policy in this area depends on a complex set of issues and value judgments. The key empirical question is the extent to which alternative tax treatments would affect the volume and distribution of charitable contributions. We hope that the current study will provide a useful empirical basis for any future policy analyses.

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THE INCOME TAX AND CHARITABLE CONTRIBUTIONS

BY MARTIN FELDSTEIN AND AMY TAYLOR[1]

Charitable contributions are an important source of basic finance for a wide variety of private nonprofit organizations that perform quasi-public functions. The tax treatment of charitable contributions substantially influences the volume and distribution of these gifts. The current study presents new estimates of the price and income elasticities of charitable giving. The parameter estimates are then used with the United States Treasury Tax File to simulate the effects of several possible alternatives to the current tax treatment of charitable giving.

INDIVIDUAL CHARITABLE CONTRIBUTIONS are an important source of basic finance for a wide variety of private nonprofit organizations. Higher education, research, health care, the visual and performing arts, welfare services, and community and religious activities rely heavily on the voluntary institution. In 1970, American families contributed more than $17 billion for their support.

The volume and distribution of charitable gifts is influenced by the personal income tax treatment of charitable contributions. There are today a number of widely discussed proposals for changing these rules. The appropriate tax treatment of such gifts involves a complex series of economic issues. Critical to a resolution of these issues is an understanding of the likely quantitative effects of alternative tax rules: the effects on the total volume of charitable gifts and its distribution among the different types of donees; the effects on the distribution of tax burdens among income classes; and the effects on the distribution of net income for personal consumption and accumulation.

It is the purpose of this study to shed some new light on these important questions. This paper presents new evidence on the price and income elasticities of charitable giving based on the special Treasury tax files for 1962 and 1970. These data sets provide very large samples of individual observations with exact information on the tax price and charitable giving. The basic parameter estimates are very similar to earlier results that were obtained using aggregate pooled cross-section time-series data (Feldstein [8]) and household survey data (Feldstein and Clotfelter [11]). The parameter estimates are used here with the 1970 Treasury tax file to simulate the effects of several possible alternatives to the current tax treatment of charitable giving.

Section 1 describes the basic specification and data that are used to derive the estimates. The second section presents parameter estimates for 1962 and 1970 using different definitions of the key variables. Section 3 combines data for 1962 and 1970, thus using the historical change in tax rates as the basis for estimating

[1] We are grateful to Bernard Friedman and Daniel Frisch for assistance with the research, to the Commission on Private Philanthropy and Public Needs for financial support, and to M. Bailey, M. Boskin, G. Break, J. Brittain, N. McClung, J. Morgan, J. Pechman, G. Rudney, L. Silverstein, E. Sunley, S. Surrey, and M. Taussig for useful discussions. This paper was written while Feldstein was Ford Research Professor at the University of California at Berkeley.

the price elasticity. The fourth section discusses the evidence on separate elasticities by income class. The simulation method and results are presented in Section 5. There is a brief concluding section.

1. SPECIFICATION AND DATA

Because charitable contributions are deductible in determining taxable income, the current income tax system makes the "price" of charitable contributions less than the price of other goods and services. An individual with a marginal tax rate of 40 per cent can give $100 to charity by forgoing $60 of personal consumption; for him the net price of charitable contributions is only 0.6. More generally, for an individual whose marginal tax rate is m the price of charitable giving is $P = 1 - m$.[2]

The basic specification of the behavioral equation relating charitable giving (G) to income (Y) and price (P) is the constant elasticity relation:

$$\log G_i = \beta_0 + \beta_1 \log Y_i + \beta_2 \log P_i + \beta_3 MAR_i + \beta_4 AGE_i + \varepsilon_i \tag{1.1}$$

where MAR_i is a dummy variable indicating that the taxpayer is married and AGE_i is a dummy variable indicating whether the taxpayer was over age 65. The primary definition of income that is used in this study is adjusted gross income minus the tax that would have been paid if no charitable contribution were made. The marginal tax rate is based on the corresponding taxable income, i.e., the taxable income of the individual if no charitable contribution were made. In this way, the income and price variables are exogenous, at least to the extent of not depending on the individual's charitable giving.[3]

The 1970 Treasury Tax File is a sample of individual tax returns for the year 1970. These returns are a stratified random sample of all returns for that year with a sampling fraction that increases with income until there is 100 per cent sample for incomes over $200,000. To limit the computational costs of analyzing these data, we drew a 20 per cent random sample from the tax file. After eliminating the returns of non-itemizers, the sample contained 15,291 returns.

As we indicated above, the price variable depends on the marginal tax rate for the taxable income that the individual would have had if he had made no charitable gift. For most taxpayers this was calculated easily by adding actual charitable giving to actual taxable income and using the tax tables to find the marginal rate on this expanded taxable income. Special calculations were made for taxpayers who used income averaging or the alternative tax method. The Treasury assisted us by adding the state marginal income tax to each record, together with an indication of whether federal taxes are deductible in computing state taxable income. Each individual's total marginal tax rate was calculated by combining state and federal marginal tax rates, with full allowance for the reciprocal deductions where appropriate.

Contributions of appreciated assets create a special problem for measuring the price of charitable giving. When an asset is given away, its full value can be deducted

[2] When the contribution includes a gift of appreciated property, the price is lower and more complicated to compute. We return to this below.

[3] Other measures of price and income have been studied and will be discussed below.

from the donor's taxable income but there is no constructive realization and therefore no tax to be paid by the donor on the capital gain. The opportunity cost (price) of a gift that is given in the form of an appreciated asset therefore depends not only on the individual's marginal tax rate but also on the fraction of the asset's value that is accrued capital gain and on the alternative disposition of the asset. An example will clarify the way in which these variables determine the relevant price. Consider an individual whose marginal rate is 40 per cent and who contemplates donating an asset that is now worth \$100 and for which he originally paid \$30. If he gives the asset away, he reduces his taxable income by \$100; he therefore reduces his tax liability by \$40 and thus increases his after-tax income by \$40. If he instead sells the asset, he pays a tax of \$14 (half of his marginal rate on the capital gain of \$70) and increases his after-tax income by \$86. For this individual, the opportunity cost of the \$100 contribution is therefore \$46 of forgone consumption. If the price is defined in terms of forgone consumption, the price of the gift is $P = 0.46$. This price clearly depends on the ratio of the asset's original cost (or basis) to its current value: an original cost of \$1 implies $P = 0.40$, while an original cost of \$100 implies $P = 0.60$. More generally, $P = 1 - mc(1 - B/V) - m$ where V is the current value of the asset, B is its basis or original cost, m is the marginal tax rate on income, and mc is the marginal tax rate on capital gains.

The preceding calculation defined the opportunity cost of a donated asset in terms of forgone immediate consumption, i.e., it assumed that if the asset were not given away it would be sold in the current year. The price is higher and the calculation is more complex if the opportunity cost is defined in terms of forgone saving or wealth, i.e., if it is assumed that the asset would not otherwise be sold in the current year. The individual in the preceding example could retain the \$100 asset or he could give it away and add the \$40 tax saving to his wealth. Viewed in this way, his opportunity cost price is 0.60, the same as for contributions of money; moreover, this price is independent of the ratio of the capital gain to the present asset value. Since the individual who does not give away the asset also has a future tax liability, this tends to overstate the opportunity cost of a prospective contribution. However, by postponing the sale of the asset the individual can substantially lower the present value of the tax and, if the asset is never sold during the individual's lifetime, the capital gains tax liability is completely eliminated when the asset passes at death.[4]

If we denote the present value of the reduction in the capital gains tax by $\alpha\, mc(1 - B/V)$ where $0 \leqslant \alpha \leqslant 1$ is the relevant discount factor, the price of a gift of appreciated property is $1 - m - \alpha \cdot mc \cdot (1 - B/V)$. Since neither α nor B/V is known, and since only their product enters the price variable, we have used a maximum likelihood search procedure (described below) to estimate the composite parameter $\alpha(1 - B/V)$. The value of $\alpha(1 - B/V)$ is assumed to be the same for all taxpayers.

[4] If the individual gives the asset away to another person, there is no constructive realization and the tax is postponed until the recipient sells the asset. The original owner can also consume most of the value of the asset by using it as collateral to borrow funds which he then consumes, thus enjoying the consumption while postponing or avoiding the capital gains tax. See Bailey [5] for evidence that a very large share of accrued capital gains are never subject to capital gains taxation.

For any given value of $\alpha(1 - B/V)$ there is still a problem of how to combine the separate price variables for gifts of cash and for gifts of appreciated property. Although the price for gifts of property is always less than the price for cash gifts, individuals who make gifts of property almost always also make gifts of cash. These individuals may prefer cash gifts for contributions below some minimal size or for contributions to particular types of donees. Since there is a very high correlation between the two prices,[5] it is better to use a weighted average of the two prices than to use the two prices separately. The relative importance of the two prices clearly differs among the income classes: the data indicate that gifts of assets accounted for less than one per cent of total giving by households with income below \$15,000 but for more than 60 per cent of total giving by households with income over \$100,000. Although weights could be assigned to each taxpayer on the basis of the composition of that taxpayer's gifts, doing so would introduce a very substantial element of inappropriate simultaneity in the definition of price. Instead, households are classified into seven income classes with the relative weights for all households in each class based on the average composition of the gifts in that class.

Not all taxpayers can take advantage of the option to contribute appreciated property. An individual who does not own common stock is unlikely to have an appreciated asset that is suitable for making charitable gifts. As a precautionary measure, we assume that any taxpayer who does not report dividends or capital gains will make only cash gifts.

The final price variable will be written $P[\alpha(1 - B/V)]$ to emphasize that it is conditional on the parameter $\alpha(1 - B/V)$. The variable is defined by:

$$\begin{aligned} P[\alpha(1 - B/V)]_i &= 1 - m_i \quad \text{for taxpayers with insufficient common stock} \\ &= W_i(1 - m_i) + (1 - W_i)[1 - m_i - \alpha(1 - B/V)mc_i] \quad \text{for others,} \end{aligned} \tag{1.2}$$

where the weight W_i is the ratio of the value of cash gifts to total gifts for the income class of which household i is a member. For alternative values of $\alpha(1 - B/V)$ between zero and one, the logarithm of $P[\alpha(1 - B/V)]_i$ is substituted for $\ln P_i$ in the basic specification of equation 1.1. The value of $\alpha(1 - B/V)$ for which the regression has the lowest sum of squared residuals is the maximum likelihood estimate of this composite parameter and the estimated coefficients for this value are the maximum likelihood estimates of the corresponding parameters.

The Treasury Tax File for 1962 is very similar to the 1970 File.[6] The 20 per cent random sample of itemized returns provided 13,770 observations. The primary difference in procedure is that the marginal tax rate refers only to the federal tax rate since no information on state rates was available.[7]

[5] The correlation between $1 - m$ and $1 - m - mc(1 - B/V)\alpha$ would be 1 if mc were proportional to m. In fact, $mc = 0.5m$ for all taxpayers with marginal rates below 0.50; until 1969 $mc = 0.25$ for all other taxpayers while after that $mc = 0.25$ only for the first \$50,000 of capital gains.

[6] We are grateful to the Brookings Institution for making the 1962 file available to us.

[7] To test the likely sensitivity of the results to this lack of data, we estimated the 1970 equation with the state tax rates set equal to zero. This had very little effect on the estimated parameter values.

2. THE BASIC CROSS-SECTION ESTIMATES

The estimate of the basic equation with data for 1970 is presented in the following equation:

$$
\begin{aligned}
\ln G = & -\underset{(0.070)}{1.419} \ln P + \underset{(0.023)}{0.768} \ln Y + \underset{(0.048)}{0.317}\, MAR \\
& + \underset{(0.038)}{0.443}\, AGE - \underset{(0.201)}{2.580}, \qquad R^2_{1970} = .404.
\end{aligned} \tag{2.1}
$$

The price elasticity is -1.419 and the income elasticity is 0.768. In spite of the potential problem of collinearity between price and income, the standard errors are very small. The coefficient of the dummy variable for married taxpayers (0.317) indicates that married couples give 37 per cent more than single individuals with the same income and price. The coefficient of the age dummy indicates that tax-paying units in which one or both of the taxpayers is over 65 years old give 56 per cent more than younger taxpayers with the same income and wealth.

Equation (2.2) shows that the price and income elasticities for 1962 are very similar to those for 1970:

$$
\begin{aligned}
\ln G = & -\underset{(0.036)}{1.305} \ln P + \underset{(0.018)}{0.745} \ln Y + \underset{(0.042)}{0.265}\, MAR \\
& + \underset{(0.034)}{0.132}\, AGE - \underset{(0.160)}{2.100}, \qquad R^2_{1962} = 0.52.
\end{aligned} \tag{2.2}
$$

The elasticity estimates are also very similar when the sample is restricted to married taxpayers below age 65:

$$
\ln G = -\underset{(0.043)}{1.274} \ln P + \underset{(0.020)}{0.799} \ln Y - \underset{(0.176)}{2.351}, \qquad R^2_{1962} = 0.52. \tag{2.3}
$$

The special problems raised by gifts of appreciated property were briefly discussed in Section 1. As we noted there, the available data severely limit the possibility of dealing fully with this problem. It is necessary to summarize both the effects of allowing the contribution of property at market value without constructive realization for capital gains taxation and the possibility of alternative untaxed dispositions through personal gift or bequest by a single measure of the "discounted gain-to-value ratio". Since no data are available on the actual gain-to-value ratio of contributed assets or the alternative way in which the asset would otherwise have been used, a maximum likelihood search over possible discounted gain-to-value ratios is employed. The sum of squared residuals changes very little (less than one per cent) as the discounted gain-to-value ratio varies between zero (where asset gifts are equivalent to cash gifts) and one (where asset gifts are all appreciation and have no basis.[8] The minimum occurs at 0.875 in 1970 and at zero in 1962. Neither of these extreme values seems plausible. Although the assets given away

[8] In 1962, at the very highest marginal tax rates, individuals could face a negative price for gifts of appreciated property if the discounted gain-to-value ratio was sufficiently high. We imposed a lower bound of 0.10 on the price variable for the current estimates.

may have an actual ratio of gain-to-value near 0.875, sophisticated taxpayers are aware of the alternative opportunities for avoiding capital gains taxation. The discounted gain-to-value ratio is therefore almost certainly lower than 0.875. But a value of zero implies that there is no incentive to give assets instead of cash and thus conflicts with the substantial proportion of the gifts of high income individuals in the form of appreciated assets. Moreover, the two previous studies of this question (Feldstein [8]) and Feldstein and Clotfelter [11]) both found that the maximum likelihood estimate was a discounted gain-to-value ratio of 0.50. Imposing this value with the current data implies the following equation for 1970:[9]

$$\begin{aligned} \ln G = &-\underset{(0.059)}{1.285}\ln P(50) + \underset{(0.024)}{0.702}\ln Y + \underset{(0.048)}{0.341}\,MAR \\ &+ \underset{(0.038)}{0.419}\,AGE - \underset{(0.214)}{1.933}, \qquad R^2_{1970} = .406. \end{aligned} \tag{2.4}$$

Using this price variable for appreciated asset gifts does not alter any of the basic implications of equations (2.1) and (2.2). The price elasticity of -1.285 is slightly lower than the previous estimate but still implies substantial price sensitivity.[10] The estimates for 1962, shown in equation (2.5), are also quite similar to equation (2.4):

$$\begin{aligned} \ln G = &-\underset{(0.033)}{1.088}\ln P(50) - \underset{(0.185)}{0.757}\ln Y + \underset{(0.042)}{0.184}\,MAR \\ &+ \underset{(0.035)}{0.134}\,AGE - \underset{(0.166)}{2.066}, \qquad R^2_{1962} = 0.52. \end{aligned} \tag{2.5}$$

Before studying any further modifications of this equation, it is useful to consider the implications of this estimate of the price elasticity. Among families with disposable incomes between $10,000 and $15,000 in 1970, the average price of giving was 0.80 and the average gift was about $300. If contributions were not deductible, the price would rise by 25 per cent (from 0.80 to 1.00) and therefore, given a price elasticity of -1.285, contribution would fall by about 25 per cent, or $75.[11] This amount is neither implausible nor contrary to the common assertion that the deductibility of contributions is likely to have only a "small" effect on the amount given by lower income households.[12]

[9] This raises the residual sum of squares for 1970 by less than 0.2 per cent. The data are thus quite uninformative about this parameter.

[10] The price elasticity varies with the assumed "discounted gain-to-value ratio" although these differences are not large. For example, the 1970 price elasticity was -1.083 at the ratio of 0.875. The change implication of changing the gain-to-value ratio is therefore partly offset by the resulting change in the price elasticity. The aggregate effect of eliminating the deductibility of contributions is therefore influenced much less by the assumed gain-to-value ratio than either that ratio or the price elasticity alone would imply. The estimated effects of other changes, e.g., the substitution of a credit for the deduction, are more sensitive and additional evidence on this question would be very useful.

[11] More exactly, $(1.25)^{-1.285} = 0.75$, implying that contributions are decreased by 25 per cent or $75. This assumes that the increased tax revenue is not redistributed to the taxpayers; allowing for such a tax cut would have almost no effect since the individuals would spend only about two per cent of the increased disposable income on charity.

[12] This has been stressed by Aaron [1], Kahn [12], McDaniel [13], and Vickrey [18], among others. Although the effect on the average gift is small, the aggregate effect is substantial. We return to this in Section 5 below.

For households with disposable income between \$50,000 and \$100,000, the average contribution was \$2,000 and the average price was 0.42. The lower average price in this income class implies that the deductibility of charitable gifts has a substantially greater effect than in the lower income class. Eliminating the deductibility would raise the price by 138 per cent (from 0.42 to 1.00) and would therefore lower contributions by about 67 per cent, or \$1,344.

It is interesting to note the special implication of a price elasticity of exactly minus one. With this price elasticity, the value of giving responds to changes in price in such a way that the *net* cost to the individual donor is unaffected by the deductibility. Donees receive an amount equal to the sum of the net cost to the donors (which remains constant) plus the revenue forgone by the Treasury. The efficiency of the incentive to charitable giving, i.e., the ratio of additional funds received by donees to revenue forgone by the Treasury, is 100 per cent. The actual estimated price elasticity of -1.285 implies an efficiency greater than 100 per cent, i.e., philanthropic organizations receive more in additional funds than the Treasury loses in forgone revenue.

The current parameter values are very similar to those obtained in earlier studies with very different bodies of data. Feldstein [8] used aggregate Internal Revenue Service data by income class for the years 1948 through 1968. With the same price and income definitions as in equations (2.4) and (2.5), the aggregate analysis implied a price elasticity of -1.17 (S.E. $= 0.09$) and an income elasticity of 0.82 (S.E. $= 0.03$). Feldstein and Clotfelter [11] analyzed household survey data collected for the Federal Reserve Board in 1953. The corresponding price and income elasticities are -1.15 (S.E. $= 0.20$) and 0.87 (S.E. $= 0.14$).

The implications of this research stand in sharp contrast to the results of an earlier and often cited study by Taussig [17]. Taussig examined a sample of 47,678 itemized individual income tax returns for 1962. He found extremely low price elasticities (absolute elasticities not greater than 0.10) and concluded that the current tax deductibility of contributions, therefore, does little to stimulate charitable giving.[13] We believe that the basic reason for this striking difference in results is that Taussig used inappropriate measures of price and income. More specifically, Taussig used the marginal rate for actual taxable income, i.e., income net of the individual's own charitable contribution. An individual who gives more to charity therefore has, ceteris paribus, a lower marginal rate and a higher price. This introduces a spurious positive association of price and giving and thus biases the elasticity with respect to price (or marginal rate) toward zero. Taussig's measure of income was also inappropriately dependent on the individual's actual contribution, i.e., income was also measured net of taxes actually paid rather than of the taxes that would have been paid with no charitable contribution. Equation 2.6 shows the results of using this inappropriate measure of price (PT) and income (YT) with our 1962 Treasury Tax File sample of married taxpayers less than 65 years old:

[13] Taussig's estimates are based on a specification like the current equation (2.1) except that the logarithm of the marginal tax rate is used instead of the logarithm of price. Re-estimating our equation with the logarithm of marginal rate instead of the logarithm of price does not alter our conclusions.

$$\ln G = -0.520 \ln PT + 1.053 \ln YT - 4.734, \quad R^2_{1962} = 0.51. \tag{2.6}$$
$$\qquad\quad (0.045) \qquad\quad (0.019) \qquad\quad (0.166)$$

The price elasticity of -0.520 is very much lower than the value of -1.274 obtained in equation (2.3) with the more appropriate measure of price. Taussig's use of incorrectly dependent price and income variables thus accounts for more than two-thirds of the difference between our estimate and Taussig's earlier result. It is not clear to us why Taussig's estimated price elasticity was actually smaller than the value we obtained in equation (2.6).[14] One possibility is a problem with Taussig's data. Taussig's sample of 47,678 itemized returns was part of the 1962 Treasury Tax File used in the current study. Unfortunately, part of the original data tape containing 22,918 returns (33 per cent of the total sample of itemizers) was missing in the computer tapes with which Taussig worked. The frequency distribution of the Taussig sample by income class and other attributes (reported in [16]) are quite different from those for the complete sample. If Taussig's observations were a random sample from the Tax File, this loss of data should not affect the expected value of the estimates. It is worth noting, however, that with this incorrect definition of price and income and results are quite sensitive to the particular sample. When equation (2.5) is re-estimated with the 1970 sample, the estimated price elasticity is actually a small but insignificant positive value: 0.025 with a standard error of 0.079. It should be remembered in contrast that equations (2.1) through (2.4) show that the 1962 and 1970 results agree quite well with each other when the correct measures of price and income are used.

3. THE EFFECTS OF CHANGES IN TAX RATES

The basic problem in estimating the impact of taxation on charitable giving is to separate the effects of price and income. Since price depends on marginal rate and marginal rate depends on taxable income, there is a correlation between price and our estimate of economic income. The relatively small standard errors of the price and income elasticities in the equations of Section 2 show that the traditional problem of collinearity is not serious in the current context. But the traditional problem of collinearity is limited to *linear* dependence. It is possible, however, that the association between price and economic income implies a more fundamental problem of nonlinear under-identification. Suppose that the true relation between giving and income is not one of constant elasticity but involves a more general functional relation. Although the logarithm of price has a low correlation with the logarithm of income, it might have a high correlation with the "correct" function of income. The attempt to estimate this correct functional specification would then lead to very imprecise estimates of the price elasticity.

We do not believe that this is a serious problem. The bivariate distribution of price and income in Table I shows that there is substantial variation of price within

[14] An attempt to reproduce Taussig's exact specification produced an elasticity of 0.24 with respect to the marginal tax rate. The implied elasticity with respect to price is $-0.24P/(1-P)$. Thus at a price of 0.6 the implied elasticity is -0.36.

TABLE I

Distribution of Charitable Giving by Price and Net Income, 1970[a]

(Each cell presents the number of returns and the average ratio of charitable giving to net income)

Price	Net Income <2,000	2,000–4,000	4,000–6,000	6,000–8,000	8,000–10,000	10,000–15,000	15,000–20,000	20,000–50,000	50,000–100,000	100,000–500,000	500,000–1,000,000	1,000,000+
0.31	—	—	—	—	—	—		—	260	2,992	33	16
									0.093	0.159	0.359	0.740
0.31–0.37	—	—	—	—	—	—		—	2,508	2,105	73	46
									0.077	0.137	0.315	0.307
0.37–0.46	—	—		—	—	—	—	1,410	5,845	2,333	42	12
								0.049	0.055	0.092	0.064	0.039
0.46–0.61	—	—		—	—	—	—	6,045	2,099	1,599	45	8
								0.039	0.053	0.057	0.026	0.013
0.61–0.72	—	—	—	—	1	4	2,476	5,334	308	313	9	7
					2810	0.039	0.031	0.033	0.061	0.038	0.016	0.013
0.72–0.75	—	—	—	—	—	1,748	3,554	769	37	55	3	1
						0.031	0.029	0.039	0.057	0.038	0.037	0.006
0.75–0.78	—	—	—	—	251	4,867	1,259	321	26	36	4	1
					0.044	0.029	0.029	0.041	0.073	0.028	0.019	0.002
0.78–0.81	—	—	61	746	1,909	2,161	253	109	20	34	2	1
			0.081	0.044	0.033	0.031	0.043	0.069	0.094	0.030	0.010	0.006
0.81–0.86	3	283	1,016	987	427	214	42	70	20	74	6	2
	0.068	0.081	0.053	0.043	0.049	0.058	0.103	0.082	0.032	0.015	0.004	0.001
0.86–1.00	111	233	222	89	54	40	15	58	37	113	18	6
	0.326	0.091	0.069	0.073	0.063	0.092	0.027	0.078	0.036	0.028	0.020	0.010

[a] Net income is AGI minus the federal tax liability with no charitable contributions. These returns are for married taxpayers less than age 65

individual income classes. Nevertheless, we have developed an alternative to the cross-section regression that permits price elasticities to be estimated without any restrictive assumption on the effect of income on giving.

The new method utilizes the fact that tax rates were substantially reduced in 1964. At each real income level, the price of charitable giving in 1970 was higher than the price in 1962. The average charitable contribution at each income level was also lower in 1970 than in 1962. A separate price elasticity could be calculated for each income class if we could be confident that no exogenous factor was responsible for any change in giving. This restrictive assumption is unnecessary if we wish to calculate a common price elasticity for all income levels. We shall allow for an exogenous "trend" factor that raises or lowers giving at all income levels by a common factor and then estimate the price elasticity in a way that involves no assumptions about the effect of income.

Table II shows the changes in the price and amount of giving between 1962 and 1970. More specifically, column 1 indicates the 1962 net income class (adjusted gross income minus tax liability with no charitable contributions) and column 2 shows the real income in 1970 corresponding to the midpoint of that class. Column 3 shows the ratio of contributions to net income for taxpayers who itemized in each income class in 1962 ($g62$) and column 4 shows the corresponding value at the 1970 income level ($g70$). The estimate for 1970 is obtained by interpolating from a list of ratios similar to column 3 that was derived with the 1970 Treasury Tax File. It is clear that in every case (except the class with incomes over $750,000 in 1962) the value of charitable gifts declined between 1962 and 1970; the ratio of $g70$ to $g62$ is presented in column 5. Columns 6 through 8 present the corresponding information about the price for cash gifts. In every case (again except the class with incomes over $750,000 in 1962) the price was higher in 1970 than in 1962.

The change in price and corresponding change in giving can, in principle, be used to calculate price elasticities for each income class on the assumption that the change in giving is due only to the change in price. That is,

$$(3.1)\qquad \left(\frac{g70}{g62}\right)_k = \left(\frac{p70}{p62}\right)_k^{\eta_k}$$

where the subscript k denotes the kth income class. The results of this calculation are shown in column 9. The price elasticities decrease rapidly until the $20,000 income level and then vary between 1.1 and 2.7.[15]

The very high elasticities in the first three income classes are associated with very small price changes. This suggests that there was a systematic exogenous fall in giving in addition to the price effect. To estimate both the price effect and the exogenous change, we replace equation (3.1) by

$$(3.2)\qquad \left(\frac{g70}{g62}\right)_k = C\cdot\left(\frac{p70}{p62}\right)_k^{\eta}\cdot\varepsilon_k$$

[15] This calculation assumes that giving is influenced by real incomes rather than relative incomes. If the calculation is repeated by comparing giving and prices at the same relative incomes, the price elasticities average 0.94 (after excluding two income classes in which the price changed less than five per cent and the resulting price elasticities were extremely large).

TABLE II

TAX CHANGES AND CHARITABLE GIVING: A COMPARISON OF 1962 AND 1970

Income ($1,000's)[a] 1962 (1)	1970 (2)	Ratio of contribution to income g62 (3)	g70 (4)	g70/g62 (5)	Price of cash gifts p62 (6)	p70 (7)	p70/p62 (8)	Arc elasticity[b] (9)	Price of gifts including assets (p50) p62 (10)	p70 (11)	p70/p62 (12)
10–12	13.6	.035	.031	.886	.750	.763	1.017	−7.180	.749	.761	1.016
12–15	16.6	.037	.032	.865	.718	.735	1.024	−6.114	.717	.733	1.022
15–20	21.6	.040	.033	.825	.654	.695	1.063	−3.149	.653	.692	1.059
20–30	30.8	.048	.041	.854	.532	.605	1.137	−1.229	.530	.600	1.132
30–40	43.2	.060	.046	.767	.434	.517	1.191	−1.518	.432	.506	1.171
40–50	55.5	.092	.064	.696	.369	.452	1.225	−1.786	.367	.440	1.199
50–60	67.8	.115	.067	.583	.303	.420	1.386	−1.653	.287	.392	1.366
60–70	80.1	.152	.075	.493	.295	.408	1.383	−2.181	.279	.380	1.362
70–80	95.6	.179	.097	.542	.275	.378	1.375	−1.923	.218	.348	1.349
80–100	114.1	.189	.118	.624	.296	.398	1.345	−1.591	.280	.370	1.321
100–150	154.1	.224	.143	.638	.318	.382	1.201	−2.454	.290	.323	1.114
150–200	215.8	.229	.162	.707	.350	.400	1.143	−2.590	.314	.323	1.029
200–350	339.1	.256	.202	.789	.370	.413	1.116	−2.159	.325	.338	1.027
350–500	524.0	.230	.195	.848	.366	.423	1.156	−1.137	.321	.349	1.087
500–750	770.6	.257	.213	.829	.418	.448	1.072	−2.697	.366	.366	1.000
750–1,000[c]	1,078.9	.284	(.300)	(1.056)	.435	(.421)	(0.968)	−1.675	.384	(.335)	0.872

[a] Income is AGI minus the federal tax liability with no charitable contributions. 1970 incomes correspond to the same real income as the midpoint of the 1962 range.
[b] Arc elasticity is estimated as $\eta = [\ln(g70/g62)]/[\ln(p70/p62)]$.
[c] Figures in parentheses are uncertain because of interpolation procedure.

where C is a constant (presumably less than 1) and ε_k is an independent random variable. After a logarithmic transformation, the estimated equation is:

$$\text{(3.3)} \qquad \ln\left(\frac{g70}{g62}\right) = \underset{(.040)}{-.083} - \underset{(0.214)}{1.540}\ln(p70/p62), \qquad \bar{R}^2 = .77;\ N = 16.$$

The price elasticity of -1.540 is very similar to the price elasticities estimated for individual cross-section data for 1962 and 1970. The constant term of -0.083 implies that there was an exogenous decrease of eight per cent from 1962 to 1970 or approximately one per cent per year.

A similar calculation can be done with the price variable measured to include the effects of appreciated asset gifts. Columns 10 through 12 compare the price based on a 50 per cent "discounted gain-to-value ratio". The estimated response to the change in this price is:

$$\text{(3.4)} \qquad \ln(g70/g62) = \underset{(0.033)}{-0.143} - \underset{(0.189)}{1.393}\ln\left[\frac{p(50)70}{p(50)62}\right], \qquad \bar{R}^2 = 0.78;\ N = 16.$$

The price elasticity of -1.39 corresponds well to the cross-section estimates of -1.28 for 1970 and -1.09 for 1962.

There is a potential problem with the data for the lower income classes. The fraction of individuals itemizing at each income level below \$20,000 decreased between 1962 and 1970. There is a danger therefore of comparing dissimilar households in these income groups. Fortunately, the estimated price elasticity is quite insensitive to the exclusion of the bottom three income groups: the estimated price elasticity changes only from -1.393 to -1.344.

These estimates give equal weight to each of the income classes. However, each observation represents a different number of individual tax returns in our sample. Fortunately, the estimates are not sensitive to weighting the observations. With each observation weighted by the number of individual returns in that class, the price elasticity rises from -1.393 to -1.575.

In short, the method of this section provides strong evidence that there is no identification problem in the cross-section estimates. The current methods literally hold income constant in relating the change in giving to the change in price. The results strongly confirm the cross-section estimates of price elasticities between -1.0 and -1.5.

4. ESTIMATING SEPARATE PRICE ELASTICITIES BY INCOME CLASS

The assumption that there is a single price elasticity for the entire population is clearly a simplification. Individuals will, of course, differ in their sensitivity to price. Using a single "average" price elasticity to describe everyone's behavior is nevertheless appropriate if these differences in price elasticity are distributed randomly in the population. But if the "average" price elasticity differs substantially among income classes, it would be appropriate to reflect these differences in simulations of alternative policies.

It is worthwhile therefore to examine whether the price elasticity does vary with income. There are several ways to do this. The simplest method is to extend the current specification by allowing an interaction term, the product of the logarithm of price and the logarithm of income. This allows the price elasticity to vary continuously with income but forces the variation to assume a smooth and monotonic form with the same relative sensitivity to income changes at all levels. The results of such a specification with the 1970 data are presented in equation (4.1):

$$\begin{aligned}(4.1)\qquad \ln G = {} & \underset{(0.475)}{5.351}\ln P + \underset{(0.031)}{0.519}\ln Y - \underset{(0.042)}{0.602}\ln Y\cdot\ln P + \underset{(0.049)}{0.307}\,MAR \\ & + \underset{(0.038)}{0.395}\,AGE + \underset{(0.306)}{0.114}, \qquad \bar{R}^2_{1970} = 0.406.\end{aligned}$$

The coefficient of the cross-product term implies that the absolute price elasticity rises substantially with income. Indeed, for incomes below \$7,455, the implied price elasticity has the wrong sign. This indicates that the attempt to fit such a smooth and monotonic relation between price and income is not appropriate. In order to fit the observations well at high income levels, the functional form is forced to be inappropriate at low levels.

A more general specification allows the price elasticity to vary among income classes and imposes no particular parametric form on the relation between income and price elasticity. There are two ways in which this can be done. A separate equation can be estimated for each income class, thus allowing not only the price elasticity but also the income elasticity and the effects of marital status and age to vary by income class. Alternatively, a single regression can be estimated with a separate price elasticity by income class but a common income elasticity and common effects of marital status and age. Both methods have been used.

Table III presents the estimated price and income elasticities in four income classes when all coefficients are allowed to vary. For incomes above \$20,000, the

TABLE III

PRICE AND INCOME ELASTICITIES BY INCOME CLASS[a]

Income class (\$1,000's)	1962 Price $P(50)$	1962 Income Y	1970 Price $P(50)$	1970 Income Y
4–20	−3.67	0.53	−0.35	0.80
	(0.45)	(0.07)	(0.52)	(0.10)
20–50	−0.97	0.61	−0.85	0.89
	(0.26)	(0.19)	(0.31)	(0.16)
50–100	−1.10	1.90	−1.12	0.87
	(0.19)	(0.20)	(0.22)	(0.20)
100+	−1.29	1.02	−1.74	1.03
	(0.04)	(0.04)	(0.08)	(0.04)
All	−1.09	0.76	−1.28	0.70
	(0.03)	(0.19)	(0.06)	(0.02)

[a] Based on separate regressions for each income class with dummy variables for marital status and age. Price is based on a discontinued gain-to-value ratio of 0.50.

results in both years are similar to the constant elasticity regressions of equations (2.4) and (2.5). There is some indication that the price elasticity increases with income but, except for the highest income class in 1970, the differences are relatively small. The results for taxpayers with incomes below \$20,000 differ substantially from the basic constant elasticity regressions. The results also differ greatly between 1962 and 1970. The estimate for 1962 is -3.67 with a standard error of 0.45. In contrast, the 1970 estimate is only -0.35 with a standard error of 0.52. Both of these estimates require further comment.

Consider first the high price elasticity for 1962. This value is not very different from the low income price elasticity estimated previously with the Federal Reserve Board survey data for 1962: -2.50 with a standard error of 0.91 [11].[16] It should be remembered also that this price elasticity reflects a response to a relatively small price differential among lower income households. The vast majority of households with incomes under \$20,000 faced a price of 0.8 or greater. Eliminating the deduction would therefore raise their price by less than 25 per cent. Even with a price elasticity of -3 this would reduce their giving by less than 50 per cent.

The estimated price elasticity for low income households in 1970 reflects the collinearity between price and income in this subsample. In higher income groups there are some taxpayers with low marginal rates and other taxpayers with high marginal rates. But among low income taxpayers there are no high marginal rates. The large standard error of the price elasticity indicates that these data are just not sufficiently rich to provide accurate information on both price and income elasticities. However, by restricting the income elasticity and the effects of marital status and age to be the same at all income levels it is possible to obtain more precise estimates of the price elasticity. In effect, this procedure avoids the collinearity problem by using information about the effect of income at all levels in the estimation of the effect of price at each level. Equation 4.2 presents the estimated equation for 1970 with five separate price elasticities:

$$
\begin{aligned}
\ln G = {} & \underset{(0.418)}{-2.264} \ln P(50) < 10 - \underset{(0.235)}{1.818} \ln P(50)10/20 \\
& - \underset{(0.135)}{1.469} \ln P(50)20/50 - \underset{(0.085)}{1.168} \ln P(50)50/100 \\
& - \underset{(0.061)}{1.267} \ln P(50) > 100 + \underset{(0.031)}{0.782} \ln Y \\
& + \underset{(0.050)}{0.365}\, MAR + \underset{(0.039)}{0.403}\, AGE - \underset{(0.324)}{2.843}, \qquad \bar{R}^2_{1970} = 0.403,
\end{aligned}
\tag{4.2}
$$

where $P(50) < 10$ is equal to $P(50)$ if the taxpayers' income is less than \$10,000 but equal to 0 otherwise, $P(50)10/20$ is equal to $P(50)$ if the taxpayers' income is between \$10,000 and \$20,000 but equal to 0 otherwise, etc. The implied price

[16] Some new evidence based on a special survey conducted by the Survey Research Center of the University of Michigan provides further support for relatively high price elasticities for low income households. The alternative price elasticities based on different estimating methods for households with incomes under \$30,000 in 1973 center between -2.0 and -3.0. See Boskin and Feldstein [7].

elasticity in the lowest income class is now -2.26 with a standard error of 0.42 and thus rather similar to the corresponding price elasticity with other bodies of data. The other price elasticities at income below $50,000 are also slightly higher than the constant price elasticity of equation 2.4 while the price elasticity between $50,000 and $100,000 is very slightly lower.

These attempts to estimate separate price elasticities for individual income classes indicate the difficulty of obtaining such information. The disaggregated results are generally much less accurate than the overall price elasticity. The low income itemizers are an unrepresentative sample of low income households. Nevertheless, the current estimates and the previous evidence on this question do present a reasonably consistent and clear picture. First, there is evidence in all the sources of data that the price elasticity exceeds one for incomes over $20,000. There is some indication that the elasticity may increase at the highest income level. Any estimate less than one has a large enough standard error to preclude excluding the possibility that the elasticity exceeds one. Second, although the estimates for taxpayers with incomes below $20,000 are more uncertain, the evidence generally supports the previous finding of a higher absolute price elasticity that is probably in the range of -2 to -3.

5. SIMULATED EFFECTS OF ALTERNATIVE TAX CHANGES

This section uses the basic parameter estimates for 1970 (equation (2.4)) to calculate the effects of alternative changes in the income tax treatment of charitable contributions. The simulations show, for each income class, the change in the average gift, the change in the average income tax, and the change in net disposable income after both taxes and contributions. The effect on aggregate giving and on gifts to particular types of donees will also be presented. All of the estimates are for 1970 and use the 1970 Treasury Tax File.[17]

Any change in the income tax law will alter the price of charitable contributions that a taxpayer faces. Let P_i be the current price faced by individual i and P_i' be the price after a proposed change in the tax law. Similarly, let G_i be the current charitable contribution of that individual and G_i' the contribution after the change in the tax law. Consider first how the calculation of the effect of a tax change would be done if all households filed itemized returns. For a change in the tax law that alters only price and not income[18] or the demographic dummy variables, it follows that the predicted change in the individual's contribution is:

$$\ln G_i' - \ln G_i = -1.285(\ln P_i' - \ln P_i). \tag{5.1}$$

[17] The use of equation (2.4) with its constant price elasticity represents a possibly restrictive simplification. The previous section suggests that this may understate the relative effects of tax changes in the highest and lowest income groups. An actual policy analysis should also consider alternative simulations with varying price elasticities.

[18] These calculations assume that the government does not change tax rates to offset any change in total revenue resulting from the change in the tax treatment of contributions. Allowing for such a compensating change would have relatively little effect on charitable giving since the average propensity to spend on charitable giving is only about three per cent.

Since the current actual giving is known for individual i, equation (5.1) can be used to calculate the expected giving under the alternative tax system. If the tax change alters income as well,[19] the change in giving is the following:

$$\ln G_i' - \ln G_i = -1.285(\ln P_i' - \ln P_i) + 0.702(\ln Y_i' - \ln Y_i). \tag{5.2}$$

To extend the calculation to taxpayers who do not itemize, it is necessary to estimate the amounts of the contributions that are currently made by these individuals. Let $\hat{G}_i$ be the estimated gift in 1970 by individual i who used the standard deduction. Similarly, let $\hat{G}_i'$ be the gift that the individual would make under the alternative tax treatment of charitable contributions. Since $\hat{G}_i$ is unknown, the value of $\hat{G}_i'$ cannot be estimated from the expected *change* in giving as it was on the basis of equation (5.1) for taxpayers who itemize. Instead, we now estimate $\hat{G}_i$ and $\hat{G}_i'$ separately on the assumption that the only relevant difference between itemizers and non-itemizers with the same income is the different price that they currently face.[20]

Because the estimated equations for itemizing taxpayers do not explain their giving perfectly, there is a residual difference between actual giving and the giving predicted on the basis of equation (2.1). Each residual reflects the use of a loglinear approximation and the omission of variables other than income, price, and the two demographic effects. These residual differences are automatically taken into account for itemizing taxpayers by the method of equation (5.1). For the non-itemizing taxpayers, an estimate of the residual is calculated by averaging the residuals of all itemized returns in that individual's income class; for this purpose, nine income classes are used. With u_i estimated in this way, the calculated value of giving by non-itemizer i is simply the value predicted by equation (2.1) with the appropriate values of P_i and Y_i plus the estimated residual u_i.

The Treasury Tax File provides a weight for each individual return. The estimates for each individual can therefore be aggregated to yield totals for each income class and for all households that file returns.

The data for estimating the effect on individual donees are much less adequate than the data that are available for estimating the effect on all types of donees together. Every second year the Internal Revenue Service publishes the value of itemized charitable contributions in 17 adjusted gross income classes. For 1962 only, the published report divided these contributions into five major types of charities: (i) religious organizations, (ii) educational institutions, (iii) hospitals, (iv) health and social welfare organizations (including United Funds, the Red Cross, and specific disease associations), and (v) a residual group including libraries, museums, zoos, musical organizations, and literary, educational, and scientific foundations. This is the only source of data on the distribution among different types of charities of the contributions of middle and high income households. Feldstein [9] used these data to estimate separate price and income elasticities for

[19] This is true for such proposals as the minimum tax that affect not only the tax treatment of charity.

[20] Feldstein and Clotfelter [11], using survey data on giving by itemizers and non-itemizers, show that there is little difference between the income and price elasticities estimated for itemizers only and for the whole sample and that a variety of other economic and demographic factors have no effect on giving when income and price are taken into account. This is confirmed by Boskin and Feldstein [7],

giving to the five different types of donees. That analysis showed that gifts to religious organizations and to health and welfare organizations have lower price and income elasticities than gifts to the other types of charities. This was confirmed by estimates using three different specifications. The current simulations use the quite conservative assumption that the price elasticity is actually the same for all of the donees and that only the income elasticities differ.[21] This tends to reduce the sensitivity of gifts to educational institutions and hospitals relative to the sensitivity of gifts to religious and health welfare organizations. Since the educational institutions and hospitals are still much more sensitive than other types of donees, this type of conservative assumption is probably warranted by the general inadequacy of the data on giving to individual types of donees.

Consider first the implications of completely eliminating the deduction without substituting any other provision that encourages charitable giving. The simulation indicates that this would reduce total giving in 1970 from $17.3 billion[22] to $12.8 billion, a decrease of 26 per cent. Eliminating the deduction also increases total tax revenue by $3.5 billion. This implies that the current deductibility induces $1.29 of additional charitable giving per dollar of revenue lost.

Table IV shows that the reduction in contributions differs substantially among the five major types of donees. Religious giving falls least, only 22 per cent. This reflects the concentration of religious giving in the lower income households for whom the price change implied by eliminating the deduction would be least. In contrast, gifts to educational institutions and hospitals would fall nearly 50 per cent. Community health and welfare organizations are more similar to religious organizations while the residual category contains museums, orchestras, zoos, and other charities favored by higher income donors.

Table V presents detailed results of the effects by income classes.[23] The average contribution in 1970 is given for broad income classes in column 3 and the corresponding prediction if the deduction were eliminated appears in column 4. The ratios of predicted contributions to actual contributions that are presented in column 5 show that the relative reduction in giving is much greater among high income classes than in lower income classes. While taxpayers with adjusted gross incomes between $10,000 and $15,000 would reduce their gifts by 22 per cent (from an average of $290 to $225), a reduction of 75 per cent is predicted for taxpayers in the $100,000 to $500,000 class (from $9,184 to $2,246).

Eliminating the charitable deduction would raise the average taxes paid in every income class but the increase would be greatest at the higher income levels.

[21] The actual technique is to assume that each individual's total gift is divided among donees in proportions that depend on his income class but not on the specific provisions of the tax law.

[22] In 1970 total giving on itemized returns was $13.0 billion. The remaining $4.3 billion is our estimate of the total giving by taxpayers who filed non-itemized returns (i.e., who used the standard deduction). This amount is estimated for each non-itemized return and aggregated with the appropriate weights. Note that this procedure omits a small amount of giving by those households with income so low that they are not required to file returns. Our re-estimate is nevertheless higher than the estimate of individual giving that is produced by the American Association of Fund Raising Counsel [2] using methods that we believe are much less accurate.

[23] A similar table based on aggregate data was published in Feldstein [8]. In comparing the tables it should be borne in mind that the current estimates are for all taxpayers while the previous table referred only to taxpayers who filed itemized returns.

TABLE IV

EFFECTS OF ELIMINATING THE CHARITABLE DEDUCTION

	Contributions in 1970 (in millions of dollars) Actual	Predicted with no deduction	Percentage change
Religious organizations	10,441	8,158	−22
Educational institutions	679	355	−48
Hospitals	289	156	−46
Health and welfare organizations	2,499	1,819	−27
All others	3,417	2,281	−33
Total giving	17,324	12,770	−26

TABLE V

DISTRIBUTIONAL EFFECTS OF ELIMINATING THE CHARITABLE DEDUCTION, 1970

AGI class ($1,000's) (1)	Number of itemized returns (1,000's) (2)	Average charitable contributions G_i (3)	G'_i (4)	G'_i/G_i (5)	Tax ratio (6)	Net disposable income ratio (7)
0–5	28,350,064	90	86	0.949	1.029	1.000
5–10	21,540,224	207	175	0.844	1.033	1.001
10–15	13,686,661	290	225	0.778	1.034	1.001
15–20	5,532,010	392	277	0.707	1.037	1.002
20–50	3,568,912	690	408	0.591	1.045	1.003
50–100	353,158	2,022	756	0.374	1.053	1.006
100–500	74,631	9,184	2,246	0.245	1.090	1.017
500–1,000	1,795	72,038	12,646	0.176	1.148	1.048
1,000 +	655	257,678	54,912	0.213	1.135	1.099
Average		237	175	0.737	1.042	1.002

TABLE VI

EFFECTS OF ALTERNATIVE TAX TREATMENTS OF CHARITABLE GIVING

(Billions of 1970 Dollars)[a]

No.	Proposal	Change in Total gifts	Change in Tax payments	Percentage change Total gifts	Percentage change Gifts to educational institutions
1.	Eliminate deduction	−4.555	+3.521	−26	−48
2.	25 per cent tax credit	+0.685	−0.725	+4	−24
3.	30 per cent tax credit	+2.304	−2.060	+13	−17
4.	Floor on deduction: 3 per cent of AGI	−3.515	+2.727	−20	−36
5.	Constructive realization of gifts	−0.458	+0.287	−3	−8
6.	Limit maximum charitable deduction to taxes paid	−0.073	+0.046	−0.5	−2
7.	30 per cent optional credit, all returns	+3.448	−2.957	+20	+8
8.	30 per cent optional credit, itemizers only	+1.532	−1.308	+9	+4
9.	Extend the deduction to non-itemizers	+1.241	−0.993	+7	+3
10.	Increase standard deduction (min. $1,500, max. $2,500)	−0.975	−8.259	−6	−3

[a] All price elasticities based on appreciated asset gifts valued at "discounted gain-to-value ratio". Total gifts: $17.3 billion. Educational gifts: $679 million.

Column 6 shows the ratios of the tax payments if the deductions were eliminated to the actual tax payments in 1970. Although taxes rise by only 3.4 per cent in the $10,000 to $15,000 class, taxes rise by 14.8 per cent in the class of taxpayers with incomes of $500,000 to $1,000,000.

The distributional effect of eliminating the deduction is quite different if we focus on the change in net disposable income rather than the change in tax payments. Net disposable income available for personal consumption or saving is defined as adjusted gross income minus both the taxes actually paid and the charitable contributions. Because charitable contributions fall sharply in the higher income groups when the deduction is eliminated, their predicted consumptions and savings increase despite the greater taxes that they pay. Column 7 presents the ratio of predicted net disposable income to actual 1970 net disposable income. Net disposable income rises at every income level, with the increase ranging from less than 0.3 per cent for incomes under $50,000 to more than five per cent over $500,000.

Most of those who have suggested eliminating the charitable deduction have proposed that some alternative be introduced to encourage charitable giving. Table VI summarizes the effects that several different common proposals would have on total charitable giving, total taxes paid, and on charitable gifts to educational institutions. Perhaps the most common proposal has been to replace the deduction with a tax credit. While the deduction makes each individual's price depend on his own marginal tax rate, the tax credit would make every taxpayer face the same price.[24] Proposal number 2 of Table VI shows the predicted results of replacing the current deduction with a uniform tax credit of 25 per cent. With this rate of credit, total giving and the total tax collections of the Treasury remain approximately at their current levels: giving increases by $0.69 billion while taxes fall by $0.73 billion. Although the aggregates are essentially unchanged, the impacts on particular donees and particular individuals differ substantially. Gifts to religious organizations actually increase by about 9.8 per cent while gifts to educational institutions fall by 24 per cent. The net disposable income of individuals with incomes between $10,000 and $15,000 would remain almost unchanged while individuals with incomes above $500,000 would increase their net disposable incomes by 6.4 per cent. Proposal 3 shows that even a 30 per cent tax credit, which would cost the Treasury an additional $2 billion in forgone revenues, would still leave educational institutions with a 17 per cent reduction in gifts.

Another common proposal is to continue the current deduction but to limit it to contributions in excess of some percentage of income. Proposal 4 shows the effect of a three per cent of adjusted gross income floor. Total giving would fall by 20 per cent and gifts to educational institutions would fall by 36 per cent. This probably overstates the effect because it assumes that individuals do not accumulate the contributions for several years in order to take advantage of the deduction.

[24] A tax credit is equivalent to a matching grant except that the tax credit in these simulations is limited to the individual's tax liability, i.e., the tax credit is nonrefundable. A refundable credit is exactly equivalent to a matching grant. In practice, the difference would be small because of the relatively small aggregate giving by individuals who do not currently file taxable returns.

The frequent comparison of this floor to the current medical expense floor is inappropriate because of the much greater ease with which charitable gifts can be postponed and "bunched" to obtain the deduction.

Several critics of the current tax treatment of charitable gifts have proposed changing the treatment of gifts of appreciated property by treating such gifts as realization for tax purposes. This would eliminate the desirability of donating property and would substantially increase the effective price for high income donors. Proposal 5 shows that this change would have a relatively small total effect but would reduce gifts to educational institutions by eight per cent. Moreover, the net disposable income would rise for high income taxpayers. For individuals with incomes over $500,000, the simulation shows that net disposable income would rise by two per cent if the constructive realization of property gifts were instituted.

Much of the public and political criticism of the current tax treatment of charitable gifts occurs because some high income individuals make substantial charitable gifts but pay no income taxes. Although the current rules that limit charitable giving to no more than 50 per cent of adjusted gross income were intended to prevent such avoidance of tax, individuals with sufficient non-charitable deductions are still able to pay no tax while making substantial deductible gifts. There is a simple way to eliminate this problem by changing the nature of the contribution limit to a limit in relation to tax paid instead of the current limit in relation to adjusted gross income. For example, each individual's charitable deduction might be limited to no more than the amount of tax that he actually pays in that year. Proposal 6 shows that this would have very little effect on total giving (a reduction of 0.5 per cent) or on gifts to educational institutions (a reduction of 2 per cent).

Not all proposals to change the tax treatment of charitable gifts would reduce giving. Some have proposed to increase the incentive to lower income households while maintaining the current deduction for higher income households. One way to do this is by an optional credit, leaving individuals the opportunity to use either the deduction or a credit of, say, 30 per cent. Proposal 7 shows that such an option would cost an additional $3 billion of forgone revenue but would increase total giving by 20 per cent and educational gifts by 8 per cent. If the optional credit were limited to itemizers only (on the grounds that non-itemizers are implicitly given a tax reduction for charitable gifts in the standard deduction), the cost to the government would fall to only $1.3 billion while gifts would increase by only 9 per cent (see Proposal 8). A quite different type of stimulus would be achieved by extending the opportunity for charitable deductions to those who do not itemize other deductions (Proposal 9). This would cost approximately $1 billion in lost taxes and would stimulate giving by 7 per cent, primarily to religious organizations. Some change of this type may be regarded as important to offset the effect on giving that would otherwise result from the currently proposed increase in the standard deduction. Proposal 10 shows that increasing the minimum standard deduction to $1,500 and the maximum standard deduction to $2,500 would, in 1970, have decreased total giving by some 6 per cent.

6. CONCLUSION

This paper has presented a detailed analysis of the sensitivity of charitable giving to alternative tax treatments. Three different sets of estimates were developed: cross-section estimates for the 1962 and 1970 Treasury Tax Files and estimates based on the change in tax rates at each income level between these two years. All three sets of estimates agree in placing the key price elasticity between -1.0 and -1.5. This value implies that the current deductibility of charitable gifts is a very efficient incentive, yielding more in additional gifts than the Treasury forgoes in potential additional revenue.

The price and income elasticities estimated in the current study are also very similar to the values obtained in Feldstein [8] and Feldstein and Clotfelter [11] with very different types of data. Feldstein [8] used total contributions on itemized returns as reported by the Internal Revenue Service for each adjusted gross income class in even years from 1948 through 1968. The basic estimate of the price elasticity with that data was -1.17. The analysis of Feldstein and Clotfelter used a large survey of individual households with a sample that was heavily weighted toward high income households. With that data the key price elasticity was -1.15. In short, there is very strong evidence from a variety of sources for the current conclusion about the relatively high price elasticity of charitable giving.

Legal discussions of the appropriate tax treatment of charitable gifts have stressed the abstract logic of a consistent definition of taxable income (Andrews [3], Bittker [6], and Surrey [15]). In contrast, we have emphasized the empirical effects of alternative policies on both donees and donors. We believe that the effect of alternative tax treatments on the volume and distribution of gifts among donees and on the distribution of tax liabilities and of net disposable income among taxpayers are the crucial aspects for evaluating these proposals. We hope that the evidence presented in this study will provide a useful foundation for future policy discussions.[25]

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NOTES

EFFECTS OF THE CHARITABLE DEDUCTION ON CONTRIBUTIONS BY LOW INCOME AND MIDDLE INCOME HOUSEHOLDS: EVIDENCE FROM THE NATIONAL SURVEY OF PHILANTHROPY

Michael J. Boskin and Martin Feldstein*

Economists and tax lawyers have long debated the efficacy and propriety of the income tax deduction for charitable contributions.[1] The effect of the deduction is to lower the individual's net cost of giving if he itemizes his deductions. More specifically, the net cost to the donor per dollar received by the charitable donee is equal to one minus the individual's marginal tax rate.[2] If the elasticity of total giving with respect to this price (or net cost) is absolutely greater than one, the charitable deduction causes donees to receive more in additional gifts than the Treasury forgoes in revenue. Alternatively, if the price elasticity is absolutely less than one, the deduction is less than fully efficient in this sense.

In a series of recent papers, Feldstein and his collaborators (1975a; 1975b; Feldstein and Clotfelter, 1976; Feldstein and Taylor, 1976) obtained estimates of the price elasticity that cluster around −1.2 from a variety of different data sources. All but one of these studies (Feldstein and Clotfelter, 1976) are based on the gifts of only those taxpayers who itemize their deductions. Since substantially more than half of the households either do not itemize deductions or do not file any tax return, the estimated price elasticities have been obtained primarily from the top half of the income distribution. While this part of the population accounts for a disproportionate share of charitable contributions, extrapolation to the entire population may not be warranted. A variety of policy proposals that are currently being considered, e.g., a tax credit for all taxpayers for charitable gifts or extension of the charitable deduction to non-itemizers, would alter the price of giving for households that do not now itemize. An accurate estimate of the price elasticity for this income group is required to predict the effects of such policies. The results presented in the current paper indicate that *households with income under $30,000 are very sensitive to tax-induced variations in the cost of giving*; *the estimated price elasticities generally exceed two.*

I. The Data

The data for this study were collected by the 1974 National Study of Philanthropy, a special household survey conducted by the Survey Research Center of the University of Michigan (Morgan et al., 1975). Because our focus is on the behavior of low and middle income households, data for households with incomes over $30,000 were deleted. We have also deleted all households that reported incomes below $1,000. The key variables used in the analysis will now be described.

Charitable Contributions: The dependent variable of our study is the household's gifts to charity in 1973 in the form of both cash and property. Because we will estimate a loglinear equation to obtain constant price and income elasticities, the small fraction of households that report no contribution poses a problem. We believe that most of those who report no giving actually did give a small amount which has since been forgotten or was regarded as too small to mention. Three alternative modifications of the reported giving have therefore been examined. First, we assigned a gift of $1 to all those who reported no giving; if reported giving is denoted G, this estimate is $G1 = G$ if $G > 0$ and $G1 = 1$ if $G = 0$. The second alternative assigns $10 instead: $G10 = G$ if $G > 0$ and $G10 = 10$ if $G = 0$. Finally, we try adding $10 to everyone's reported giving; this variable is denoted $G + 10$. We also estimated equations using a regression specification that directly accounts for the non-negativity and

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[1] See, e.g., Aaron (1972), Andrews (1972), Bittker (1972), Kahn (1960), McDaniel (1972), Surrey (1972), Taussig (1967), and Vickrey (1962).

[2] This refers to gifts of cash or of depreciated property. Gifts of appreciated property have a lower net cost because no tax is paid on the appreciation.

piling up at zero of charitable contributions. The results of this procedure (which are available upon request) are quite similar to our basic results.

Price: For households that itemize their deductions, the price of a $1 charitable gift is $1 - m$, where m is the household's marginal tax rate. For those households that do not itemize, the price is simply 1. Because charitable deductions are almost always a small part of a taxpayer's itemized deduction, we assume that the decision to itemize is exogenous.[3] Two different definitions of the marginal tax rate have been studied. $P1$ was the estimated marginal tax rate that the individual would face if he made no charitable gift, i.e., $P1$ is the price for the first dollar of charitable giving. Alternatively, $P2$ uses the estimated marginal tax rate that the individual would face if he made the average charitable contribution in his income class. Both measures assure that the individual's price measure is exogenous, i.e., not a function of his own amount of charitable giving.

The relevant marginal rate was estimated for each taxpayer on the basis of his reported total income, the number of his dependents, marital status, and either the relevant standard deduction for nonitemizers or an estimate of the amount of noncharitable deductions based on Internal Revenue Service averages for homeowners and others by income class (U.S. Treasury, 1974).

Income: The survey collected information on the respondent's income bracket but not his exact income; we have used the midpoint of each narrow bracket to measure gross income.[4] The net income variable, Y, is defined as gross income minus the federal income tax liability that would have been paid had no charitable contribution been made.[5]

Age: The fraction of income contributed to charity increases with age. The current study therefore includes three age dummy variables to measure proportional shifts in giving: $A3554 = 1$ if the head of the family is aged between 35 and 54 and equal to zero otherwise, $A5564 = 1$ if the head is 55 to 64, and $A65+ = 1$ if the head is over 64. The omitted category is households with heads under age 35. Separate estimates were also made with the sample limited to households containing a married couple with the head between the ages of 35 and 54. This should eliminate the special problems of transitory income associated with young households, the aged, widows, etc.

II. The Basic Results

Equation (1) presents the basic estimate of the price and income elasticities for the sample of households with incomes between $1,000 and $30,000:

$$
\begin{aligned}
\ln(G+10) = & -\underset{(0.28)}{2.54} \ln P1 + \underset{(0.06)}{0.69} \ln Y \\
& + \underset{(0.07)}{0.46}\, AGE\,3554 + \underset{(0.09)}{0.75}\, AGE\,5564 \\
& + \underset{(0.09)}{0.86}\, AGE\,65+ - \underset{(0.49)}{2.17} \qquad (1) \\
& N = 1621, \quad R^2 = 0.30, \quad SSR = 2125.75.
\end{aligned}
$$

Note first that the estimated price elasticity (−2.54) is very large and significantly greater numerically than 1. The elasticities and age effects are all estimated quite precisely.

The estimated price elasticity is quite consistent with the much less precise results obtained for low and middle income groups in the previous studies (Feldstein and Clotfelter, 1976, and Feldstein and Taylor, 1976).[6] The estimated price elasticity for low and middle income households in thus substantially larger than the corresponding elasticity for higher income groups. The previous studies for the entire population found overall price elasticities that clustered around −1.2 (Feldstein, 1975a, Feldstein and Clotfelter, 1976, and Feldstein and Taylor, 1976).

The estimated price elasticity of −2.54 implies

[3] No adjustment is made for the special tax treatment of appreciated property since such gifts are very unimportant in the income range that we are concerned with in this paper. In 1970, the last year for which data are currently available, only 4% of charitable gifts were not in the form of cash for taxpayers with incomes below $30,000.

[4] The bracket intervals correspond to units of 1-2, 2-4, 4-8, 8-10, 10-15, 15-20 and 20-30 thousand dollars.

[5] Feldstein and Taylor (1976) show that collinearity between price and income need not be a serious problem; the inclusion of both nonitemizers and itemizers in the current study further reduces the correlation. The survey collected some data on wealth but did not obtain any information on debts or the value of pension rights; we have therefore not explored the implications of wealth here. Feldstein and Clotfelter (1976) found that higher net worth did increase charitable giving (for fixed levels of income and price) but that the inclusion of a net worth variable did not alter the estimated price elasticity.

[6] For these studies the data, income classes, and estimated price elasticities are as follows: 1962 Federal Reserve Board Survey, $1,721-$8,000, −2.50 (S.E. 0.91); 1962 Treasury Tax File, $4,000-$20,000, −3.67 (S.E. 0.45); 1970 Treasury Tax File, $4,000-$20,000, −0.35 (S.E. 0.52). Feldstein and Taylor (1976, section 4) explain that the data for 1970 itemized tax returns contain too little independent variation in price and income to permit estimation of separate price and income elasticities for this group. Using a single equation for all 1970 Tax File observations but allowing separate price elasticities by income class indicates a price elasticity of −2.10 (S.E. 0.40) for $4,000-$10,000 and −1.59 (S.E. 0.23) for $10,000-$20,000.

that contributions are very sensitive to their tax treatment. The current deductibility of contributions substantially increases the total value of gifts by these lower and middle income households. For each dollar of revenue that the Treasury forgoes because of the charitable deduction, donees receive an additional \$2.54.

As we noted above, several alternative adjustments were made to deal with households that reported no gift to charity. Replacing these zero reports by \$10 (instead of adding \$10 to *all* reported gifts) slightly increases the estimated price elasticity to −2.65 (S.E. 0.28). Since the logarithmic transformation becomes quite steep as we approach zero, the adjustment that adds only \$1 to the 0 reported by some households yields a high price elasticity that may overstate the difference in giving for small price differences: −2.99 (S.E. 0.39).

The age coefficients of equation (1) confirm the importance of age as a separate determinant of giving. For example, the basic estimates of equation (1) imply that those aged 35 to 54 give 58% more than those less than 35, that those 55 to 64 give 34% more than those age 35 to 54, and that those over 64 give 49% more than those aged 35 to 54. To show that this effect is basically a proportional shift and does not involve a changing price elasticity, we present a reestimate of equation (1) with the sample limited to households headed by a male between the ages of 35 and 54; the price elasticity is −2.76 (S.E. 0.53).

Finally, we can report that the substitution of $P2$ (the price based on average gift) for $P1$ (the price based on the first dollar of giving) has essentially no effect on the estimated parameters. The price elasticity is −2.51 (S.E. 0.36).

All of our basic results thus indicate that the price elasticity of charitable giving is numerically somewhat larger than −2 for those households with incomes between \$1,000 and \$30,000. We turn next to the question of whether the price elasticity varies within this income range. When equation (1) is reestimated for households with incomes between \$1,000 and \$20,000, the price elasticity is −2.36 (S.E. 0.31) and the income elasticity is 0.69 (S.E. 0.06). More refined tests indicate no difference in price elasticity between those with incomes below \$10,000 and those with incomes between \$10,000 and \$20,000. Since the current tax law lowers the price of giving to charity only for those who itemize their deductions and since a substantial percentage of low income and middle income households use the standard deduction instead of itemizing, the question arises as to whether the difference in charitable contributions across households which we attribute to price really reflects an effect of itemization itself. To this we now turn.

III. Is There an Itemization Effect?

To test for the presence of a pure "itemization effect" in addition to a price effect, we consider two alternate approaches. First, we use the sample of non-itemizers, all of whom face a price of 1, to estimate the income elasticity of charitable giving. This estimate is clearly not "contaminated" by either collinearity or any possible itemization effect. This income elasticity is then used as "prior information" which is imposed as a constraint on the itemizers in the sample to estimate the price elasticity. Since this price elasticity is based on data for itemizers only, there is again no itemization component in the estimated price elasticity.

Equation (2) shows that the income elasticity for non-itemizers is 0.63:

$$\begin{aligned}\ln(G+10) = {} & \underset{(0.06)}{0.63}\ \ln Y + \underset{(0.11)}{0.31}\ AGE3554 \\ & + \underset{(0.13)}{0.86}\ AGE5564 \\ & + \underset{(0.12)}{0.71}\ AGE65+ - \underset{(0.66)}{1.60} \qquad (2)\end{aligned}$$

(non-itemizers only) $N = 724$, $R^2 = 0.16$, SSR = 890.19.

Using this as an extraneous estimate of the income elasticity for the itemizers, we find a price elasticity of −2.3:

$$\begin{aligned}\ln(G+10) - 0.63\ln Y = {} & \underset{(0.60)}{2.32}\ \ln P1 \\ & + \underset{(0.09)}{0.55}\ AGE3554 \\ & + \underset{(0.12)}{0.67}\ AGE5564 \\ & + \underset{(0.16)}{1.07}\ AGE65+ - \underset{(0.16)}{1.54} \qquad (3)\end{aligned}$$

(itemizers only) $N = 897$, $R^2 = 0.08$, SSR = 1221.58.

Similarly, imposing this income elasticity on the full sample yields a price elasticity of −2.7. The estimated price elasticity therefore reflects a genuine price effect and not the effect of itemization per se.

A more direct test of the itemization effect is obtained by estimating separate constant terms for itemizers and non-itemizers. Any itemization effect would show up in different constant terms. This is formally equivalent to estimating two separate equations for the two groups subject to the constraint that the income elasticity and proportional age effects are the same for the two groups. For our basic specification, this yields the equation (4) where item = 1 for itemizers (and 0 otherwise) and non-item = 1 for non-itemizers (and 0 otherwise).

$$\ln(G+10) = \underset{(0.50)}{-2.14}\text{ item} - \underset{(0.52)}{2.44}\text{ non-item} - \underset{(0.64)}{1.38}\ln P1 + \underset{(0.06)}{0.72}\ln Y + \underset{(0.07)}{0.45}\,AGE\,3554 + \underset{(0.09)}{0.75}\,AGE\,5564 + \underset{(0.09)}{0.86}\,AGE\,65+ \quad (4)$$

$N = 1621$, $R^2 = 0.30$, SSR = 2120.95.

The two constant terms are similar in magnitude and not significantly different. Comparing equation (4) with equation (1), we may use the sum of squared residuals from each to construct an F-statistic to test the hypothesis that the coefficients of the itemizer and non-itemizer dummy variables are equal. This yields an $F(1, 1617) = 3.58$; the difference between the constants is insignificant. In any case, the difference between -2.14 and -2.44 is so small that the estimates clearly imply no economically significant effect of itemization.

IV. Conclusion

We have examined a new and rich body of data on philanthropic activity by households with incomes below $30,000. Using a variety of estimating equations and subsamples of the population, we find that in each case charitable contributions are quite price elastic throughout this range of income. Almost all of the evidence indicates a price elasticity that is absolutely greater than 2.

Our experience in discussing this work has taught us that some economists are at first surprised and skeptical about the high price elasticity because it seems "contrary to intuition and common observation." We do not agree with this view. Among families with adjusted gross incomes between $10,000 and $15,000 who itemize their deductions, the average price of giving is about 0.80 and the average annual giving is about $300. Eliminating the deduction would raise the price to 1, an increase of 25%. Would eliminating the deduction reduce average giving in this group by $100? If so, the elasticity is approximately -2. We doubt that intuition and common observation are capable of answering this question. We therefore do not find that the statistical estimates are in conflict with our informal judgment about the behavior of individuals in this group.

This discussion does imply an important caution in interpreting high price elasticities for low income families. An elasticity of -2 may not be appropriate for very large decreases in price faced by this group. For example, a 50% credit would lower the price from 0.80 to 0.50, a reduction of 37%. A price elasticity of -2 would imply an increase in giving from $300 to $768, i.e., from a net cost of $240 to a net cost of $384. While this cannot be excluded as impossible, it may be larger than is likely. It is not possible to learn how the elasticity might change outside the range of current and past experience for this group.

Fortunately, however, the current estimates are appropriate for the analysis of the policies that are more likely. The extension of the charitable deduction to non-itemizers, or the availability of an optional credit at 25% or 30%, are well within the range of experience that we have studied. The current estimates therefore have important policy implications: Tax incentives to encourage giving by low and middle income households would induce a substantial increase in the flow of funds to charitable organizations.

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The Income Tax and Charitable Giving

(Martin Feldstein*)

Thank you, Mr. Chairman. I am very pleased to have this opportunity to testify about the impact of income tax rules on charitable giving and about the potential impact of the Fisher-Conable and Moynihan-Packwood bills.

As the other witnesses have made very clear, a great many issues must be considered in shaping the policies that affect the role played by nonprofit institutions in our society. Even the more limited problem of the proper tax treatment of charitable giving raises a number of legal and philosophical questions. My remarks this morning will focus on the much narrower subject of the impact that changes in tax rules would have on the amount of charitable giving and on the Treasury's tax receipts.

As an economist, I have been interested more generally in the many ways in which our tax rules affect the behavior of individuals and firms. One of the subjects that I have studied in considerable detail is the effect of tax rules on charitable giving. More recently, a group of us at the National Bureau of Economic Research have been developing a computerized model that can be used to calculate the impact of tax rule changes on total tax revenue and on such economic magnitudes as the volume of charitable giving and the supply of working hours. This computerized model, like the one used by the Treasury and by the staff of the Joint Committee, bases its calculations on the large sample of individual tax returns that is provided for this purpose by the Internal Revenue Service. But unlike the Treasury and Joint Staff computer models, the NBER TAXSIM model is specifically designed to take into account the response of taxpayer behavior to changes in tax rules. The development of this behavioral response model, which I should note is being financed primarily by a grant from the National Science Foundation, is still at a relatively early stage. We are therefore very pleased to have been asked by Congressmen Fisher and Conable to use the tax model to calculate the effect that their proposal would have on charitable giving and on tax rates.[1]

THE BASIC ECONOMIC QUESTION

Before discussing these calculations, it will be useful to begin by reviewing briefly the statistical evidence on which the calculations are based.

The deductibility of charitable contributions by individuals who itemize their deductions has two effects. First, it obviously reduces their taxable income and thereby reduces their tax liability. Second, it reduces the "price" of charitable giving and thereby increases their incentive to give to charity. Let me clarify this second effect. Someone who does not itemize his deductions gives up one dollar for every dollar that the charitable organization receives. In contrast, an itemizer with a 30 percent marginal tax rate gives up only 70 cents for every dollar that the charitable organization receives. For such an individual, the deductibility of charitable gifts lowers the "price" of giving from one hundred cents per dollar received by the charity to only 70 cents. This reduction in price encourages individuals to give more than they would if gifts were not deductible. (Let me emphasize that I am not saying that people make charitable gifts only because they are tax deductible. I am only saying that deductibility causes them to give more than they otherwise would.)

The basic economic question is the relation between the lost tax revenue that results from the deductibility of charitable gifts and the extra charitable giving that is induced. More specifically, how much does charitable giving increase per dollar of tax revenue foregone?

The answer to this question depends on the sensitivity of individual giving decisions to the price per dollar of charitable gift. Economists use the term "price elasticity" to measure this sensitivity. The price elasticity of charitable giving is the percentage increase in the amount given to charity per percentage point decrease in the price of giving. For example, if a 30 percent decrease in the price of giving induces a 30 percent increase in the amount of giving, we say that the price elasticity is one. Similarly, if a 30 percent decrease in the price of giving induces a 45 percent increase in the amount of giving, we say that the price elasticity is 1.5.

The higher the price elasticity, the more increased giving there is per dollar of foregone revenue. An elasticity of one represents a particularly important value. If

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[1] Other economists who have participated in the development of the TAXSIM model include Daniel Frisch, Daniel Feenberg and Larry Lindsey. Larry Lindsey prepared the specific calculations used in this testimony.

the elasticity is one, deductibility increases giving by just as much as the lost tax revenue. If the elasticity is greater than one, deductibility increases giving by more than the lost tax revenue while, if the elasticity is less than one, giving rises by less than the lost revenue.

In a more complex legislative proposal like the Fisher-Conable bill, the relationship between the price elastically and the efficiency of the deduction is more complicated. I will return later to the nature of this complication. It is still true, however, that a higher elastically implies a greater efficiency, i.e., more additional giving per dollar of lost tax revenue.

Of course, I am not saying that a tax proposal is good only if charities gain more than the Treasury foregoes. Any tax-reduction dollars that the charities do not get go to the taxpayers and are not "wasted". Nevertheless, the relation between foregone tax revenue and increased charitable giving is an important consideration in judging any tax proposal that is aimed at stimulating charitable gifts.

It is important therefore to ask what we know about the price elastically of charitable giving.

WHAT DO WE KNOW ABOUT THE PRICE ELASTICITY OF CHARITABLE GIVING

In collaboration with several other economists, I have done a number of statistical studies to measure the price elasticity of charitable giving. The statistical method separates this price or tax effect from the effect of income and other factors that influence charitable giving. The studies found that the price elasticity is between 1.0 and 1.4. There is a remarkable degree of consistency and relative precision in these studies, even though they are based on different years and different types of data.

This is not the place for an elaborate or detailed analysis of these studies. The results have been published in several economic journals; I am submitting these articles for the record of these hearings. Let me point, however, to the key findings. The first study[2] examined the data published by the IRS on charitable giving in each of 27 adjusted gross income classes between 1948 and 1968. The changing tax rates as well as differences in the rates among income classes were used to estimate the price elasticity. The basic estimate in this study showed a price elasticity of 1.24. The second study,[3] done jointly with Professor Charles Clotfelter, analyzed data that were collected by the Census Bureau in a survey of more than 1400 households in 1963 and 1964. The basic estimate in this study found a price elasticity of 1.15. My third study,[4] done jointly with Dr. Amy Taylor, used the very large sample of individual tax returns that were made available by the Treasury Department. A sample of more than 13,000 tax returns for 1962 implied a price elasticity of 1.09 while a similar sample of more than 15,000 returns for 1970 implied an elasticity of 1.29. Each of these estimates is based on the differences in tax rates among taxpayers rather than the changes in tax rates that occurred in the 1960's. By combining the data for both years, however, we were able to estimate the elasticity implied by the tax cuts; the elasticity estimated in this way was 1.39.

Subsequent studies by others using different types of data and data for different years have confirmed these results and indicated that the price elasticity lies somewhere between 1.0 and 1.4. I should note that these estimates refer to the response after individuals have had time to adjust to new tax rates; Professor Clotfelter has done research on the difference between the short-run and long-run responses which I assume he will discuss in his testimony.

These estimates refer to the entire population or to all taxpayers who itemized and not to any particular income class. In several of the studies, we tried to estimate completely separate price elasticities for individuals in different income classes. Only with the very large tax return samples was there enough information to obtain any reliable estimates of this type. In the range of incomes over $20,000, these estimates indicated some tendency for higher income groups to have higher price elasticities than lower income groups. Evidence on the price elasticity for those with incomes below $20,000 cannot be reliably estimated with the tax return data because income and tax rates are too closely associated.

In a separate study[5] designed to measure the price elasticity for this lower and lower-middle income group, Professor Michael Boskin and I used survey data collected in 1974 by the University of Michigan Survey Research Center on households with incomes below $30,000. Because these are survey data rather than tax return

[2] "The Income Tax and Charitable Contributions" National Tax Journal, 1975.

[3] "Tax Incentives and Charitable Contributions in the United States," (with Charles Clotfelter) Journal of Public Economics, 1976.

[4] "The Income Tax and Charitable Contributions," (with Amy Taylor) Econometrica, 1976.

[5] "Effects of the Charitable Deduction on Contributions by Low Income and Middle Income Households," Review of Economics and Statistics, 1977.

data, they contain information on contributions by nonitemizers as well as by itemizers. This provides much more price variation at each income level. Our analysis found a quite higher price elasticity, 2.54, for this group and indicated that this was a true price effect and not just the difference between itemizers and nonitemizers. There are, of course, problems with survey data of this kind that mean that the results must be interpreted cautiously. I am frankly reluctant to accept that the elasticity for this group is higher than two. But it certainly shows that there is no reason to believe that the price elasticity for the current nonitemizer group is any lower than the 1.3 that was estimated for itemizers with the 1970 tax data.

Before turning to the simulation calculations of the aggregate implications of these estimated elasticities, it is useful to pause for a moment and ask what such an elasticity implies for a "typical" family. In 1975, the most recent year for which data are available, among families with adjusted gross incomes between $10,000 and $15,000 who itemized their deductions, the average price of giving was about 0.80 and the average gift was approximately $400. A price elasticity of 1.3 implies that if contributions were not deductible, the average gift would fall by about $110 to $290. A fall of this magnitude is certainly not contrary to my intuition or to any other evidence that I know.

THE FISHER-CONABLE PROPOSAL

The Fisher-Conable proposal to extend the charitable deduction to taxpayers who do not itemize would undoubtedly increase total charitable giving. The aggregate increase depends on the price elasticity, the number of current nonitemizers in every tax bracket, and their current charitable gifts. The loss in tax revenue that would result from the Fisher-Conable proposal depends primarily on the amounts that nonitemizers in every tax bracket would give. In addition, the proposal would lose additional revenue because some itemizers would switch to using the standard deduction if they could continue to itemize their charitable gifts.

Our tax simulation model is specifically designed to calculate the effects of such individual behavioral responses to a change in tax rules. The figures that I will present this morning will also show how the calculated changes in giving and in tax revenue depend on the assumed elasticity value. I should note that the simulation model is still being developed and some further changes in the method of calculation might later be judged to be appropriate. The basic features of the results will, however, almost certainly remain unchanged.

The TAXSIM calculations are based on a sample of more than 25,000 individual tax returns prepared by the Treasury and the Internal Revenue Service. Unfortunately, the most recent year for which such data are currently available is 1975. My estimates for 1975 could be mechanically extrapolated to 1980 by increasing all magnitudes by approximately 50 percent. Alternatively, a much more exact calculation for 1980 could be prepared that would reflect the current tax rules and tax rates. I would be happy to prepare such estimates for 1980 or 1981 if the Committee or the Treasury would provide the necessary baseline estimates on the numbers of taxpayers, their incomes, etc.

These calculations show that, if the Fisher-Conable proposal had been in effect in 1975, charitable contributions would have been about $3.8 billion more and tax revenues would have been about $3.2 billion less. The precise changes in giving and in tax revenues depend on the price elasticity value that is used. The figures that I have just mentioned—a $3.8 billion increase in giving and $3.2 billion decrease in tax revenue—are based on a price elasticity of 1.3, the best of the estimates in my most recent study.[4] With a very low price elasticity of only 1.0., the TAXSIM calculations indicate that contributions would have been $3.0 billion higher and tax revenue $3.1 billion lower. And with an elasticity of 1.6, contributions would have been $4.6 billion higher while tax revenue would have been $3.3 billion lower. Note that in every case these calculations reflect the reduced tax revenue that results when current itemizers switch to nonitemizing as well as the reduced tax revenues from the nonitemizers themselves.

More detail about these calculations is shown in Table 1 for three different price elasticities. In 1975, taxpayers who itemized their returns made charitable contributions of $16 billion. The contributions of nonitemizers is, of course, not recorded in the tax returns and must be estimated. The actual 1975 contributions of nonitemizers are estimated with the TAXSIM model using the sample of 1975 taxpayers who used the standard deduction. The charitable gift that is estimated for each such taxpayer depends on the price elasticity of giving. The first row of Table 1 shows that the price elasticity of 1.3 implies 1975 total giving by nonitemizers of $12.3

[4] "The Income Tax and Charitable Contributions," (with Amy Taylor), Econometrica, 1976.

billion; with an elasticity of one, the implied giving is $12.6 billion while the elasticity of 1.6 implies giving of $11.8 billion. The second row shows the calculated amount that these nonitemizers would have given if the Fisher-Conable bill had been in effect. The third row shows the extra giving associated with the Fisher-Conable bill. The corresponding tax loss for these itemizers is shown in row 4.

The next four rows show the impact that the Fisher-Conable bill would have had on those taxpayers who itemized in 1975 but who would have switched to the standard deductions if they could have continued to deduct charitable gifts as well. Regardless of the elasticity assumption, this group reduces its tax burden by about $300 million. This extra disposable income causes a slight increase in charitable giving (about $19 million).

The total increase in giving is shown in row 9 and the corresponding tax reduction is shown in row 10. The "efficiency" of the tax change, i.e., the increased giving per dollar of tax loss, is shown is row 11.

TABLE 1.—THE FISHER-CONABLE PROPOSAL AND CHARITABLE CONTRIBUTION [1]

[In billions of dollars]

	Price elasticity		
	1.3	1.0	1.6
Standard deduction taxpayers:			
1. Contributions with existing law	12.320	12.595	11.774
2. Contributions with Fisher-Conable	16.126	15.552	16.364
3. Increased contributions	3.802	2.957	4.589
4. Reduced taxes	2.907	2.803	2.973
Taxpayers switching from itemizing to standard deduction:			
5. Contributions with existing law	3.252	3.282	3.282
6. Contributions with Fisher-Conable	3.271	3.271	3.271
7. Increased contributions	.019	.019	.020
8. Reduced taxes	.304	.304	.304
All taxpayers:			
9. Increased contributions	3.824	2.976	4.609
10. Reduced taxes	3.211	3.107	3.274
11. Efficiency	1.191	.958	1.408

[1] All figures are calculated with the NBER TAXSIM Model and refer to 1975

Table 2 provides more detail on the change in giving and in taxes by individual AGI classes. These figures relate only to nonitemizers and are based on the price elasticity of 1.3. Taxpayers who had incomes of $10,000 to $11,000 in 1975 and who did not itemize gave an estimated $251 to charity. If the Fisher-Conable rule had been in effect, their contributions would have averaged $341, or $90 more. The deductibility of contributions would have reduced their tax liability from $1136 to $1067, a reduction of $69.

Let me conclude by emphasizing that all of the figures in this paper refer to 1975. They are calculations of what giving and taxes would have been if the law in 1975 and earlier years had been modified to allow a deduction for charitable gifts by those who use the standard deduction. Let me repeat also that I and my colleagues would be pleased to prepare calculations based on the present tax law for 1980 or 1981 if the Committee or the Treasury provide the basic benchmark estimates of income and other variables.

TABLE 2.—AVERAGE CHARITABLE CONTRIBUTIONS AND TAX LIABILITY BY ADJUSTED GROSS INCOME

Adjusted gross income	Returns (in thousands)	Charitable contribution			Tax liability		
		1975 law	Fisher-Conable	Change	1975 law	Fisher-Conable	Change
Below $1,000	5,513	61	61	0	−2	−2	0
$1,000–	5,008	127	127	0	−15	−15	0
$2,000–	5,141	141	145	4	−26	−30	−4
$3,000–	4,795	190	213	23	21	2	−19
$4,000–	4,241	233	279	46	122	87	−35
$5,000–	4,025	198	245	48	412	215	−35
$6,000–	3,319	245	312	67	412	363	−49

TABLE 2.—AVERAGE CHARITABLE CONTRIBUTIONS AND TAX LIABILITY BY ADJUSTED GROSS INCOME—Continued

Adjusted gross income	Returns (in thousands)	Charitable contribution			Tax liability		
		1975 law	Fisher-Conable	Change	1975 law	Fisher-Conable	Change
$7,000–	2,910	253	331	79	650	591	–58
$8,000–	2,713	189	258	68	827	775	–51
$9,000–	2,512	259	352	93	1,009	939	–69
$10,000–	2,324	251	341	90	1,136	1,067	–69
$11,000–	1,936	280	389	110	1,377	1,293	–83
$12,000–	1,655	249	347	97	1,495	1,420	–74
$13,000–	1,615	307	430	123	1,603	1,510	–93
$14,000–	1,322	264	375	111	1,855	1,769	–86
$15,000–	4,675	360	521	161	2,389	2,225	–124
$20,000–	1,642	385	591	206	3,543	3,383	–161
$25,000–	547	537	890	353	5,081	4,805	–275
$30,000–	279	676	1,196	519	8,004	7,596	–408
$50,000+	525	757	1,816	1,059	23,524	22,659	–865

Note.—All figures refer to tax returns that did not itemize deductions. Estimates are for 1975 and are based on a price elasticity of 1.3.

STATEMENT OF CHARLES T. CLOTFELTER

SUMMARY

Because it would allow non-itemizers to deduct charitable contributions in calculating taxable income, S. 219 would create an incentive to give by reducing the net "price" of giving. This statement makes three points regarding this incentive effect and the associated price elasticity.

First, the measurement of this elasticity is important in an assessment of this bill because it is necessary to compare the benefits of increased contributions with the costs of revenue losses. However, the measurement of the price response is only part of a complete evaluation of the bill. Specifically, the bill is not necessarily undesirable if the elasticity is smaller than one in absolute value, nor is it necessarily desirable if the elasticity is larger.

Second, despite the great gains that have been made in measuring the elasticity itself, there remains some uncertainty regarding its value for non-itemizers. While most estimates for low and middle income households are not inconsistent with an elasticity of minus one, these estimates are too imprecise to allow great confidence about the exact value.

Finally, there are likely to be lags in the response of taxpayers to an increase in tax incentives. My estimates imply that actual increases in giving in the first two years following implementation of this bill may be no more than 70 percent of the predicted long-run effect.

STATEMENT [1]

Mr. Chairman and members of the committee, I am pleased to have the opportunity of testifying on S. 219, a bill that would effectively extend the deduction for charitable contributions to taxpayers who do not itemize their deductions. Because it would allow non-itemizers to deduct charitable contributions in calculating taxable income, this bill would create a new incentive to give by reducing the net "price" of contributions. I would like to make three points regarding the bill and its likely effects on charitable giving and tax revenues.

My first point has to do with the interpretation of the elasticity of contributions with respect to the tax-defined "price" of giving. It is certainly true, as Professor Martin Feldstein has pointed out before, that a price elasticity of minus one implies that the dollar increase in charitable giving resulting from a tax incentive will exactly equal the resulting revenue loss to the Treasury. Elasticities larger than one in absolute value imply that the increase in contributions will exceed the fall in revenues. Although this is quite true, it does not follow, as has been implied in some discussions of this issue, that the deduction is necessarily "efficient" if this price

[1] Associate Professor of Public Policy Studies and Economics, Duke University and part-time consultant, U.S. Treasury Department. The views expressed here are my own and do not necessarily reflect those of Duke University or the Treasury Department.

elasticity is larger than one in absolute value. Rather, the desirability or efficiency of this deduction must be judged by comparing the benefits of increased contributions—some of which have been discussed at great length in these hearings—against the cost of reduced revenues. Only if benefits and costs were measured exactly by dollar changes in giving and revenues would an elasticity of minus one have special significance for the desirability of this bill. But if, for example, a dollar of contribution had greater social benefit than a dollar of tax revenue, this extention of the charitable contribution might be desirable even if the price elasticity were smaller in absolute value than one.

This point does not, however, lessen the importance of determining empirically the price elasticity of charitable giving. No matter what comparative social weights of contributions versus tax revenues are arrived at, a complete evaluation of the desirability of extending the deduction requires both determining the value of this elasticity and simulating the deduction's likely effects, as Professor Feldstein and others have done. Thus, while measurement of the price response is necessary to a complete assessment of this extension of the charitable contribution, the measurement of that response does not itself constitute a complete assessment of the bill.

My second point concerns the magnitude of the elasticity itself. Professor Feldstein has conducted extensive empirical analysis of this question, and his work is unsurpassed in methodological soundness and rigor. Other researchers, using different data sets and various models, have made similar findings. A recent review of empirical findings and new estimates based on 1975 tax return data showed that the estimated price elasticities in seven studies ranged from −1.1 to −1.3.[3] The price elasticity that is relevant to the present bill is, however, not the elasticity applying to all households, but rather that applying to non-itemizers. Since non-itemizers are predominantly at low and moderate income levels, one way of estimating the relevant elasticity for non-itemizers would be to obtain estimates for low and middle income households. Unfortunately, estimates of the price elasticity for this group vary considerably and are typically subject to large possible estimation errors. For example, point elasticity estimates from two studies of low and middle income households ranged from −0.4 to −2.5. With few exceptions, however, these estimates cannot be made with sufficient precision to reject the possibility that the elasticity is in fact −1. In short, estimates of the elasticity applying to low and middle income households are not inconsistent with an elasticity around −1, though such estimates are too imprecise to allow great confidence about the exact value.

It may be useful to illustrate the range of our knowledge, or ignorance, of this elasticity as it applies to non-itemizers. Table 1 shows the approximate long-run effects of extending the charitable deduction to non-itemizers under various assumptions regarding the price elasticity of giving. The calculations underlying this table are based on an average response applied to total contributions and are therefore not as precise as simulations based on changes in giving by individual taxpayers. If the midpoint of previous aggregate studies (−1.2) is used, the implied increase in contributions is $3.7 billion, while the revenue loss would be $3.2 billion. At the extreme elasticity values, however, the incentive and revenue effects would be dramatically different, with ratios of giving increases to revenue losses ranging from 42 percent for a value of −0.4 to 214 percent for −2.5. For comparison, the implied effects with an elasticity of −1 are also illustrated, showing the giving increase equalling the revenue loss. In this context, it is also worth pointing out that the officially estimated revenue loss of $2.4 billion apparently assumes the new deduction will have no inducement effect on giving.

The final point I would like to make concerns the speed with which non-itemizers respond to this deduction. Because of habit and lags in receiving information and solicitations, non-itemizers are unlikely to respond completely and immediately to a newly created incentive to give. Based on analysis of taxpayers' giving behavior over-time, I would predict that only a portion of "long-run" giving effect of this law will be realized in the first few years following implementation. Table 2 presents simulations of the possible time paths of contributions and revenue losses attributed to non-itemizers. Because taxpayers respond to changes in price only with a lag, a period of several years is required before actual giving approaches the long-run level, such as those given in Table 1. In this case, it takes six years before the increase in actual giving is 90 percent of the increase in long-run giving. As a consequence, even though a long-run elasticity of −1.2 is assumed, simulated revenue losses actually exceed increases in giving for the first three years after enactment of the new deduction.

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[3] See Charles T. Clotfelter and C. Eugene Steuerle, "The Effect of the Federal Income Tax on Charitable Giving," paper presented at the Brookings Institution, October 1979.

It is important, however, to use caution in applying these estimates. For one thing, the estimates are based on giving over time among itemizers. It is possible that lags among non-itemizers may be larger or smaller than those among itemizers. Second, the estimates of lags, like other empirically estimated parameters, can only be narrowed down to statically-defined confidence intervals. For the lag structure shown in Table 2, the upper and lower bounds are given in Table 3. If taxpayers show the quickest response, therefore, still less than 70 percent of the full impact of the new deduction would be realized in the first two years after enactment.

TABLE 1.—APPROXIMATE LONG-RUN EFFECTS OF EXTENDING DEDUCTIBILITY TO NONITEMIZERS UNDER VARIOUS ELASTICITY ASSUMPTIONS, 1978

[Dollars in billions]

Assumed elasticity	Contributions by Non-Itemizers: Before [1]	Contributions by Non-Itemizers: After [2]	Contributions by Non-Itemizers: Increase in giving	Revenue loss [3]	Increase in giving as percent of revenue loss
−$0.4	$12.1	$13.2	$1.1	$2.6	42
−1.0	12.1	15.1	3.0	3.0	100
−1.2	12.1	15.8	3.7	3.2	118
−2.5	12.1	21.1	9.0	4.2	214

[1] *Giving U.S.A.*, quoted by Gabriel Rudney in *Philanthropy Monthly*, January 1980, p. 12.

[2] ~~An average~~ marginal tax rate of 20 percent is assumed. Where G_0 and G_1 are before and after giving and b is the assumed elasticity, the new level of contributions is given by the log-linear model: $G_1 = (0.8)^b G_0$.

[3] Revenue loss is $(0.2)G_1$. This amount does not include any revenue loss associated with itemizers whose deductions other than contributions would fall below the zero rate amount.

TABLE 2.—SIMULATED TIME PATH OF CONTRIBUTIONS AND REVENUE LOSSES, 10-YEAR PERIOD FOLLOWING ENACTMENT

[Dollars in billions]

Year	Long-run giving level	Actual giving	Increase in giving from year 0	Revenue loss	Increase in actual giving as percent of increase in long-run giving
0	12.1	12.1	—	—	—
1	15.8	13.4	1.3	2.7	34
2	15.8	14.2	2.1	2.8	57
3	15.8	14.8	2.7	3.0	72
4	15.8	15.1	3.0	3.0	82
5	15.8	15.4	3.3	3.1	89
6	15.8	15.5	3.4	3.1	93
7	15.8	15.6	3.5	3.1	96
8	15.8	15.7	3.6	3.1	97
9	15.8	15.7	3.6	3.1	98
10	15.8	15.8	3.7	3.2	99

Assumptions: 1. Long-run price elasticity is −1.2. 2. Where G_t and G_t^* are actual and long-run giving levels in year t, g is a coefficient of adjustment equal to .37, and G_t^* is calculated as in Table 1, $G_t = (G_t^*)^g (G_{t-1})^{1-g}$.

TABLE 3.—SENSITIVITY OF TIME PATHS OF GIVING AND REVENUE LOSSES TO COEFFICIENT OF ADJUSTMENT

	Coefficient of Adjustment: 0.27	Coefficient of Adjustment: 0.37	Coefficient of Adjustment: 0.47
1. Percent of long-run giving achieved in first 2 years after enactment (percent)	44	57	69
2. Number of years required for 90 percent of long-run level to be achieved (years)	8	6	4

TABLE 3.—SENSITIVITY OF TIME PATHS OF GIVING AND REVENUE LOSSES TO COEFFICIENT OF ADJUSTMENT—Continued

	Coefficient of Adjustment		
	0.27	0.37	0.47
3. Number of years required for increase in contributions to equal revenue loss when long-run price elasticity is -1.2 (years)	6	4	3

Note.—See table 2 for assumptions used in calculations.

STATEMENT OF R. G. PENNER, AMERICAN ENTERPRISE INSTITUTE

I would like to thank this committee for the opportunity to testify. The views presented are my own personal views and do not necessarily reflect the views of the staff, advisory panels, officers, or trustees of the American Enterprise Institute.

I am the only panelist who had not done statistical work on the effect of tax laws on the quantity of charitable contributions, and I have, therefore, been assigned the unpleasant task of acting as an outside referee in this fairly active, sophisticated game of numbers.

It is hardly necessary to point out that the results of statistical analysis regarding any aspect of human behavior have to be looked at with a jaundiced eye, since individuals refuse to cooperate with social scientists in that they seldom act according to the strict laws that we would like them to follow in order to make policy analysis easier. With regard to charitable giving we know that variables such as age, income, wealth, and marginal tax rates must all be important, but they vary together and it is difficult to separate their impact. An added problem arises because taxpayers—especially those at high income levels—often have considerable control over their marginal tax rate through the timing of their deductions and through their choices over the form of their income. As a result, there is a complex interaction between the charitable deduction and other special provisions of the tax law, and that interaction is difficult to model for purposes of statistical analysis. Therefore, it is often ignored.

On the other side, there are aspects of the charitable contributions problem which make it easier to analyze than many other problems in the economics of tax law. We have had long experience with the charitable deduction and a considerable amount of reasonably good data can be obtained from tax returns and consumer surveys.

With regard to the current charitable deduction, I have no doubt that giving would fall drastically if it were eliminated.[1] Only a few older studies[2] contradict this conclusion and they faced considerable statistical difficulties.

When one asks, "How drastically would if fall?" the uncertainty increases. In the discussion regarding changes in the law, a great deal of emphasis is placed on whether the fall in charitable giving resulting from a less generous law would exceed or fall short of the tax revenue gain. I believe that this emphasis is misplaced. First, a fall in charitable giving would probably necessitate some increase in budget outlays and that should be considered. But even when the net dollar gain to the Treasury is compared to the net dollar loss to charitable organizations it is quite erroneous to assume that the various dollars are of equal social value.

My organization, the American Enterprise Institute, is sponsoring a fascinating project called "Mediating Structures." As stated by Robert Woodson, the basic thesis of the project is as follows: "Long before the attempt to combat social problems fell under government control, elements in the communities themselves expended considerable effort on such problems. As the magnitude of local problems grew to reflect the complexities of our modern world, government activity gradually expanded to supplement private sector efforts.

"But somehow this government activity grew without consideration for the extent to which local initiatives served the community. As a result, government all too often supplanted local initiative, instead of supplementing it. To put it another way, the legitimacy, the authority, and, therefore, the function of the institutions that

[1] For a review of recent work leading to this conclusion, see Charles T. Clotfelter and C. Eugene Steuerle, "The Effect of the Federal Income Tax on Charitable Giving," paper prepared for a Brookings Conference, mimeographed, 1979.

[2] Michael K. Taussig, "Economic Aspects of the Personal Income Tax Treatment of Charitable Contributions," National Tax Journal 20 (March 1967), pp. 1-19.

mediate between governments and individuals has been eroded over time as government gradually accumulated responsibility over problem areas."

If one accepts this thesis—and I have considerable sympathy with it—it may be that the "crowding out" of family, church and other charitable activities has gone too far and that a dollar spent by private meditating institutions has much more social value than another dollar in the coffers of the Treasury. In this case, a tax change which increased giving by less than the dollar loss to the Federal budget could still be profitable socially. But clearly anyone reaching this conclusion must base it on a large number of personal value judgments. I could easily understand someone else placing a lower value that I do on the social output of churches, art galleries, etc. and deciding that a change would not be worthwhile unless charities gained considerably more than the Treasury lost.

Having made the point that no magic should be attached to whether a change in law changes charitable giving more or less than it changes tax revenues, it is still obviously the case that a more lenient treatment of deductions looks better, the greater the increase in giving. With regard to present tax treatment, evidence can be found on both sides of the question as to whether it stimulates more or less giving than the revenue loss. In almost all cases, the stimulus to giving is substantial, and I would suggest that the weight of evidence leans in favor of the proposition that the increase in giving exceeds the revenue loss, but this proposition must be stated with considerable uncertainty.

With a bill such as H.R. 1785 it is important to know the responsiveness of the sub-class of individuals most affected by the bill and it could be greater or less than the average responsiveness to current tax treatment as estimated in the studies discussed above. H.R. 1785 affects only those who now rely on the standard deduction and most individuals of this type are found in the bottom half of the income distribution.

Again, evidence exists on both sides of the question[3] as to whether the responsiveness of individuals tends to rise or fall as income rises. My intuition suggests that responsiveness would rise with income because higher income individuals cannot afford to take any action without considering tax factors while lower income individuals may not be quite as conscious of the tax consequences of their behavior. This suggests that the response to H.R. 1785 would be less relative to the revenue loss than it would be if the entire population was affected. But it must be emphasized that some evidence can be found which contradicts this conclusion.

On the basis of a simulation model created by Professor Feldstein H.R. 1785 appears to stimulate giving in excess of the revenue loss.[4] I have no reason to question this simulation, but note that H.R. 1785 has not been subject to nearly as much scrutiny as the present charitable deduction and additional studies could easily contradict this conclusion.

It should also be noted that the response to H.R. 1785 could be quite different in the short and long runs. It takes time for individuals to become conscious of and modify their behavior as the result of new tax laws. Therefore, responsiveness could increase as time goes on.

For anyone sympathetic to the activities of the charitable sector the benefits of H.R. 1785 are quite obvious. However, like all good things, the bill does have costs and in a time of budget stringency it is necessary to ask whether the revenue loss attached to this bill might be used in better ways—for example to offset some of the increased tax burdens resulting from inflation pushing people into higher brackets. It should also be noted that the rapid growth in the standard deduction has had the salutary effect of simplifying tax preparation for a lot of taxpayers. This simplicity has been eroded somewhat by the creation of the earned income tax credit and other credits for items such as energy conservation. Adding a new deduction for non-itemizers would further complicate tax forms and add to the preparation time for taxpayers. While H.R. 1785 does this for a particularly meritorious cause, I would hate to see a precedent established which would open the door to a whole series of new deductions for non-itemizers.

Senator MOYNIHAN. Now, we have the distinct privilege of hearing from Mr. David M. Roderick. As we know, he is chairman and

[3] Occasionally, opposite results are obtained by the same authors depending on the statistical techniques used. See Martin Feldstein and Amy Taylor, "The Income Tax and Charitable Contributions," Econometrica 44 (November 1976), pp. 1201-1222. Clotfelter and Steuerle find responsiveness increasing with income using some statistical approaches while other approaches lead to more ambiguous results, op. cit., pp. 40-47.

[4] Mimeographed materials.

chief executive officer of the United States Steel Corp. Is Mr. Roderick not here yet?

Mr. MOSKOWITZ. He was supposed to be here. I am Jack Moskowitz, senior vice president, United Way of America.

Senator MOYNIHAN. We know him as U.S. Steel. You know him as United Way. Would you like to take his place?

Mr. MOSKOWITZ. We leave it to you, Mr. Chairman. He is on his way. He had a press conference this morning. That is why he is at the tail end of the witness list.

We could submit his statement for the record. I will leave it to your discretion.

Senator MOYNIHAN. Why do you not submit it for the record. Is Mr. Watts here?

Mr. MOSKOWITZ. Mr. Watts will be unable to make it and would like his statement submitted.

Senator MOYNIHAN. Would you submit those for the record? That will be a part of our record, and we will consider it done. This is a time when everybody is supposed to be in four different places. I can now name three committees where I should be.

We are here because this is the one we care about, but the budget is going on, intelligence is going on, so we thank you very much.

We will put Mr. Watts' and Mr. Roderick's testimony in.

Mr. MOSKOWITZ. If I could make one statement——

Senator MOYNIHAN. Would you sit down? We will swear you in?

Mr. MOSKOWITZ. I do not want to be sworn in, but I do want to introduce you to William Aramony, the national executive, United Way of America.

Senator MOYNIHAN. We are glad to see you.

STATEMENT OF JACK MOSKOWITZ, SENIOR VICE PRESIDENT, UNITED WAY OF AMERICA, ACCOMPANIED BY WILLIAM ARAMONY, NATIONAL EXECUTIVE, UNITED WAY OF AMERICA

Mr. MOSKOWITZ. Mr. Watts and Mr. Roderick, who are both members of the United Way of America Board, have a deep interest in this amendment and, as individuals, are strong supporters of your bill.

Senator MOYNIHAN. Good. That we appreciate. That we care for, and we will be looking for you in the lobbies. We often find you there for a good cause.

[The prepared statements of the preceding panel follow:]

STATEMENT OF DAVID M. RODERICK, CHAIRMAN, UNITED STATES STEEL CORP., AND MEMBER OF THE BOARD OF GOVERNORS, UNITED WAY OF AMERICA

SUMMARY

United Way of America supports the Moynihan-Packwood bill (S. 219) to allow all taxpayers a deduction for their charitable gifts whether they itemize or not because it accomplishes two beneficial purposes. It reduces taxes for those who need it most—moderate income Americans. (Almost 80 percent of the benefits go to families with adjusted gross incomes of less than $30,000.) Secondly, charitable giving to institutions supported by these Americans is increased by an amount larger than the tax revenue losses.

The Moynihan-Packwood bill is sound public policy and will benefit middle income Americans. It provides a much needed tax reduction for these Americans and enhances the institutions and social welfare programs in their own communities.

Approval now of the Moynihan-Packwood bill is more critical than ever. The six increases in the standard deduction since 1969 have eroded the giving base. While simplifying filing for many lower and middle income people, these increases have also inadvertently eliminated the tax incentive to give for over seven out of ten people.

In 1970, 48 percent of all taxpayers itemized deductions, just over 25 percent did so in 1979. If rewards for giving go primarily to those in the upper income brackets the charitable deduction may soon be seen as a tax loophole for the rich.

The result of the dramatic drop in the number of taxpayers itemizing has been a corresponding drop in charitable contributions. According to recently revised giving estimates by the American Association of Fund-Raising Counsel, in 1970, 1.99 percent of personal income was contributed to non-profit organizations. In 1978 that figure was down to 1.92 percent. Had Americans continued to give as much of their personal income to charities as they did in 1970, contributions would have been $1.2 billion higher in 1978.

A recent Gallup survey of 1978 charitable donations indicated that people who itemize personal deductions on federal income tax returns give significantly more than those who take the standard deduction. This is true in every income bracket.

Failure to pass the Moynihan-Packwood proposal will result in forcing the charities to look to the rich for support. This trend is dangerous because without broad support, public charities will lose their viability and democratic base.

Money a person gives away to charity should not be considered as income for purposes of determining the federal tax due. It is a way of channeling money into socially desirable paths and encouraging people to participate in voluntarism.

STATEMENT

Mr. Chairman, I'm David M. Roderick, Chairman of the Board of United States Steel Corporation, President of United Way of Allegheny County, Pennsylvania and a member of the Board of Governors of United Way of America. I am pleased to have the opportunity to appear before this Subcommittee today to offer testimony in support of the Moynihan-Packwood bill, S. 219.

This bill to allow taxpayers a deduction for their charitable gifts whether they itemize or not is essential to maintaining a strong voluntary sector. United Way of America endorses this change in our tax laws because it will accomplish two beneficial purposes. First, it reduces taxes for those who need it most—moderate income Americans. Almost 80 percent of the benefits go to families with adjusted gross incomes of less than $30,000. Secondly, charitable giving to institutions supported by these Americans is increased by an amount larger than the tax revenue loss. For these reasons, we believe the Moynihan-Packwood bill is sound public policy.

America has always relied on voluntary organizations to meet community needs. The broad range of organizations represented here yesterday and today is in itself testimony to the fact that the private nonprofit sector reaches into almost every field of human interest. It supports an incredible variety of institutions including symphonies, museums and libraries, religious organizations, health clinics and hospitals, colleges and universities—and civic and social service organizations such as the Salvation Army, 4-H Clubs, United Ways, day care centers, half-way houses and co-ops. Taken together, they constitute an indispensible part of American life. This is a phenomenon unique to our country.

From 1962 to 1964 my family and I lived in France. I am dismayed about the fate of private charities and philanthropic giving in that country and other Western European nations. The people there have come to view charity as the responsibility of government and government alone. Donations by wealthy individuals or foundations, no matter how altruistic the motivation, are seen as elitist and self-serving. In many cases contributions for worthy purposes are simply not accepted or are argued over for years.

There is justifiable fear in our own charitable community that America may soon follow the path of these western European states. During the last decade we have seen an erosion in the giving base. The increases in the standard deduction since 1969 have enabled millions of taxpayers in the lower and middle income brackets to switch to the standard deduction. While this has simplified filing for many, it has also inadvertently eliminated the tax incentive to give from over seven out of every 10 taxpayers. Whereas in 1970, 48 percent of all taxpayers itemized deductions, just over 25 percent did so in 1979. Importantly, the largest portion of itemizers is the wealthiest segment of our population. If rewards for giving go primarily to those in the upper income brackets, are we not in danger of following the sad example of those countries that now frown on philanthropy?

The results of the dramatic drop in the number of taxpayers choosing to itemize has been a corresponding decline in charitable contributions. According to recently revised giving estimates by the American Association of Fund-Raising Counsel, in 1970, 1.99 percent of personal income was contributed to non-profit organizations. In 1978 that figure was down to 1.92 percent. Now seven one-hundredths of a percentage point may not sound like much, but in 1978 alone, it equalled $1.2 billion dollars. Had Americans continued to give as much of their personal income to charities as they did at the beginning of the decade, contributions would have been $1.2 billion higher in 1978.

A recent Gallup survey of 1978 charitable donations indicated that people who itemize personal deductions on federal income tax returns give significantly more than those who take the standard deduction. This is true in every income bracket. On average, itemizers contribute three times the amount contributed by non-itemizers. There is no doubt that a tax incentive—or lack of one—is an important determinant of the amount a person donates to charity, and may even be a factor in whether he or she gives at all.

Now, for a moment, I would like to discuss not dollars, but what they make possible. The purpose of our organizations is not to amass dollars but to provide services. That takes money, of course, but it is vitally important for all of us to remember that we are here today because many of our neighbors in our own communities have very real unmet needs.

As a volunteer in the United Way movement I am privileged to be part of the largest charitable fundraising, planning and allocations organization in the world. Today there are over 2000 local United Way organizations throughout the United States. In 1978, total contributions exceeded $1.3 billion.

United Ways are not service delivery agencies. The money collected by United Way campaigns is allocated to member agencies skilled in providing basic human needs.

The United Way family consists of many familiar agencies like the Red Cross, YMCA and YWCA, Scouting, and other organizations. Some agencies—neighborhood centers, day care programs and senior citizen centers—are not familiar nationally, but are well known in the communities they serve. Hundreds of smaller service and neighborhood organizations, not affiliated with any national association, also depend on United Ways for support.

Now let me say that if Congress does not accept the Moynihan-Packwood proposal, United Ways will survive. The large universities, musuems and other long-standing institutions will survive also; but many of the financially fragile entities so important to American life, such as local community organizations, day care centers, co-ops and the like may well go under. Those that remain will be continually caught in the dilemma of having more and more people to serve with fewer and fewer resources—especially since federal, state and local budgets are drastically cutting back public dollars for social services, education and the arts.

In closing, let me tell you why I endorse this bill as a businessman as well as a volunteer.

U.S. Steel Corporation is a major employer of people and the health and welfare of our employees and of the communities in which we operate is of the utmost importance to our business success. Our employees must be able to come to work, to perform conscientiously and to go home to satisfying personal lives with family and friends. It is important that parents have quality day care centers for their young children, after school programs like scouting, recreational programs at the Y, visiting home nurses to care for an ill or elderly family member, and counselling services when emotional or family problems arise. Without these services to rely on, our absentee rate would be affected, as would job performance—and our workforce would be generally less dependable. Communities need the services non-profit organizations provide. Directly or indirectly they enrich all of our lives every day. Passage of the Moynihan-Packwood bill will help ensure their continued viability and preserve this most unique aspect of American life.

[From the New York Times, July 2, 1978]

Private Charity Going Out of Style In West Europe's Welfare States

(By Jonathan Kandell)

Stockholm—A few years ago, toward the end of his life, King Gustaf VI Adolf decided to make a final bequest from the royal coffers to his Swedish subjects. He would contribute a sizable amount, running into the hundreds of thousands of dollars, to a national association for the handicapped.

The donation was never accepted. And, in fact, the would-be recipient admonished the King for even attempting as a private individual to fulfill what was considered in modern-day Sweden a function of the government.

Increasingly in Western Europe, philanthropy is acquiring a bad name. Leftists assert it delays the expansion of government-controlled social benefits and softens popular attitudes toward private wealth

Even moderates are voicing disapproval of what they call the elitism of philanthropists' and their foundations' dispensing large amounts of money and patronage without the controls of electoral mandates or the accountability of government bureaucrats.

CHARITABLE GROUPS ARE NUMEROUS

In sheer numbers, West European charitable associations seem impressive enough. There are 120,000 in Britain, 32,000 in the Netherlands, 19,500 in Switzerland, 15,000 in Sweden, and 4,000 in West Germany. But most of them are small and exist in name only. Fewer than 5 percent sill make sizable donations. Public sentiment that philanthropy should be the responsibility of governments has forced throusands of small charities to depend increasingly on funds from state and local authorities.

The refusal of West European governments to allow tax deductions for large individual donations has reduced the number of tycoon-philanthropists of the sort that achieved fame before World War II. Even those wealthy persons who continue to contribute often find that the publicity surrounding their donations can boomerang.

Last March, for example, Marcel Dassault, the aircraft manufacturer and reputedly one of the richest men in France, decided to finance an indoor swimming pool for his constituents in Beauvais, a district he represents as a conservative Gaullist legislator in the National Assembly.

The mayor, Walter Amsallem, a Socialist, inaugurated the pool with some acid comments as the 86-year-old Mr. Dassault stood by.

"To give ourselves over to patronage, consigning our fates to the powerful and the rich, seems to us contrary to the spirit of the republic and of democracy," said the mayor. "We should have preferred action by the nation, the fruits of efforts by the whole community, eliminating charitable practices that degrade those who benefit from them."

It is doubtful that Mr. Dassault even heard the rebuke. He was caught up in a shouting match with some Communist councilors, hurling abuse at him from across the pool. "My workers are the best paid in France," Mr. Dassault yelled. "And I also was once poor before I was successful."

Less raucous, but no less controversial, has been the case of Pierre Guerlain, 72, the perfume manufacturer, whose offer to donate 10,000 acres of lake and land for a wildlife reserve was approved after four years of negotiations with the French Government.

His credentials as a nature lover were never questioned—he was once administrator of the World Wildlife Fund. But bureaucrats reportedly held up the bequest for fear that it would give Mr. Guerlain a windfall of publicity or set off rumors that he had been given a tax break. Mayors in some of the communities bordering the preserve felt that the Government should reserve the option of eventually using the land for housing.

In Sweden, where popular feeling against private philanthropy probably runs highest, there have been few recent cases of large private donations.

"I would say that sort of philanthropy is suspect nowadays," said Lars Bergstig, information secretary in the Budget Ministry. "Even among wealthy people, there is a feeling that you don't become popular by giving away money, by establishing a grant or foundation in your name."

SWEDEN ALLOWS NO TAX DEDUCTION

Nor would a philanthropist in Sweden be allowed a deduction from his taxable income for a charitable donation.

"In the past, philanthropy was an important substitute for social benefits for the poor," said Mr. Bergstig. "But we've had such a fast buildup of public welfare services since the end of the war. All political parties now believe that philanthropy should be the function of the state and local communities. And the mentality of Swedes today is that if you need money for disease research or support for the arts, you go straight to the Government. After all, isn't that why we pay all those taxes?"

According to Mr. Bergstig, many of the thousands of small charitable trusts that still exist can no longer fulfill their original aims.

"There are five to ten small trusts in Stockholm alone that specify that their money should be spent for the moral improvement of wayward women," he recalled. "Can you really imagine giving away money for that in Sweden today? Then we have old charitable funds to make it possible for young people to go to a university or study abroad. Well, the Government more than takes care of that nowadays.

"The trouble is that even if there are no longer recipients who qualify for many of the old charitable funds, no new legislation has been passed to alter their provisions. It just would not be worth the controversy."

TAX EXEMPTIONS EXIST IN BRITAIN

In Britain, charities are exempted from income tax, corporation tax and capital gains. But individual donors are not. And in recent years, most of the charities have had trouble raising money or maintaining their endowments.

"Operating and administrative costs continued to rise and inflation persisted in eroding the value of capital," stated a report last year by the charity commissioners for England and Wales. "These trends impinged adversely on the ability of charities to sustain existing programs and to start new ones, from their own resources and also on the ability of the public to subscribe fresh funds."

Increasingly, British charities depend on government financing. Earlier this year, a survey by the Charities Aid Foundation, an umbrella group for many voluntary organizations, disclosed that only 40 percent of donations to British charities came from individuals, wills, trust funds and corporations. Government grants covered most of the rest.

TREND TOWARD STATUTORY FUNDING

"It would be naive to suppose that charities which are effectively dependent on statutory funding will be left with the freedom of initiative any longer than it suits the convenience of the state," said Redmond Mullin, assistant director of the Charities Aid Foundation.

This view was also put forward in a report last year on philanthropy by the National Westminster Bank, but with a slightly different perspective:

"In recent years there has been increasing political interest in charities, and their attractive, tax-sheltered status must have played a role in this. Some charities such as private schools or hospitals are seen as havens of wealthy privilege that enable the rich to buy certain services at a cut price; others are attacked on the ground that they launch political propaganda under the guise of charitable activity."

STATE'S ROLE DOES NOT RESOLVE ISSUE

But a government monopoly of philanthropy, as has occurred in the patronage of the arts in Britain, has not put an end to the controversy.

In the United States, businesses are allowed to give away up to 5 percent of their income, free of tax. In Britain, business gifts to the arts are free of tax only if the Government determines that they are part of actual business or advertising expenses. As a result, private donations account for only $1.8 million a year, or less than 1 percent of total patronage for the arts.

But the Government, particularly at the local level, tends to donate its money to the more conventional artistic activities that are free from public controversy, according to advocates of private philanthropy.

The stringent tax laws against potential private art patrons have also been blamed for the large-scale outflow of works of art abroad. Neither the museums nor the Government are able to match offers by foreign collectors for paintings put up for sale by their British owners.

A Partial List of Agencies and Services Receiving United Way Allocations

American Diabetes Association, American National Red Cross, American Social Health Association, Arthritis Foundation, Big Brothers, Big Sisters, Boys Clubs, Boy Scouts, Camp Fire Girls, Catholic Charities, Child Adoption Services, Child Guidance Clinics, Day Care Centers, Epilepsy Foundation of America, Family Counseling Services, Foster Care of Children, Girls Clubs, Girl Scouts, Homemaker-Home Health Aide Service, Homes for Dependent and Neglected Children, Hopitals, Information and Referral Services, Inner City Projects, Legal Aid Services, Leukemia Society of America, Mental Health Services, Medical Clinics, National Association for Mental Health, National Association for Retarded Citizens, National Association of Hearing and Speech Action, National Council on Alcoholism, National Council on

Crime and Delinquency, National Cystic Fibrosis Research Foundation, National Easter Seal Society for Crippled Children and Adults, National Hemophelia Foundation, National Kidney Foundation, National Multiple Sclerosis Society, National Recreation and Park Association, Neighborhood Centers and Settlements, Planned Parenthood Services, Residential Treatment Centers for Children, Salvation Army, Services for the Aging, Services for the Handicapped, Services for Unwed Mothers, Summer Camps, Temporary Shelters for Children, Travelers Aid, United Cancer Council, Inc., United Cerebral Palsy Association, United Seamen's Service, United Service Organizations (USO), United Way Planning Organizations, Urban League, Visiting Nurse Services, Volunteer Bureaus and Voluntary Action Centers, Volunteers of America, YMCA, YWCA, YMHA, YWHA.

(Fisher-Conable - HR 1785)
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(Moynihan-Packwood - S 219)
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Names listed below the line became cosponsors after Senate Subcommittee on Taxation and Debt Management Hearings 1/30 & 1/31

STATEMENT OF GLENN E. WATTS, PRESIDENT, COMMUNICATIONS WORKERS OF AMERICA

Mr. Chairman and members of this committee, my name is Glenn E. Watts, and I am President of the Communications Workers of America (CWA). CWA represents more than 625,000 working men and women in this nation. Our members are prime examples of persons who would be affected by the passage of S. 219, the bill to extend the charitable contribution deduction to all taxpayers, sponsored by Senators Daniel P. Moynihan (D-NY) and Bob Packwood (R-Ore). You heard yesterday and will hear more today from persons representing a wide variety of public charities who support this legislation. Though I personally have served on the Board of Directors of the United Way of America, I am before you today as a representative of working men and women to tell you why I believe this legislation to be in their interest and in the interest of working people generally.

Over the past decade this Committee and the Congress as a whole has sought to reform the tax laws to make them more equitable and to simplify the annual duty all of us have to fill out our forms and pay our fair share. I am proud that the Communications Workers of America has supported these reforms.

I am afraid, however, that one of the unintended consequences of our efforts has been to reduce the incentive of charitable giving in this country, especially by those like the members of CWA, whose modest contributions support their local churches, United Ways, Boy Scout troops, YWCA's and the like. As others before me have said, there is something uniquely American about our attachment to local voluntary associations and the work they do in our communities.

Congress has taken great strides in the last twenty years to aid the poor, the sick and the under-educated in this country through far-reaching social legislation that has enjoyed the support of CWA. This legislative initiative has been supplemented and helped by the thousands of volunteers, who give of their time and money to help bring about their own brand of social change in their respective communities.

I am proud to say that my Union has been in the forefront of this community involvement effort. In fact, CWA enjoys the distinction of being known as "the commun. y-minded Union." Our Union members and millions of other people like them are people of modest means who are dedicated to the support of their local voluntary groups. Much of the money for such groups is raised by the local United Way and the average contribution may be only $10 or $20 a month voluntarily contributed by payroll deduction.

It used to be that when a worker filled out his tax return he or she indicated contributions to charity and deducted them from gross income. This was at once a clear signal to the worker of the importance government attached to the work of such charitable organizations and a financial incentive for continuing to give.

In theory this still remains true. The charitable deduction still remains. But as a practical matter fewer and fewer people decide to use it. People are encouraged instead to use the standard deduction, now called the zero bracket amount. According to information compiled by Martin Feldstein at Harvard in 1978 nearly 50 million tax returns filed by persons whose adjusted gross income is less than $20,000 per year use the standard deduction. It is in this category that most members of CWA and other labor organizations fall. These are the people that S. 219 is designed to encourage to give. It is true that most people give to charity. According to research done by the Gallup organization on contributions made in 1978, 84 percent of the persons interviewed gave to charity. But there was a dramatic difference in the level of contributions by those who itemized their deductions and those who did not. For a family whose income was between $15-20,000 the average donation by an itemizer was $652, by a non itemizer $222. This contrast held true for each income group for which there were sufficient persons in the sample to provide reliable data. It is these taxpayers that S. 219 is aimed at.

Slowly and inadvertently over the last decade or so we have taken away the incentive to give for most ordinary people. As more and more taxpayers take the standard deduction the only people for whom the incentive remains are the wealthy. This is not only unfair, it threatens the broad popular base of voluntary contributions on which our charitable organizations rely for the vitality and pluralism that are their hallmark. S. 219 would turn this around. It would give a member of CWA the same incentive to give as others have.

Several questions have been raised about this legislation by friends of organized labor, and I would like to address myself to them. Some have asked whether giving a separate deduction for charitable contributions sets a bad precedent and means that deductions for mortgage interest, casaulty losses, medical expenses and the like will all then be made "above the line" deductions. I do not think so. Almost since the inception of the income tax code, the charitable deduction has been treated differently. The worthiness of the cause, the absence of personal gain to the donor and the natural overlap of function between charities and the federal government have led policymakers to recognize the charitable deduction as unique. The history of the special place for the charitable deduction in our tax system will prevent it becoming a precedent for other deductions.

Others have suggested that the deduction be made a credit so that a taxpayer could subtract from his or her tax a percentage of contributions made, up to a specific dollar ceiling. While this has superficial appeal, it has a basic flaw which makes it unacceptable. The issue is whether money contributed to charity should be considered taxable income. Under current law and under S. 219 monies given to charity are subtracted from annual income in order to arrive at a figure called taxable income. This figure is the amount which is subject to tax by the government at rates set by the Congress. Various credits against the tax owed can then be taken, but they do not disturb the notion that income, as a matter of principle, is subject to tax.

I would contend that money given away to charity is simply not taxable income. This is an important matter of tax principle which is violated if a charitable contributions credit is substituted for the deduction.

Finally, there is the concern expressed about the revenue loss associated with this legislation. It is a concern I share. Various estimates by the Treasury, the staff of the Joint Committee on Taxation and several private economists range from $2 billion to $3.5 billion per year, depending on the level of new contributions the legislation encourages. Without question this is a large sum of money. However, the various private studies that have been done on the charitable contribution have concluded one thing: the charitable deduction if efficient. Studies conducted by Harvard Professor Martin Feldstein consistently show that for every dollar of Treasury loss the nation's charities gain from $1.15 to $1.30 in new contributions. In the income brackets of most working people the ratio of new contributions to Treasury revenue loss may be as high as 2 to 1.

I share the concern of others who seek to insure that the federal government has funds adequate to carry out its important social programs. In these inflationary times, it is recognized that it costs more just to continue programs as the same level of service. But this is true of the work of voluntary organizations as well. In many ways government and the charitable community are similar expressions of the shared purpose of community good works. But it must also be kept in mind that if community voluntary groups don't do this work, it may have to be picked up by state and federal governments with a resultant increase in taxes. Voluntary agencies carry out these good works efficiently and with an eye to the needs and desires of the local community. There is a need for a balance between what can and should be done by government and what may be better accomplished in the local community by a voluntary agency. This legislation, S. 219, will help restore that balance by reinvigorating the voluntary community, which has been historically, such a unique part of the American scene.

Senator MOYNIHAN. And with that we will close these two days of hearings, thanking our witnesses, thanking our staff and our indefatigable reporter.

[Thereupon, at 12 noon, the subcommittee recessed to reconvene at the call of the Chair.]

[By direction of the chairman the following communications were made a part of the hearing record:]

national easter seal society

60 YEARS OF SERVICE TO HANDICAPPED PEOPLE

Office of Governmental Affairs

January 29, 1980

Honorable Harry F. Byrd, Jr.
Chairman
Subcommittee on Taxation and
Debt Management Generally
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

This statement represents the commentary of the National Easter Seal Society on S. 219, a bill which amends the Internal Revenue Code of 1954 to allow the charitable deduction to taxpayers whether or not they itemize their personal deductions. We respectfully request that this statement be included in the hearing record with respect to the hearings your Subcommittee has been holding.

The National Easter Seal Society, a major voluntary agency organized 60 years ago, provided 453,811 individuals with direct services in fiscal 1977-1978. The services are provided by affiliated societies which operate 2,000 programs and facilities including 100 comprehensive medical rehabilitation centers and numerous workshops and special education programs. In 1977, 79.5% of the Easter Seal dollar was spent for program services while only 20.5% was expended for fundraising and management. Our nationwide income for fiscal 1978, the latest year for which figures are available, was $99,430,000. Of this amount, $46,118,222 was contributed income from the public ($46.38% of our total income).

We have reviewed S. 219 and strongly urge its adoption by the Subcommittee.

In the past two years, we have seen a great erosion of our income through inflation. Concurrently, there has been a decline in the amount of individual discretionary income available for voluntary contributions to agencies such as ours and a drying-up of government grants. We have seen a retreat by the government all across the country for support for special programs, including those that affect the Easter Seal clientele -- the handicapped population. With present world conditions and the Administration taking steps to increase our national defense arsenal, it is realistic to assume more dollars will be diverted from social programs to defense programs. Thus, the voluntary sector will be looking for more dollars to keep needed social programs in operation, resulting in our handicapped population becoming more dependent upon the private sector and public charities.

While these facts are disturbing, historically Easter Seals was established on the premise that individuals can take care of their needs and help their

1435 G STREET, N.W. • SUITE 1032 • WASHINGTON, D.C. 20005 • (202) 347-3066

fellow man without governmental intervention. In recent years, however, we have seen federal programs taking over many of these responsibilities. Additionally, as tax laws have become more stringent and taxes have risen to cover the myriad of social programs, charitable dollars have proven more difficult to obtain. Added to the problem have been tax reforms which have made the option of taking the standard deduction more economically advantageous than itemizing the various individual deductions. Obviously, as more taxpayers opt for the standard deduction, charities experience a loss in contributed income.

The Coalition of National Voluntary Organizations (CONVO) recently commissioned the Gallup Organization to conduct a survey to determine the giving patterns of Americans. Among the more significant conclusions to be drawn from the survey on taxpayer itemizers and nonitemizers is that on the average, those who itemize their personal deductions give more than three times as much as those who take the standard deduction. Even in the family income category of $15,000 - $20,000, this 3 to 1 ratio is evident.

Although the correlation is not perfect, the ratio of average contributions for itemizers to the average for nonitemizers increases with income is as follows:

AVERAGE CONTRIBUTIONS

HOUSEHOLD INCOME	ITEMIZERS	NONITEMIZERS	RATIO
Under $5,000	$ 203	$112	1.8
$5,000 - 9,999	300	165	1.8
$10,000 - 14,999	324	249	1.3
$15,000 - 19,999	652	222	2.9
$20,000 - 49,999	658	281	2.3
$50,000 and over	1,253	227	5.5
Total	$ 652	$210	3.1

Since income tax rates are progressive with income, these data lend considerable support to the argument that tax incentives are an important determinant of the levels of charitable giving.

The underlying issue raised by S. 219 was addressed in the 1975 report of the Commission on Private Philanthropy and Public Needs. The report stated, "That to increase inducement for charitable giving, all taxpayers who take the standard deduction should also be permitted to deduct charitable contributions as an additional, itemized deduction." The Commission also stated in the report, "We do contend that private giving is essential to the nature and quality of life in American society. Because of the fundamental importance of the dollars spent and the urgent need to increase the number of donors and the number of dollars they give, the principal governmental incentive to private giving should be recognized as a special deduction, broadly available to all taxpayers, whether or not they use the standard deduction."

To those who oppose the legislation on the basis of loss of tax revenue, we believe that a very good argument can be made to refute such a premise. With additional contributed income, our Easter Seal affiliates can accelerate rehabilitative and restorative services to the handicapped, making these individuals less dependent on federal and public assistance. Expenditures by rehabilitation organizations have been shown to be cost-effective in terms of reducing the cost to the government for assistance to handicapped individuals. The added services in the areas of physical and occupational therapy will equip the handicapped to become more self-sufficient, enter the work force and become members of the taxpaying public contributing added dollars to the Federal Treasury to offset the loss in revenue which will occur from those tax deductions allowed for the charitable contributions as provided for in S. 219. In addition, many of the disabled, now beneficiaries of federal public assistance programs, will be able to forgo such assistance as they become self-sufficient taxpayers earning their own living and support. Thus, the benefit would be twofold. Many handicapped persons with proper rehabilitation will become self-supporting taxpayers and will no longer be in need of costly federal support which necessitates the expenditures of a substantial amount of tax dollars.

Because of the foregoing, Easter Seals strongly urges the Subcommittee to favorably report out S. 219 and we thank you for the opportunity to present our views.

Sincerely,

Roberta Van Beek

Roberta Van Beek
Assistant Director of
Governmental Affairs

RVB:cg

AMERICAN CANCER SOCIETY
Missouri Division, Inc.

P. O. BOX 1066 JEFFERSON CITY, MISSOURI 65102 PHONE: (314) 636-3195

January 28, 1980

Mr. Michael Stern
Staff Director
Committee on Finance
Room 2227, Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Stern:

The Missouri Division, Inc., American Cancer Society Board of Directors wishes to go on record with the following statement relative to S.219, the Charitable Contributions Bill (sponsored by Senators Packwood and Moynihan, etc.):

> The adoption of S.219 represents a needed change in the tax law to stem an unintended, but very real deterioration of the uniquely American institution of volunteerism and the charitable contribution. The American Cancer Society supports the proposed legislation and urges members of the Senate to vote in favor of this bill.

Very truly yours,

James Hueser

James Hueser, M.D.
President of Board of
Directors

jhh

cc: Meredith C. Jones, Jr., Chairman
C. Stuart Exon, M.D., Chairman of Public Issues Committee, Missouri Division
Gerald G. Quick, Executive Vice President
Alan Davis, Vice President for Governmental Relations
Tom Mahaffey, Midwest Area Vice President
Members of the Board of Directors

"You Do Make a Difference"

WALL DRUG STORE
510 MAIN STREET
WALL South Dakota 57790
GATEWAY TO THE BADLANDS
Originators of
"The Vanishing Trail Expedition"

January 17, 1980

Mr. Michael Stern, Staff Director
Committee on Finance
Room 2227, Dirksen Senate Office Bldg.
Washington, D. C. 20510

Dear Sir:

I would like to submit this letter as written testimony in favor of S. 219, the Charitable Contributions Bill, which would permit donors to deduct charitable gifts whether or not they itemize their other deductions on their income tax form.

I feel that enactment of this bill would not only benefit low and middle income people, most of whom do not itemize, but would also encourage charitable giving by providing all taxpayers with more incentive.

For many, many years the Federal income tax laws have allowed the charitable deductions for two good reasons: to encourage support of the private philanthropic organizations, and to avoid taxing income that is given away rather than consumed. However, in actuality, this principle is viable for only those who itemize their deductions. In recent years fewer people have been doing so because of the increase in the standard deduction. Along with the more prevalent use of this standard deduction has come a decline in charitable giving.

In conclusion, it is my opinion that S. 219 would encourage citizens to contribute to the many worthwhile and necessary charitable organizations in our country.

Sincerely,

Bill Hustead

Bill Hustead
Wall, South Dakota 57790

BH:gee

ORECON SHAKESPEAREAN FESTIVAL AS
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ASHLAND OR 97520

Mailgram

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1980 JAN 31 AM 9 57

SENATOR ROBERT PACKWOOD
1321 DIRKSEN SENATE OFFICE BLDG
WASHINGTON DC 20510

ATTENTION BETTY

DEAR SENATOR PACKWOOD

THE OREGON SHAKESPEAREAN FESTIVAL ASSOCIATION WOULD LIKE TO GO ON RECORD AS STRONGLY SUPPORTING S219 WITH A MEMBERSHIP OF NEARLY 6,000 FROM THE PACIFIC COAST STATES, THE OREGON SHAKESPEAREAN FESTIVAL IS ONE OF AMERICA'S MAJOR NOT-FOR-PROFIT PROFESSIONAL THEATRES.

DURING THE PAST DECADE ATTENDANCE AT THE FESTIVAL HAS INCREASED FROM 65,000 IN 1969 TO MORE THAN 265,000 LAST SEASON, IT IS OUR CONVICTION THAT THE INCENTIVE TO INCREASE PRIVATE SUPPORT CREATED BY S219 IS CRITICALLY IMPORTANT IF THE FESTIVAL IS TO CONTINUE TO MEET THE PUBLIC DEMAND FOR QUALITY PERFORMANCE AND EDUCATIONAL PROGRAMMING.

SINCERELY
WILLIAM W PATTON, GENERAL MANAGER, OREGON SHAKESPEAREAN FESTIVAL ASSOCIATION

17:32 EST

MGMCOMP MGM

United Way OF CALIFORNIA
410 Bush St., San Francisco, California 94108 • Phone (415) 772-4300

STATEMENT

of

UNITED WAY OF CALIFORNIA

to the

U.S. SENATE FINANCE COMMITTEE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

S. 219 BY SENATORS MOYNIHAN AND PACKWOOD

JANUARY 30-31, 1980

SUMMARY

In California, private fund raising is not keeping pace with inflation. Non-profit community service agencies have suffered the greatest cuts in government funding since enactment of Proposition 13. Service demands on community-based service providers have increased as a result of cutbacks in public services.

Fewer people are itemizing their deductions which results in reduced giving by lower and middle income persons. Proposition 13 accelerates the number of persons switching from itemized returns to the standard deduction because of reduced property tax writeoffs.

S. 219 will remedy this situation by restoring the tax incentive to lower and middle income taxpayers. Similar legislation was introduced in the California Legislature on February 14, 1979. This bi-partisan bill, AB 545 by Assemblyman S. Floyd Mori and twenty-eight co-authors, was approved by the Assembly Revenue and Taxation Committee in April, 1979. On January 23, 1980, the Assembly Ways and Means Committee sent AB 545 to the Assembly floor with a "DO PASS" recommendation. Identical legislation will be introduced shortly in the State Senate.

In July, 1979, the Field Research Corporation, headed by Mervin Field, conducted a survey of California public attitudes toward tax deductions for charitable contributions. This survey indicates that people who itemize their personal deductions give much more to charity than do standard deduction users. In 1978, 19.6% of California taxpayers who used the standard deduction gave nothing to charity as compared with only 4.4% of itemizers who gave nothing. 41% of the standard deduction users gave less than $100 in 1978 as compared with 17.5% of the itemizers giving less than $100. Contributions increase as income rises in all income ranges.

The Field poll also indicates that tax deductibility of charitable contributions is a powerful incentive to give. 17.5% of the standard deduction users stated that they will increase their giving if both federal and state income tax laws are amended to allow above-the-line treatment. When asked if they will give more if only the state law is amended, 15.1% of the standard deduction users indicated that they will give more to charity.

Finally, the Field poll indicates that Californian's favor above-the-line treatment of charitable contributions by a margin of two to one.

BACKGROUND

The United Way of California is the state association of California's forty-one independent local United Way organizations. In 1978, these local United Ways raised over $110 million to help fund over 1300 local volunteer governed health and welfare agencies. These agencies generated an estimated three to four dollars in volunteer effort, fees for service and government grants for every United Way dollar.

THE VOLUNTARY SECTOR

Voluntary associations operate in virtually every aspect of American life, including environmental and wildlife protection, health, welfare, religious activities, civic improvement, civil rights, arts and culture. These organizations are not government mandated, nor do they operate for monetary profit. Most are organized as not-for-profit corporations. Many are exempt from federal and state income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

In California, the Attorney General's Office reported 14,000 registered charitable organizations in 1977. These organizations received nearly $1 billion annually in contributions and an additional $500 million in grants. An equal number of charities are not required to register because of statutory exemptions.

INFLATION AND THE VOLUNTARY SECTOR

The voluntary sector is highly labor intensive. Since voluntary agencies provide services rather than producing goods, they are more susceptible to the negative effects of inflation. Thus, even though private giving doubled in the 1960's, this growth did not translate into twice as much purchasing power for charitable organizations. In an excellent study of giving in the American economy, Nelson concludes that "of the dollar growth in giving from 1960 to 1972, one-quarter represented an increase in the actual quantity of services purchased and three-quarters represented price inflation."

THE VOLUNTARY SECTOR AND GOVERNMENT

By the early 1970's, the fund raising efforts of voluntary agencies could no longer keep pace with inflation. Many voluntary organizations began to view participation in government programs as the road to survival. At this precise time, many federal assistance programs were consolidated and decentralized. Local governments received more control over administration of federal urban social programs. In 1972, Congress enacted the General Revenue Sharing program. This was followed in quick succession by the Comprehensive Employment and Training Act (CETA) in 1973, the Housing and Community Development Act (HCDA) in 1974, The Social Services Amendments (Title XX) in 1974 and the Older Americans Act Amendments in 1975. These programs all offered major opportunities for voluntary agencies.

Within a few short years, voluntary agencies became an integral part of the public services delivery system. Yet few public officials and fewer taxpayers were aware that many publicly supported health, welfare and other services were being provided not by public employees but rather by the employees and volunteers of community-based organizations.

During this period, local United Ways began encouraging their funded agencies to use the United Way allocation as seed money to get government grants to improve or expand community services. This phenomenon grew rapidly as revenue sharing and block grants became more plentiful. In 1974, for example, the United Way in the Bay Area of San Francisco allocated $12.5 million in private donations to approximately 200 agencies who raised another $20 million in government funding. In 1979, the United Way allocations grew to $16.4 million while government funding grew to $57.2 million.

On a statewide basis, over 30 percent of all United Way funded agencies now receive more than 50 percent of their total income from government grants. In metropolitan areas, the percentage is higher with over 40 percent of the agencies falling in the above category.

A recent study by the National Association of Social Workers (NASW) shows that the voluntary sector has received the biggest initial funding cuts in the wake of Proposition 13. NASW studied the impact of Proposition 13 on nine major human services programs in twelve California counties, representing 75 percent of the State's population. NASW found that the use of general revenue sharing to fund voluntary agencies to provide human services suffered a 22.8 percent decrease, or 30 percent when adjusted for inflation. Another funding source utilized heavily by the voluntary sector is Title XX, which received a 12 percent reduction -- becoming the second largest program cutback.

Service demands on community based service providers have increased as a result of cutbacks in public services. These demands are in a wide range of services including youth programs, mental health, substance abuse, probation diversion programs, aging programs, social services and employment training.

THE STANDARD DEDUCTION

The standard deduction was designed as a method to simplify the filing of tax returns. It was never designed to erode the giving base of charitable organizations. Unfortunately, the increased preference for the standard deduction has inadvertently reduced the independent fund raising capability of charitable organizations.

In California, taxpayers filing itemized returns claimed $2.5 billion in deductions for residential property taxes in 1978. This deduction will shrink almost thirty percent (30%) in 1979 and sixty percent (60%) in 1980, as a result of Proposition 13. The effect of this loss of a substantial portion of the tax deductibility of the average homeowner's second largest tax deduction will be the creation of more non-itemizers on both federal and state tax returns.

Under current federal and state tax codes, only those who itemize their deductions can claim a tax incentive for such contributions as (1) cash, (2) property donated for charitable use or resale in thrift shops, and (3) cost of mileage and other qualified out-of-pocket expenses incurred in voluntary community service. Those who use the standard deduction receive no benefit from such donations. These taxpayers are treated the same as those using the standard deduction and making no charitable contributions.

THE CHARITABLE GIVING BASE

In July, 1979 the Field Research Corporation conducted a public opinion survey to determine California public attitudes toward tax deductions for charitable contributions. The survey was conducted for a broad coalition of religious and charitable organizations headed by the United Way of California. It was financed by grants from the Bank of America, the Evelyn and Walter Haas, Jr. Fund, The Hewlett Foundation, the San Francisco Foundation and the San Mateo Foundation.

In total, 1,013 interviews were completed statewide among California adults, 18 years of age and older. All interviewing was conducted face-to-face in respondents' homes using a structured questionaire. The questions were developed by the Field Research Corporation staff and were reviewed in advance by officials of the California State Department of Finance, the Franchise Tax Board, and the Legislative Analyst.

This survey established a number of important facts which support the proposition that above-the-line treatment of charitable contributions will substantially increase charitable contributions.

These facts include:

. People who itemize their deductions give much more to charity than those who use the standard deduction. In 1978, 19.6% of California taxpayers who used the standard deduction gave nothing to charity as compared with only 4.4% of itemizers who gave nothing. 41% of the standard deduction users gave less than $100 in 1978 as compared with 17.5% of the itemizers giving less than $100. Itemizers give substantially more to charity than those who use the standard deduction.

. Tax deductibility of charitable contributions is a powerful incentive to give. 17.5% of the standard deduction users stated that they will increase their giving if both federal and state income tax laws are amended to allow above-the-line treatment. When asked if they will give more if only the state law is so amended, 15.1% of the standard deduction users indicated that they will give more to charity. 23.1% of the blacks and 13.4% of the Hispanics questioned said they would increase their charitable contributions if above-the-line treatment is allowed. 19.6% of the non-givers and 18.1% of the under $100 per year givers stated they would increase their giving if the law is amended.

- Homeowners give substantially more than renters. In 1978, 19.5% of all renters gave nothing to charity compared with only 7.8% of homeowners in this category. 44.4% of renters give less than $100 to charity compared with 20.9% of homeowners falling in this category, but 20.2% of the renters said they would increase their contributions of above-the-line treatment is allowed.

- In 1978, charitable giving by Californians was higher as age, education and income level increased. Married people also gave substantially more than unmarried people. 22.3% of those between the ages of 18-29 would increase their contributions if above-the-line treatment is allowed. 19.1% of those earning between $15,000 and $19,999 annually would also increase their giving.

TAX SAVINGS AND CHARITABLE CONTRIBUTIONS

The Commission on Private Philanthropy and Public Needs (aka Filer Commission) stimulated the most important empirical studies to date on the scope and nature of charitable giving. These independent studies utilized the most sophisticated opinion research and econometric modeling techniques available. Twenty-five years of IRS data was analyzed by leading economists to test various assumptions regarding tax incentives and charitable giving.

The econometric studies confirm that the price elasticities of charitable contributions greatly favor the proposition that charities will gain far more contributions than the government loses in taxes. The key study on the effects of the charitable deduction on contributions by low and middle income households was conducted by Professors Michael Boskin of Stanford University and Martin Feldstein of Harvard. This study shows that the price elasticity of giving in households with incomes of $1000 to $30,000 is -2.4. In other words, for each dollar lost by government, charities will gain $2.40.

The Moynihan-Packwood (S 219) bill targets the incentive to make charitable contributions to low and middle income groups. According to the Joint Congressional Committee on Taxation, 57.5 percent of the revenue effect will be reflected on the tax returns of those earning less than $20,000. More dramatically, 77.3 percent of the tax returns affected have incomes below $20,000. As the California Field Poll indicates, it is precisely this group which plans to start or increase giving to charitable organizations when the Tax Code is amended.

In addition to the increase in monetary giving, each dollar would generate substantial volunteer effort. The Governor's Office of Voluntarism estimates that each dollar generates five dollars in volunteer time. A recent study by the U.S Conference of Mayors points out that every dollar devoted to the arts and culture generates another three dollars in related economic effort. This multiplier effect will greatly increase the availability of community based services at a time of retrenchment by all levels of government.

GIVING SHOULD BE PRIVATE

This statement has focused on the economic considerations regarding the Moynihan-Packwood (S 219) bill. It would not be complete, however, without mentioning the basic philosophical premise underlying this legislative proposal. Simply put, money that people give freely away to benefit others ought not to be taxed. These gifts do not increase the giver's wealth, nor do they accumulate in his or her estate. They are not resources consumed by the giver. They benefit other people.

PENDING STATE LEGISLATION

In California, a broadly based coalition of religious and charitable organizations has sponsored a legislative proposal identical to S. 219. In February, 1979, Assemblyman S. Floyd Mori introduced AB 545 to amend the State Revenue and Taxation Code to allow every taxpayer a deduction for charitable contributions whether they itemize their other deductions or not. AB 545 was approved by the Assembly Revenue and Taxation Committee in April, 1979. On January 23, 1980, the Assembly Ways and Means Committee approved this Bill and sent it to the Assembly Floor with a "Do Pass" recommendation.

SUPPORT URGED

United Way of California urges your support for enactment of S. 219 in this session of Congress.

Statement submitted by:

Mr. Robert A. Grimm, President
Mr. Louis N. Garcia, Executive Director
UNITED WAY OF CALIFORNIA
410 Bush Street
San Francisco, CA 94108
(415) 772-4300
January 25, 1980

PARTIAL LIST OF AB545 SUPPORTERS

(1) Children, Youth and Family Organizations

Girls Clubs of America
Boys Clubs of America
Family Services Council of California
YMCA
YWCA
Boy Scouts of America
Girl Scouts of America
Camp Fire Girls
Family Service Association of America
Project Eden of Hayward
Juvenile Service Council - Volunteers in Probation
Sunny Hills Children's Services
Catholic Youth Organization
Jewish Family Service of Los Angeles
La Casa Community Center
California Association of Children's Residential Center

(2) Education and Education Related Organizations

Association of Independent California Colleges and Universities
Parents Teacher Association (PTA)
Occidental College
Pomona College Alumni Association
Life Skills House
Simi Valley Friends of the Library

(3) Health and Health Related

American Social Health Association
Children's Hospital of Los Angeles
American Diabetes Association
Long Beach Childrens' Clinic
National Multiple Sclerosis Society
Association for Retarded Citizens
Pasadena Council on Alcoholism
St. Anne's Maternity Home
Visiting Nurses' Association
Mental Health Association
American Cancer Society
American Heart Association
Easter Seal Society
Planned Parenthood Affiliates of California
Memorial Hospital of Glendale
Newhall Memorial Hospital
Hearing Society of the Bay Area
Salinas Valley Memorial Hospital
Rideout Hospital (Marysville)
Grossmont Hospital Auxiliary (La Mesa)
Institute for Burn Medicine (San Diego)
Herrick Memorial Hospital Guild
CEDARS-SINAI Medical Center

(4) Parks and Recreation

East Bay Regional Park District
California Park and Recreation Society

(5) Religious and Religious Related

California Catholic Conference
Salvation Army
Jewish Public Affairs Committee
National Council of Jewish Women
Ventura Council of Churches
Northern California Ecumenical Council
Southern California Council of Churches

AB545 SUPPORTERS (cont).

(6) Volunteer and Neighborhood Organizations

California Volunteer Network
Directory of Volunteers in Agencies
Voluntary Action Center of Los Angeles
Travelers' Aid Society
Volunteers of America
USO
United Way of California
Junior League of San Francisco
Council of California Goodwills
Catholic Social Services
The Neighborhood House (San Diego)
National Urban League
Santa Monica Legal Aid
Maravilla Foundation
National Concilio of America
Volunteer Bureau of Alameda County
Jewish Community Center
Episcopal City Mission Society
International Institute

(7) Media

Los Angeles Times
San Francisco Chronicle
San Francisco Examiner
San Francisco Progress
Contra Costa Times
Sacramento Bee
KNBC - TV

(8) Community and Business Leaders

Mayor Pete Wilson, San Diego
Mayor Lionel Wilson, Oakland
Mayor Ilene Weinreb, Hayward
Mayor Peggy Mensinger, Modesto
Mr. A. W. Clausen, President, Bank of America
Sandra Smoley, Supervisor, Sacramento County
Major General Richard Merkling, USAF, Sacramento
Mayor Tom Bradley, Los Angeles
Mr. Norman Barker, Chairman of the Board, United California Bank
Marin County Board of Supervisors
Orange County Board of Supervisors
Berkeley City Council
League of California Cities

Tax Revolt Digest
NEWS AND ANALYSIS

MAY 1979

Voluntary agencies fight to survive

Voluntary human-service agencies in California are fighting for survival as a result of the impact of Proposition 13.

The initiative has caused local government to withdraw or reduce grants for numerous programs provided by the voluntary agencies under contract with cities, counties, schools and special districts.

The Legislature's failure to enact a permanent funding plan for local government has made it virtually impossible for agencies, such as those in the United Way family, to plan for the future.

Those are the main conclusions of a series of studies assessing the impact of the proposition on voluntary agencies.

One of these reports, prepared by the National Association of Social Workers, focused on the state's largest counties containing 75 percent of California's population. The report emphasizes that voluntary agencies often get far more money from government than from direct public contributions.

For example, in the San Francisco Bay Area, United Way allocations to member organizations increased from $12.5 million in 1974 to $16 million in 1976, a boost of 29 percent. But during the same period, income from government sources leaped from $20 million to $47 million, an increase of 133 percent.

Even organizations long reluctant to

(continued on page 2)

The new Jarvis tax-cut proposal

Proposition 13 co-author Howard Jarvis soon will start collecting signatures for a new initiative proposal he claims would cut taxes in California another $2.7 billion.

Jarvis says the state surplus keeps growing despite Proposition 13, which cut property taxes some $7 billion. "Because of this surplus, no belt-tightening has taken place. Scattered cutting of services to scare people, but no across-the-board belt-tightening or cutting of frivolous programs and duplicating services has taken place."

The initiative would:

- Cut state personal income taxes in half for all.
- Initiate 100 percent indexing of the personal income tax so that individuals will not be forced into higher brackets because of pay raises meeting the cost-of-living. The state now applies a so-called indexing factor only after the cost of living increases more than three percent.
- Eliminate the property tax on business inventories.
- Freeze the sales tax at present levels (six percent in most counties).

Jarvis said he hopes to start circulating petitions in July to qualify the measure for the ballot in June of 1980. He needs 553,000 valid signatures.

'TAXPAYERS BILL OF RIGHTS'

Texas' Clements wields budget axe

The axe of the budget-cutter came down harder in Texas this year than in any other large state.

Wielding the axe was the state's first Republican governor in more than 100 years, William Perry Clements Jr., who is more familiar handling the tools of the oilfield roughneck.

Clements cut more than $2 billion from a budget that was supposed to hit $22 billion for the next two fiscal years. This means that taxes will be cut some $1 billion in Texas next year — over and above a $1 billion cut voted by the Legislature in 1978.

The Governor, who won a surprise victory over Democrat John Hill last November, called for a four-point "Taxpayers Bill of Rights" in his state-of-the-state address. The four points:

- *Give voters* the initiative and referendum, making it possible for Texans to vote themselves measures like California's Proposition 13.

- *Ban the personal* and corporate income tax.
- *Require* a two-thirds vote of the Legislature for any tax increase.
- *Give citizens* the right to vote on any proposed local government tax increase.

Clements, who made millions in the oil-drilling business and served as a deputy secretary of defense during the Nixon and Ford administrations, also called for the institution of a zero-based budgeting system and for reduction by attrition of the number of state employees.

Clements set a goal of reducing the Texas government work force by 25,000 during his four-year term.

All those came in the wake of a constitutional amendment placed on the ballot last year by the Legislature and approved by the voters. That measure placed a lid on state spending by tying it to economic growth in Texas, providing tax relief for homeowners and prohibiting the state from making property-tax assessments.

The big question was how much success Clements will have rounding up votes for his programs before the Democratic Texas Legislature.

Observed one of the Governor's friends: "If Bill can just remember those aren't 181 vice presidents he can fire when he gets mad, he'll be okay."

Voluntary agencies

(continued from page 1)

accept government help — family-service agencies, the Salvation Army and Catholic Social Service — have been relying increasingly on government contracts for support.

Cutting and postponing

Nearly all counties reported reducing or eliminating contracts for human services due to Proposition 13. The large metropolitan counties reported reductions in social services, health, mental health, substance abuse, probation-related diversion, aging, and employment and training programs. Reductions of 10 to 15 percent in overall contract expenditures were common. The cuts came either in across-the-board reductions in all funded programs or by eliminating a few "lesser priority" programs.

In addition, new contract programs scheduled to start in 1979 were postponed indefinitely or never seriously considered after Proposition 13. Expenditures in human-service areas could go down further if counties face deficits and decide to cut into contract funds to cover operating expenses.

Some county authorities expected that contracts with voluntary agencies could be reduced without a proportionate reduction in services. Elected county supervisors sometimes assumed that the contract agencies would maintain services by raising private funds to substitute for the lost public funds.

But the report says that nowhere have United Way or other agencies been able to make up for the Proposition 13 reductions and increased demands on voluntary services. These demands have risen because voluntary groups cannot refer clients to public services that are no longer there, or are still there but in limited forms. Private youth agencies like the YMCA and YWCA face increased service demands because summer schools and recreation programs have been cut.

The agency response

How have voluntary agencies responded? Some have been able to raise money from other government sources, private funding and additional requests to United Way. Still others have cut staff, services and working hours, or have closed branches and satellite offices, or accepted fewer clients. Some agencies have assumed a deficit, used up reserves (most had none), increased the use of volunteers, added to the load on United Way central services and asked paid staff to continue as volunteers.

There's a general belief among United Way agency's executives that conditions will get worse in the short run. Some counties are cutting all but mandated programs. In Sacramento County, the board of supervisors has decided that it can no longer afford to fund non-mandated human service programs provided by outside agencies. The board's decision will free up about $1 million that has been going to more than 30 community service programs. Some of them have no other funding sources.

Supervisors said that such agencies can apply to be funded as part of county programs if the responsible department considers the service essential and is willing to pay for the service from its own budget. But county departments may have to drop other programs, because no additional funds will be provided. Examples of affected programs include two battered women agencies and a preschool project for developmentally delayed children.

Officials are concerned that the reductions have fallen most heavily on preventive services. A survey by San Diego United Way Agency reports that preventive services responding to "less demanding needs" are being identified for first cuts.

Tax Revolt Digest

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TAX REVOLT DIGEST is a non-partisan report and analysis of the aftermath of the passage of Proposition 13, the Jarvis-Gann initiative, on the June 1978 California ballot. Funded by The Ford Foundation, the digest is designed to help individuals and organizations throughout the United States comprehend the ramifications of the tax-revolt phenomenon.

The California Center for Research and Education in Government is a non-profit, tax-exempt corporation which also publishes the *California Journal*.

Subscription rates: $15 for 12 monthly issues plus special supplements, $8 for six issues, plus special supplements.

Did Prop. 13 punish the thrifty?

Did Proposition 13 reward California's profligate government spenders and punish the thrifty?

Before the Jarvis-Gann initiative was adopted, property tax rates varied tremendously from county to county and community to community. Governmental services also varied greatly, depending upon the revenues each entity of local government received from various tax sources.

As a result of Proposition 13, all Californians now pay essentially the same property tax rate — one percent of market value.

But the amount of money available to each community has not changed greatly because of the method used by the state to make up local-government property-tax losses.

Consequently, the big spenders have been rewarded. Some legislators from rural California have complained that some of the urban counties, such as San Francisco and Los Angeles, were the major beneficiaries of the initiative.

This is because they used to have extremely high property tax rates and because the state based its "bailout" allocations on replacement of lost property taxes. The Legislature's intention was to provide schools, cities and counties with 90 percent of the funds they would have received without enactment of Proposition 13.

Thus a county with a high tax rate received the most tax relief plus the most aid from the state. The state allocation program only hurt those who had already trimmed their budgets to the bone.

The disparities were the result of many factors. In some communities, voters were willing to spend more for enriched services. Some jurisdictions concentrated on keeping local-government costs down. Some budgets were tighter because of exceptionally good management.

Where possible, employee organizations are attempting to take advantage of the new method of financing local government in California. Employees of one fire district, for example, asked district directors not to fight a pay-raise proposal because the increase will have no effect on the property taxpayer and the state will have to foot the bill.

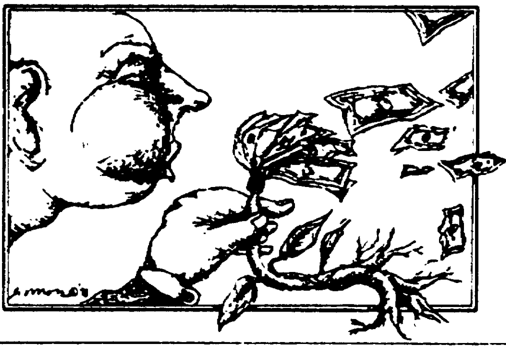
Charitable organizations and the three-pronged pinch

Charitable organizations in California claim they are feeling a three-way pinch from the effects of Proposition 13.

And some of these organizations, including United Way, are seeking changes in the federal and state income-tax laws in order to relieve at least some of the pressure

Here are the three ways these organizations are being squeezed in the aftermath of 13:

• Most of these organizations depend more heavily on government support than on contributions from the public United Way agencies, for example, get about three times as much money from local, state and federal government sources than from their annual appeals. It is being estimated that government funds are being cut back between 10 and 20 percent for a typical agency.



• Because government is cutting back services, greater demands than ever are being placed on the services provided by organizations outside the public sector. When summer school was eliminated this year, for example, many more youngsters poured into their local YMCAS Similarly, there is increased demand for marriage, alcoholism and drug counseling from agencies that depend on contributions and government allocations for support.

• With the reduction in property taxes from Proposition 13, fewer Californians will be itemizing their income-tax deductions and will be using the standard deduction. Charitable organizations depend most heavily on those who itemize to give money because there is a direct tax benefit. Churches and other charitable organizations feel they will be severely hurt by the increase in Californians using the standard deduction.

The United Way of California, joined by several other organizations, is leading a drive to change the federal and state income-tax laws so that even those who use the standard deduction will be able to get tax credits for charitable contributions.

Cystic Fibrosis Foundation

6000 Executive Blvd., Suite 309, Rockville, MD. 20852 • (301) 881-9130

Statement of the Cystic Fibrosis Foundation

in support of S. 219 and H.R. 1785

to the Subcommittee on Taxation and Debt Management

of the Senate Committee on Finance

January 30, 1980

> The Cystic Fibrosis Foundation strongly supports the enactment of S. 219 and H.R. 1785, providing for an "above-the-line" tax deduction for charitable contributions, available to all taxpayers whether or not they itemize their other deductions. Such a step will strengthen charitable giving and allow voluntary organizations such as ours to continue effective service to people in need.

Submitted by:

Doris F. Tulcin
National President

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

Cystic Fibrosis (CF) is the number one genetic killer of young people in America. It is a progressive disease that attacks the lungs and digestive systems of those born with it. Although progress has been made in dealing with the disease, it is still inevitably fatal, most often in the teenage years.

Some twenty-five years ago, a group of parents and other concerned individuals created the Cystic Fibrosis Foundation in the belief that concerted, voluntary action could improve care of children with CF and encourage research to improve our understanding of the disease and make longer lives possible.

Through the charitable contributions received by the Cystic Fibrosis Foundation and the efforts of many thousands of lay and medical volunteers, we have been able to support a wide range of activities that would otherwise not exist:

- There is now a network of over 120 Cystic Fibrosis Centers across the country, each meeting standards of excellence and providing high-quality care to CF patients. The CFF provides over $2 million in operating support funds for these Centers, and also supports annual meetings of Center personnel to promote the interchange of ideas. This network of Centers is a unique resource, and was created by voluntary action.

- The CFF supports a wide range of research and research training programs to complement the efforts of the National Institutes of Health. Our research budget is aimed at the new scientist, and is designed to provide the support needed at the start of a career. Many of the leading researchers in Cystic Fibrosis today began with grants or fellowships from our Foundation, all supported by charitable gifts.

- The CFF has helped educate both the medical profession and the general public about Cystic Fibrosis. Early detection of CF leads to longer, relatively healthier lives for those affected, and therefore it is important that people not involved in CF -- whether parents or general pediatricians -- be able to recognize its symptoms. For those who provide care, the CFF's publications help spread the news of the latest developments and ideas, allowing patients to benefit sooner.

- Finally, the CFF is concerned about consumer services. Through publications, meetings, and other activities -- all supported by voluntary gifts from the public -- CF consumers (patients and their families) receive emotional support, learn how to assist in their own care, find out about opportunities available to them, and share their feelings about a disease that few people understand.

CF

The Cystic Fibrosis Foundation relies for over 80% of our income on the small ($5 - $100) gifts of middle-income people. Most of these people presently receive no tax advantage from giving, and many of them are reducing their charitable gifts to meet other financial demands on their families. Our experience in dealing with people for whom the tax considerations are relevant (because they do not use the standard deduction) persuades us that allowing a tax deduction for charitable contributions is a very effective incentive. We are confident that there would be a substantial positive impact on the gifts by middle-income people if all taxpayers could deduct their charitable gifts regardless of whether they itemize their other deductions, as proposed in S. 219 and H.R. 1785.

Each of the services and activities supported by the Cystic Fibrosis Foundation is a valuable addition to the fight against this disease, and every dollar that we spend is a dollar that does not have to come from taxes, insurance premiums, or other sources. If we are not able to maintain our programs for the growing population of people affected by CF, demands will be heard for those services to be taken over by the government, leading to higher spending and less personal involvement.

We strongly believe that voluntary action supported by charitable gifts is working for the Cystic Fibrosis community, just as it is working for thousands of other organizations across the country. Legislation like S. 219 and H.R. 1785 will make us even stronger and better able to serve those in need. We strongly urge this Subcommittee and the entire Congress to act favorably on S. 219 and H.R. 1785 as soon as possible.

Michael Stern, Staff Director
Committee on Finance
Dirksen Senate Office Building-Rm.2227
Washington, D. C. 20510

Ref: S.B.#219

Dear Michael Stern,

This letter is to urge your support of Moynahan and Packwood S.B. #219. Passage of this bill is vital to the future money raising capabilities of all volunteer agencies.

Please vote for this important legislation.

Yours very truly,

Signed [illegible]
Address 3604 75th,
Lubbock, Texas 79423

Michael Stern, Staff Director
Committee on Finance
Dirksen Senate Office Building-Rm.2227
Washington, D. C. 20510

Ref: S.B.#219

Dear Michael Stern,

This letter is to urge your support of Moynahan and Packwood S.B. #219. Passage of this bill is vital to the future money raising capabilities of all volunteer agencies.

Please vote for this important legislation.

Yours very truly,

Signed Mrs. Jack Schneider
Address 3301-43rd
Lubbock, Texas
79413

Michael Stern, Staff Director
Committee on Finance
Dirksen Senate Office Building-Rm.2227
Washington, D. C. 20510

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Please vote for this important legislation.

Yours very truly,

Signed [illegible]

Address 1717 [illegible] Apt. 2326
[illegible] 79416

Michael Stern, Staff Director
Committee on Finance
Dirksen Senate Office Building-Rm. 2227
Washington, D. C. 20510

Ref: S.B. #219

Dear Michael Stern,

This letter is to urge your support of Moynahan and Packwood S.B. #219. Passage of this bill is vital to the future money raising capabilities of all volunteer agencies.

Please vote for this important legislation.

Yours very truly,

Signed [illegible]
Address 4502 [illegible]
[illegible], Texas 79416

Michael Stern, Staff Director
Committee on Finance
Dirksen Senate Office Building-Rm.2227
Washington, D. C. 20510

Ref: S.B.#219

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Please vote for this important legislation.

Yours very truly,

Signed Mrs. R. C. Hoit

Address 5317-19,
Lubbock, Tx. 79407

Michael Stern, Staff Director
Committee on Finance
Dirksen Senate Office Building-Rm.2227
Washington, D. C. 20510

Ref: S.B.#219

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This letter is to urge your support of Moynahan and Packwood S.B. #219. Passage of this bill is vital to the future money raising capabilities of all volunteer agencies.

Please vote for this important legislation.

Yours very truly,

Signed Brenda Conner
Address Rt 6 Box 629 H
Lubbock, Tx 79412

Michael Stern, Staff Director
Committee on Finance
Dirksen Senate Office Building-Rm.2227
Washington, D. C. 20510

Ref: S.B.#219

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This letter is to urge your support of Moynahan and Packwood S.B. #219. Passage of this bill is vital to the future money raising capabilities of all volunteer agencies.

Please vote for this important legislation.

Yours very truly,

Signed [illegible]

Address 3301 51st

Lubbock, Texas 79413

Child and Family Service

CITIZENS TRUST BUILDING
355 CRAWFORD STREET

PHONES 397 2121 AND 397 3311
AREA CODE 804
OUTREACH PHONE 399 8608

PORTSMOUTH, VIRGINIA 23704

DOROTHY P. EVANS
EXECUTIVE DIRECTOR

January 25, 1980

Mr. Michael Stern
Staff Director
Committee on Finance
Dirksen Office Bldg. Rm 2227
Washington, D.C. 20510

RE: Fisher-Conable (H.R. 1785)
Moynihan-Packwood (S. 219)

Dear Mr. Stern:

In May 1978 the Board of Child and Family Service in Portsmouth wrote to our Senators indicating our support for the Fisher/Conable Bill and including a resolution adopted by the board. The board is a volunteer board which is representative of the community.

We are aware that the Fisher-Conable Bill will come up at Senate and House hearings on January 30 and 31 and wish to remind you of our strong support. We are enclosing for your information, a copy of the resolution adopted by the board of this agency.

Sincerely yours,

Dorothy P. Evans

(Mrs.) Dorothy P. Evans ACSW
Executive Director

DPE:sd

Child and Family Service

CITIZENS TRUST BUILDING
355 CRAWFORD STREET

PHONES 397 2121 AND 397-3211
AREA CODE 804
OUTREACH PHONE 399-8008

PORTSMOUTH, VIRGINIA 23704

DOROTHY P EVANS
EXECUTIVE DIRECTOR

January 25, 1980

The Honorable Harry F. Byrd
United States Senator
417 Russell Office Bldg.
Washington, D.C. 20510

RE: Moynihan-Packwood (S. 219)
Fisher-Conable (H.R. 1785)

Dear Senator Byrd:

In May 1978 I wrote to you on behalf of the Board of Child and Family Service enclosing a copy of a resolution adopted by the board in support of the Fisher-Conable Bill which permits tax deductions for contributions for those people who do not itemize their deductions.

It is our understanding that there will be hearings on these bills on January 30 and 31. This is to remind you of our interest and to urge your support.

Sincerely yours,

Dorothy P Evans

(Mrs.) Dorothy P. Evans
Executive Director

DPE:sd

Child and Family Service

CITIZENS TRUST BUILDING
355 CRAWFORD STREET
PHONES 397-2121 AND 397-3311
AREA CODE 804
OUTREACH PHONE 399-8008

PORTSMOUTH, VIRGINIA 23704

DOROTHY P. EVANS
EXECUTIVE DIRECTOR

January 25, 1980

The Honorable John Warner
United States Senator
2313 Dirkson Office Bldg.
Washington, D.C. 20510

RE: Moynihan-Packwood (S. 219)
Fisher-Conable (H.R. 1785)

Dear Senator Warner:

Prior to your election to the Senate, I wrote to Senator, Scott on behalf of the board of Child and Family Service and enclosed a resolution adopted by the board in support of the above bills. I am enclosing a copy of that correspondence for your information.

I am writing to you again at this time as there are to be hearings on these bills on January 30 and 31. We urge your support.

Sincerely yours,

Dorothy P. Evans

(Mrs.) Dorothy P. Evans ACSW
Executive Director

DPE:sd

May
22
1978

The Honorable William L. Scott
United States Senator
3109 Dirksen Office Building
Washington, D. C. 20510

Re: House Bill 11181
Fisher-Conable

Dear Senator Scott:

The board of Child and Family Service has asked me to forward to you a resolution which was adopted at their regular meeting on May 17, 1978. This resolution is in support of the Fisher-Conable Bill which was recently passed by the House and which permits tax payers to receive deductions for their charitable contributions whether or not they itemize their deductions.

The board is a volunteer board which is representative of the community. In addition to the board, the agency also has volunteers from the community to serve on agency committees. They have for some time followed studies such as the Filer Commission and are extremely concerned about the effect of the tax laws on the voluntary sector. I am sure that you are aware that out of private philanthropy has come an incredible variety of American institutions such as libraries, museums, universities, United Way, health, religious organizations, and family service agencies. We are especially proud of the quality of service which family service has provided to the community and proud of the support it has received from the lay community who have given, in addition to their money, many valuable hours of time and talent.

In recent years the complementary roles of private and public agencies have emerged. This agency provides counseling for the juvenile court, Social Service Bureau and public schools. We have also provided training to some of the staffs of public agencies. Without the financial support provided by voluntary contributions, our services are going to be diminished.

We urge your support in keeping alive the voluntary sector through tax reform.

Sincerely yours,

(Mrs.) Dorothy P. Evans, ACSW
Executive Director

DPE:cm

WILLIAM L. SCOTT
VIRGINIA

COMMITTEES:
ARMED SERVICES
JUDICIARY

United States Senate

WASHINGTON, D.C. 20510

May 25, 1978

Mrs. Dorothy P. Evans, ACSW
Executive Director
Child and Family Service
355 Crawford Street
Portsmouth, Virginia 23704

Dear Mrs. Evans:

Thank you for your recent letter enclosing a resolution in support of legislation which would permit taxpayers to take a deduction for charitable contributions regardless of whether or not they itemized other deductions.

We appreciate your interest in this legislation and its benefit to various worthy charities. We understand the subject will be considered in the House Committee on Ways and Means in connection with its consideration of the Administration's tax proposals. While it is impossible to predict whether or not it will be included in the bill as reported by that Committee or passed by the House, we will certainly keep your views in mind if the subject comes to the Senate floor for debate. In the meantime, you may want to write your Congressman expressing support as he will have an opportunity to vote on this legislation in the near future.

With kind regards,

Sincerely,

William L. Scott

William L. Scott, U.S.S.

WLS:khh

RESOLUTION

Requesting the Senate to support legislation permitting tax payers to receive deductions for their charitable contributions whether or not they itemize their deductions. (Fisher-Conable Bill H.R. 11181)

Whereas the non-profit segment of the private segment reaches into almost every field of human endeavor; and

Whereas the private pursuit of public purpose is an honored tradition in public life; and

Whereas out of the pluralism which allows all kinds of people to take the initiative in all kinds of activities has come virtually all of our creativity; and

Whereas over seventy million Americans made some significant non-monetary contribution to the non-profit sector since 1973; and

Whereas the voluntary sector is supported primarily by small contributors (80% of individual giving comes from families with incomes of less than $20,000) which keeps alive the personal concern and spirit of generosity in our people; and

Whereas the Commission on Private Philanthropy and Public Needs (Filer Commission) studied alternate ways of providing tax incentive for charitable giving including the use of tax credits and concluded the deduction system was preferable; and

Whereas this legislation has been endorsed by the following national organizations: American Foundation For The Blind, Inc., American Heart Association, American Red Cross, Coalition of National Voluntary Organizations, Council for Financial Aid to Education, Council on Foundations, Council of Jewish Federations and Welfare Funds, The Association of Junior Leagues, Inc., The Family Service Association of America, National Conference of Catholic Charities and United Way of America; therefore be it

Resolved by the Board of Child and Family Service that the Senate support House Bill 11181 allowing tax payers to take a deduction for their charitable contributions whether or not they are itemized.

Adopted May 17, 1978
Board of Directors
Child and Family Service

COUNCIL OF JEWISH FEDERATIONS
575 Lexington Avenue
New York, N.Y. 10022

January 28, 1980

STATEMENT BY:
COUNCIL OF JEWISH FEDERATIONS

TO:
SENATE FINANCE COMMITTEE - SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

REGARDING:
TAX PROPOSALS AFFECTING CHARITABLE CONTRIBUTIONS

The Council of Jewish Federations is a consortium of Jewish Federations in 800 communities which provide a wide variety of services to individuals in need, including refugee care, hospitals, aged care, family counselling, child care, youth and community centers, vocational guidance and other services.

They are supported by contributions secured from over 1,000,000 individuals. They serve over 1,200,000 individuals annually. The amounts raised currently in Jewish Federations approximate $500 million with at least $200 million raised additionally. The gifts of $700 million by Jewish efforts made possible the provision of services with costs in excess of $3 billion annually. Thus, contributions have a multiplier effect because they generate additional support. More important, they generate additional human services.

The amounts raised in 1979 by Jewish Federations are about 5% higher than they were four years earlier -- but the ravages of inflation have eroded the purchasing power of these gifts by over one-third in these four years.

This amounts to negative windfall. While the Treasury receives a positive windfall from the escalation of income into higher tax brackets, charities are faced with the obstinate fact that giving is voluntary and does not escalate automatically. A virtually stationary dollar is a declining dollar in terms of purchasing power.

Since the enactment and steady growth of the Standard Deduction (now termed the Zero Bracket Amount) the proportion of taxpayers who are encouraged to forego contributions because they receive no tax benefit for so doing has increased dramatically: it is currently from 75 to 80 percent of all taxpayers.

This pattern places too heavy a reliance, relatively, on the very largest gifts. These gifts are urgently needed, but they, too, can be endangered if the Standard Deduction continues to erode the incentive for charitable contributions.

We support enactment of the so-called "above the line" treatment of charitable deductions by non-itemizers so that all citizens would continue to be encouraged by their government to contribute.

It is appropriate, in a democratic society, to encourage all citizens to give regardless of the size of gifts.

A study conducted of the 1978 gifts of 600,000 contributors to Jewish Federations in 85 cities indicated that 75 percent of the gifts were at levels below $500. This is precisely where the combination of income levels and the Standard Deduction sharply diminish incentives to contribute. These gifts could be extended and expanded if the contribution deduction would be made available to these individuals.

A recent Gallop poll indicated that the giver in the income bracket of $15,000 to $20,000 who itemizes his deductions gives three times as much as the individual who takes the Standard Deduction.

The combination of these factors indicates that the "above the line" contribution deduction could result in a doubling or tripling of contributions which could provide additional tens of millions of dollars to provide human needed services.

A number of concerns have been aired with regard to the proposal to extend charitable deductions including:

1. Revenue loss: Some say that if taxes are cut, revenue loss is inevitable. The key question is whether the form of the cut enriches the human qualities of our society. Charity does so uniquely.

2. Simplification: Adding one line to the tax return to provide for the charitable deduction is not crucial in attaining simplification. It has been done for other types of transactions (e.g. alimony). The contention that extension of the Standard Deduction is simplification is simplistic: in the name of easing the auditing load of IRS by an extremely modest extent, potential charitable contributions may be simplified out of existence.

The ultimate beneficiary of the incentives is not the taxpayer, but the human being in need who is aided by the services made possible by contributions.

People are better people if they give. This is the time to reinforce governmental encouragement for charitable giving by all levels of givers, including moderate givers, by allowing the charitable deduction for all taxpayers, regardless of whether they itemize their deductions.

We have avoided repetition of the detailed case for this proposal made by other philanthropic agencies but we share their concern most vigorously.

NATIONAL ASSOCIATION OF REHABILITATION FACILITIES

January 22, 1980

Senator Harry F. Byrd
Chairman
Subcommittee on Taxation and
Debt Management
Committee on Finance
U.S. Senate
2227 Dirksen Senate Office Building
Washington, D.C. 20510

Attention: Mr. Michael Stern

Dear Mr. Chairman:

This statement is submitted on behalf of the National Association of Rehabilitation Facilities (NARF) and is requested to be included in the testimony received by your subcommittee at the hearing on S.219 to be held on January 30.

NARF is the principal association of rehabilitation facilities in the United States. Member facilities include rehabilitation hospitals, comprehensive rehabilitation centers, sheltered workshops, and work activity centers. About 99% of the facilities are non-profit organizations and hold a tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. Rehabilitation facilities provide a vast range of services including physical therapy, pulmonary therapy, social adjustment, vocational assessment, training and adjustment, personal care skills and social readjustment for people who are disabled due to disease or injury.

5530 Wisconsin Avenue/Suite 955/Washington, D.C. 20015/Telephone (301) 654-5882
Executive Director/ James Allen Cox, Jr.

Payment for services rendered by rehabilitation facilities come from a number of sources. These include federal programs, such as those under the Rehabilitation Act of 1973, Title XX of the Social Security Act, the Comprehensive Employment and Training Act, the Developmental Disabilities Act, Medicare, Medicaid, state programs, payment by clients themselves and private donations. The federal and state programs and individual payments do not pay for all clients nor do they cover all the actual costs incurred in serving clients in their own programs. Facilities must look to fundraising to cover these costs, to initiate new programs and to serve clients who are not sponsored by a federal or state program and who cannot pay for the services they need.

Frequently, and increasingly, the demand on local charitable organizations, such as the United Way, is so great that they can provide only a small percentage of the funds needed by facilities. Corporate contributions depend on the presence of the corporation in the community and corporate interest varies. Individuals presently contribute a very small portion to the facility budgets and generally come from individuals who find it beneficial to itemize deductions. S.219 would permit taxpayers to take a tax deduction for charitable contributions whether or not they itemize other deductions. In order to do so, the charitable contribution deduction allowed would be added to the list of items deducted from gross income to determine adjusted gross income.

Many more individuals would be motivated to make contributions to facilities and other charitable, educational, and religious organizations if the provisions of S.219 were adopted. Facility directors strongly believe that any such change would give them greater success in obtaining contributions. Increased private contributions may reduce reliance on federal and state funds. Any loss to the Treasury would be offset by the greater services available to the rehabilitation facility client and greater potential for the client's return to a productive life.

Therefore, we recommend that the subcommittee support S.219 and favorably report it to the full committee.

If you desire any further information on this matter, please feel free to contact me.

Sincerely,

James A. Cox Jr.

James A. Cox, Jr.
Executive Director

The Shrine to Music Museum
&
Center for Study of the History of Musical Instruments
USD Box 194, Vermillion, SD 57069 (605) 677-5306

January 21, 1980

Michael Stern, Staff Director
Committee on Finance
Room 2227, Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Stern:

On behalf of The Shrine to Music Museum at The University of South Dakota, I want to write in support of S.219, the bill which would amend the Internal Revenue Code to allow the charitable deduction to taxpayers whether or not they itemize their other deductions.

In a rural state like South Dakota, much of our financial support must be obtained from taxpayers in the $10,000 - $25,000 income range, the vast majority of whom are salaried people without opportunity for significant savings by itemizing their deductions.

As a small, but uniquely-significant cultural institution dependent on charitable contributions, we urge the Committee to give S.219 favorable consideration.

Sincerely yours,

André P. Larson

André P. Larson, Ph.D.
Director

APL;md

cc: Senator McGovern
Senator Pressler
Representative Abdnor
Representative Daschle

The Shrine to Music Museum Foundation
USD Box 194, Vermillion, SD 57069 (605) 677-5306

January 22, 1980

Michael Stern, Staff Director
Committee on Finance
Room 2227, Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Stern:

The Trustees of Shrine to Music Museum, Inc., the non-profit, tax-exempt foundation which provides financial support for public exhibiting and programming at The Shrine to Music Museum on the campus of The University of South Dakota, wish to announce their support of S.219, the bill which would allow taxpayers to deduct charitable gifts whether or not they itemize their other deductions.

The vast majority of our members, as is true of the vast majority of South Dakotans, come from families with an income range of \$10,000 - \$25,000. They support our activities because of their faith in the importance of what we are trying to accomplish, but they obtain no personal benefit from their charitable contribution because recent changes in the tax code have otherwise made it meaningless for them to itemize their deductions.

It is essential that these people not only continue to provide support for our activities, but, if possible, that they increase their support. We believe that S.219 will provide the necessary incentive for that to happen, and we urge its passage.

Sincerely yours,

Barnes Abell

Barnes Abell, President

BA;md
cc: Senator McGovern Representative Abdnor
Senator Pressler Representative Daschle

TESTIMONY IN SUPPORT OF CHARITABLE CONTRIBUTIONS BILL S.219

My name is Robert V. Williams, and I have resided in Sioux City, Iowa, all of my life, for 57 years. I am the managing partner of Williams & Company, Certified Public Accountants, that has been in business since 1929 of which I have been affiliated with the Company for 34 years.

I serve on several charitable boards and foundations, and our company also audits several non-profit organizations. From personal experience I have seen the gradual erosion of support for charitable organizations with a trend of attitude by many of our citizens in looking to various levels of government to take care of his fellow man in need.

I abhor the substitution of government taking over the personal responsibilities of its citizens to perform those acts which charitable organizations have accomplished so ably in the past.

Charitable Contributions Bill S.219 will encourage the individual and proprietory businesses to support charitable causes and thus relieve the necessity for governmental intervention in an area that can be accomplished more effectively and efficiently with voluntary contributions instead of tax dollars.

I urge the Committee on Finance to favorably consider the passage of Charitable Contributions Bill S.219.

Robert V. Williams

National Committee for Responsive Philanthropy

January 21, 1980

Mr. Michael Stern
Staff Director
Committee on Finance
U.S. Senate
2227 Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Mr. Stern:

Re: Hearings on Moynihan-Packwood bill (S219) to expand the charitable deduction

Understanding that subject hearings are scheduled for January 30-31, I request to be allowed to present at the hearings the views of the National Committee for Responsive Philanthropy on the subject of charitable contributions and Federal tax policy.

From its inception the National Committee has been interested in the subject. For example, in 1978 we presented our views before the House Ways & Means Committee, later that year we wrote on the subject in The National Journal. (See enclosed documents.)

The National Committee for Responsive Philanthropy is a coalition of some 60 organizations, large and small, mainly new to the charitable world in the past 10-15 years, which work with several thousand other national and local organizations across the country pursueing charitable and educational activities in every conceivable area of public need: education, health, social welfare, housing, neighborhood revitalization, civil rights, equal employment opportunites, environmental protection, etc. They primarily focus on the public needs of the people left out of the American mainstream: low income families, older people, youth, women and racial/ethnic minorities.

We hope you will respond favorably to our request to testify.

Sincerely,

Robert O. Bothwell
Executive Director

ROB:jem
encl.

810 18th Street, N.W. • # 408 • Washington, D.C. 20006 • (202) 347-5340

National Committee for Responsive Philanthropy

Testimony

of

Robert O. Bothwell

Executive Director

of the

National Committee for Responsive Philanthropy

before the

Committee on Ways and Means
U. S. House of Representatives

on

The President's Tax Proposals

and

Proposed Legislation

to Provide

Federal Tax Incentives

to

All Taxpayers

to Make

Charitable Contributions

Whether They Itemize Deductions

Or Take The Standard Deduction

on Their Income Tax Returns

April 4, 1978
Corrected

810 18th Street, N.W. • # 408 • Washington, D.C. 20006 • (202) 347-5340

THE PRESIDENT'S 1978 TAX REDUCTION AND REFORM PROPOSALS

TUESDAY, APRIL 4, 1978

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 9:30 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Al Ullman (chairman of the committee) presiding.

The CHAIRMAN. The committee will be in order, please.

We have this morning testimony on the President's proposals as they relate to charitable contributions. We have a very distinguished panel which includes Robert Bothwell and Pablo Eisenberg of the National Committee for Responsive Philanthropy; Jack Moskowitz, United Way of America; William P. Thompson, National Council of the Churches of Christ; Mr. Norman Sugarman, Council of Jewish Federations and Welfare Funds; Matthew Costigan, Protestant Episcopal Church in the United States—Domestic and Foreign Missionary Society; David L. Orr, Central Christian College of the Bible, Moberly, Mo.; and Bruce Hopkins, National Assembly of National Voluntary Health and Social Welfare Organizations.

We welcome you to the committee. Without objection, each of your statements will appear in the record in full together with any supplemental materials you may have, and we would ask you to summarize your statements within the time limitations.

PANEL CONSISTING OF ROBERT O. BOTHWELL, EXECUTIVE DIRECTOR, NATIONAL COMMITTEE FOR RESPONSIVE PHILANTHROPY; JACK MOSKOWITZ, VICE PRESIDENT, GOVERNMENT RELATIONS DIVISION, UNITED WAY OF AMERICA; WILLIAM P. THOMPSON, PRESIDENT, NATIONAL COUNCIL OF THE CHURCHES OF CHRIST; NORMAN A. SUGARMAN, COUNSEL, COUNCIL OF JEWISH FEDERATIONS AND WELFARE FUNDS; MATTHEW COSTIGAN, TREASURER, PROTESTANT EPISCOPAL CHURCH IN THE UNITED STATES—DOMESTIC AND FOREIGN MISSIONARY SOCIETY; DAVID L. ORR, PLANNED GIVING COUNSELOR, CENTRAL CHRISTIAN COLLEGE OF THE BIBLE, MOBERLY, MO.; AND BRUCE R. HOPKINS, NATIONAL ASSEMBLY OF NATIONAL VOLUNTARY HEALTH AND SOCIAL WELFARE ORGANIZATIONS

The CHAIRMAN. We welcome you all to the committee and would ask that you proceed in the order mentioned.

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STATEMENT OF ROBERT O. BOTHWELL

Mr. Bothwell. Mr. Chairman and members of the committee, I am Robert O. Bothwell, executive director of the National Committee for Responsive Philanthropy. The committee thanks you for this opportunity to offer our testimony on the President's tax proposals and their importance to the nonprofit sector in this country.

As the standard deduction has been utilized by more and more taxpayers over the years, the percentage of taxpayers who qualify to itemize charitable deductions has substantially decreased from 48 percent in 1970 to 23 percent currently. The administration has proposed changes which would further decrease the percentage of taxpayers who itemize to 16 percent.

This has caused considerable consternation throughout the ranks of the nonprofit world. Some claim that the above trend has significantly reduced charitable contributions since 1970. In addition they fear that the administration's proposed changes will further reduce contributions. Others fear that the above trend and the proposed changes are tending to make the deduction of charitable gifts vulnerable politically as the deduction becomes available to a smaller and smaller group of generally affluent taxpayers.

A proposal has been advanced, therefore, to permit all taxpayers to deduct gifts to charity on their income tax returns whether they elect the standard deduction or itemize their deductions. This proposal is the Fisher-Conable bill, H.R. 11183.

As a voice for one set of nonprofit organizations, we want to support the general thrust of this recommendation, but also to call attention to its inadequacies. We propose instead, as an ultimate goal, a 50-percent tax credit for charitable contributions, and as a transitional goal, an optional 30-percent tax credit.

The National Committee for Responsive Philanthropy attempts to represent the aspirations and interests of the multitudinous nonprofit organizations around the country which are in a constant state of tension concerning the raising of funds to carry on their charitable and educational activities because of their smaller size, recent origins, and often controversial programs.

The committee, incorporated in the District of Columbia in 1976, is a successor to the Donee Group, publisher of the report "Private Philanthropy: Vital and Innovative? or Passive and Irrelevant?" The Donee Group was a coalition of public interest, social action and volunteer groups which acted as advisors to the Commission on Private Philanthropy and Public Needs—The Filer Commission.

The board of directors and members of the committee represent organizations which work closely with more than 3,000 local and State groups in every State in the country. These groups are pursuing charitable and educational activities in every conceivable area of public need—education, health, social welfare, housing, neighborhood revitalization, civil rights, equal employment opportunities, environmental protection, et cetera. They are principally focusing on the public needs of the people left out of the American mainstream: low-income families, older people, youth, women and racial/ethnic minorities.

5715

THE OVERALL IMPORTANCE OF THE PRIVATE NONPROFIT SECTOR

Obviously the national committee, its members and affiliates consider their own private, nonprofit work important. But what is the overall importance of the private, nonprofit sector?

As Government has grown so magnificently and blunderingly since the 1930's, the relative importance of the private, nonprofit sector of the United States has shrunk considerably.[1]

Nevertheless, we think the entire private, nonprofit sector—the third sector after business and government—is of critical importance to this country. Business and government both have problems in undertaking the activities and addressing the issues that the private, nonprofit sector does. Business has a hard time putting any concerns before making a profit, while government has difficulty in making any considerations more paramount than politics. This is their very nature. But the private, nonprofit sector can put profit and politics second behind other, often idealistic and altruistic, concerns.

While this Nation has a system of checks and balances among the executive branch, the legislature and the courts, so, too, does the country have an equally important system of checks and balances among business, Government and the private, nonprofit sector. The importance of the latter sector is increasing as Government and business grow larger and further removed from the citizens of this great country.

Considering the foregoing, do we want to permit further reduction of the tax incentives for charitable giving at a time in history when the private, nonprofit sector's size is so considerably less than the Government's? Do we want to further the decline of this very important third sector, which acts often as a necessary balance wheel relative to business and government interests and activities? Do we

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[1] Government's nondefense spending quadrupled from 1900 through 1974. As a consequence, despite increased private giving for charitable purposes, Government's nondefense spending as a multiple of private giving rose from 9 to 14½ times as much.

In education, local, State and Federal government appropriations were $53 billion in 1970 compared to private giving of $3 billion; most of the latter went to higher education. According to a Filer Commission study by Earl F. Cheit, while private giving provided 60 percent of higher education's income a century ago, such giving now provides only 10 percent. Government funds meanwhile have gone from 10 to 60 percent for higher education.

In health, F. Emerson Andrews has identified that "of the estimated $58 billion spent for personal health care in 1970, the private expenditures accounted for 63 percent." However, the Federal Government's role in health has grown much since the Great Depression. According to the Filer Commission, "in 1930, the Federal Government was spending only 15 percent more than private philanthropy. In 1973, it was spending nearly seven times as much."

For various forms of "welfare" assistance, government expenditures rose from $60 million in 1929 to more than $25 billion in fiscal year 1974. An additional $66 billion was spent that year on old age, survivors, disability and health insurance under the Social Security Act of 1935 as amended. Private philanthropy, on the other hand, distributed only $2.5 billion for "social welfare" purposes.

In foreign aid, in 1970 Government aid was almost five times that of private U.S. nonprofit agencies carrying an overseas religious and other philanthropic activities.

In arts and humanities, where private giving in 1975 almost reached $2 billion, Government's role has been much different, not domineering, more of an equal partner; the Federal Government in particular does not pre-empt portions of the field. Religious activities, of course, receive most of their money through individual donors.

(The above data was obtained from the following sources: The (Filer) Commission on Private Philanthropy and Public Needs, Giving in America, Washington, D.C., 1975; F. Emerson Andrews, "Philanthropy in the United States: History and Structure," in John J. Corson & Harry V. Hodson, Editors, "Philanthropy in the 1970's: An Anglo-American Discussion," The Council on Foundations, Inc., New York, 1973; and The American Association of Fund Raising Counsel, "Giving USA-1976 Annual Report," New York, 1976.)

want to increasingly rely on only business and Government to look out for the Nation's interests?

Our only answer to all three questions is a strong "No."

Therefore, we think Congress should carefully consider not only how to maintain the strength of the country's third sector but also how to assist in increasing it.

SOME CRITICAL CONSIDERATIONS IN DECIDING HOW TO PRESERVE AND STRENGTHEN THE NONPROFIT SECTOR THROUGH TAX POLICY CHANGES

However, in considering how to preserve and strengthen the nonprofit sector through tax policy, we must first examine two critical aspects of our current tax incentives for charitable contributions.

One: The present system for charitable deductions gives far more incentives to affluent taxpayers than to others. The table on the next page conclusively demonstrates this fact. Half—49 percent—of the Government's tax expenditures for charitable contributions are made to reduce the tax bills of a tiny 1.4 percent of the country's most affluent taxpayers in order to induce them to contribute to charitable activities, while only 14 percent of the Government's tax expenditures in this category are made to induce 83.5 percent of the Nation's lower- and average-income taxpayers to contribute private charitable moneys.

[A table follows:]

THE DISTRIBUTION OF FEDERAL TAX INCENTIVES FOR CHARITABLE CONTRIBUTIONS BY EXPANDED INCOME CLASS—SELECTED TAX EXPENDITURES AFFECTING INDIVIDUALS, FISCAL YEAR 1977

[Amounts in parentheses indicate percentage]

Tax expenditures for charitable contributions	By expanded income class [1] (millions of dollars)		
	0–$20,000	$20,000–50,000	$50,000 and up
For education	$19(4)	$121(23)	$385(73)
For health	70(9)	255(32)	465(59)
For all other	657(17)	1,578(40)	1,700(43)
Total	746(14)	1,954(37)	2,550(49)
Proportion of 1977 individual tax returns (percent)	83.5	15.1	1.4

[1] Expanded Income is a broader concept than the adjusted gross income that appears in on come tax returns. In addition to adjusted gross income, it includes the untaxed part of capital gains, percentage depletion in excess of cost depletion and other tax preferences subject to the minimum tax. However it excludes the deduction of investment interest up to the amount of investment income. It therfore comes closer to real economic income than does adjusted gorss income.

Source: Table prepared from U.S. Treasury Department tables, "Tax Expenditures Affecting Individuals, Fiscal Year 1977, Distribution by Expanded Income Class" and "1977 Individua Tax Returns" as contained in Senator Muskie New Release, Feb. 13, 1978 "Muskie says benefits of many tax breaks go mostly to the wealthy."

Mr. BOTHWELL. Even though we might explain that the charitable deduction is a different kind of deduction—one that does not, in fact, confer benefits on the itemizer taxpayer, one that does not leave him or her richer after making a contribution—the public has to be offended at the distribution of Federal tax incentives that the table illustrates.

No matter that this inequitable skewing of charitable tax incentives toward the wealthy is the result of our progressive tax rates and the process of tax simplification; the press will increasingly have a field day in calling the charitable deduction "another rich man's loophole" as the percentage of itemizers decreases more and more.

And the public's confidence in the fairness of our tax system will further be shaken.

Two: The present system for charitable deductions confers too much power on a very small group of taxpayers to decide what nonprofit activities should be supported with tax deductible moneys.

To look at the accompanying table in another way, half—49 percent—of the taxes foregone by the U.S. Government because of the charitable deduction are now being distributed by a very small group of taxpayers—1.4 percent. This has to impact on the kinds of private nonprofit activties supported.

The editor and principal writer of the Report of the Filer Commission on Private Philanthropy and Public Needs, Wade Greene, stated in a recent article in The New York Times Magazine:

> In providing greater incentive to giving by higher-income taxpayers, (the present deduction for charitable contributions) not only offends notions of equity but also tends to guide philanthropic resources towards institutions and causes favored by the rich * * *

Is that what you, as Congress, want? Is this what our Nation's citizens want? The National Committee for Responsive Philanthropy does not regard this situation as healthy, either for private philanthropy or the country as a whole. We think it is crucially important that Government encouragement of charitable giving through tax incentives should lead to more democratically inspired selection of charities supported with tax deductible monies than present tax incentives permit.

SIMPLE EXTENSION OF THE CHARITABLE DEDUCTION TO ALL TAXPAYERS ONLY HALFWAY RESPONDS TO THE PROBLEMS JUST NOTED, TAX CREDITS ARE PREFERABLE

Extending the charitable deduction, as proposed in H.R. 11183, would help to alleviate the problems cited above. But H.R. 11183 is only half a loaf. Clearly all taxpayers would be given tax incentives to make charitable contributions. But the incentives would be grossly unequal incentives.

Consider that the average married taxpayers—filing jointly, family of four, income $16.500—would only have the incentive of saving 22 cents on their tax bill for every $1 contributed, whereas, the highest bracket taxpayer would still have the incentive of saving 70 cents on his or her tax bill for every $1 contributed.

On the other hand, if all taxpayers could take a 50-percent tax credit for their charitable contributions, this would equalize tax incentives for giving.

According to 1977 tax tables, all married taxpayers with combined taxable incomes below $55.200 and all single taxpayers with taxable incomes below $10.200 would thus have a powerful increased incentive to give, by reducing their taxes 50 cents for every $1 contribution, whether they itemize or take the standard deduction. Only a small proportion of taxpayers would have their tax incentive to give decreased under this proposal, and then not much.

Even an optional 30-percent tax credit would be a significant, transitional step in the right direction.

All married taxpayers with combined taxable incomes below $16,200 would thus have a recent incentive to give by reducing their taxes 30 cents for every $1 contributed. Those taxpayers with larger incomes would still have a more powerful incentive to give if they utilized the existing itemized deduction provision, which could be in effect side by side with an optional 30 percent tax credit.

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THE COSTS AND OTHER PROBLEMS OF AN OPTIONAL TAX CREDIT AND HOW TO MEET THEM

How would Congress deal with the costs associated with even an optional 30-percent tax credit?

Estimates prepared by Feldstein and Taylor for the Filer Commission showed that the cost to the Treasury would be roughly $3 billion in 1970 dollars and tax circumstances. An increase of $3.4 billion in charitable contributions—that is a 20-percent increase in total contributions—was projected alongside. Obviously the costs and benefits would be somewhat higher in 1978 dolars and tax circumstances.

In addition to overall cost problems, the Treasury Department might object to any proposal to establish an optional tax credit—or to extend the deduction—for some additional valid reasons—the windfall to nonitemizers who now receive no tax reduction for their contributions, expanded possibilities for income tax cheating and increased administrative costs and verification problems.

May we suggest that Congress can reduce overall cost problems and meet most of Treasury's possible objections by adding a floor under the proposed optional tax credit. My rough calculations, using data from the Treasury Department, the Filer Commission and the American Association of Fund Raising Counsel, suggest that a floor of 1 to 2 percent of adjusted gross income would cut the overall costs considerably and eliminate any windfall to nonitemizers. Obviously such a floor would reduce substantially the other problems cited above.

On the other hand, Congress may not be concerned about a windfall to nonitemizers, and might see the proposal for an optional tax credit for charitable contributions as an excellent way to extend tax relief to lower and middle income taxpayers, while adding a significant tax incentive for charitable giving. In this case Congress might not want to establish any floor at all.

CONCLUSION

We have indicated the great importance we attach to the preservation and strengthening of this country's nonprofit third sector.

We have cited two critical problems we see in the Nation's current tax incentives for charitable giving: (1) How the trend toward undemocratic concentration of the incentives in the hands of the most affluent taxpayers will feed the press and public's skepticism about the fairness of our tax system, and (2) how this trend confers too much power in the hands of a very small group to decide how tax deductible contributions to charity are distributed.

We have observed that the proposal to extend the charitable deduction has merit in expanding tax incentives for charitable giving to all taxpayers, but that it only halfway addresses the two problems above.

And we have suggested that Congress consider an optional 30 percent tax credit for charitable contributions as a means of stimulating private giving that also can tend to correct the problems cited above.

On behalf of the National Committee for Responsive Philanthropy, we respectfully urge the committee to consider these thoughts as it wrestles with its markup of the President's tax package and the recommendations to incorporate the Fisher-Conable bill, H.R. 11183, in same. Thank you.

The CHAIRMAN. Thank you, Mr. Bothwell. Mr. Moskowitz.

POLICY FORUM

Proposals for the Charitable Deduction:
Making the Tax Code More Equitable

A piece of legislation which has been tentatively approved by the House Ways and Means Committee presents a rather difficult dilemma for many advocates of tax reform, a dilemma that affects the direction of a segment of society that spends more than $90 billion a year and includes perhaps as many as six million organizations—the private, nonprofit, voluntary sector.

The bill calls for a major expansion of an already major tax subsidy—the deduction for contributions to charitable organizations. It would allow *all* taxpayers to take a deduction for charitable gifts, not just the 23 per cent who now itemize their deductions.

Many tax reformers argue that there are already far too many subsidies written into the tax code. But of the 85 different subsidies that have filtered into the tax system over the years, the deduction for charitable gifts—and an expansion of that deduction—is one of the easiest to support. This is because it is not ITT or IBM or the McCullough Oil Company that benefits, but the Scouts and symphonies and drug abuse clinics and women's centers and environmental protection organizations and other public interest groups with which the tax reformers often are sympathetic.

The difficulty of the issue is illustrated by the first Ways and Means Committee vote on it, which was 19-18 in favor of passage. More Republicans than Democrats (12 versus 7) supported the measure despite the fact that it would increase the federal budget deficit. (It will be reconsidered when the House resumes its deliberations on the President's tax reform proposals after the Independence Day recess.)

The bill (HR 11183), co-sponsored by a Democrat, Joseph Fisher of Virginia, and a Republican, Barber Conable of New York, has been strenuously and rather skillfully advanced by the United Way and a relatively new group, the Coalition of National Voluntary Organizations. Editorials have appeared in newspapers across the country urging its passage.

John Gardner, founder and former chairman of Common Cause, has become the foremost spokesperson for it, arguing that the measure is essential to preserve what he termed a powerful American tradition—private giving for public purposes. Private giving amounts to about $35 billion a year, but during the past 10 years it has been declining as a percentage of GNP (from 1.98 per cent in 1969 to 1.8 per cent in 1974).

But while private giving is certainly vital, Gardner's analysis has been simplistic. The issue is far more complex than he suggests, touching on some fundamental questions about the nature of the private nonprofit sector and the equity of the American tax system.

In a recent speech, Gardner warned that charitable giving could become "the province of only the wealthy" if the Fisher-Conable bill was not enacted. But present federal tax incentives for giving already are essentially the province of the wealthy. Unless a more basic change than the Fisher-Conable bill is made, these incentives will continue to favor the wealthy over the lower and middle income taxpayer.

HELPING NONPROFIT ORGANIZATIONS

Governmental encouragement of nonprofit organizations through the tax system was initiated more than 50 years ago. However, recent increases in the standard deduction have caused far fewer people to itemize their deductions (48 per cent in 1970, 23 per cent in 1977 and an estimated 16 per cent if President Carter's tax proposals pass), which means that fewer people have a tax incentive to make a charitable contribution. Advocates of the bill say this has reduced giving by $1 billion a year. (Contributions by living individuals account for nearly 80 per cent of the private support of charities.)

To alleviate this problem, the Fisher-Conable proposal would allow all taxpayers, even those utilizing the standard deduction, to deduct *separately* any charitable contributions they make. It is estimated by Harvard economist Martin Feldstein that the measure would cost the government $3.6 billion but would generate $4.1 billion in new contributions to charity.

Should it be passed? Gardner posits two sides of the issue, making it very clear which side reasonable folk would inhabit.

On one side are the tax simplifiers (who advocate congressional outlays rather than indirect tax subsidies to encourage activities the government wants to support) and the "government-knows-best-types" (who think that the bureaucracy is wiser than individuals regarding how their money should be spent). On the other side are those who wish to "retain the element of humaneness" in a mass society by encouraging individuals to support causes they feel are important.

But the issue, like most issues, cannot be painted with a palette that does not include a spectrum of colors. There are other possible objections, other plausible positions.

THE MOST IMPORTANT ISSUE

The most important issue about the charitable deduction that has been ignored is the issue of the tax system's equity. Half of the $5.4 billion in taxes foregone by the government in fiscal 1977 to encourage charitable giving went to reduce the tax bills of a minute 1.4 per cent of the country's most affluent taxpayers (those with incomes exceeding $50,000), according to Treasury Department statistics. Less than 15 per cent of that $5.4 billion was used to encourage contributions by the 83.5 per cent of taxpayers who have incomes below $20,000.

These figures clearly illustrate that government tax policy has strongly favored giving by the rich rather than giving by lower and middle income people. In the words of Stanley Surrey, Harvard professor of law and former Assistant Secretary of the Treasury, the charitable deduction "works just upside down" considering the intended progressive nature of the federal tax system.

Walter Mondale, when he was a senator, stated well the problem this poses. "If the federal government is, in effect, going to be spending money to support or reward certain activities, we must determine whether it makes sense to do so under a system which provides the highest benefits to those with the highest incomes." Such a system has many negative consequences. For one, it further erodes confidence in the fairness of the American tax system. For another, it encourages support of charities favored by the rich rather than those supported by middle and lower income people.

"The real problem here," said the former ranking Republican on the House Ways and Means Committee, John Byrnes, "is that certain people have a choice as to how the tax aspect of their income is going to be spent. Others have to let the government say how it is going to be spent."

VARIOUS PROPOSALS EXAMINED

The Fisher-Conable proposal, by extending the charitable deduction to all taxpayers, would help deal with this inequity. But it is not enough. It would do nothing about the fact that a deduction for the wealthy is worth far more than a deduction for the less wealthy.

This demands a bit of explanation. If you deduct from your taxable income a $100 contribution and (because you are fairly wealthy) you pay 50 per cent of your income in taxes, your tax bill would be reduced $50. This tax savings makes the actual cost of your $100 contribution only $50. However, if you make the same contribution and your tax rate is 14 per cent, your taxes would only be reduced by $14. The actual cost of your gift is $86. In other words, the same contribution costs a lower and middle income person considerably more than a wealthy person.

A much more equitable policy is possible.

Last July, Senator Kennedy proposed replacing the charitable deduction with a 30 per cent tax credit that would give all taxpayers the same incentive to give. If you contributed $100, you could subtract $30 from your tax bill. It is simple. It is equitable.

Its major drawback is that, by reducing tax incentives for giving by high income taxpayers, it could severely hurt some charities dependent on contributions from the affluent. It could also seriously reduce over-all giving.

Rep. Richard Ottinger, D-N.Y., has proposed a variation on the Kennedy approach in HR 12497, a bill that would give taxpayers the option of either the existing itemized deduction or a 50 per cent credit, up to a limit of $500. This would alleviate the negative effects of Kennedy's proposal while significantly increasing the equity of tax incentives for giving. Another good alternative would be an optional 30 per cent tax credit with no limitation. The most important thing is the tax credit approach.

WHAT WOULD A CREDIT ACHIEVE?

The cost of an optional credit would be considerable—a bit more than the cost of the Fisher-Conable proposal. But there would be many benefits.

The most direct one would be the stimulation provided to the private non-profit sector. According to projections by Harvard's Feldstein, an optional 30 per cent tax credit would spur 20 per cent more giving. (Rep. Ottinger estimates that his proposal would have a similar effect.) This would help maintain many of the valuable services now provided by nonprofit organizations.

It would also provide a needed stimulus to many relatively new groups that have recently made some of the sector's most important contributions, groups that, in Rep. Fisher's words, are concerned with "the consumer, the environment, the health of our citizenry and the drive to insure racial, sexual and ethnic equality." Because of the giving patterns of American philanthropy, these "social action" groups are often the most in need of support.

An indirect benefit of any change in tax incentives for giving is that it would give most non-wealthy taxpayers a small tax cut and thus would be a productive way of partially fulfilling one of the President's economic objectives—tax relief for low and moderate income people.

Finally, a tax credit incentive for charitable gifts would be an important (and attainable) step toward creating that much discussed but still elusive ideal—a more equitable tax system.

The optional tax credit would go considerably further than the Fisher-Conable bill in making the system fairer. Indeed, many of the social action groups Fisher said would benefit from his proposal would prefer to struggle along with their present resources rather than support a bill that would do little to reduce the tax system's inequity.

Robert O. Bothwell

ROBERT O. BOTHWELL
EXECUTIVE DIRECTOR

Timothy Saasta

TIMOTHY P. SAASTA
ASSISTANT DIRECTOR

National Committee for Responsive Philanthropy

January 18, 1980

Mr. Michael Stern, Staff Director
Committee on Finance
Room 2227, Dirksen Senate Office Bldg.
Washington, DC 20510

Dear Mr. Stern:

As a middle-class wage earning taxpayer, I am asking for your support in the passage of Senate Bill 219, which would permit donors to deduct charitable gifts whether or not they itemize their other deductions.

The enactment of SB 219 would be an encouragement for more lower-level income individuals to contribute to charitable organizations in that it becomes meaningful if they were to obtain the benefit of a charitable deduction.

Thank you for any consideration given this request.

Sincerely,

Marcella Ludens

Mrs. Marcella Ludens
Box 545
Springfield, SD 57062

skm

cc: Pressler
McGovern
Daschle
Abdnor

TESTIMONY

BEFORE THE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

OF THE

COMMITTEE ON FINANCE

U.S. SENATE

ON THE

CHARITABLE CONTRIBUTIONS BILL

S. 219

BY

IDANELLE S. MCMURRY, HEAD

HOCKADAY SCHOOL, DALLAS, TEXAS

FOR THE

NATIONAL ASSOCIATION OF INDEPENDENT SCHOOLS

I am Idanelle McMurry, head of the Hockaday School, which is an elementary and secondary school for girls in Dallas, Texas, and is coordinate with the St. Mark's School for boys in that city. I am also secretary of the Board of the National Association of Independent Schools, which is a voluntary association of about 800 independent nonprofit elementary and secondary schools with an enrollment of about 300,000 students.

These are schools which are almost entirely independent of church or public control and support and, in the Washington metropolitan area, include -- among others -- Georgetown Day School, Sidwell Friends, St. Albans, and Georgetown Preparatory School. I mention these examples since the term "independent school" may not be familiar to everyone. Our member schools are found all over the country, range in size from 27 students to 3,600 students, and subscribe to racially nondiscriminatory policies. In several of our schools minority students constitute a majority of the enrollment, and one is an all-black boarding school. Our association appreciates the opportunity to testify in support of S. 219.

Although I am speaking only for NAIS, it should be noted that, according to figures compiled by the National Center for Education Statistics,[1] there are over 17,000 private elementary and secondary schools in the United States and that these schools enroll about 5 million pupils -- which is about 10% of the country's school-age population. Over 90% of these schools are served by nonprofit associations which are members of the Council for American Private Education and which require adherence to a racially nondiscriminatory policy as to students. We believe that all or most of these

1. The Condition of Education, 1978 Edition, p.82

schools would benefit from enactment of this legislation, which offers some hope of ending or reducing the serious losses in income sustained by charitable organizations due to legislation which has brought about substantially increased use of the standard deduction in recent years.

Private schools provide many benefits to their communities -- whether for pupils who are unable to succeed in the public schools, or for those who need greater intellectual stimulus, or for those who just need closer attention and guidance than public schools can offer. In addition to the diversity and freedom of choice which they offer, a good level of quality is assured by the fact that fee-paying patrons have the option of enrolling their children elsewhere if such quality is not maintained. And the benefits to communities are not limited to the schools' patrons and pupils, since the existence of these privately supported institutions results in substantially reduced school taxes for the citizens at large. The savings can amount to millions of dollars in some of the larger cities where up to 30% of the school-age population may be enrolled in private schools. Even more valuable, probably, are the roles played by many of these schools in preserving sound educational practices and in develping promising new ones for the future.

The legislation presently under consideration could be of significant value in maintaining the quality and well-being of these schools since, unlike colleges and universities, they receive no financial aid from federal or state funds (although eligible pupils may receive help in the form of commodities and services), and for the vast majority of them endowment funds are negligible or totally lacking. This means that private schools, with few exceptions, must depend almost entirely upon tuition fees and charitable gifts for the support of their educational programs and plants and also for providing financial aid to the many families who need help in meeting the cost of such schooling.

Let me cite some figures compiled by NAIS.[2] A typical day school belonging to our association depends upon gift income -- a combination of current contributions and endowment -- for close to 12% of its annual financial support. (This figure would be much higher for church-related schools.) It is important to note that over 90% of this gift income -- more than $50 million -- is presently being used to provide financial aid to about 40,000 students, with $15 million of that amount going to about half of the 20,000 minority students enrolled in our member schools.

Thus, charitable giving constitutes a vital and unique source of income for private schools, and even this source is somewhat restricted by the fact that, as a rule, foundations and corporations are likely to have policies which prohibit or severely limit any giving to elementary or secondary schools. These schools therefore -- again, unlike colleges and universities -- must look to <u>individual</u> donors for whatever help they receive, and figures compiled for NAIS schools indicate that almost 80% of this gift income comes from individuals.

The question is frequently raised as to why the tax structure should be expected to provide help -- however indirect -- for institutions whose patrons must be relatively affluent because they have children in private schools. There is a definitive answer

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2. <u>NAIS Statistics</u>, February 1979

to this question in Census Bureau statistics published in February 1979.[3] These figures show that, in round numbers, of the approximately 5 million pupils enrolled in private elementary and secondary schools: 76% are from families with income under $25,000; 59% from families with incomes under $20,000; 38% from families with incomes under $15,000; and 15% from families with incomes under $10,000.

The vast majority of these families are therefore in what may be described as the middle income range, and a substantial majority of them are presumably among the 72% of all American taxpayers who are now using the standard deduction and are therefore not eligible for the charitable deduction available to itemizers. In light of the recent Gallup Organization Survey which indicates that the average itemizer contributes more than three times as much to educational institutions as a non-itemizer in the same tax bracket, it is logical to surmise that the incentive provided by the opportunity to take a charitable deduction may be a significant factor in the differential noted.

If this hypothesis is correct, then passage of the legislation embodied in S. 219 could help charitable organizations to recapture the losses occasioned by the widened use of the standard deduction and to creat an upsurge in contributions to them. This would enable our schools and other nonprofit institutions to improve their programs and to expand their services to many who need them but are presently unable to afford them. We respectfully urge your favorable consideration of this bill.

Idanelle McMurry

January 30, 1980

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3. <u>Current Population Reports</u>, U.S. Bureau of the Census, February 1979

Summary Statement of Testimony for S. 219

presented by

The National Association of Independent Schools

1. Benefits provided by private elementary and secondary schools to their communities and the nation at large include: diversity; freedom of choice; intellectual stimulus for able students; close attention and guidance for the less able; preservation of tradition and of sound educational practices; development of promising new practices; and substantial savings for taxpayers. These institutions enroll about 10% of the nation's school-age population, and, contrary to the impressions of some, over 75% of these pupils come from middle and lower income families.

2. Private schools are excluded by law from public financial assistance and by policy and practice from any significant support from corporate or foundation sources. Consequently, they are -- unlike colleges and universities -- dependent almost entirely upon contributions from individuals for support over and above tuition charges and other fees.

3. In its effort to simplify the filing of income tax returns, Congress in recent years has enacted legislation which has brought about use of the standard deduction by millions of taxpayers who formerly itemized their deductions. It is estimated that this shift in filing procedures -- with about 72% of all taxpayers now using the standard deduction -- has cost the public charities, including private nonprofit elementary and secondary schools, about $5 billion over the past 10 years in gifts which they would otherwise have received.

4. In light of their dependence on individual donors and of the recent Gallup Organization finding that the average itemizer contributes more than three times as much to education institutions as a non-itemizer (in the same tax bracket), our member schools urge favorable consideration of S. 219 as a means of restoring to the latter the strong incentive for philanthropy provided by the charitable deduction.

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OFFICE OF GENERAL COUNSEL

January 17, 1980

Mr. Michael Stern
Staff Director
Committee on Finance
Room 2227
Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Mr. Stern:

Re: S.3111 - Increased Charitable Deductions

I am associated as a director with a tax exempt foundation and also have interest in other charities. Therefore, I am extremely interested in the passage of S.3111 (S.219) to permit deduction of charitable contributions on standard deduction returns. I have read Senator Moynihan's comments in support of this Bill and I am in full agreement with him. I think his final statement sums it up: "The legislation...would take a long step toward the strengthening of some of the most worthwhile institutions and organizations in the society, and toward the reinforcing of one of the noblest impulses that mankind possesses."

I sincerely urge that this long overdue amendment be passed.

Yours very truly,

Tom Kirby Jr.

TOM KIRBY JR.
Vice Chairman &
General Counsel

TKJ:klo
cc: University of South Dakota
Senator Larry Pressler
Senator George McGovern
Representative Tom Daschle
Representative James Abdnor

United States Senate

Sub-Committee

of

Finance Committee

TESTIMONY ON TAX POLICY

(CHARITABLE CONTRIBUTIONS)

by

M. William Howard, President

National Council of the Churches of Christ in the U. S. A.

My name is M. William Howard. I am President of the National Council of the Churches of Christ in the U. S. A., a cooperative agency of thirty-two national religious bodies in the United States having in the aggregate about 40,000,000 members. I do not purport to speak for every member of the constituent churches of the National Council of Churches.

Rather, I am speaking on the basis of formal actions taken by the Governing Board of the National Council of Churches -- a deliberative body made up entirely of representatives of the constituent communions in proportion to their size and support of the National Council of Churches and chosen by each of those communions according to its own modes of selection.

The Governing Board is intensely concerned, as I am myself, about the safeguarding of the vital role of philanthropy in sustaining the work of countless voluntary organizations and public charities whose presence is such a unique and important part of American life. Not only do these groups render services of many kinds to their members and others, but they provide centers of citizen initiative which are essential to the vitality of democracy. They perpetuate the healthy impulse of the frontier for private citizens to band together to remedy their needs without awaiting the intervention of government.

From this impulse have sprung the many private colleges and universities, hospitals, and homes for orphans and for the aged, which represent priceless resources for the American people. Churches have been among the foremost founders of such institutions, and are therefore rightfully concerned for their health and future. That health and that future are heavily dependent upon their ability to raise adequate financial support by voluntary contributions from the society at large, which in turn is dependent to a great degree upon the encouragement of such giving by the incentives to charity (and the absence of disincentives) in the Tax Code.

The essential aspect of the charitable contribution to be kept in mind, we believe, is that it is different from the other kinds of expenditures recognized by the tax code. It is not even an "expenditure" at all -- in the sense of paying for goods or services of benefit to oneself in proportion to the amount spent. To be sure, givers often gain some esteem or approbation as a result of their philanthropies, but in no other part of the tax code are esteem or approbation considered taxable. The charitable contribution is essentially <u>giving money away for the benefit of others</u>.

It is not like the other deductions allowed to taxpayers who itemize their deductions. It is not like interest paid on money borrowed or medical expenses or taxes or professional expenses or casualty losses. It is not a "loophole" for avoiding taxation, since the gifts deducted do not remain under the control of the giver, but go to benefit the whole community, often with greater efficiency and effect than the same amount paid in taxes. The prestigious Filer Commission on Private Philanthropy and Public Needs took a similar view:

> ...the charitable deduction is a philosophically sound recognition that what a person gives away simply ought not to be considered income for purposes of imposing an income tax...In the context of personal income taxation, the Commission believes it is appropriate to define income as revenue used for personal consumption or increasing personal wealth and to therefore exclude charitable giving because it is neither...We think it entirely appropriate, in other words, for the person who earns $55,000 and gives away $5,000 to charitable organizations to be taxed in exactly the same way as the person who earns $50,000 and gives away nothing.
>
> (<u>Giving in America: Toward a Stronger Voluntary Sector</u>, the Report of the <u>Commission on Private Philanthropy and Public Needs</u>, John H. Filer, chairperson, p. 128.)

For those not itemizing deductions, however, a "standard" deduction is allowed, which is supposed to include an average allowance for the deductions normally claimed. This standard deduction does not expand or contract with the flow of one's philanthropy. One does not need -- nor is one able -- to substantiate the extent of charitable giving in a particular year. With the increase in the number of taxpayers using the standard deduction, therefore, has come a decrease in the number of taxpayers having an incentive to make -- and document -- charitable contributions, and a consequent decrease in charitable contributions. During the past ten years, five increases were made in the standard deduction, each one costing the public charities more in lost contributions, so that today they receive $5,000,000,000 less than they otherwise would have received.

This increasing utilization of the standard deduction affects this constituency of churches particularly, since the bulk of church support comes from the socio-economic level at which the choice between itemization and use of the standard deduction is a recurring dilemma. Most contributions to churches (unlike other charitable contributions) are not strongly affected by the incentive of tax-deductability -- at least as far as members' basic will to support their church is concerned. But the amount and regularity of their contributions can often be strengthened by the need to keep records to substantiate their tax deductions. And that is precisely the factor at stake in the choice of the standard deduction as presently constituted.

A corrective to this situation for the person of average means would be to allow the taxpayer not otherwise itemizing deductions to take the standard deduction but <u>in addition</u> to deduct (from gross income) any charitable contributions.

This treatment was suggested by the Filer Commission and has been approved by many philanthropic organizations. It is embodied in SR219 sponsored by Senators Moynihan and Packwood, and was endorsed by the Governing Board of the National Council of Churches in November, 1977 (see attached Resolution on Tax Law Revision).

The general thrust of our concern could be best summarized by saying that we would favor any reasonable and legitimate enhancement of the tax incentives encouraging charitable contributions, and we would oppose any impairment of such incentives. While we believe that the philanthropic impulse can stand on its own -- particularly the voluntary support of churches, which is less dependent upon tax incentives than other areas of philanthropy -- it would, in our view, behoove Congress to stimulate and encourage charitable giving throughout the nation for the general good of the commonwealth, since it will foster greater citizen initiative and self-reliance and thus strengthen the very fabric of democracy.

Thank you for the opportunity to present these views. I pray God's blessing upon you as you wrestle with the very complicated and delicate issues of tax policy.

The University of Texas at El Paso

Development Office

January 16, 1980

Dear Committee on Finance:

Please accept this statement as a means of communicating my support for the Charitable Contributions Bill S.219 sponsored by Senators Packwood and Moynihan which would permit donors to deduct charitable gifts whether or not they itemize their other deductions.

Colleges and universities throughout the United States rely heavily upon private gift support to enhance academic excellence programs. As Director of Development for The University of Texas at El Paso, it is most important that we maintain a charitable deduction for non-itemizers as well as those donors who itemize their deductions on a yearly basis.

I am afraid that as the number of individuals who take the standard deduction increases, the number who claim the charitable deduction will decrease. Under present law, only itemizers are allowed to deduct charitable gifts and therefore I support Senate Bill S.219 for the benefit of more graduates and friends of universities throughout the United States as well as at The University of Texas at El Paso.

Sincerely,

James M. Peak
Director of Development

rt

LAW OFFICES
MAY, ADAM, GERDES & THOMPSON
503 SOUTH PIERRE STREET
PIERRE, SOUTH DAKOTA 57501

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CHARLES M. THOMPSON
HAROLD H. DEERING, JR.
ROBERT B. ANDERSON
BRENT A. WILBUR

TELEPHONE
605 224-8803
P.O. BOX 160

January 17, 1980

Mr. Michael Stern, Staff Director
Committee on Finance
Room 2227, Dirksen Office Building
Washington, D. C. 20510

RE: S.219, the Charitable Contributions Bill

Dear Mr. Stern:

As president of the University of South Dakota Law School Foundation, please accept these few comments in support of S.219, the Charitable Contributions Bill. The Law School Foundation has been able to accomplish a great amount of good in behalf of deserving law students at the School of Law, University of South Dakota.

We are supported solely by the generosity of those who give to the Foundation. Needless to say, the charitable deduction provides a great incentive for this generosity and we strongly endorse the strengthening of the charitable contribution by S.219.

Yours truly,

MAY, ADAM, GERDES & THOMPSON

David A. Gerdes

DAVID A. GERDES

DAG:jft
cc: Senator Larry Pressler
Senator George McGovern
Representative Tom Daschle
Representative James Abdnor
Dean Richard K. Burke, USD

THE UNIVERSITY OF NORTH CAROLINA
AT GREENSBORO

Development Office
Phone 919-379-5677

January 10, 1980

The United States Senate
Committee on Finance
Washington, D.C. 20510

~~Re: S.219~~

Dear Senators:

Out of respect for your time I will be brief in this statement but I hope you will not regard this brevity as diminishing the importance of the issue at hand.

Enactment of S.219 is important. Without its passage the continued existence in their present forms of every qualified charitable institution in the United States is in jeopardy. As you well know, the purposes of charitable institutions are scrutinized closely before qualification is granted so that contributions to them are deductible. Senator Moynihan has stated to this Committee that since 1917 the Federal Income Tax Code has embodied the principle that income given to charitable causes ought not be taxed. He cites encouragement of support of private philanthropic and voluntary organizations and avoidance of taxing income that is given away rather than consumed as reasons for this deduction. I suggest further that implicit in the actions of our legislators in 1917 is recognition of an economical and efficient means of providing necessary services to the public which would otherwise have to be provided through the bureaucratic process and therefore funded from tax coffers.

As it now stands, only taxpayers who itemize deductions for income tax purposes are able to receive full credit for charitable contributions. However, a frightening trend is developing as a consequence of the efficient streamlining of tax reporting by virture of a more generous standard deduction: fewer taxpayers are itemizing and therefore fewer taxpayers are receiving full credit for their philanthropy. This trend will no doubt continue and I fear that future legislators will lose sight of the original intent of the charitable deduction and do away with it altogether on the basis that it is a privilege exclusively for the affluent.

Please support S.219. I sincerely believe that your support would be in taxpayers' best interests by 1) preserving a system which rewards the individual who manifests his natural tendency to be philanthropic and 2) insuring the continuance of an economical and efficient means of underwriting the expenses of services which are so vitally important to the people of the United States.

Respectfully submitted,

Jerry E. Summers

Jerry E. Summers
Director of Planned Giving

JES/sh

CENTRAL MISSOURI STATE UNIVERSITY WARRENSBURG, MISSOURI 64093

ASSISTANT TO THE PRESIDENT
FOR INSTITUTIONAL DEVELOPMENT
PHONE 816-429-4435
816-429-4434

January 8, 1980

Mr. Michael Stern
Staff Director
Committee on Finance
Room 2227
Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Stern:

Please note attached.

It is a response to S .219. I hope it can be included in the written testimony concerning this bill.

Thanks for your assistance.

Very sincerely yours,

Jack J. Carmichael

JJC:hw

enc.

As a spokesperson for over 34,000 alumni and friends of Central Missouri State University who are interested in public higher education, I urge the passage of S. 219, The Charitable Contributions Bill.

This bill will allow the alumni and friends of CMSU, a former teachers college, to give to their favorite institution of higher education and have their gifts receive full benefit for tax purposes, just as more affluent alumni from prestigious universitites receive when they give to their alma mater.

Recent increases in the standard deduction has made it impractical for small donors to itemize their contributions and as a result charitable gifts to CMSU and similar institutions has suffered or will suffer. The bulk of our 34,000 alumni are public school teachers or have been out of school less than ten years, and are in the middle income bracket. The present federal practice of increasing the standard deduction is in effect negating the advantages of charitiable gifts for these alumni.

Unfortunately this penalty is happening to the very people whose present gifts are important to CMSU, who are the hope of future charitable gifts for the whole private philanthropic heritage which is a unique part of the American Dream. Unless these alumni establish the habit of giving small gifts annually, it is unlikely that they will make significant contributions to their favorite charity when they have the means to do so.

The passage of this legislation will significantly encourage such potential donors to continue to support the private sector of philanthropy and thus reduce the dependency on tax dollars. It is unlikely that needed funding for higher education will come from taxes in light of the present resistance on the part of the public to increased taxation.

As a spokesperson for over 34,000 alumni and friends of Central Missouri State University who are interested in public higher education, I urge the passage of S. 219, The Charitable Contributions Bill.

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GRACE COLLEGE OF THE BIBLE
1515 SOUTH 10TH STREET • OMAHA, NEBRASKA 68108
PHONE 402 342-3377

February 8, 1980

Mr. Michael Stern, Staff Director
Committee on Finance
Room 2227, Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Mr. Stern:

I'm writing to express my support of S.219 Charitable Contributions Bill. My wife and I feel keenly that we make regular contributions to home and foreign mission services and to our local church as a matter of sacred trust. We will continue to do so by God's grace.

We thank you for your registering our convictions that it is right and proper for a government established under God to afford its citizens the privileges contained in S. 219.

With appreciation,

Virgil R. Dirks

Virgil R. Dirks

VRD:cdg

LAW OFFICES
COHEN AND URETZ
1775 K STREET, N. W.
WASHINGTON, D. C. 20006

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LESTER R. URETZ
1922-1972

TELEPHONE
(202) 293-4740

TELEX 89-562

December 28, 1979

Honorable Harry Byrd
Chairman, Subcommittee on Taxation
and Debt Management
Finance Committee
United States Senate
Washington, D.C. 20510

Re: S. 219

Dear Senator Byrd:

The Finance Committee has announced hearings by your Subcommittee on S. 219 will be held on January 30 and 31, 1980. While I do not wish to testify in person, I wish to make my personal views known to the members of the Subcommittee. These views are my own and are not necessarily those of any of my clients or my partners.

I am very active in a number of public charities. I share with all of those active in such charitable work the concern about the adequacy of support for our system of public charities in the U.S. However, I strongly oppose a deduction for charitable contributions in addition to the zero-bracket amount (or standard deduction).

Over the last ten years there have been a number of hearings on simplification of the Internal Revenue Code. I have had the privilege of testifying before both the Ways and Means Committee and the Senate Finance Committee a number of times on techniques for simplifying the tax laws. I have also been granted the unique privilege of viewing our tax system from both the administrator's viewpoint, as well as that of the private practitioner, and that of an official of a major public charity.

If we have a goal of simplification of our tax laws for most of our citizens, we must maintain the discipline not to expand the number of types of deductions. The standard deduction or its equivalent is the greatest simplification device for the average taxpayer. Expansion of the types of deductions which may be taken in addition to the standard deduction makes the process of preparing and filing tax returns more difficult and complex. Already, many millions of persons find the process so difficult that they must use the services of tax return preparers. Adoption of S. 219, or a similar measure, would also increase the need for taxpayers to maintain records which may have to be verified by the IRS. This too increases the complexity of our tax system. If we start with charities today, we will be pressed by other worthy causes and there will be no stopping point. Complexity breeds complexity.

It is for these reasons that I oppose S. 219 and similar measures.

If I can help the Committee by amplifying my views, I will be pleased to do so.

Best regards.

Sincerely,

Sheldon S. Cohen

SSC:bmw

cc: Honorable Russell Long
Michael Stern, Staff Director

Statement

to the

SUBCOMMITTEE ON TAXATION & DEBT MANAGEMENT GENERALLY

U.S. SENATE

January 31, 1980

on

S. 219

Presented by

Warren Heemann
Vice President for Institute Relations and Development
Georgia Institute of Technology

Mr. Chairman and Members of the Subcommittee:

My name is Warren Heemann. I am Vice President for Institute Relations and Development at Georgia Institute of Technology, and until recently was Vice President for Development at the College of William and Mary in Virginia. It seems relevant, if not modest, to mention that I am also the editor of a book on Cost Effectiveness Analysis in Fund-Raising for colleges and universities, and currently chair a committee of the Council for Advancement and Support of Education which is developing national standards for gift reporting and cost reporting.

I am pleased, as a fund-raising professional, to submit this statement on the important benefits of S. 219, the Charitable Contributions Legislation, to the nation's higher education institutions.

It has been my good fortune to be associated with two fine institutions, William and Mary and now Georgia Tech, which have very successful fund-raising programs.

William and Mary, one of the nation's oldest institutions of higher learning and the birthplace of Phi Beta Kappa, currently enrolls some 6,364 fulltime students. Georgia Tech, one of the top engineering schools in the country-- THE top school, some of us would like to believe-- has a total enrollment of 11,250.

Both institutions, I should point out, are state-supported. Indeed, let me stress that state-supported colleges and universities, as well as independent institutions, are very actively involved in seeking charitable contributions from alumni and other private sources.

William and Mary's fund-raising program has been judged the most successful in the country for schools of its kind-- ranked eighth in the percentage of alumni contributing annually, second in total dollars contributed annually by alumni, and first in total dollars contributed from all sources.

Georgia Tech, year after year, ranks first or second among all the nation's state universities in alumni participation, with 45 to 50 per cent of its graduates making annual contributions.

Achieving, and maintaining, a high percentage of alumni donors carries an importance beyond the total dollars they contribute. It demonstrates the breadth and depth of loyalty and appreciation that the institution inspires among its former students. And, more practically, it helps the institution make a persuasive case for major gifts from corporations and foundations-- which frequently scrutinize the extent of support which a college or university enjoys among its own graduates in weighing their own decisions on contributions.

My own experience, and that of most of my colleagues, leads to our firm conviction that a successful fund-raising program for a college or university requires working-- against the odds-- to involve the young alumni in charitable support of the institution. This has been and is being done at both William and Mary and Georgia Tech, and has proved a vital factor in the success of their overall fund-raising programs.

I say working "against the odds" because recent graduates of an institution, for one thing, generally do not yet fully appreciate just how valuable their college experience has been for them, personally or professionally.

Moreover, these younger alumni while still climbing the lower rungs on their career ladders tend to have less income than they will realize later on, and fewer deductible outlays of any sort. As lower-income or middle-income taxpayers, they are more likely to take the standard deduction on their tax returns, and less likely to itemize their deductions.

Under existing law, as a result, these young alumni don't have the same important incentive to make charitable contributions as do older, wealthier individuals with more deductible outlays overall who elect to itemize their deductions and thus can deduct their contributions.

Hence the availability of the standard deduction, without the opportunity for those who take it to deduct their charitable deductions separately, helps stack the deck against the best efforts of colleges and universities to develop sound habits of charitable giving among their young alumni. S. 219 would remedy this serious problem.

I would like to emphasize this concept of the charitable giving habit. In cultivating support from recent graduates with relatively modest incomes, developing the habit of regular donations is at least as important as the size of the gifts they can afford to make.

As I have already stated, one reason for developing this habit among young alumni is to increase the overall percentage of alumni who contribute. There is also another, very important reason.

Those recent graduates who develop sound charitable habits also become contributors of their time and their energies as well as their money: they become dedicated, top-notch volunteers. Having begun making financial investments in the continuing well-being of their college or university, they apparently feel a desire to protect that investment, stay in close touch, and do whatever else they can for their school. This early interest in contributing time and effort also becomes habit-forming, and our nation's higher education institutions benefit from it enormously.

Indeed, I would hate to think where American higher education would be without the continuing, dedicated volunteer involvement of alumni. Not only would we lose all that voluntary labor, but we university administrators would also lose the valuable guidance that comes from alumni in the non-academic world on any number of issues and concerns.

Lord knows, alumni opinion can be a trial: some graduates seem to feel they know everything about everything connected with running a college or university. Then again, university administrators and faculty members think they know everything about everything too! Still, the give-and-take of opinions when it occurs is not only very helpful but also necessary. And it suggests that alumni are not only-- as I have said-- protecting the investments they have made in their school's well-being through charitable contributions, but are also expressing a less tangible but equally valuable commitment.

I am submitting this statement on behalf of higher education. But if it is true that better-educated individuals provide the leadership in most of the nation's charitable, voluntary organizations, then it follows that the more effective colleges and universities can be in enlisting their recent graduates as contributors and volunteers, the better off all charitable, voluntary organizations will be. College and university alumni who develop the charitable giving habit can be expected to extend that habit to financial support of other worthy causes as well. Alumni who volunteer their time and energies to help their colleges and universities are prime candidates for volunteer work with other organizations.

Americans contributed a total of $39.56 billion, about 2 per cent of our Gross National Product, to all charitable institutions and organizations in 1978. Generosity on this scale is truly remarkable. It often seems that everybody we know is either giving money to, or soliciting money for, a worthy cause. And that's nothing but good. It is good for an individual's soul to ask someone for a contribution to support a cause in which he or she believes. It is good for our nation's soul to have a citizenry which gives so freely and without expectation of personal gain. There is no other nation on this Earth as giving as the United States. How much richer we all are spiritually because of this. How diminished we would be as a nation if we lost our generous spirit.

There is compelling evidence that the increasing proportion of taxpayers who take the standard deduction rather than itemize, some 77 per cent of all taxpayers in 1977 against only 50 per cent in 1970, is cutting into the volume of charitable contributions by as much as $5 billion over that period and at a recent rate exceeding $1 billion each year.

We urge you to reverse this alarming trend by enacting S. 219, the Charitable Contributions Legislation. The presence of the charitable deduction in our tax laws has long been both a recognition of our citizenry's generous spirit and an incentive to their generosity. S. 219, by making the charitable deduction available to all taxpayers whether or not they take the standard deduction, would reaffirm this recognition and reinforce this incentive.

Thank You.

United Way
of Torrington, Inc.

Paul Pagano
Executive Director

4 Summer Street
Torrington, Connecticut 06790
Phone: 203—489-4131

January 29, 1980

Mr. Michael Stern, Staff Director
Committee on Finance
Dirksen Senate Office Building
Room 2227
Washington, DC 20510

Dear Mr. Stern:

This is to advise you that on the above date the Board of Directors of the United Way of Torrington endorsed the Fisher-Conable/Moynihan-Packwood bills.

We request that this endorsement be entered with the official records of the Subcommittee on Taxation and Debt Management hearings.

Thank you.

Sincerely,

Thomas F. Wall, Jr.

Thomas F. Wall, Jr.
President

United Way
of Brown County

123 S. Webster Avenue
Green Bay, Wisconsin 54301
Phone 414 432 3393

February 4, 1980

Mr. Michael Stern, Staff Director
Senate Committee on Finance
Room 2227 - Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Mr. Stern:

This letter is to inform the Senate Finance Committee that the Board of Directors of the United Way of Brown County, Wisconsin has had on record since its August 24, 1977 meeting a resolution strongly favoring the Moynihan-Packwood (S 219)-Fisher-Conable (HR 1785) bills to allow all tax payers to deduct charitable contributions whether or not other deductions are itemized. The motion passed unanimously in 1977, and was reaffirmed by the Board at its meeting in August, 1978.

We urge the Senate Finance Committee to endorse this legislation and ask that our Board's resolution be entered into the official records of the committee hearings on these bills of January 30-31, 1980.

Thank you for your kind attention to this matter.

Sincerely,

John D. Shier, Ph.D.
Executive Director

JDS/gt

cc. Senator William Proxmire
Senator Gaylord Nelson
Representative Toby Roth

United Way
of Lubbock

2201 19th Street
Lubbock, Texas 79401
Phone 806 747-2711

January 22, 1980

Michael Stern, Staff Director
Committee on Finance
Dirksen Senate Office Building-Rm. 2227
Washington, D.C. 20510

Dear Mr. Stern:

This is to verify the feeling of the members of the United Way of Lubbock board of directors in regard to the Moynihan-Packwood bill. We feel it is essential that volunteer contributors to United Way, and any legitimate charity, receive the benefit of deductible contributions. That essentiality is paramount if charities are to continue to be funded through volunteer contributions.

Studies have determined-and I'm sure you are knowledgeable of the fact-that contributions drop sharply when contributors can no longer itemize. Less contributions eventually translate into more taxes and less local and volunteer control.

We of the United Way of Lubbock board of directors join the volunteer voices all over the nation calling for deductions of charitable contributions and the continuation of voluntary funding of charitable organizations.

Yours Truly,

Don Douglass

Don Douglass
President

OHIO
CITIZENS'
COUNCIL
ADVANCING HUMAN SERVICES

ROOM 300
155 N. HIGH STREET
COLUMBUS, OHIO 43215
(614) 224-8146

february 4, 1980

the honorable harry f. byrd,
chairman, senate sub-committee on taxation and
debt management
u.s. senate
washington, d.c.

dear senator byrd:

the ohio citizens' council, on behalf of its statewide general membership and affiliated human service organizations, wishes to offer testimony in full support of S.219, a bill permitting all taxpayers to deduct their charitable donations whether or not they itemize their tax returns.

the board of directors of the ohio citizens' council endorses S.219 and its companion, h.r.1785, as thoroughly appropriate and effective means of broadening the base of support to and participation in the humane purposes pursued taxpayers (those who generally do not itemize) which is already enjoyed by higher income taxpayers (those who generally itemize). in producing a form of greater equity in taxpaying, S.219 will additionally make available an incentive to contribute which is clearly needed if private, non-profit human service organizations are to effectively function in the future.

human services are currently threatened in a number of ways: 1) the percentage of personal income contributed to private, non-profit organizations has declined steadily in the last ten years, a trend associated with increased use of the standard deduction which allows no consideration for such contributions; 2) private fund-raising efforts have been unable to keep pace with inflation- in a highly labor intensive field such as human services, purchasing power is thus severely constrained and 3) the real effects of 1) and 2) have been softened by the influx of public dollars to purchase the services of the voluntary sector. it can now be anticipated, however, that public support will rapidly diminish as movements to balance budgets, proposition 13-type reforms, and a current reordering of national priorities take hold. these same policies will also bring cutbacks in identifiably public human service programs and so will increase demand on the voluntary sector to fill service gaps. our concern is that the volentary sector will lack the capacity to do so.

our support of the charitable deduction may appear to be motivated out of protectionist impulses. it is. it reflects our concerns for the actual and potential recipients of human services; for survival of organizations brought into being out of recognition of social needs at the community level; and for the ability of people at all levels of income to participate financially and through the increased volunteer activity which is known to accompany financial contribution. we believe S.219 addresses all of these concerns and have faith that members of the senate will bear them in mind in their deliberations.

sincerely,

vic gelb
president

P.O. Box 8058
Anaheim, CA 92808

SUMMIT MINISTRIES, INC.

Rev. John M. Montgomery
Mrs. Sandy Montgomery

January 7, 1980

Mr. Michael Stern
Committee on Finance
Room 2227, Dirksen Senate Office Bldg.
Washington, DC 20510

Dear Mr. Stern:

It is my understanding that S.219 is about to be considered by the Senate Finance Committee Subcommittee on taxation and debt management. This is an area of vital concern to many Christians as they begin to see that a reduction for their contribution to the Lord's work is denied unless they itemize their taxes. I am told that only about twenty percent of the tax forms filed are itemized, thus, only twenty percent receive a deduction for their tithes and offerings. Is this in keeping with the Department of Treasury's Publication 561, which states "our tax laws are designed to encourage charitable giving?" I would think that if infact the Treasury wants to "encourage" such giving, the Committee would want to include gifts to $501c_3$ Organizations as part of adjustments to income. It is ironic that alimony and moving expenses are considered adjustments to income, but not gifts to the church.

Mr. Stern, I urge you and the Subcommittee to look favorably on S.219. If it does not make it this time, the handwriting is on the wall for a future Congress to do away with the charitable deduction altogether, on the premise that it is a "tax loophole." This type of thinking slights the millions of Christians that follow the Bible's charge to tithe.

God Bless You and the Committee,

John M. Montgomery
President of Summit Ministries

JMM:vs

Jamie Adair
362 Washington St.
Portsmouth, Virginia 23704

January 23, 1980

Honorable Harry F. Byrd, Jr.
United States Senate
Washington, D.C. 20510

Dear Senator Byrd:

In a few days the subcommittee on taxation and debt management of the Senate Finance Committee will begin hearings on the Fisher-Conable/Moynihan-Packwood bills. The Portsmouth Area United Fund is extremely hopeful that you can support this legislation which will reverse the trend of smaller and smaller amounts contributed to charitable causes by those individuals who do not itemize their income taxes.

Continued equitable support for not-for-profit agencies is a highly important issue for the entire nation as these agencies do so very much in providing services that otherwise would need to be provided by government, thus increasing the cost, as there is a resulting loss in volunteer time to non-profit agencies that government, by and large does not enjoy.

Thank you very much.

Sincerely yours,

Jamie Adair

Jamie Adair, President
Portsmouth Area United Fund

JA:bml

cc: United Way of America
Michael Stern, Staff Director
Committee on Finance

Jamie Adair
362 Washington St.
Portsmouth, Virginia 23704

January 23, 1980

Honorable John W. Warner
United States Senate
Washington, D.C. 20510

Dear Senator Warner:

In a few days the subcommittee on taxation and debt management of the Senate Finance Committee will begin hearings on the Fisher-Conable/Moynihan-Packwood bills. The Portsmouth Area United Fund is extremely hopeful that you can support this legislation which will reverse the trend of smaller and smaller amounts contributed to charitable causes by those individuals who do not itemize their income taxes.

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Thank you very much.

Sincerely yours,

Jamie Adair

Jamie Adair, President
Portsmouth Area United Fund

JA:bml

cc: United Way of America
Michael Stern, Staff Director
Committee on Finance

Jamie Adair
362 Washington St.
Portsmouth, Virginia 23704

January 23, 1980

Honorable Paul S. Trible, Jr.
House of Representatives
Washington, D.C. 20515

Dear Mr. Trible:

In a few days the subcommittee on taxation and debt management of the Senate Finance Committee will begin hearings on the Fisher-Conable/Moynihan-Packwood bills. The Portsmouth Area United Fund is extremely hopeful that you can support this legislation which will reverse the trend of smaller and smaller amounts contributed to charitable causes by those individuals who do not itemize their income taxes.

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Thank you very much.

Sincerely yours,

Jamie Adair

Jamie Adair, President
Portsmouth Area United Fund

JA:bml

cc: United Way of America
Michael Stern, Staff Director
Committee on Finance

Jamie Adair
362 Washington St.
Portsmouth, Virginia 23704

January 23, 1980

Honorable David E. Satterfield, III
House of Representatives
Washington, D.C. 20515

Dear Mr. Satterfield:

In a few days the subcommittee on taxation and debt management of the Senate Finance Committee will begin hearings on the Fisher-Conable/Moynihan-Packwood bills. The Portsmouth Area United Fund is extremely hopeful that you can support this legislation which will reverse the trend of smaller and smaller amounts contributed to charitable causes by those individuals who do not itemize their income taxes.

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Thank you very much.

Sincerely yours,

Jamie Adair

Jamie Adair, President
Portsmouth Area United Fund

JA:bml

cc: United Way of America
Michael Stern, Staff Director
Committee on Finance

Jamie Adair
362 Washington St.
Portsmouth, Virginia 23704

January 23, 1980

Honorable G. William Whitehurst
House of Representatives
Washington, D.C. 20515

Dear Mr. Whitehurst:

In a few days the subcommittee on taxation and debt management of the Senate Finance Committee will begin hearings on the Fisher-Conable/Moynihan-Packwood bills. The Portsmouth Area United Fund is extremely hopeful that you can support this legislation which will reverse the trend of smaller and smaller amounts contributed to charitable causes by those individuals who do not itemize their income taxes.

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Thank you very much.

Sincerely yours,

Jamie Adair

Jamie Adair, President
Portsmouth Area United Fund

JA:bml

cc: United Way of America
Michael Stern, Staff Director
Committee on Finance

Jamie Adair
362 Washington St.
Portsmouth, Virginia 23704

January 23, 1980

Honorable Robert W. Daniel, Jr.
House of Representatives
Washington, D.C. 20515

Dear Mr. Daniel:

In a few days the subcommittee on taxation and debt management of the Senate Finance Committee will begin hearings on the Fisher-Conable/Moynihan-Packwood bills. The Portsmouth Area United Fund is extremely hopeful that you can support this legislation which will reverse the trend of smaller and smaller amounts contributed to charitable causes by those individuals who do not itemize their income taxes.

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Thank you very much.

Sincerely yours,

Jamie Adair

Jamie Adair, President
Portsmouth Area United Fund

JA:bml

cc: United Way of America
Michael Stern, Staff Director
Committee on Finance

Jamie Adair
362 Washington St.
Portsmouth, Virginia 23704

January 23, 1980

Honorable Dan Daniel
House of Representatives
Washington, D.C. 20515

Dear Mr. Daniel:

In a few days the subcommittee on taxation and debt management of the Senate Finance Committee will begin hearings on the Fisher-Conable/Moynihan-Packwood bills. The Portsmouth Area United Fund is extremely hopeful that you can support this legislation which will reverse the trend of smaller and smaller amounts contributed to charitable causes by those individuals who do not itemize their income taxes.

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Thank you very much.

Sincerely yours,

Jamie Adair

Jamie Adair, President
Portsmouth Area United Fund

JA:bml

cc: United Way of America
Michael Stern, Staff Director
Committee on Finance

AMERICAN HOSPITAL ASSOCIATION
444 NORTH CAPITOL STREET, N.W., SUITE 800, WASHINGTON, D.C. 20001 TELEPHONE 202-638-1100
WASHINGTON OFFICE

**STATEMENT OF THE AMERICAN HOSPITAL ASSOCIATION
TO THE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE
SENATE COMMITTEE ON FINANCE
ON
S.219, THE CHARITABLE CONTRIBUTIONS BILL**

JANUARY 30, 1980

The American Hospital Association, representing some 6,100 hospitals and other health care institutions, as well as over 30,000 personal members, appreciates this opportunity to express our support for S.219, which would amend the Internal Revenue Code to allow the charitable deduction to taxpayers whether they itemize their personal deductions or use the standard deduction. The majority of our institutional members are not-for-profit hospitals that depend, to varying degrees, on philanthropic contributions to conduct health research and manpower development programs, and to provide high quality health care in their communities. Accordingly, the AHA and its members are deeply interested in legislation affecting tax incentives for charitable giving.

The Need to Encourage Tax Incentives for Philanthropy

During the early history of health and hospital care in this country, private contributions comprised a substantial proportion of funds for building and operating hospitals. While other sources, including the government, now provide a greater share of funds for these activities, not-for-profit health

CABLE ADDRESS: AMERHOSP

care institutions, which represent the largest portion of our health care resources, continue to rely on charitable contributions for a variety of purposes. Some of these include the replacement of obsolete facilities and equipment; support for health research and education programs; assistance in maintaining and improving community health care through assuming such responsibilities as subsidization of care for indigent patients; and helping to finance experimental and innovative approaches to the delivery of health care.

These worthy activities are clearly in the public interest, and philanthropic support for them actually diminishes the financial burden on government. Moreover, private philanthropy reflects and fosters a highly desirable participatory attitude by individuals toward the needs of their communities. Private philanthropic and governmental activities in the health care field--often addressing different but related public needs and problems--are complementary expressions of support for better health for the people of the nation. We feel that the United States can ill afford to forego the assistance provided by philanthropy.

The Tax System and Philanthropy

Recognition of the many benefits of private giving for public purposes and the absence of any personal financial gain by donors led the Congress, shortly after enactment of the federal income tax, to establish tax incentives for charitable giving. These incentives are usually provided through permitting a tax deduction for itemized charitable gifts, a deduction that for years has encouraged voluntary giving and has served our society well.

However, charitable giving has not kept pace with our economic growth, in part because of federal tax policy. Changes in tax policy have discouraged the itemization of deductions and increased the percentage of taxpayers using the standard deduction from 52 percent in 1970 to more than 75 percent today. Harvard University economist Martin Feldstein argues that a continuing decline in the percentage of the Gross National Product given to charity is, to a great extent, due to the unavailability of the charitable deduction to a majority of taxpayers. It has been estimated that the resulting loss to all charities has been in excess of $5 billion (1972-78).

The current tax system has caused a shift in the sources of charitable gifts. Whereas in the past the majority of such gifts came from individuals in lower- and middle-income groups, today a small group of individuals with high incomes is responsible for most of the funds that are donated. We believe that participation by individuals in meeting health needs in their own communities should not be left primarily to the affluent. When low-and moderate-income families have little incentive to give, their voice in community life and decisions is reduced. Accordingly, we believe that a specific charitable deduction should be available to all taxpayers.

The charitable deduction is not a tax loophole. Unlike other items for which a deduction is permitted, philanthropic gifts do not enrich the taxpayer. The extension of such a deduction would be simple to administer, and ample precedent exists for allowing certain expenditures to be "above the line." For example, child care expenses and political contributions are now handled in this manner on tax returns. The United Way has estimated that the proposed modification with regard to charitable contributions would prompt an additional 2.5 million taxpayers to use the standard deduction, or "short-form," thereby simplifying the tax system.

The projected increase in charitable giving that would result from the change would more than offset any consequent loss to the federal treasury. Professor Feldstein has estimated that charitable organizations would receive $2.40 in increased contributions for each dollar of government revenue lost through allowing the deduction of charitable contributions by persons whose annual incomes are $30,000 or less.

The American Hospital Association urges approval of S.219 which would assist in offsetting changes in our tax laws which, in effect, have reduced philanthropic giving. We commend Senators Moynihan and Packwood for their leadership in introducing this legislation in the Senate and wholeheartedly support its enactment.

We appreciate the opportunity to present these views and recommendations.

900 Greensward Village 1
G-205
Delray Beach, Florida 33445
February 12, 1980

Mr. Michael Stern
Staff Director
Committee on Finance
Room 2227
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Stern:

Ref: S.219

I hope the Senate will consider favorably S.219 to amend the Internal Revenue Code of 1954 to allow charitable deduction to taxpayers whether or not they itemize their personal deductions.

The legislation would benefit low and middle-income persons, most of whom do not itemize and to encourage charitable giving by providing all taxpayers with this effective and humane incentive.

We should encourage support of private philanthropic and voluntary organizations that comprise such an important part of our society. Of concern, however, is that the number of those who itemize has dropped in recent years because the so-called "standard deduction" has increased as a fraction of the gross national product, for example, philanthropy accounted for 1.9 percent in 1970 and for 1.79 percent five years later.

The time has come for a change to bolster philanthropy, to allow all taxpayers with generous impulses, not just wealthy ones who itemize, to obtain the benefit of a charitable deduction, and to revise the principle that income devoted to philanthropy ought to be explicitly excluded from taxation.

Mr. Michael Stern
Page 2.
February 12, 1980

Organizations such as our colleges, churches, United Fund, Salvation Army, boys and girls clubs, scouting and others play a more significant role in American society than anywhere else in the world, and have done so for centuries.

Government cannot, and surely ought not, compel individuals to make charitable contributions, but it can refrain from policies that discourage them from doing so.

Passage of S.219 would take a long step toward strengthening some of our most worthwhile institutions and organizations in our society.

Yours truly,

C. A. Lovre

C. A. Lovre

CAL/nl

STATEMENT REGARDING S. 219 -- EXTENDING CHARITABLE DEDUCTION TO TAXPAYERS WHO TAKE THE STANDARD DEDUCTION

Submitted to: Senate Finance Committee, Subcommittee on Taxation and Debt Management

Honorable Harry F. Byrd, Jr., Chairman

Submitted by: American Association of Presidents of Independent Colleges and Universities. Presidents of 126 colleges and universities belong to the Association (List annexed as Exhibit "A").

48 New York colleges and universities (List annexed as Exhibit "B").

Mayo Foundation, Rochester, Minnesota. A charitable corporation dedicated to medical practice, medical education and medical research.

National Association for Hospital Development. Members are executives of over 900 hospitals located nationwide and charged with obtaining funds from the private sector to meet hospital needs.

The Christian and Missionary Alliance, a church denomination serving as a missionary-sending organization with over 900 missionaries. The United States constituency is represented by over 1,200 local church groups. The Christian and Missionary Alliance operates three colleges, four retirement centers and four convalescent and nursing homes.

The Church of the Nazarene, a church denomination serving both the United States and Missionary fields with about 600 missionaries and 7,500 ministers in the United States. The United States constituency is represented by approximately 5,000 congregations with a membership of about 460,000 and Sunday School enrollment totalling approximately 1,000,000 with 70 Districts. The Church of the Nazarene operates 8 liberal arts colleges, one Bible college and one Seminary.

The Conservative Baptist Foreign Mission Society with a constituency of 2,000 churches and a membership of over 500,000. The Society operates 2 seminaries and 3 colleges.

General Council of the Assemblies of God, a church denomination serving both the United States and foreign fields with nearly 1,900 ministers. The United States constituency is represented by 8,920 churches with a membership of almost 5 million. The General Council operates 27 colleges.

Association of Baptist Foundation Executives, Middletown, Kentucky.

Baptist Foundation of Alabama, Montgomery, Alabama.

Beloit College, Beloit, Wisconsin.

Bradley University, Peoria, Illinois.

Carleton College, Northfield, Minnesota.

Carnegie-Mellon University, Pittsburgh, Pa.

Choate Rosemary Hall, Wallingford, Connecticut.

The Church of God, Executive Council, Anderson, Indiana.

Clark University, Worcester, Massachusetts.

College of the Holy Cross, Worcester, Massachusetts.

Deerfield Academy, Deerfield, Massachusetts.

Doane College, Crete, Nebraska.

Drexel University, Philadelphia, Pennsylvania.

General Conference of Seventh-day Adventists, Washington, D. C.

Hendrix College, Conway, Arkansas.

Holy Cross Hospital, Fort Lauderdale, Florida.

Knox College, Galesburg, Illinois.

Lafayette College, Easton, Pennsylvania.

LeTourneau College, Longview, Texas.

Middlebury College, Middlebury, Vermont.

Millikin University, Decatur, Illinois.

Mount Olive College, Mount Olive, North Carolina.

Mount Holyoke College, South Hadley, Massachusetts.

The Mount Sinai Medical Center, New York, New York, including The Mount Sinai Hospital and Mount Sinai School of Medicine.

Northfield Mount Hermon School, East Northfield, Massachusetts.

Northwood Institute, Midland, Michigan.

Ohio Northern University, Ada, Ohio.

University of Notre Dame, Notre Dame, Indiana.

Smith College, Northampton, Massachusetts.

The Society for the Propagation of the Faith, New York City.

Worcester Polytechnic Institute, Worcester, Massachusetts.

World Literature Crusade, Chatsworth, California.

Statement prepared by: Conrad Teitell, member, Prerau & Teitell, New York City.

Dated: January 30, 1980

I. <u>The charitable deduction should be extended to taxpayers who take the standard deduction</u>. <u>This would further democratize the charitable deduction and increase charitable giving. We urge passage of the Moynihan-Packwood Bill (S. 219)</u>.

Increases in the standard deduction last decade reduced by millions the number of taxpayers who itemize their deductions. The taxpayers who switched to the standard deduction no longer have tax incentives to make charitable gifts. Accordingly, we urge Congress to allow a charitable deduction for all taxpayers -- those who take the standard deduction and those who itemize. Charitable gifts should be deductible from gross income--rather than adjusted gross income. This is not blazing a new Internal Revenue Code trail. The Code already allows some deductions to all taxpayers whether or not they itemize. For example, moving expenses and alimony are allowed as deductions from gross income. Therefore, this would not be a special rule for charitable contributions.

Making the charitable deduction available to all taxpayers would increase charitable giving, according to econometric projections made by Harvard University Professor Martin Feldstein for the Commission on Private Philanthropy and Public Needs.

The case for allowing the charitable deduction for those who take the standard deduction (as well as those who itemize) is based on the charitable deduction being different from all other deductions--and thus entitled to special treatment.

Common rationales for tax deductions are (1) to alleviate the impact of extraordinary unanticipated expenses, and (2) to encourage particular activities. Among deductions enacted for the first reason are those for extraordinary medical expenses and casualty losses. A deduction for the latter reason is interest on home mortgages, designed to promote home ownership. Both types of deductions involve expenditures to satisfy a taxpayer's personal needs.

The charitable deduction, however, provides an incentive for an expenditure which benefits the public. Unlike other deductions, such as the deduction for state taxes, the charitable deduction is entirely voluntary. Of all the deductions, it is the only deduction for public purposes that each individual decides on his own whether or not to make.

II. Now is the time to increase tax incentives to those who support schools, hospitals, churches, health, and other publicly supported charities.

Current news abounds with articles concerning the inadequacy of the financial resources of all types of charitable organizations. Never in our history have charitable organizations found themselves in comparable circumstances--in which they are unable to carry on assigned roles without using and depleting endowment and obtaining additional current contributions.

Increases in the standard deduction have reduced tax incentives to make charitable gifts for millions of Americans. It is no answer to suggest that direct government funding will substitute for funds lost through reduction of tax incentives. Funds syphoned off in general revenues reach the public through the charitable stream in the most remote way, if at all. An increase in tax incentives would further the objective of less, rather than more, government intervention.

Schools, hospitals, churches, health, and other publicly supported charitable organizations perform a vital role in our nation. If the services rendered to the general public by charitable institutions were to be diminished because of reduced private support, the public would suffer immeasurably.

In no country is private philanthropy as important a part of the national character as in the United States. The inception early this century of our federal tax laws encouraged rather than curbed the generosity of Americans. Since 1917, the government has stimulated private voluntary support by granting tax deductions to those who give to charitable organizations.

Congress has continually increased the tax incentives for charitable giving, starting out with a 15% ceiling on the charitable deduction and increasing it over the years to the present 50% of adjusted gross income ceiling--with a 5 year carryover for any "excess." Tax incentives to charitable giving have been reduced by increases in the standard deduction. This is an unintentional reversal of the policy to encourage charitable gifts.

The government has practical reasons for encouraging voluntary financial support. We need the services provided by schools, churches, hospitals, health organizations and other charities. If support for their work does not come from private sources, from where will it come?

Charitable contributions by concerned citizens have enabled educational institutions to maintain freedom of academic inquiry. They have insured separation of church and state. Voluntary charitable contributions have offered the means of maintaining the historical balance between government services and voluntary initiatives, the antithesis of a totalitarian society. The charitable contribution deduction enables our citizens to participate in making decisions, rather than concentrating further power in the hands of the government.

The increased tax incentives for charitable gifts over the years has resulted in expansion and development of charitable organizations which now more than ever depend upon private philanthropic support.

60-529 O - 80 - 29

A vast corps of volunteers give not only their money, but also their time to charitable organizations. If our private institutions become government institutions, much of this volunteer time is likely to be lost.

The Congress has stated on many occasions that the government is compensated for any loss of revenue by its relief from financial burdens which otherwise would have to be made by appropriations from public funds and by the benefits resulting from promotion of the general welfare.

We urge passage of the Moynihan-Packwood Bill (S. 219).

EXHIBIT "A"
American Association of Presidents of
Independent Colleges & Universities
<u>1979 Paid Membership</u>

Academy of the New Church	Bryn Athyn, Pa.	Rev. Alfred Acton
Amer. Grad. School of International Mgt.	Glendale, Az.	Dr. William Voris
Anderson College	Anderson, Ind.	Dr. Robert H. Reardon
Andrews University	Berrien Springs, Mich.	Joseph G. Smoot
Asbury College	Wilmore, Ky.	Dennis F. Kinlaw
Atlantic Christian College	Wilson, N.C.	Dr. Harold C. Doster
Augustana College	Sioux Falls, S.D.	Dr. Charles L. Balcer
• Aurora College	Aurora, Ill.	Dr. Lloyd M. Richardson
Azusa Pacific College	Azusa, Ca.	Dr. Paul E. Sago
Baptist College at Charleston	Charleston, S.C.	Dr. John A. Hamrick
Baylor University	Waco, Tex.	Dr. Abner V. McCall
• Belhaven College	Jackson, Miss.	Dr. Verne R. Kennedy
Benjamin Franklin University	Washington, D.C.	Mrs. C. A. Kennedy
Berea College	Berea, Ky.	Dr. Willis D. Weatherford
• Bethany Nazarene College	Bethany, Okla.	John A. Knight
• Bethel College	N. Newton, Kans.	Dr. Harold J. Schultz
Biola College	La Mirada, Ca.	Dr. J. Richard Chase
Brevard College	Brevard, N.C.	Jacob C. Martinson
Brigham Young University	Provo, Utah	Dr. Dallin H. Oaks
Brigham Young Univ. - Hawaii	Laie, Ha.	Dr. Dan W. Anderson, CEO
Buena Vista College	Storm Lake, Ia.	Keith G. Briscoe
Butler University	Indianapoois, Ind.	• John G. Johnson
Calvin College	Grand Rapids, Mich.	Anthony J. Diekema
Campbell College	Buies Creek, N.C.	Dr. Norman A. Wiggins
Central Methodist College	Fayette, Mo.	Dr. Joe A. Howell
Chowan College	Murfreesboro, N.C.	Dr. Bruce E. Whitaker
College of Insurance	New York, N.Y.	Dr. A. Leslie Leonard
College of the Southwest	Hobbs, N.M.	Dr. Bruce M. Evans
Columbia College	Columbia, Mo.	Dr. Bruce B. Kelly
Concordia College	Saint Paul, Minn.	Dr. Gerhardt W. Hyatt
Divine Word College	Epworth, Ia.	• Rev. Raymond Quetchenbach
Dordt College	Sioux Center, Ia.	Rev. Bernard J. Haan
Dropsie University	Philadelphia, Pa.	Leon J. Perelman
Emory & Henry College	Emory, Va.	Rev. Thomas F. Chilcote
• Evangel College	Springfield, Mo.	Dr. Robert H. Spence
Flagler College	St. Augustine, Fla.	Dr. William L. Proctor
Friends University	Wichita, Kans.	Dr. Harold C. Cope
Grace College of the Bible	Omaha, Neb.	Dr. Robert H. Benton
Grand Canyon College	Phoenix, Az.	Dr. Bill Williams
Grove City College	Grove City, Pa.	Dr. Charles S. MacKenzie
Hanover College	Hanover, Ind.	Dr. John E. Horner
• Hardin-Simmons University	Abilene, Tex.	Dr. Jesse Fletcher
Hebrew Union College	Cincinnati, Ohio	Dr. Alfred Gottschalk
High Point College	High Point, N.C.	Dr. Wendell M. Patton
Hillsdale College	Hillsdale, Mich.	Dr. George C. Roche III
Houston Baptist University	Houston, Tex.	Dr. W. H. Hinton
• Illinois Benedictine College	Lisle, Ill.	Dr. Richard C. Becker
Indiana Institute of Tech.	Ft. Wayne, Ind.	Dr. Thomas F. Scully
Internat'l Fine Arts College	Miami, Fla.	Sir Edward Porter
Jamestown College	Jamestown, N.D.	J. N. Anderson
Judson College	Elgin, Ill.	Dr. Harm A. Weber
• Kendall College	Evanston, Ill.	• Dr. Andrew N. Cothran
King College	Bristol, Tn.	• Donald R. Mitchell

• Lewis University	Lockport, Ill.	Dr. Paul A. Whelan
Loma Linda University	Loma Linda, Ca.	Dr. V. Norskov Olsen
Louisburg College	Louisburg, N.C.	Dr. J. Allen Norris, Jr.
MacMurray College	Jacksonville, Ill.	Dr. John J. Wittich
Manhattan College	Bronx, N.Y.	Bro. J. Stephen Sullivan
Dr. Martin Luther College	New Ulm, Minn.	Conrad I. Frey
• McPherson College	McPherson, Ks.	Dr. Paul W. Hoffman
• Mercer University	Macon, Ga.	R. Kirby Godsey
Meredith College	Raleigh, N.C.	Dr. John E.Weems
Mid-America Nazarene College	Olathe, Ks.	Dr. R. Curtis Smith
Milligan College	Milligan College, Tn	Dr. Jesse W. Johnson
Millikin University	Decatur, Ill.	Dr. J. Roger Miller
Mississippi College	Clinton, Ms.	Dr. Lewis Nobles
Monmouth College	Monmouth, Ill.	DeBow Freed
Mount St. Mary's College	Emmitsburg, Md.	Robert J. Wickenheiser
National College of Business	Rapid City, S.D.	John W. Hauer
National University	San Diego, Ca.	Dr. David Chigos
Newport College	Newport, R.I.	Dr. Lucille McKillop
North Park College	Chicago, Ill.	Dr. Lloyd Ahlem
• Northwest Nazarene College	Nampa, Id.	Dr. Kenneth H. Pearsall
Northrop University	Inglewood, Ca.	Dr. B. J. Shell
Oklahoma Baptist Univ.	Shawnee, Ok.	Dr. E. Eugene Hall
Olivet Nazarene College	Kankakee, Ill.	Dr. Leslie Parrott
• Oral Roberts University	Tulsa, Ok.	Dr. Carl Hamilton, Dean
Pacific Union College	Angwin, Ca.	Dr. J. W. Cassell
• Park College	Parkville, Mo.	Dr. Harold Condit
• Park College of St. Louis Univ.	Cahokia, Ill.	Dean Leon Zee Seltzer, CEO
Peace College	Raleigh, N.C.	Dr. Samuel D. Frazier
Pepperdine University	Malibu, Ca.	Dr. Howard White
• Pfeiffer College	Misenheimer, N.C.	Dr. Cameron P. West
Phillips University	Enid, Okla.	Dr. Joe R. Jones
Principia College	Elsah, Ill.	Dr. David K. Andrews
Ricks College	Resburg, Idaho	Dr. Bruce Hafen
Robert Morris College	Coraopolis, Pa.	Charels L. Sewall
Rockford College	Rockford, Ill.	• Dr. Norman L. Stewart
Rockhurst College	Kansas City, Mo.	Rev. Robert J. Weiss
Roosevelt University	Chicago, Ill.	Dr. Rolf A. Weil
Rose-Hulman Inst. of Tech.	Terre Haute, Ind.	Dr. Samuel F. Hulbert
St. Ambrose College	Davenport, Ia.	Dr. William J. Bakrow
St. Francis College	Loretto, Pa.	Rev. Christian R. Oravec
Saint John's University	Collegeville, Minn.	Rev. Michael J. Blecker
Saint Joseph's College	Rennselaer, Ind.	Rev. Charles H. Banet
Saint Mary's College	Winona, Minn.	Bro. Peter Clifford
Samford University	Birmingham, Ala.	Dr. Leslie S. Wright
School of the Ozarks	Point Lookout, Mo.	Dr. M. Graham Clark
Sherwood Music School	Chicago, Ill.	Walter A. Erley
Simpson College	San Francisco , Ca.	Dr. Mark W. Lee
Southern Missionary College	Collegedale, Tn.	Dr. Frank A. Knittel
Southwestern Adventist College	Keene, Tex.	Dr. Donald R. McAdams
Southwestern University	Georgetown, Tex.	Durwood Fleming
Sterling College	Sterling, Ks.	Dr. Charles W. Schoenherr
Tiffin University	Tiffin, Ohio	Richard C. Pfeiffer
Transylvania University	Lexington, Kty.	Dr. William W. Kelly
Trinity College	Deerfield, Ill.	Dr. Harry L. Evans

• Union College	Jackson, Tn.	Dr. Robert E. Craig
• Univ. of Mary-Hardin Baylor	Belton, Tex.	Dr. Bobby E. Parker
University of Richmond	Univ. of Richmond, Va.	Dr. E. Bruce Heilman
University of Tampa	Tampa, Fla.	Dr. Richard D. Cheshire
• Urbana College	Urbana, Ohio	Dr. Lawson A. Pendleton
Valparaiso University	Valparaiso, Ind.	Robert V. Schnabel
Villanova University	Villanova, Pa.	Rev. John M. Driscoll
• Wake Forest College	Winston-Salem, N.C.	Dr. James R. Scales
Wentworth Institute	Boston, Mass.	Dr. Edward T. Kirkpatrick
Western New England College	Springfield, Mass.	Dr. R. F. Gottier
Westminster Theological Sem.	Chestnut Hills, Pa.	Dr. Edmund P. Clowney
Westmont College	Santa Barbara, Ca.	Dr. David K. Winter
Wheaton College	Wheaton, Ill.	Dr. Hudson Armerding
William Jewell College	Liberty, Mo.	Dr. Thomas S. Field
Wingate College	Wingate, N.C.	Dr. Thomas E. Corts
Woodbury University	Los Angeles, Ca.	Dr. Bethel W. Johnson
York College of Pa.	York, Pa.	Dr. Robert V. Iosue

124 members as of 11/7/79, of which 86 (or 69%) are church-related

• new member in 1979 (23)

additional members:

Dallas Baptist College	Dallas, Texas	Dr. W. Marvin Watson
Oakwood College	Huntsville, Alabama	Dr. Calvin Rock

EXHIBIT "B"

STATE OF NEW YORK INSTITUTIONS

ALFRED UNIVERSITY
Alfred, N. Y. 14802

CANISIUS COLLEGE
Buffalo, N. Y. 14208

CLARKSON COLLEGE OF TECHNOLOGY
Potsdam, N. Y. 13676

COLGATE ROCHESTER DIVINITY SCHOOL/Bexley Hall/Crozer
Rochester, N. Y. 13346

COLLEGE OF NEW ROCHELLE
New Rochelle, N. Y. 10801

CORNELL UNIVERSITY
Ithaca, N. Y. 14850

DOWLING COLLEGE
Oakdale, L.I., N. Y. 11769

D'YOUVILLE COLLEGE
Buffalo, N. Y. 14201

EISENHOWER COLLEGE
Seneca Falls, N. Y. 13148

ELMIRA COLLEGE
Elmira, N. Y. 14901

MARIST COLLEGE
Poughkeepsie, N. Y. 12601

ST. BONAVENTURE UNIVERSITY
St. Bonaventure, N. Y. 14778

ST. JOHN FISHER COLLEGE
Rochester, N. Y. 14618

NIAGARA UNIVERSITY
Niagara, N. Y. 14109

PACE COLLEGE
New York, N. Y. 10038

PAUL SMITH'S COLLEGE
Paul Smith, N. Y. 12970

COLLEGE OF WHITE PLAINS
White Plains, N. Y. 10602

HAMILTON COLLEGE
Clinton, N. Y. 13323

HARTWICK COLLEGE
Oneonta, N. Y. 13820

HOBART & WILLIAM SMITH COLLEGES
Geneva, N. Y. 14456

ITHACA COLLEGE
Ithaca, N. Y. 14850

KEUKA COLLEGE
Keuka Park, N. Y. 14478

KIRKLAND COLLEGE
Clinton, N. Y. 13323

LEMOYNE COLLEGE
Syracuse, N. Y. 13214

MANHATTAN COLLEGE
Bronx, N. Y. 10471

MANHATTANVILLE COLLEGE
Purchase, N. Y. 10577

MILLS COLLEGE OF EDUCATION
66 Fifth Avenue
New York, N. Y. 10011

MOUNT ST. MARY COLLEGE
Newburgh, N. Y. 12550

NAZARETH COLLEGE OF ROCHESTER
Rochester, N. Y. 14610

SARAH LAWRENCE COLLEGE
Bronxville, N. Y. 10708

SIENA COLLEGE
Loudonville, N. Y. 12211

SKIDMORE COLLEGE
Saratoga Springs, N. Y. 12866

SYRACUSE UNIVERSITY
Syracuse, N. Y. 13210

UNION COLLEGE & UNIVERSITY
Schenectady, N. Y. 12308

UNIVERSITY OF ROCHESTER
Rochester, N. Y. 14627

UTICA COLLEGE OF SYRACUSE UNIV.
Utica, N. Y. 13502

VASSAR COLLEGE
Poughkeepsie, N. Y. 12601

WAGNER COLLEGE
Staten Island, N. Y. 10301

WELLS COLLEGE
Aurora, N. Y. 13026

PRATT INSTITUTE
Brooklyn, N. Y. 11205

RENSSELAER POLYTECHNIC INSTITUTE
Troy, N. Y. 12181

ROCHESTER INSTITUTE OF TECHNOLOGY
Rochester, N. Y. 14623

ROSARY HILL COLLEGE
Buffalo, N. Y. 14226

RUSSELL SAGE COLLEGE
Troy, N.Y. 12180

ST. BERNARD'S SEMINARY
Rochester, N. Y. 14612

PORTSMOUTH CENTRAL
YMCA

527 HIGH STREET
PORTSMOUTH, VIRGINIA 23704

January 25, 1980

Mr. Michael Stern
Staff Director
Committee on Finance
Dirksen Office Building
Room 2227
Washington, D. C. 20510

Dear Mr. Stern:

It is my understanding that hearings will be held on January 30th and 31st on the Fisher-Conable (H.R. #1785) and the Moynihan-Packwood (S. #219) bills by the Senate Finance Committee's subcommittee on taxation and debt management.

This legislation is of vital interest to the Portsmouth Central Y.M.C.A. because it has become increasingly difficult for us to attract charitable donations for our many youth oriented programs.

It is my opinion that this legislation would definitely help strengthen the many non-profit organizations in our country that depend upon charitable gifts for their existence.

Yours very truly,

Dennis F. McMurran

Dennis F. McMurran
President of the Board of Directors of the
Portsmouth Central Y.M.C.A.

TIDEWATER ASSOCIATION FOR RETARDED CITIZENS, INC.

906 INGLESIDE ROAD - NORFOLK, VIRGINIA 23502

466-8030

January 24, 1980

Mr. Michael Stern
Staff Director
Committee on Finance
Dirksen Office Building
Room 2227
Washington, D.C. 20510

Dear Mr. Stern:

The Tidewater Association for Retarded Citizens would like to go on record as endorsing and supporting the Fisher-Conable (H.R. 1785) and Moynihan-Packwood (S. 219) bills by the Senate Finance Committee's subcommittee on taxation and debt management.

As a non-profit organization and Four-Cities United Way member agency, tax deductible charitable dollars represent a vital flow in the offering of programs and services to mentally retarded children and adults in the Tidewater area.

Your support of these Bills will be most sincerely appreciated.

Yours very truly,

Carolyn M. Strickland
Carolyn M. Strickland
Executive Director

Patrick F. Jaeger
Patrick F. Jaeger
President

CMS:mh
PFJ
CC: Senators and Representatives of the Commonwealth of Virginia

AFFILIATED WITH THE NATIONAL AND VIRGINIA ASSOCIATIONS FOR RETARDED CITIZENS, INC.
MEMBER AGENCY UNITED COMMUNITIES FUND AND PORTSMOUTH COMMUNITY CHEST

Mr. Michael Stern, Staff Director
Committee on Finance
Dirksen Senate Office Building-Rm. 2227
Washington, D.C. 20510

Dear Mr. Stern:

All the arguments for the right of taxpayers to take deductions for charitable gifts have surely been heard. I do not write to duplicate what you have read and heard numerous times.

I simply wish to add the support of another person in favor of deductible donations when the hearings on the Moynihan-Packwood bill are held. As a contributor and one interested in the comfort and support of people in need, that United Way agencies and others bri--, I feel that deductions must be allowed if those agencies are to continue to serve.

Thank you for listing another "aye" for support of Senate bill 219.

Cordially,

Kathryn Powell

Kathryn Powell

1105 38th Street
Lubbock, Texas 79412
January 23, 1980

Michael Stern, Staff Director
Committee on Finance
Dierksen Senate Office Building - Room 227
Washington, D.C. 20510

Dear Sirs:

I would like to register my support for Senate Bill 219.

It would be an effective incentive for me (who always uses the short form) to increase my charitable contributions.

Thank you.

Sincerely,

James Livermore

James Livermore

Cc: Congressman Kent Hance

Mrs. DeWitt P. Thompson
5414 - 28th Street
Lubbock, Texas 79407

January 22, 1980

Michael Stern, Staff Director
Committee on Finance
Dirksen Senate Office Building-Rm. 2227
Washington, D.C. 20510

Dear Mr. Stern:

My true feelings about voluntary contributions to community service agencies are that contributors should receive "tax credits" rather than deductions. Knowing the minute odds of receiving tax credits, though, the next priority is the listing of deductions for those who choose to contribute to worthwhile organizations.

No one can deny that this country was built by volunteers. Removing the tax incentives for contributions has gone a long way already in cutting down the number of people who give to causes. A continuation will further reduce the number until, eventually, no one can financially afford to contribute.

I cast my vote in favor of the Moynihan-Packwood bill. I want the deductions for myself when I contribute. More than that, I believe it vital that we return to deducted contributions in order to save our volunteer organizations from a fateful demise.

Sincerely,

Mrs. DeWitt Thompson

Mrs. DeWitt Thompson

J - Bur - D

Business Promotion

P.O. Box 10818

806 / 797-8181

Lubbock, Texas 79408

January 23, 1980

Michael Stern, Staff Director
Committee on Finance
Dirksen Senate Office Building-Rm. 2227
Washington, D.C. 20510

Dear Mr. Stern:

A tax deduction is the strongest incentive for giving and supporting charitable organizations that has been created. Even the most benevolent people known are not going to contribute as much, if any, if no contributions are deductible.

If charitable organizations are to continue as we know them, it is essential that people be allowed to deduct whether they itemize other deductions or not. The Moynihan-Packwood bill is a necossity and should be passed. I hope the upcoming hearings on Senate Bill 219 will be favorable. If those involved are hearing the opinions of their publics, they should vote favorably for the bill. This letter casts another vote for those publicly calling for the need of this bill and the right for contributors to be able to deduct charitable contributions.

Sincerely,

Jerry Henderson

Jerry Henderson

rj

Mental Health Association
in Portsmouth

3636 High Street — Telephone 398-2371 — A United Fund Agency

PORTSMOUTH, VIRGINIA 23707

January 23, 1980

Mr. Michael Stern, Staff Director
Committee on Finance
Dirksen Office Building
Room 2227
Washington, D.C. 20510

Dear Mr. Stern:

It has been brought to our attention that very soon hearings will commence on H.R. 1785 and S. 219. These bills address the issue of allowing all persons filing an income tax, in any form, to deduct contributions to charity before computing their taxes.

As a not-for-profit agency this legislation is most important to us. Our very livlihood depends on contributions either from individuals or the United Fund and in light of today's economy, it is important that such an incentive be offered to the public.

Therefore, we would like to add our voice to the many in asking your help in endorsing this legislation.

Sincerely,

Sarah Fridge

Sarah Fridge
President

cc: Senator Harry F. Byrd, Jr.
Senator John W. Warner
Representative Robert W. Daniel, Jr.

A Voluntary Organization of Citizens' Concerned With the Prevention, Care and Cure of Mental and Emotional Illness

William T. Gibble
President

January 3,1980

Mr. Michael Stern,Staff Director
Committee on Finance, Room 2227
Dirksen Senate Office Building,
Washington D. C. 20510

Dear Mr. Stern:

I would deeply appreciate having you convey to the Senate Finance Committee Subcommittee on Taxation and Debt Management,Sen. Harry F. Byrd,Jr. (I-VA) chairman, my endorsement of Senate Bill 219 which would permit donors to deduct charitable gifts whether or not they "itemize" their other deductions.

The National Benevolent Association of the Christian Church has provided extensive residential and outpatient services to older adults, tó children, to single parents, and to the retarded during 92 years of benevolent service. While sponsored by the Christian Church (Disciples of Christ), the National Benevolent Association serves people on the basis of need and on a non-sectarian basis. The provision of this service is dependent upon cooperation with public agencies but is substantially dependent upon gift sources for its continued purpose.

Large gifts from major donors are rare. The bulk of our more than two million dollars of annual gift income is in small amounts from donors of middle and moderate income. It is our estimate that many of these donors will be filling out income tax forms on the basis of the standard deduction. To provide them the additional opportunity of charitable deductions would most certainly be an encouragement to their continue participation in the benevolent ministry of NBA.

I am deeply concerned that the historical participation of individuals in private and church related service to those in need be continued. Continuation of this personal involvement in charitable endeavors will enhance the total service provided by public and private sources. Continuation of service from the not-for-profit sector of American citizenry will, in my judgement, expand and enhance the role of the public sector in service to those in need. To encourage individual gifts is in the best interest of our nation.

I would encourage the committee to make a favorable report on Senate Bill 219.

With best wishes, I am,

Cordially,

William T. Gibble,
President

WTG:Lt

what we do best is ____

**STATEMENT ON THE COMMITTEE ON FINANCE
UNITED STATES SENATE
REGARDING SENATE BILL 219
BY**

**BRUCE W. BURTON,
DEAN OF THE COLLEGE
WILLIAM MITCHELL COLLEGE OF LAW**

Under current law only those who itemize their income tax deductions are entitled to deduct charitable contributions. At present approximately 75% of those filling do not itemize their deductions. It is estimated that, because of increasingly generous standard deduction rates, within five years 85% of those filing will not itemize their deductions. In other words only 15 to 25% of the public will have an income tax incentive to make outright charitable gifts.

All taxpayers, not just those who itemize, should be permitted to deduct their charitable contributions in calculating their income taxes. Extending the charitable deductions to all taxpayers is essential and sound public policy.

First, this change would help to insulate the charitable deduction from the unintended and indirectly harmful consequences of other unrelated changes in tax law, especially the several substantial increases made in the standard deduction (now called zero bracket amount) over the past decade. Charitable gifts would have been over $1.3 billion greater in 1977 had the standard deduction not increased several times since 1970, according to econometrics studies done by Professor Martin Feldstein of Harvard University in 1977.

Second, this change would be very effective, efficient, and fair, yielding over $1.20 in additional charitable contributions for every $1.00 lost in tax revenue. This change would have increased charitable giving by at least $4.16 billion in 1978 over what it was, according to similar econometrics studies completed in April, 1978. It would also be fairer to low and middle income taxpayers than is current law.

Third, this change would strengthen the underlying democratic pluralism of our society by giving recognition to <u>every</u> taxpayer for the public character of his private voluntary giving, and by encouraging broader and more responsive participation by all citizens in the public life of their communities and nation. For higher education, such a change would provide deserved public recognition to smaller donors, and would encourage younger alumni and alumnae to participate more fully in annual fund drives and other activities, thus insuring greater participation by them in later years as well.

Now is the time to increase, not decrease, tax incentives to those who support schools, hospitals, churches, and other charities. Extending the charitable deduction to every taxpayer, without a floor, is a sensible, practical, and creative proposal that will benefit our society many times over. It should be enacted now.

NATIONAL HEALTH COUNCIL inc.

1740 Broadway, New York, N.Y. 10019 (212) 582-6040

February 14, 1980

Statement on Charitable Deductions to the U. S. Senate Committee on Finance Submitted by the National Health Council

The National Health Council strongly supports S.219 which allows all taxpayers to deduct charitable contributions from their federal income taxes regardless of whether or not they itemize.

For decades our nation's tax policies have favored charitable giving by permitting taxpayers to deduct donations to charities from taxable income. Such policies have encouraged voluntarism and helped to sustain the pluralistic nature of American society. Tax incentives can now only be utilized by those who itemize. As a result of tax simplification and six increases in the standard deductions since 1969, more than 75% of American taxpayers have selected the short form and have inadvertently been penalized on their charitable donations. Thus more than 7 out of 10 people — most of them lower and middle income — have absolutely no tax incentive for giving to worthwhile charitable causes.

While the prospect of a tax deduction is not the prime motivating force behind most contributions to charity, it does provide an added incentive to many supporters. This lack of incentive is likely to have its greatest impact on those organizations heavily dependent on the support of individuals who are no longer itemizing their deductions and on the people served by those organizations. Lost income to charity will inevitably mean reduced programs and services and greater demands on an already overburdened government. S.219 offers a wise investment. It recognizes that we should not depend on government for all social and community services, and it recognizes the need to strengthen the voluntary sector which, in turn, strengthens the very fabric of our society.

The National Health Council is an umbrella membership association of 83 national health and health related organizations including providers, professional associations, voluntary agencies, business corporations and government agencies. A membership list is attached.

Twenty of the country's leading voluntary health agencies are members of the Council. These organizations together with others in the health field provide needed services to millions of Americans; support major research into the causes and cures of disease and illness; represent the nation's single most important source of health education and information and are the major advocates of programs to assist and care for the country's chronically ill and disabled. Voluntary health agencies derive the overwhelming majority of their income from the small contributions of millions of individual citizens. Most of these contributors are people of modest means and are the very individuals who are shifting to the standard deduction and forfeiting the privilege of deducting charitable donations from their taxable income.

Although aggregate charitable contributions continue to rise, it is clear that the increase is coming from wealthier Americans, and this loss in the broad base of giving threatens charitable groups individually and the voluntary sector as a whole. Our experience has taught us not to minimize small contributors who sometimes become large philanthropists in later years or who start by giving money but are later moved to give of themselves; to give their time, their energy, and their talents to advance worthwhile causes and assist the less fortunate in our society.

The National Health Council urges the Congress and the Administration to reaffirm its support of pluralism and voluntarism by extending to all taxpayers who take the standard deduction, the privilege of a tax deduction for charitable contributions.

NATIONAL HEALTH COUNCIL

Member Agencies

American Academy of Medical Administrators
American Academy of Optometry
American Academy of Physicians Assistants
American Association for Respiratory Therapy
American Association of Bioanalysts
American Cancer Society
American College Health Association
American College of Nursing Home Administrators
American Dental Association
American Diabetes Association
American Foundation for the Blind
American Health Planning Association
American Home Economics Association
American Hospital Association
American Hospital Supply Corporation
American Institutes for Research
American Lung Association
American Medical Association
American Medical International, Inc.
American Medical Student Association
American National Red Cross, The
American Optometric Association
American Pharmaceutical Association
American Physical Therapy Association
American Podiatric Medical Students Association
American Podiatry Association
American Public Health Association, Inc.
American Social Health Association
American Society for Medical Technology
Arthritis Foundation
Association of Schools and Colleges of Optometry
Association of Schools of Public Health
Asthma & Allergy Foundation of America
Blue Cross Association
Committee to Combat Huntington's Disease, Inc.
Cystic Fibrosis Foundation
Epilepsy Foundation of America
Equitable Life Assurance Society of the United States, The
Eye-Bank Association of America, Inc.
Goodwill Industries of America, Inc.
Health Insurance Association of America
International Society for Clinical Laboratory Technology
Joint Council of Allergy & Immunology
March of Dimes Birth Defects Foundation
Metropolitan Life Insurance Company
Muscular Dystrophy Association, Inc.
National Association for Music Therapy, Inc.
National Association of Blue Shield Plans
National Association of Community Health Centers, Inc.
National Association of Home Health Agencies
National Association of Social Workers
National Coalition of Hispanic Mental Health and Human Services Organizations, The
National Council for Homemaker-Home Health Aide Services
National Council on Alcoholism
National Council on the Aging
National Easter Seal Society for Crippled Children and Adults
National Environmental Health Association
National Foundation for Ileitis & Colitis, Inc.
National Fund for Medical Education
National Hemophilia Foundation
National Kidney Foundation
National League for Nursing
National Multiple Sclerosis Society
National Optometric Association
National Podiatry Association
National Society for Autistic Children
National Society to Prevent Blindness
National Student Nurses' Association
National Urban League
Provident Life and Accident Insurance Company
Prudential Insurance Company of America, The
Smith Kline & French Laboratories
Society for Public Health Education
Student National Medical Association
Technicon Corporation
United States Consumer Product Safety Commission
United States Department of Agriculture
United States Department of Defense
United States Department of Education
United States Department of Health, Education, and Welfare
- Health Care Financing Administration
- Public Health Service

United States Veterans Administration
United Way of America

WRITTEN

TESTIMONY

OF

CHILD WELFARE LEAGUE OF AMERICA

FOR THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

FINANCE COMMITTEE

UNITED STATES SENATE

HEARINGS

ON

S. 219, CHARITABLE CONTRIBUTIONS LEGISLATION

JANUARY 30-31, 1980

SUMMARY

The Child Welfare League of America thanks the Senate Finance Subcommittee on Taxation and Debt Management for holding these hearings to receive the views of many non-profit, charitable national, State, and local organizations which strongly support the Charitable Contributions legislation being considered by the 96th Congress. The League strongly supports the legislation and presents this support on behalf of the League as a national voluntary organization, but also on behalf of the hundreds of State and local voluntary child and family serving agencies affiliated with the League, and through a division of the League, the Office of Regional, Provincial, and State Child Care Associations (ORPSCCA).

We support this legislation based upon four principles:

1. The American Way -- private individuals volunteering time and money to help the needy -- is still strong. The individual contribution is a way to maintain volunteer support, continue a pluralistic set of child and family serving agencies, fund preventive family services, and finance facility construction and renovation costs.

2. The voluntary and governmental sectors are interdependent. The voluntary social services agencies, and child and family serving agencies in particular, have assumed important responsibilities in providing court mandated foster care and family support services for dependent and neglected children -- children who are the responsibility of the public agencies of the State Child Welfare system. The individual contribution is an important source of funds for the voluntary agency, which must augment the government rate for cost of care, so that the agency's actual cost of care and services is met. The individual contribution also helps to supplement those program gaps and shifts experienced in child and family services programs operated by the governmental sector.

3. Private donations provide children with the kinds of things that make life livable. Private contributions, particularly individual gifts from low and middle income people, make possible the kinds of activities that make a child's time in foster care or residential treatment programs more livable. These include allowances, birthday and graduation presents, special trips with school classes, even bar mitzvahs or wedding parties.

4. The voluntary sector can provide services at a lower cost. A state example, the Michigan Federation of Private Child and Family Agencies report, In Partnership with the Public: The Story of the Non-Profit, Non-Government Child Care and Placement Agencies of Michigan, proves this.

The Child Welfare League believes that there has to be a built-in governmental incentive to build a stronger base of private dollars and individual contributions for child and family serving agencies in these times of fiscal austerity. The Charitable Contributions Legislation represents an important incentive, and we urge this Sub-Committee to report out S. 219 and urge both the Senate and the House to pass this legislation before the 96th Congress adjourns.

Charitable Contributions Legislation (S. 219) Testimony

My name is Joyce Black, an I am the Chairwoman of the Public Policy Committee of the Board of Directors of the Child Welfare League of America, Inc. I am appearing today on behalf of the Child Welfare League, a voluntary organization founded 60 years ago, which is a federation of 402 child and family serving agencies in the United States and Canada. The League is directed by a board of lay and professional leaders from all parts of both countries. The League is supported by dues and fees paid by affiliated child and family service agencies, as well as from restricted foundation grants, Federal government project grants, charitable contributions and United Way allocations. I appear before this Subcommittee, not only on behalf of the League as a national charitable organization, but also on behalf of the hundreds of State and local charitable organizations affiliated with the League--which provide important services to children who are neglected, abused or seriously in need of help. The Child Welfare League is a member of the umbrella group, the National Assembly of National Voluntary Health and Social Welfare Organizations, Inc., which is a member of CONVO, the Coalition of National Voluntary Organizations.

The Child Welfare League, by the direction of its Board of Directors, strongly supports the Charitable Deductions legislation being sponsored by Senators Moynihan and Packwood and Congressmen Fisher and Conable, along with nearly 200 other Senators and Representatives. The Office of Regional, Provincial and State Child Care Associations (ORPSCCA), a division of the Child Welfare League, also considers the successful enactment of this legislation a top priority.

As a board member of the New York ORPSCCA affiliate, the New York State Council of Voluntary Child Care Agencies, I want to express my appreciation to the New York State delegation, especially Rep. Conable and Sen. Moynihan, for supporting this legislation. I have devoted my career to volunteer leadership activities, and am currently serving on boards of both local and national voluntary organizations. I am the President, Day Care Council of New York, Inc.; president, Big Brothers of New York, Inc.; vice president, National Center for Voluntary Action; vice president, Big Brothers/Big Sisters of America (first woman trustee); member, New York State Banking Board (first woman member); co-chairperson, Mayor's Voluntary Action Council; chairperson, New York State Advisory Committee on Services; member, New York State Temporary Commission of Child Welfare; trustee (first woman), New York University Medical Center; past chairperson, Resources Review Board; board member, Council on Accreditation on Services for Families and Children; board member, National Conference on Social Welfare; vice president, New York Council for the Humanities; vice president, Cancer Care, National Cancer Foundation. I have served on the Board of the Child Welfare League since 1975. Therefore, I come before this Subcommittee to duscuss the importance of the legislation both as a representative of a charitable organization, and as a volunteer and "contributor of my time and resources" to the voluntary sector.

THE AMERICAN WAY - PRIVATE INDIVIDUALS VOLUNTEERING TIME AND MONEY TO HELP THE NEEDY

The social welfare system in this country began much earlier than the 1930's, with the advent of the New Deal legislation and the implementation of the Social Security pension and income maintenance programs. It existed before the early 1900's in charitable societies in volunteer efforts of such individuals as Jane Addams, the social worker who served "refugee children," and Charles Crittenton, the mission worker who founded a network of homes across the United States and the world which provided refuge for young women who were dragged or fell into prostitution or bore unwanted children; and in the philanthropic donations of business leaders to such causes. All of these represented, in a much more modest and decentralized way, the role which the Federal government, especially the Department of Health, Education and Welfare, now plays in serving the social welfare needs of the American people.

The individual charitable contribution is a mechanism to maintain that pre-New Deal spirit and pluralism in the delivery of social services to needy children, adults and families today. Some child and family serving agencies, to this day, continue to operate using only private contributions, endowment resources and volunteers. Child and family service agencies which emphasize a self-help model to treatment, such as Big Brothers, Parents Anonymous, or Hotlines for information, referral and general counseling, also incorporate into their staffing model the "helping by doing" role of volunteers who listen, share their experiences and spend time sharing and giving personal support to others in need of caring.

Some children and families, as individuals, deliberately seek help from voluntary agencies, through their church affiliations or through fraternal and community connections. The roles of Federal, State, and local governments, as well as the courts, continue to grow in many areas: in both financial and legal responsibility; cases of child abuse and neglect; family support services. In other areas, such as the care of children outside of their own homes, many children continue to be referred to private counseling services, foster home, and group care agencies by their families or churches for social services, mental health and educational treatment. In many cases, these children and families who need care have modest incomes, but those incomes are too high for them to be eligible for government-supported programs such as Title XX. Therefore, agencies which accept private referrals can serve these families only by supplementing the fees received from the family (often on a sliding scale) with private contributions.

Voluntary child and family service agencies also look to the charitable contribution to support their innovative, exploratory and groundbreaking (both figurative and literal) programs. Governmental funding for programs designed to assist families who are struggling to stay together (either emotionally or financially) is very limited, especially in times of inflationary increases in current service programs.

Preventive services don't get funded first. For example, over the past three years we have come before another Subcommittee of this body, the Public Assistance Subcommittee, and requested additional Federal funds, under Title IV-B of the Social Security Act, for child welfare services to prevent family breakup and to reunify families after children have been placed in foster care. No additional IV-B funds have been appropriated and inflation has reduced the buying power of the static appropriation.

Therefore, it is ultimately the financial responsibility of the voluntary sector to underwrite preventive services, such as parenting effectiveness services, home budgeting and management seminars, social and supportive counseling services, etc. Special contributions are also needed for supplemental services to families with special needs, such as transportation or escort service for handicapped children attending daily therapy sessions.

Private contributions are also an important source for facility construction and renovation costs. "Bricks and mortar" are a costly, yet essential expense for any social services agency and particularly important for child and family services agencies which provide residential care for children. These residential programs, along with the large numbers of voluntary hospitals and mental health institutions in this country should be supported in their efforts to obtain charitable contributions. Facilities must be repaired and maintained, and as programs expand new facilities must be constructed. Construction costs have, as a rule, been prohibited as allowable costs in governmental contracts. However, voluntary agencies can construct and operate building programs much more efficiently than governmental agencies. The citizen board of a voluntary agency has overall policy and fiduciary responsibilities to see that competitive bids for construction contracts, and efficient management of the agency's physical plant are the standard operating procedure. As an example, a children's home in Missouri conducted a needs assessment and found that two areas of the state do not have sufficient services for children in need of out-of-home care. The agency is currently conducting a capital fund drive for two new community homes which will be able to serve 10 children each. The agency and its board are conducting the campaign with a goal of $500,000 needed to construct these new facilities.

THE VOLUNTARY AND GOVERNMENTAL SECTORS ARE INTERDEPENDENT

Government supported human services programs are not only failing to move toward universal coverage in these times but also are being reduced or eliminated under the pressure for balanced budgets and government cutbacks.

Voluntary social services agencies, and child and family serving agencies in particular, have assumed important responsibilities in providing court mandated foster care and family support services for dependent and neglected children--children who are the responsibility of the public agencies of the State Child Welfare system. Receiving local, State, and Federal funds under purchase of service contracts with Public Welfare departments is becoming more and more the rule, rather than the exception, for voluntary child and family services agencies. One reason for this has been the inability of federated fund raising drives in communities to keep contribution levels up--meeting the pace of inflation. The continuation of the charitable contribution is important, however, even in the case of those agencies where governmental funds represent more of the agency's budget than United Way or private contributions. These funds serve many purposes, including the seed or match money to draw down Federal dollars to a local area. This approach is utilized under Title XX and other Federal-State matching programs which allow the private dollar to be used for match. Private dollars, and especially the United Way allocations for many child and family services agencies, are used to augment the government rate for cost of care, so that the agency's actual cost of care and services is met. Currently, the United Way of Metro Atlanta, in cooperation with the local child and family services agencies and the Georgia Department of Human Resources, is studying various proposals to ensure adequate governmental rates for purchase of services for those children and families who are the legal responsibility of the State government. If adequate rates are established, then the charitable contributions can be used for other important human services activities. The use of endowment funds on a short-term basis, as well as borrowing money from local banks, to pay the costs of delays in payments from purchase of service contracts with the State or Federal governments, are also examples of the inefficient and complex problems which are too often inherent in receiving government funds. Voluntary agencies, which do not have taxing power, must be able to rely on the flexibility of private funds in order to remain fiscally responsible for operating programs.

In addition to the red tape and cash flow issues of government financed human services programs, the gaps in government programs, as well as the ever-shifting financial and political priorities are important factors. The voluntary sector must continue to provide necessary, dependable services when the seed money from the Federal government ends or when the service is no longer a political priority of the elected officials. For example, a New York City child care agency has financed, with private contributions, a nursery school for children between two and three years of age who need to begin early special training because of handicapping conditions. The Federal and State program for the Education of Handicapped Children does not begin financial coverage until the age of three. Private funds, therefore, have filled a gap in service to promote better education of handicapped children which will prevent more deteriorating conditions later. In another State, child care has dropped out of the "top ten" priorities for State government funds, in order to make room for a new State program, UTILICARE, to pay 50 percent of the utility costs for eligible elderly. Again, the private contributions will be called upon to subsidize necessary child care arrangements. Clearly in all of these examples, the voluntary sector and the governmental sector depend upon each other for more universal coverage, and for more adequate benefits for those individuals most in need. Enactment of Charitable Contributions legislation would support, at the Federal level, the private and public efforts to finance better human services programs.

PRIVATE DONATIONS PROVIDE CHILDREN WITH "THE KINDS OF THINGS THAT MAKE LIFE LIVABLE"

With respect to the care and services to children who are the legal responsibility of the State governments, there are many uses of the private contribution which do not represent merely a subsidy of the room, board, or salaries of child welfare workers. Private contributions, particularly individual gifts from low to middle income people, make possible the kinds of activities which make life in foster care or residential treatment programs more livable. These include allowances, birthday and graduation presents, special trips with school classes, even bar mitzvahs or wedding parties. For example, gifts of \$50-\$500 are crucial to an agency with a \$14 million budget, so that holidays, educational expenses, and scholarship funds for the children in care can be provided. In an agency caring for delinquent youth, charitable dollars have provided the youth with a vocational counseling program which uses independent learning with audio-visual equipment and computer analysis as tools for exploring different career possibilities, as well as developing job search and interview skills. Charitable contributions have also financed a follow up study to determine the impact of the vocational program in terms of job results for youth no longer being served by the agency. These are contributions which should be encouraged and which enhance the quality of government financed services in a very humane way.

THE VOLUNTARY SECTOR CAN PROVIDE SERVES AT A LOWER COST - AN EXAMPLE

In May, 1979, the Michigan Federation of Private Child and Family Agencies issued a report, In Partnership with the Public: The Story of the Non-profit, Non-government Child Care and Placement Agencies of Michigan. The Federation, an ORPSCCA affiliate, provided documentation to confirm the efficiency of the State government's "purchase of service" policy. The State decision to purchase child welfare services from voluntary agencies is saving Michigan taxpayers more than $20 million dollars in salary and fringe benefit costs alone. And Michigan's "unwanted, parentless, delinquent and otherwise 'troubled' children" are being served in equal, if not higher, quality service settings than in government operated programs.

One of the purposes of the report was to show that government policymakers who have recognized the tradition of the private, non-profit sector, and utilized the agencies through the purchase of services program, have made efficient and effective decisions. The report encourages citizens to be supportive of the continuation of this policy. This public information and education purpose is important for those voluntary child and family serving agencies who utilize both governmental and private dollars to serve needy children. (A copy of the recommendations and summary of the Michigan Report is attached as Appendix A.)

STATE CHARITABLE CONTRIBUTIONS LEGISLATION ALSO NEEDED

Recognition, at the Federal level, as well as at the State and local level, of the importance of the charitable contribution to maintaining high quality and efficient cost controls can be exemplified in the Charitable Contributions legislation. We should not only concentrate our efforts on Federal legislation, but also recognize the important role that State legislatures can play in changing State tax laws to increase the amount of charitable giving. For example, California voters will be considering a proposal to cut the State income tax in half this coming June. This proposal, known as Jarvis II for its author, would cut back state revenues by some $5 billion in 1981. In the event that the Jarvis II proposal is adopted, the State charitable contributions legislation, AB545, introduced by Assemblyman S. Floyd Mori, becomes an even more important state tax change for child and family services which must use both public and voluntary funds to run needed programs.

SUMMARY - ENACT CHARITABLE CONTRIBUTIONS LEGISLATION IN 1980

If 1980 is the year for tax reform legislation, then it is imperative that charitable contributions legislation be enacted as well. The above-the-line treatment of charitable deductions supports those individuals who are concerned about human services, child and family services, and other charitable health and social welfare activities taking place in their communities and States by recognizing their contributions in the taxation system. Budget cuts in governmental funding for social services are taking place. As this nation proceeds to increase its defense capabilities, and as State revenue surpluses diminish, Federal level encouragement to the American taxpayers to participate in voluntary contributions of money--and time--to "people programs" is an important public policy thrust to implement this session of Congress.

The Child Welfare League, along with the many other groups supporting this legislation, is confident of its success, although we are also realistic about the length of time often required to implement sound but significant changes in tax policy. We believe that this legislation is important tax policy which must be institutionalized at both the Federal and State levels. We believe that there has to be a built-in governmental incentive to build in a stronger base of private dollars for child and family serving agencies--especially in these times of fiscal austerity. The Charitable Contributions legislation represents such an important incentive. We believe that the voluntary sector is vital to a comprehensive, high quality system of social services to children and their families. Therefore, the voluntary sector should be supported by the Federal and State tax systems in the mutually dependent roles of the government and voluntary sectors in caring for those Americans most in need of financial and moral support.

Thank you for this opportunity to submit testimony.

IN PARTNERSHIP WITH THE PUBLIC

.he Story of the Non-Profit, Non-Government Child Care and Placement Agencies of Michigan

The Michigan Federation of Private Child & Family Agencies
One South Capitol Avenue
Suite 220
Lansing, Michigan 48933

May 1, 1979

RECOMMENDATIONS

Total cost comparisons must be developed of the private and public service agencies

Although the Federation of Private Child and Family Agencies was able to develop an appropriate methodology for comparing salary and fringe benefit costs between the non-governmental agencies and the state operated agencies, the comparison of total program costs is impossible to compute. The Department of Social Services, at the present time, claims an inability to identify "administrative costs," making a total comparison impossible.

In all fairness, such figures would apply to both private sector and to the government operated programs. Certainly the case can be made that the department incurs significant administrative costs in implementing purchased-service child welfare programs.

The department currently possesses a form (DSS-573) that is submitted by private agencies when used to determine program costs in the non-governmental sector. With minor alterations, it would seem that the department could equally apply such a practice to its state operated agencies and institutions and, as a consequence, both public and non-governmental sectors would benefit from comparisons which could then be made.

The Federation salary and fringe benefit comparison study must be replicated

No matter how accurate the study of a comparison of salary and fringe benefits between governmental employees and employees in child welfare system may be (and we believe that this study is very accurate), both sectors, and the general public, would benefit by a replication of this study by the Department of Social Services and by a third party.

We recommend therefore, that the Department of Social Services initiate an independent assessment along the same lines as this report. Further, we recommend that the Department of Social Services, the Department of Civil Service, or the legislature, contract with an independent auditor or personnel consultant for a comprehensive salary and fringe benefit comparison between the private non-profit sector employees in the child welfare system and the employees who work within the ranks of the state civil service. A third party analysis would provide an impartial and credible comparison of current salary and fringe benefit levels.

<u>The public sector and the private sector must continue to work together to insure that the children who become our clients get the best service possible</u>

Without critical and impartial program evaluations conducted by an impartial source, little hard data exists to establish that the purchase of services for institutional care and placement are significantly superior to those provided by the state. One might conclude, however, from the built-in controls discussed in the previous section that the state has over the quality of services within the non-governmental sector, that the level of service within the private sector is, at least, equal to or superior to that provided by the state.

Whereas the state may be satisfied that institutional care and placement services it purchases from the private sector are of sufficient quality to merit continuation of the purchase of service policy, no qualitative statement can be made about the state operated programs.

The plain fact is that no matter how dedicated the state employees might be, no independent agency determines whether or not children should be referred to the state agencies. An independent authority should be established that includes public and private members. The authority should review state placement practices and make appropriate recommendations on placement standards.

Further, a state policy should be implemented that requires private sector participation in studies that could impact upon the broad range of child welfare services.

Finally, uniform standards must be developed by the public and private sector and applied to both in order to guarantee the protection to all children who are in need of placement or residential services.

<u>An independent protection and advocacy authority must be established for child residential and placement services</u>

Protection is offered to children in state and local public facilities in an uncoordinated pattern. One need not look far beyond the Plymouth State Home and Training Center to prepare an argument for the appointment of independent, impartial, permanent protection and advocacy system which can oversee the condition of our private, state and local institutions for children. Such review should not be the sole domain of random newspaper investigators and citizens groups -- even though their role in protecting clients of state services has been valuable and warranted. For the public mental health system, only recently has a protection and advocacy system been developed and funded through a contract with the Michigan Association for Retarded Citizens.

This protection and advocacy system is not yet fully developed and it relies heavily on volunteers for direct contact with developmentally disabled persons. We do not have a system in place which covers all children at risk who are in protective care of a private, state or local public agency.

It would seem to be in the best interest of everyone involved if the establishment of a protection and advocacy system in all sectors of child welfare services be instituted without further delay.

<u>An independent examination of the administrative operation of the state departments engaged in the delivery of direct and purchased services to children must be conducted</u>

State employees who are charged with the delivery of services to children have become enmeshed in paperwork which impedes their service abilities. Many of these individuals have quit state service to become employees of private sector agencies, at great financial expense, in order to escape this maze of red-tape that accompanies state service. We believe that an impartial "time-study" expert could find significant ways to reduce the amount of red-tape and paperwork that is keeping otherwise dedicated state employees from helping the children they strive to serve. It is to the state employees of Michigan that this recommendation is dedicated.

<u>Regular review and analysis of cost data reports</u>

Sufficient professional staff should be provided at the state level to analyze reports submitted by the public and private sector on operational costs. These costs should be compared with audit reports. This process could result in recommendations to the state Rate Setting Advisory Committee for improvements of the cost system.

Also, the Federation suggests the implementation of a single state billing system for all children and family services, whether these children are funded by the Child Care Fund, the Board and Care Fund, or AFDC Accounts. A new and improved system would result in billings to the state by the provider agency, an approval of those billings, and speedy remittance to the private agency. Counties responsible for a portion of the costs would be charged back by the state for their share for these costs.

<u>A thorough analysis must be conducted on the growing costs to non-governmental agencies of governmental regulation</u>

One of the most significant factors increasing costs of purchased services is the increasing cost of overlapping government regulation. Although many of these requirements are designed to protect children and must be preserved, all require extensive agency use of personnel who otherwise could be working with children or attempting to place these children in foster homes or for adoption. The ability of the government to protect children and families is not aided when state employees are enmeshed in unnecessary paperwork created by overlapping and unnecessary regulations.

SUMMARY

The non-governmental residential child care and foster home and adoption placement system is a major provider of important services to children and families in Michigan. Although increasing pressure from a variety of sources exists for the non-governmental sector to increase its breadth and depth of services to children and families, the non-governmental system provides a remarkable example of effective cost-containment.

There are several natural or "inherent" controls that serve to contain costs of these services purchased by the state. The boards of non-governmental children's institutions and adoption and foster placement agencies are largely local business persons. These individuals bring to the institutions and agencies a "fiscal" conservative" bias that is reflected in keeping costs to the public sector at a minimum for these services.

Because the institutions and agencies are viewed as "local community programs" in nature, individuals, business and local charities contribute heavily to the program. Donated services and goods also assist the institutions and agencies to operate at a low cost. Salaries and wages are geared to local standards.

External cost and quality controls also exist to contain costs in the non-governmental sector. The private institution and agency cannot adjust its budget levels by raising taxes. It must remain attuned to financial constraints. A series of audits and financial reports are required by local agencies, foundations, the state Department of Social Services and other state agencies, the local Community Chest or United Fund, and a variety of others.

The private sector is reimbursed by the state at a factor determined by the previous year's funding levels. Unfortunately, by the time the state gets around to reimbursing the non-governmental institutions, nearly two years has often elapsed since the period upon which current reimbursement levels were established.

Finally, but perhaps most important, the state controls the costs of purchased services by a free-market control that involves the state (and county's) ability to control referrals to institutions. An agency that is "too expensive" will not receive referrals from the state. By the same token, this technique of referral control also maintains a high quality of care standard within the non-governmental sector -- a control that is absent in state or county court-controlled institutions.

Quality control of these institutions in the non-governmental sector is also enforced through licensing and periodic review standards. Given conditions exposed by the Detroit Free Press and others at the Plymouth State Home and Training Center, it is evident that no such stringent controls exist when the state chooses to provide child welfare services directly rather than purchasing them from a non-profit provider.

The Federation conducted a major salary and fringe benefit comparison study in which it was found that the purchase-of-service philosophy is saving the state over $20 million per year in salaries and fringe benefits alone. Said another way, if the non-governmental sector was paying the same salaries and fringe benefits to its employees as the state pays employees in comparable jobs in state institutions and agencies, over 50% salary and fringe benefit adjustment would be required immediately. This funding suggests that non-profit agencies and institutions may have to rethink some of their existing salary and fringe benefit policies in order to keep employee morale from suffering. The state, which is demanding increasingly complicated services from the non-governmental sector, may also have to reevaluate current reimbursement practices to avoid being accused of exploiting the non-governmental non-profit sector of the child welfare system.

Further, it is estimated that if the state were to attempt to build facilities to accommodate the child welfare services currently purchased from the non-profit, private sector, a state expenditure exceeding $100 million would be required.

A series of recommendations were offered by the Federation, with the hope that these recommendations will find their way into the public conscience and be translated into state policy.

Among these recommendations are the following:

--The state should adopt some means of identifying its administrative costs involving the child care institution and placement agency system;

--The Federation salary study should be replicated by a third party;

--A standard for comparing non-governmental service with governmental service to children in the child care and placement system should be adopted;

--An independent outside authority should be appointed to regularly review conditions within the state operated child care facilities;

--The antiquated billing system for purchased services should be streamlined, and;

--The state should regularly review and compare private and public sector cost data reports.

--The private non-profit sector should be reimbursed by the state at full, current costs of the delivery of their services.

Additional copies of the summary and copies of the complete report can be obtained from:

Mr. Gerald Hicks, Executive Director,
Michigan Federation of Private Child and Family Agencies,
One South Capitol, Suite 220, Lansing, Michigan 48933

TESTIMONY ON CHARITABLE CONTRIBUTIONS LEGISLATION S.219
Presented to
United States Senate, Committee on Finance

by

Michael J. Boskin
Professor of Economics
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1. Introduction

The private voluntary sector of the U.S. economy is a unique and important feature of our society. While millions of people donate time and money to various charitable organizations, and thousands of such organizations dispense services providing a wide range of benefits to different segments of our society, the corresponding sectors of most other advanced economies have dwindled to minute proportions as an increasing fraction of their activity has been taken over by government.

The private voluntary sector of our economy, for a number of reasons, needs further strengthening and support. This industry, whose net value added in our economy is $40 billion or more annually, in terms of the value of charitable contributions and the value of volunteer time, provides a substantial fraction of the services and an important part of the diversification and variety in delivery of such services, in the educational, cultural, health, and religion sectors of our economy.

Under current law a variety of incentives exist for individuals to donate to private philanthropic organizations. For example, the deductibility--up to a point--of charitable contributions in the individual income tax reduces the net cost for each dollar given to one minus the individual's marginal tax rate. For example, someone in the 40% tax bracket faces a net cost of giving per dollar of sixty cents. A similar provision exists in the estate tax. It is now well documented that donors react to such incentives by donating substantially more than they would in their absence. The responsiveness of the increased donations is large enough to make the charitable contributions deduction efficient even in the strict sense of generating more revenue for charities than the Treasury might gain by eliminating the deduction, assuming that all of that income would eventually be taxed at ordinary rates. The evidence of this responsiveness of donors to the tax deductibility of giving comes from a variety of sources: aggregate pooled time series data, micro household surveys, etc. However, all studies but one must rely very heavily on data taken from the upper one-third of the income distribution--those who itemize deductions--to infer this sensitivity of giving to changes in net price.

The key feature of the proposed legislation is to extend the charitable contributions deduction above the line, i.e. allow a deduction for giving to charity above and beyond the standard deduction for persons who do not itemize deductions. I believe this is sensible legislation for a number of reasons. First, it will add substantially to charitable giving in sectors of our economy in a manner that is extremely efficient relative to alternative methods for doing so. The original implicit amount assumed for charitable giving and calculating an appropriate standard deduction has risen substantially as tax rates have risen in the last decade, and while the standard deduction has periodically been increased, it no longer accurately reflects any sensible estimated average amounts of the components of deductions eligible for itemization. What I would like to do in the remainder of this testimony is to discuss a study conducted by Professor Martin Feldstein of Harvard and myself, which is based on the only available data extending to the general income distribution and containing substantial information on low- and middle-income households and their charitable giving behavior. While I shall discuss this study in detail in a moment, let me summarize by saying that it suggests that low- and middle-income households, like the rest of the population, are likely to be very sensitive to tax induced reductions in the net cost of giving to charity. Indeed, our estimates generally suggest that their relative sensitivity may even be somewhat higher than that of those who itemize deductions. Of course, their tax rates on average are much lower and, hence, the charitable contributions above-the-line deduction would lower the net cost of giving to these people by a modest amount; any percentage reduction would be translated into a modest increase in giving, but for an enormous number of individual potential donors. I, therefore, believe this legislation will produce a substantial increase in giving to charity, spread financial participation in the private voluntary sector of the economy to a much broader group in our society, and generate extra funds for extremely desirable social goals in a very cost effective manner.

2. How Would an Above-the-Line Deduction Affect Contributions by Low- and Middle-Income Households?

As noted above, most of the studies of the effect of the charitable deduction on giving to charity rely only on data which cover persons who itemize deductions. For people who use the standard deduction, the cost of giving a dollar to charity remains one dollar and, hence, there is no variability in the net cost of giving among such individuals. Since the majority of tax filing units use the standard deduction, the question remains whether it is appropriate to extrapolate from the data analysis of the behavior of persons who do itemize deductions to those who do not. While I do not think we would go very far off the mark by relying on these previous studies, several years ago an important new body of data was generated by the Commission on Private Philanthropy and Public Needs to answer precisly this question. Recall that in examining tax returns, we do not have any information on the giving of people who use the standard deduction since they are not required to report this information. Therefore, there was some degree of uncertainty as to the amount of giving and the potential for giving by those who currently use the standard deduction. The National Survey of Philanthropy was the first body of data to provide detailed information on a large random sample of households over the entire income distribution concerning actual charitable contributions of money and time. Feldstein and I analyzed these data in order to answer several questions, one of which was the extent to which low- and middle-income households are likely to be sensitive to tax induced reductions in the net cost of giving to charity, such as would result from an above-the-line charitable contributions deduction.

It is important to point out that these data were unique for a variety of reasons: they were more up-to-date than previous data; they had much more information about the household interviewed and their giving patterns than most previously available bodies of data; and they were susceptible to analysis by techniques that could enable us to separate out the differential effects on giving to charity of income on the one hand, and tax induced variations in the net cost of giving on the other. In that study, Professor Feldstain and I went to considerable length to examine this crucial question. Our statistical procedure included several different approaches to estimating the behavioral relationship between charitable giving, and net cost, income and other variables such as age. We tested the sensitivity of the specifications in alternative parts of the sample by examining giving patterns within both narrow and broad classes, and we developed a specific text of the proposition that it is itemization of deductions per se, rather than the reduction in the net cost of giving to charity created by the charitable deduction, that led to increases in giving.

Our study unambiguously concluded that the reduction in the net cost of giving to charity, generated by the deductibility of charitable contributions under the income tax, led to a substantial increase in giving throughout the income distribution. Indeed, the results from these data, which in many respects are much better data on the general population (including itemizers) than had previously been available, suggest that giving is still more sensitive than was implied by the earlier studies. Our estimates suggest that for every 10% by which the net cost of giving to charity is reduced, giving to charity will increase by approximately 20%. A typical example might be a family with an adjusted gross income of around $15,000 which uses the standard deduction and faces a price of giving to charity of $1 for each dollar given. Their average annual giving is approximately $300. Allowing an above-the-line deduction for giving to charity would lead to a decrease in the net cost of giving of between 20% and 25% (their approximate marginal tax rates). Our estimates suggest that their giving would go up by about $125.

Note that while these estimates are probably the best available, they do suggest somewhat greater sensitivity of giving to charity than previous studies. What is important to note is that virtually all of the recent studies suggest that the sensitivity of giving to charity is efficient in the sense that a deduction for charitable contributions produces more in revenues for charity than the possible revenue loss to the Treasury. The results from the Boskin and Feldstein paper suggest that charities receive about twice as much as the Treasury might forego in revenue; the results from the previous studies (including several by Feldstein) suggests that charities would receive about 1¼ times what the Treasury might forego in revenue.

The best available statistical evidence suggests overwhelmingly that the deduction for charitable giving generates a substantial net increase in the flow of resources into the private philanthropic sector. I believe that both direct extrapolation from previous studies and the very careful study that I conducted with Feldstein, which used data on families with incomes below $30,000, suggest that an "above-the-line" deduction for persons currently using the standard deduction would likewise generate a substantial additional flow of resources to sectors of our economy and would be an extremely efficient measure. It certainly would be much more efficient than direct government spending.

3. Conclusion

The private philanthropic sector of our economy is of unique importance. It provides a substantial component to improve the quality of life for millions of American citizens. The decisions of millions of private philanthropists and thousands of philanthropic voluntary organizations annually dispense tens of billions of dollars of services in such vital areas as education, science health, religion, and culture. But in most other advanced Western economies, such activity has been virtually driven out of existence by the growth of government activity. It is my conviction that we should be attempting to strengthen the private philanthropic sector of our society and to maintain it as a vital element of society's portfolio of activities providing goods and services in the areas mentioned above. I believe that both the cost effectiveness, the quality and diversity of service, and the efficiency of decision making would be seriously impaired if government activity displaced private philanthropic activity. The deductibility of charitable contributions for the majority of American families who now use the standard deduction would be an extremely cost effective way of generating an additional flow of funds to such activities, would broaden substantially the base of monetary support for these activities, would strengthen substantially this vital element of our economy and society.

February 20, 1980

Michael Stern, Staff Director
Committee on Finance; Rm. 2227
Dirksen Senate Office Bldg.
Washington, D.C. -- 20510

Dear Mr. Stern:

I am writing to express my support for the Charitable Contributions Bill, S.219, sponsored by Senators Packwood and Moynihan. I understand that this bill, if passed, would permit donors to deduct charitable gifts whether or not they itemize other deductions on income tax returns.

As more tax-payers take the standard deduction when they figure income tax, fewer persons claim charitable deductions. This concerns me because if fewer persons itemize this deduction, it may someday appear to our lawmakers that the charitable deduction benefits only a few people and is not needed.

Charitible deductions are important to everyone. Those who can itemize tax deductions now benefit. To those without enough deductions to itemize, passage of S.219 would allow them to deduct. Many worthwhile organizations, foundations, & societies depend on charitible contributions to exist, and continued donations to these groups will depend on people being able to continue deducting contributions at tax time.

Passage of S.219 will encourage people to continue with their support to many worthy charitable organizations. Everyone will benefit.

Sincerely,

Warren Jackson

Warren Jackson
Rural Route
Hermosa, SD - 57744

Copies to the South Dakota congressional delegation

ARCHDIOCESE OF PHILADELPHIA
CATHOLIC SOCIAL SERVICES
222 NORTH SEVENTEENTH STREET · PHILADELPHIA, PENNSYLVANIA 19103 · (215) 587-3500

February 25, 1980

Mr. Michael Stern, Staff Director
Committee on Finance
Room 2227
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Stern:

As director of Catholic Social Services in Philadelphia, Pennsylvania, I am writing in support of the Charitable Contributions Legislation, S.219, which would permit taxpayers to take the standard deduction as well as deduct their itemized charitable contributions.

This legislation, if enacted, would enable charities to obtain an estimated $4.2 billion annually in increased philanthropic contributions for their humanitarian purposes. This would serve to support the non-profit segment of the private sector which is an integral part of our country's heritage and life. President Carter last year, at our National Conference of Catholic Charities, stated that "Generations ago, when government welfare programs were scarce or non-existent, it was your organization and others like it that provided welcome and initial nourishment to millions of immigrants who reached our shores. To the huddled masses, it was not the government, but the church and voluntary charitable groups that one had to look to for help."

These non-profit activities depend, to a large extent, on the voluntary contributions of private citizens. Should this legislation be enacted, Congress would stimulate private sector support of non-profit social service agencies and would thus enhance the voluntary capacity to serve the nation's disadvantaged. I urge the passage of S.219.

Thank you for your anticipated consideration of this request.

Sincerely,

James T. McDonough

Monsignor James T. McDonough
Director

mdr

February 13, 1980

This statement in support of S-219, is submitted to the U.S. Senate Sub-Committee on Taxation and Debt Management by the American Association of Fund-Raising Counsel, an organization of professional fund-raising consulting companies.

The AAFRC was founded in 1935 and today constitutes the nation's only professional association of firms engaged in counseling nonprofit institutions and agencies in their quest for voluntary support from the general public, business corporations and foundations. Each year the member companies of the AAFRC counsel approximately 1,000 of these non-profit institutions and agencies, which include those in the fields of education, health, hospitals, religion, social welfare, civic and public affairs and arts and humanities.

As part of its service to the philanthropic community, the AAFRC gathers and each year publishes an almanac on philanthropy known as "Giving USA." The information used in this publication -- the only one of its kind -- comes to the Association from donors and donees alike. Much of it results from surveys conducted by the Association and by others in the philanthropic community, and each year it is compiled to show the total amount of money given in America -- where it comes from and to which category it goes.

Through its members' contact with thousands of nonprofit organizations and its ongoing search for additional statistical material on the voluntary sector, the AAFRC has been established as the prime single source for information on charitable giving in the United States.

Recent studies conducted by Professor Martin Feldstein and by George Gallup for the Coalition of National Voluntary Organizations have shed even more light on the giving habits of the American people and particularly the great majority of taxpayers who elect to take the standard deduction on their federal income tax returns. Using the information generated by these in-depth examinations, never previously available as a base, the Association has been able to revise with a greater degree of accuracy, its totals for giving in years past.

Our statistics on individual giving show, for example, that while Americans increased their contributions to charity each year, the increases do not remain constant as a portion of the nation's disposable income.

In looking back to 1970, individuals gave a total of $15.92 billion to various charitable causes, or 2.32 percent of disposable personal income. The total rose a year later by over a billion dollars, to $17.02 billion, but as a portion of DPI, it dropped to 2.29 percent.

If giving by individuals over the years is related to changes in the tax laws of the nation, it becomes evident that as the number of Americans electing to take the standard deduction increases, the portion of disposable personal income given to charity decreases.

In 1978, for example, when an estimated 71 percent of taxpayers took the standard deduction, individual Americans donated a total of $32.80 billion to charitable organizations but as a percent of disposable personal income, that constituted 2.26 percent. A year earlier, when an estimated 74 percent of all taxpayers took the standard deduction, individual contributions equalled 2.24 percent of the nation's disposable personal income.

From these totals, it appears that the tax incentive for Americans to give to charitable organizations has a profound impact on how much is given in any particular year, and by any particular income grouping.

While the American Association of Fund Raising Counsel does not wish to go into detailed analyses of the various reasons for giving to nonprofit institutions and agencies, it does believe that it is important to preserve these reasons -- the tax incentive among them.

Because of this, the American Association of Fund-Raising Counsel urges the United States Senate to give unqualified support to S-219 and its companion, HR-1785.

To not do so, would be to support continued erosion of charitable gifts by millions of Americans and thereby place the future viability of the voluntary sector in America in serious jeopardy.

National Society of Fund Raising Executives

Suite 831, Investment Building
1511 K Street, N.W.
Washington, D.C. 20005
(202) 638-1393

February 21, 1980

Senator Harry F. Byrd, Jr., Chairman
Subcommittee on Taxation & Debt Management
Committee on Finance
2227 Dirkson Senate Office Building
Washington, D.C. 20510

Dear Senator Byrd:

The National Society of Fund Raising Executives is an international society of over 2,000 professionals who are responsible for managing much of the charitable fund raising in this country and abroad. We represent the hopes of thousands of voluntary board members and millions of constituents.

As a group, we strongly support the Charitable Contributions Legislation S 219. We feel that in prior testimony the need for a healthy nonprofit sector has been well documented. Further, the fact that taxpayers who itemize deductions contribute three times as much as those who take the standard deduction has been established.

Passage of this bill will result in a much needed increase in funds available to charity. During these times of spiraling inflation, the good works of the nonprofit sector are in real jeopardy. More, not less money is needed.

We urge your support of this most important legislation which embodies an essential freedom of our democratic society and has given us the quality of life we enjoy today.

Sincerely yours,

Robert E. Trefry, Chairman
Legislative Committee

Donald A. Campbell
Chairman of the Board

RET:va

cc: The Honorable Daniel P. Moynihan
The Honorable Bob Packwood

STATEMENT OF ARNOLD CANTOR, ASSISTANT DIRECTOR, DEPARTMENT OF RESEARCH, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS BEFORE THE SENATE FINANCE COMMITTEE, ON S. 219, A BILL TO ALLOW THE CHARITABLE DEDUCTION TO TAXPAYERS WHETHER OR NOT THEY ITEMIZE THEIR PERSONAL DEDUCTIONS

February 25, 1980

The AFL-CIO is opposed to S. 219. The bill creates a special tax deduction for charitable contributions over and above the standard deduction allowed for taxpayers who do not itemize.

The AFL-CIO recognizes the valuable and important role that philanthropic organizations play in our society. America's workers contribute generously to such organizations, and the AFL-CIO has actively contributed, supported and participated in the work of many philanthropic organizations. Nevertheless, it is our firm conviction that this measure would do little if anything to induce additional charitable giving. Rather, it would provide a windfall tax cut for many taxpayers whether or not they increase their contributions, strain the federal budget even further and, result in the channeling of fewer resources toward the needs of those served by private philanthropic organizations.

Our major specific objections to S. 219 are as follows:

1. The revenue loss would be substantial - some $3 billion according to Treasury analysts. In view of the many demands on the Federal budget and the widespread calls for fiscal restraint and budget austerity, the revenue loss associated with this measure would divert funds from essential programs, increase the deficit, and narrow any budget leeway for equitable tax reduction.

2. Since the proposal calls for a "deduction" it suffers from the same fundamental inequity of all deductions - the higher the individual's tax bracket the greater the tax savings. Thus, a lower-income taxpayer (14% bracket e.g.) would receive $14 in tax benefits for each $100 contribution, while a taxpayer in the top bracket (70%) would get a $70 tax break for each $100 contribution.

3. A substantial number of taxpayers would get a windfall benefit without any change in their charitable giving. For example, over 60 million taxpayers (70% of the total) do not itemize and many of these taxpayers would be given an added tax break merely for doing what they have been doing anyway. In addition, an estimated 3 million taxpayers who currently itemize could get a tax cut by merely shifting to the "short" form in order to take advantage of both the standard deduction and the added charitable deduction -- again without any change in their giving. For example, a taxpayer with itemized deductions of $4,000 of which $1,000 is in contributions could switch to the $3,400 standard deduction. As a result of the switch their taxable income would be reduced $400 and depending on the tax bracket their tax liability would be cut from $56 or less to as much as $280. This factor according to the U.S. Treasury accounts for a revenue loss of one-half billion.

4. The standard deduction was devised and enacted as a means to simplify taxpaying in an equitable fashion. Arguing, as the bill's proponents do, that this results in a lessened incentive to give has a compelling surface logic. However, the proposal would undermine the purpose of the standard deduction and set a precedent for equally compelling arguments that could be made for many other deductions. For example, using the same logic the standard deduction could be viewed as an impediment to state and local government taxing ability because those who do not itemize do not receive a federal tax reduction for state and local sales, income and property taxes.

5. The tax form would become lengthier and more complex and the record-keeping chore of millions of Americans would be substantially increased. To maintain the integrity of the tax system, the IRS would have to extend its auditing activities to include modest contributions of low and moderate income taxpayers. We also suspect that these complexities would result in many taxpayers, particularly those of modest incomes, ignoring the deduction and therefore not receiving any benefit from the provision -- an effect which would add to tax injustice.

6. The bill as drafted would also complicate matters for those who itemize their deductions. S. 219 as drafted would exclude charitable deductions before the determination of Adjusted Gross Income for itemizers as well as non-itemizers. Since many other provisions are related to Adjusted Gross Income, contributions would have to be added back in order to calculate items such as the deduction for medical expenses and state sales taxes, the tax credit for the elderly and the taxable amount of unemployment insurance.

We would also like to call attention to the very close and stable relationship between the rate of giving and the personal income. In recent decades the percent of total personal income devoted to charitable giving has been quite stable -- ranging from 1.7 percent to 1.9 percent of personal income -- despite the many increases in the standard deduction and substantial decline in the number of taxpayers itemizing. In terms of after-tax or disposable personal income, the rate of giving has in fact increased even though effective tax burdens have risen. (Table I)

Finally, on the basis of our long experience we know that American workers give according to their convictions and their means -- not according to their tax bracket. They want and deserve a revenue raising system that is fairer, simpler and adequate to the task of financing the nation's needs and committments.

AC:jg

Table 1

Total Giving by Individuals as Percent of Before and After Tax Personal Income, 1955-1978

Year	Giving by Individuals ($billion)	Total Personal Income ($billion)	After Tax (Disposable) Income ($billion)	Giving as Percent of: Total Personal Income	Giving as Percent of: Disposable Income
1955	5.1	308.8	273.4	1.7	1.9
1960	7.2	399.7	349.4	1.8	2.1
1965	9.3	537.0	472.2	1.7	2.0
1966	10.5	584.9	510.4	1.8	2.1
1967	11.1	626.6	544.5	1.8	2.0
1968	12.6	685.2	588.1	1.8	2.0
1969	13.6	745.8	630.4	1.8	2.2
1970	14.4	801.3	685.9	1.8	2.1
1971	15.4	859.1	742.8	1.8	2.1
1972	16.8	942.5	801.3	1.8	2.1
1973	18.4	1,054.7	901.7	1.7	2.0
1974	19.8	1,154.7	984.6	1.7	2.0
1975	21.5	1,246.0	1,086.7	1.7	2.0
1976	26.3	1,375.3	1,184.5	1.9	2.2
1977	29.5	1,536.7	1,305.1	1.9	2.3
1978	32.8	1,707.6	1,458.4	1.9	2.3

Sources: Office of Tax Analysis - U.S. Treasury
Department of Commerce, Survey of Current Business

TESTIMONY

ON THE

CHARITABLE CONTRIBUTIONS LEGISLATION

S. 219

DANIEL HENROID, CHAIRMAN
EDUCATION COMMITTEE
SERVICE AGENCY COUNCIL
UNITED WAY OF GREATER
ST. LOUIS, INC.

The St. Louis Metropolitan area includes St. Louis City, St. Louis County, St. Charles, Jefferson, and Franklin Counties in Missouri, and St. Clair and Madison Counties in Illinois. The citizens of our area have a long history of supporting many private, charitable organizations which provide a variety of services to the people of our local communities. The over 400 non-profit organizations provide spiritual enrichment, education, music, arts as well as essentials such as blood supplies and disaster relief. The continued vitality of our area, and other communities in the United States, are closely linked to the existence of these voluntary organizations. Yet, in the face of limited resources, and resulting examination of priorities, choices will be made today which will affect the structure of society in the future. It is a major concern that such choices continue to encourage individuals to participate in the betterment of their communities through support of charitable organizations. Investigation of the current situation regarding charitable contributions in our area revealed several points.

A survey of local, charitable organizations pointed out a continued reliance on charitable contributions to provide more than 352 services to area residents. The survey also revealed that while the number of clients increased significantly between 1975 and 1978, in many instances by at least 25%, over half the responding organizations reported an increase in revenues of less than 10% annually. Revenue sources most often cited as decreasing or remaining static were contributions from individuals. At the same time, many examples were cited of unmet service needs, primarily for children and older adults of moderate and low income levels.

At a public informational hearing held in St. Louis, local organizations presented testimony reinforcing the importance of charitable contributions. Maintenance of vital blood supplies to local hospitals, aid to victims of fires, maintaining the price of symphony and theatre tickets within the reach of the Average American were linked to reversing the decline in charitable giving. The moderate income giver is an important link in this trend. Of the over twenty-two million dollars raised in the local United Way campaign in 1979, the average gift was $30.00.

The continued tradition of charitable endeavors in America today depends on the continued contribution of time and money by individuals towards the betterment of their communities, and thus, the country as a whole. National policies supporting this tradition are essential.

Comments of

David C. Crowley

Executive Vice President

American Association of Homes for the Aging

Before the

Subcommittee on Taxation and Debt Management Generally

Committee on Finance

United States Senate

S. 219, the Moynihan-Packwood Bill

25 February 1980

Charitable Contributions

We appreciate this opportunity to offer our comments on behalf of S. 219, a bill which would allow the charitable deduction to those taxpapers who use the standard deduction in the calculation of their personal income taxes.

The American Association of Homes for the Aging is a national organization representing over 1,700 not-for-profit health and health-related providers of services for older Americans. As a significant portion of our member facilities depend upon active community involvement for not only financial support but also for volunteers and joint activities, we feel we are in a particularly appropriate position to voice our thoughts on the issue of charitable deductions in general and this piece of legislation in particular.

Our position is and has always been that community support and participation in charitable activities should be encouraged by the government to the greatest extent possible. At the outset, it is important to note the strong historical tradition of religious, fraternal and public support for homes for elderly. Prior to the New Deal, the community-based facility was the only widespread means of serving the elderly outside of the family.

Our members are more than merely the successors to our nation's first experience with community-based facilities for the elderly, for in fact, many of our homes existed during those early times. As an association, and as individual homes for the elderly, we have consistently sought community support and likewise opposed governmental interference of it.

A major component of this community support is charity provided by families and individuals. This, too, has been an historic tradition throughout the country. Whatever the motivations have been to set aside money for good works within the community, it is clear that Americans have always been generous in their charitable funding of both public and private projects.

Such generosity, however, has its limits. Inflationary pressures and general rising costs of living have a serious depressant effect on the great majority of potential contributors' ability to give to charity. As this Committee is well aware, most families are and have been experiencing for years considerable difficulty in meeting their own expenses. The same financial hardships which impact on our member homes and other charitable ventures also attack the potential sources of charitable funding. This is a reality which has no conceivable end.

It is in recognition of this reality that incentives for charitable giving have been enacted in the past. Income tax benefits are one means of facilitating charitable contributions. It should be noted that such use of tax incentives to promote a particular activity is neither new nor limited to charity. For example, the reduced tax rate on long-term capital gains is, in part, attributable to a government policy of encouraging investment. Likewise, the encouragement of charitable giving serves another government policy that the government should not be the sole source of funds for social services and good works, and that there are areas of human endeavor where the government has chosen not to enter. In light of this well-recognized policy, it is most important that the private sector be capable of adequately supporting those beneficial activities which are not funded by general public revenues.

In this context, we strongly support S. 219. The area of services and care for the elderly is certainly one in which the government has not sought to monopolize funding. Any additional inducement to charitable contributions in this field is, as the Committee well knows, welcome and needed. Yet, our support is not predicated solely on the need for greater financial support for our member facilities. Logic and fairness also would indicate that such legislation is long overdue. Itemization of deductions on personal income tax returns is used primarily by people who own real property or who have substantial family and business expenses. While it would be overly simplistic to say that only homeowners are presently permitted charitable deductions, the point remains that tax incentives to give to independent, charitable causes bear little relationship to the ability or willingness of a person to contribute.

S. 219 terminates this irrational dictinction in the tax code, and permits any individual to take a deduction for donations to charity. Of course, this will diminish somewhat the amount of general tax revenue. However, the loss of revenue will be more than offset by the renewed stimulus to the private sector to support charitable activities which, if not funded through private sources, may either terminate operations or become totally dependent upon government financial support. Since we as a nation have not yet evidenced a desire for the government to support, and thus control, <u>all</u> social services, an inducement for greater private contributions is extremely important and timely.

We support the enactment of S. 219.

February 21, 1980

To: Members of the United States Senate Committee on Finance, Subcommittee on Taxation and Debt Management

From: Rev. James J. Close, President
National Catholic Development Conference

Re: S-219 - Charitable Contributions Deduction Legislation

As the largest membership association of religious fund-raising organizations and institutions in the United States, the National Catholic Development Conference is particularly sensitive to the importance of the charitable contributions deduction legislation presently under consideration by your committee.

Our members include hospitals, schools, orphanages, homes for the aged, rehabilitation centers for the handicapped and retarded, social action groups, drug and alcohol abuse centers, youth programs, hospices, communication centers, home and foreign missions and research centers.

These ~~charities,~~ whose programs benefit not only the truly desitute of our country, but its lower and middle income families as well, depend heavily on the donations received from the lower-to-middle income American--the very American that is most likely to take the standard deduction, rather than itemize his deductions.

If the charitable contribution deduction is expanded to include non-itemizers, it would certainly maintain and increase levels of giving and offer taxpayers an even greater incentive to give.

That people do give more when there is a tax incentive to do so was substantiated in a survey conducted in the Spring of 1979 by the Gallup organization. Gallup found that itemizers contribute more than three times as much to charity as non-itemizers and that people give more than twice as much to religious organizations and institutions than they give to all other charitable groups combined. The importance of the itemized deduction was most evident in the survey's findings on religious giving which showed that twenty per cent of those who itemized gave more than $500, compared to only five per cent of those who took the standard deduction.

Unless such giving is encouraged and the giving base expanded to include non-itemizers, it is doubtful that the charities which do so much for society will have sufficient funds to continue their much-needed services. The burden, therefore, of providing these services would then fall upon government at a time when social welfare programs have been cut back in federal, state and local government budgets. For government to provide the services that American charities now provide would ultimately result in a much higher tax on the American people.

The people of this country have had an outstanding history of generosity to those less fortunate than they. But in the last ten years as the standard deduction has become more attractive to the "average" taxpayer, there has been a significant loss in contributions to charity. A study done by the eminent Harvard professor, Martin Feldstein, estimates this loss at some $5 billion dollars.

American charities need this "average" donor--not only for his contributions, but for his support and encouragement. Looking to the wealthy to carry the burden of American philanthropy is not only unfair, but undemocratic.

If Congress fails to pass the charitable contributions deduction legislation, it will deny all American charities the broad base of donors they need to maintain their long tradition of pluralistic service to society.

The National Catholic Development Conference, therefore, respectfully urges the Senate Finance Committee, Subcommittee on Taxation and Debt Management, to favorably consider S-219.

We are the Section on Stewardship of the General Board of Discipleship, United Methodist Church. Our office is located in Nashville, Tennessee.

It is our primary responsibility to teach good stewardship to the 38,500 churches that make up The United Methodist connection. We are often called upon to discuss a rationale for giving as well as local church finance policies and procedures.

Having studied S.219 (Moynihan-Packwood bill), we believe that it would have a very positive impact on giving in The United Methodist Church. A significant number of our contributors would be affected and we urge the passage of this legislation.

UNITED WAY of Lewis & Clark County, Inc.

Thanks To You It's Working

The United Way

Hartwig Building
Helena, Montana 59601
Phone 442-4360

February 16, 1980

Mr. Michael Stern, Staff Director
Committee on Finance
Room 2227 Dirkson Senate Office Building
Washington, D. C. 20510

Dear Mr. Stern:

At the February 15, 1980 meeting of the Board of Directors of the United Way of Lewis and Clark County, Inc. in Helena, Montana, a unanimous vote was given in support of the Moynihan-Packwood/Fisher-Conable bills, allowing taxpayers to take deductions for charitable gifts, whether or not they itemize their Federal income tax returns.

We find these pieces of legislation to be most important for the continuation of charitable organizations such as local United Ways and the United Way of America. We urge Members of Congress to support this legislation.

Yours truly,

Jean Fallan

Jean Fallan
President
United Way of Lewis & Clark County

NCW·USA

National Council of Women

OF THE UNITED STATES, INC.

777 UNITED NATIONS PLAZA, 12th FLOOR, NEW YORK, N.Y. 10017 • (212) 697-1278

February 12, 1980

Michael Stern, Staff Director
Senate Finance Committee
Room 2227 Dirksen Senate
Office Building
Washington, D. C.

Dear Mr. Stern:

The National Council of Women of the United States, Inc. urges the passage of the legislation on Charitable Contributions (S.219).

We believe that the amount of tax revenue which would be lost by the passage of this bill would be more than compensated by the value of the work done by the voluntary agencies.

Respectfully yours,

Roberta Anschuetz

Roberta Anschuetz
President

RA:ms

Affiliated with the International Council of Women

The National Cancer Foundation, Inc.

ONE PARK AVENUE
NEW YORK, NEW YORK 10016
212/679-5700

February 20, 1980

TO: Senator Harry F. Byrd, Jr.
Chairman, Subcommittee on Taxation
& Debt Management, Committee on Finance
United States Senate

FROM: The National Cancer Foundation, Inc.
and Cancer Care, Inc.

James P. Erdman, President

Irene G. Buckley, Executive Director

RE: S.219 - Charitable Contributions

* * * * * * *

Public Affairs Committee

Willaim C. Pelster, Chairman

Richard O. Aichele
Mrs. Alfred R. Bell
Mrs. Hiram D. Black
Paul H. Briger
Mrs. Frederick L. Ehrman
James P. Erdman
Mrs. Alexander P. Federbush
Eric L. Hirschhorn
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Mrs. William Tall
Robert E. Wallace
Werner Weinstock
Mrs. Wallace B. White
Mrs. Frederick D. Zeman

Doris B. Nash, Public Affairs Associate

THE SERVICE ARM OF THE NATIONAL CANCER FOUNDATION, INC. IN THE NEW YORK REGION IS CANCER CARE, INC.

S.219 - Charitable Contributions

We are pleased by this opportunity to submit testimony in support of S.219, introduced by Senators Moynihan and Packwood, and 32 co-sponsors.

Cancer Care, Inc. and The National Cancer Foundation, Inc. is a unique social agency that for over one-third of a century has offered comprehensive social services to advanced cancer patients and their families. During fiscal year 1978-1979, we served 27,027 persons including 7,722 advanced cancer patients. We provide social work counseling and assistance with planning for the care of the patient at home, when this is medically feasible. We offer individual and group counseling for both patients and the bereaved.

Another integral part of our service is supplementary financial assistance, when it is needed to extend a family's resources so that a care-at-home plan for the patient can be maintained. Thus we meet the psychological, practical and economic needs of patients and families struggling with the demands and problems of a catastrophic illness.

Another unique feature of our agency is that we are entirely supported by our own fund-raising efforts: foundations, benefits, door-to-door canvassing, thrift shop, bequests, direct mail solicitations, and a variety of fund-raising activities conducted by our chapters. We are, therefore, keenly aware of the problems attendant upon fund-raising activities, and the various factors which influence contributions to charitable organizations.

We receive contributions from all segments of American society. Some contributions are large ones. These contributors undoubtedly itemize their returns and thus receive some tax benefits from their generosity, in contrast to those with moderate or low income who take the standard deduction and are deprived of any tax benefits for their contributions.

Seventy-five percent of the contributions we receive are $10 or less. Naturally we have no way of knowing exactly what percentage of this group itemize their contributions. But we can use as a guide an estimate offered by Representative Barber B. Conable, Jr.,* that the percentage . taxpayers using the standard deduction rose approximately 50% in 1970, to approximately 75% by 1977.

Thus, it is reasonable to believe that a large majority of our contributors do not itemize because the standard deduction has risen to the point that they do not bother to itemize their deductions.

In our experience, the increase in the standard deduction has worked to discourage charitable contributions. As the standard deduction has increased, we have encountered a lower percentage of response to our appeals. This requires expanding the scope and expense of our appeals and, ultimately, limits our ability to provide needed services.

*Statement to the House of Representatives, January 31, 1979

Conversely, we anticipate that passage of S.219 would work to improve our fund raising abilities. While we anticipate objections to S.219 based on economic grounds, in our view such arguments are short sighted. What would be lost in Federal revenues if S.219 were to become law, would be recovered by the activities and services of voluntary agencies which, in the longer view, reduce the need for governmental coverage for many categories of persons and problems. America has a proud tradition of private charity which has been innovative in the development of needed services. S.219 would help keep intact and enhance the voluntary sector which historically has served our citizens well.

We urge you to support the Moynihan/Packwood proposal, and we would be pleased to respond to any questions you may have about our organization and the comments we have made.

James P. Erdman
President

report of the president

Cancer Care, Inc., and The National Cancer Foundation was founded in 1947 by a group of dedicated citizens. Thirty-three years later, it is interesting to note that the problems facing advanced cancer patients and their families in 1947 were no different than the emotional, psychological, and financial problems facing families today.

Cancer Care is dedicated to the maintenance of family stability in the face of catastrophic illness. The program which was designed thirty-three years ago, and which anticipated these problems, stands ready today to serve the family which is confronted with what seem to be extraordinary and insurmountable difficulties.

Cancer Care cares. We care about the patient. We care about all those affected by the prospect of facing the terminal illness of a loved one, with all of its underlying consequences. We care about maintaining the dignity of a wage-earner who perhaps has never before asked for emotional help or financial assistance.

It is our sincere hope that one day Cancer Care will hang a sign on its door, saying "out of business," celebrating the fact that a cure for this devastating illness has been discovered. But until that day, we must maintain and increase our dedication to this unique program of assistance to those afflicted.

Our gratitude is extended to all those who have furthered Cancer Care's program through financial contributions to this privately-funded Agency. We applaud the thousands of volunteers who have selflessly given their time, their energies, and their talents to assure the continuation of Cancer Care's program. The thousands of families who have been assisted throughout our thirty-three year history and the increasing numbers who are turning to Cancer Care for help only emphasize the importance of this continued co-operation and dedication. ■

2

Irene G. Buckley
Executive Director

report of the executive director

Each day we at Cancer Care grapple with problems vital to the living. They stir the deepest emotions, raise the darkest apprehensions and pose the gravest threats to the stability of family life. How to give hope to an elderly woman facing a diagnosis of advanced cancer. How to prepare a family for the impending loss of a beloved husband, wife, parent or child.

We work with people, often with an urgent and barely disguised need for answers to questions for which none may exist. They come to us with their fear, their resentment and their anger. And they come formed by experience and their characteristic ways of working through life's problems unique for each of us.

With one client, a devoted husband, repressed anger at his wife's illness and an inability to share information with his two sons was beginning to tear him and his family apart. Family communication was eventually achieved following months of counseling. Much later, a letter from the husband said, in part:

> *Meeting with you during the past few months, both before and since my wife's death, has helped the three of us immeasurably. Words fail me. All I can say is thank you.*

For a 36-year-old woman, mounting fear at the prospect of losing her husband and being left alone with two young children overwhelmed her with feelings of despondency. Through counseling and the opportunity to talk through her fears, she was helped to summon the strength and courage for the difficult job ahead.

These are just two instances of families who, facing the crisis of advanced and irreversible cancer, were thrust suddenly into the maelstrom and called on us for help. Such personal tragedy is enough to weaken and confuse the strongest among us. "All a man needs is to be turned around once with his eyes shut to be lost in this world," Thoreau once wrote.

Yet life continues for the patient and those around him. Children continue to demand love and attention. The husband or wife of an afflicted spouse needs to see light at the end of deep suffering and grief to carry on. The elderly widow or widower needs to be as comfortable as possible in his own home when hospitalization is no longer required.

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The kind of help Cancer Care gives leads to a community of caring, of shared feelings and trust enabling the family to draw upon their own reserves of strength. Implicit in our work is the view that life has meaning and dignity lived up to the very end. Our values are life-affirming: the worth of continuing growth and insight are not to be denied simply because they occur shortly before death.

It is no irony that in these circumstances, living takes on an added dimension of clarity. Yet the terms available to us to describe the work we do, "counseling" and "guidance," rarely convey the impact of the emotional forces we are dealing with.

This year, with ever greater frequency, these forces were translated into issues of growing public interest and intense national debate centering on the humane treatment of the catastrophically ill and the emotional, psychological and financial supports required by the patient and family. The wall of isolation built around the cancer victim is beginning to crumble as the problems associated with catastrophic illness are finding their place on the agendas of national and state forums.

Cancer Care, which has stood at the side of the patient and his family as a prime advocate for more than three decades, welcomes the debate and is actively participating in it.

During this fiscal year, we have given testimony to committees of the Congress and the New York State legislature on national health insurance, catastrophic illness, gaps in Medicare and the need for care-at-home services.

Especially hard hit are the elderly — the over 60 group now comprise almost two thirds of our clients — who must contend with rising costs and fixed incomes. The "well spouse," when there is one, is also likely to be suffering with some chronic condition such as heart disease or severe arthritis and unable to cope with an ailing spouse.

While Medicaid does pay for home care services, it asks that the normally self-sustaining family impoverish themselves. Medicare, with its emphasis on acute, short-term care and skilled services, fails to meet the needs of the elderly advanced cancer patient who does not require long-term hospitalization, eschews institutional care and prefers, as our experience shows, to return home.

Yet the supports this patient needs to remain at home, such as professional social services and homemaker-home health aides, are inadequately provided through Medicare. Often made to feel isolated and "written off," the patient and family exhaust themselves emotionally, physically and financially in an effort to retain independence and dignity. At this critical point, many turn to Cancer Care, and we are ready to help with our special kind of care.

A couple in their early seventies who came to us for help are typical. First he, then she developed cancer. Long-term hospitalization was not required, but their gloom deepened at the prospect of entering a nursing home. A call was made to us. Through home visits we were able to provide emotional support and ascertain their needs. By providing supplementary financial assistance for a homemaker, we helped them to stay at home together and to avoid a nursing home. The homemaker accompanies them to the hospital each week for chemotherapy treatments and helps with personal care, meal preparation and light housekeeping.

(continued)

4 Social work counseling, in conjunction with supporting services in the home as needed, incorporates humane principles of caring for the catastrophically ill, which have marked Cancer Care's service for more than 33 years.

These principles are embodied in the hospice concept of care and arise from the awareness that many institutions for the aged and infirm are generally ill-equipped to meet the familial, psychological and spiritual needs of the catastrophically ill.

While the social benefits of maintaining the advanced cancer patient in his own home can only be measured by the human values we espouse, the costs of institutional care, when neither warranted nor desired, impose a staggering economic burden on the rest of society. The dollars you contribute to Cancer Care work to reduce that burden.

By way of extending and intensifying our direct regional service, in June, Cancer Care opened its first satellite office in Woodbury, New York, to serve all of Long Island's residents. Under a sub-contract with the Long Island Cancer Council, which is conducting a project funded by a grant from the National Cancer Institute, we provide a psycho-social program for cancer patients.

We also constantly strive to meet the highest standards of accountability to which you, the public, are entitled not only by our reports and frequent meetings with our Board of Trustees, all of whom serve without remuneration, but by taking part in educational conferences and seminars.

Having been appointed by the National Voluntary Organizations for Independent Living for the Aged, as chairman of a task force to prepare proposals for the 1981 White House Conference on the Aging, we will have the opportunity to participate with other major organizations in making the needs of the catastrophically ill known at a national forum of notable and historic importance.

Once again we were privileged to serve as co-sponsor of the annual conference of the National Council on the Aging and to have participated at the annual meetings of the United Cancer Council, the Association of Community Cancer Centers in January, and at the Association's meeting on hospices in April.

Through our membership on the Association's committee on hospice and continuing care, and our participation in formulating guidelines for New York's pilot hospice program, Cancer Care is helping to guide and shape the growing hospice movement in our country. My membership on the management assistance committee of the Greater New York Fund also gives us a continuing opportunity to reflect our commitment to modernized management in voluntary agencies.

As in previous years, we continue to give counsel to those who wish to replicate our services for advanced cancer patients and families. This year, we have responded to requests from as far distant as Liberia and Australia. This sharing of our knowledge and experience is a vital part of the consultation and educational programs whose resources have now been drawn upon by virtually every state in the union and some 30 foreign countries.

During the fiscal year, we faced the particularly rigorous and painful task of maintaining the high quality of our service in the face of a continuing and damaging inflation. That we were able to meet the challenge successfully is due to the many thousands of our contributors who responded to our appeals, to the many thousands of our volunteers in 70 chapters throughout the metropolitan tri-state region, to the Board of Trustees and committees who gave voluntarily of their energy, their time and their resources, and to our staff who have worked tirelessly to realize our common goals.

On behalf of those we serve, our profound gratitude for your support. ■

social services

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Anticipatory Grief

"Mary and Louise have colds and Laura is having her apartment painted," announced the leader, Miss Hennessey.

"Will they be back next week?" asked John, clearly agitated "Someone's always missing for one reason or another."

The 50-year-old garment worker was still shocked by the loss of one of the members of the group, Larry, a cheerful and well-liked college instructor who died not a month before. John was guarding against further loss.

The three men and two women were sitting in a circle facing each other, two on the couch along the wall and the others on chairs. A coffee table occupied the center in what looked like a modestly furnished living room.

Laura, a 32-year-old mother of three young children questioned Dave, the newest, and at 25 years, the youngest member of the group who talked quietly of the rejection he experienced. She wanted to know whether his cancer was like hers.

"What's this about wondering whether people have the same kind of cancer?" asked Miss Hennessey.

Not addressing the question directly, Laura spoke of the burdens of running a household, of taking care of the children and of the problem gnawing at her.

"My husband is scared, not because of what I'm going through, but because he thinks there's nothing he can do to help me. He's so frightened at being helpless that he's ignoring my illness and won't talk to me about it."

"No one knows what we're going through," said Dave, dissolving her fear that his cancer had to be like hers for him to understand. "We have to take the extra step; we have to let them know."

John announced that letters from his 12-year-old daughter, his only contact with his wife and two children who had gone back home to Colombia, were coming less frequently. He was angry enough to stop writing and by threatening to cut off communication, he was ready to abandon himself as well.

"That's terrible," Dave cried, "they need to hear from you — to know what is happening."

"What do you thing about that, John?" asked Miss Hennessey.

Dave identified with John's children. Perhaps Dave's urgency would touch John.

And so it went. Another group counseling session for patients with advanced and irreversible cancer was underway at the offices of Cancer Care, Inc.

social services

From a sharing of their common experiences, John, Gwen, Laura and David would create a caring community. Each would draw strength, commensurate with individual need and capacity, to overcome isolation, to re-express feelings with husbands, wives, parents and children, to reach out in sympathy and understanding, and to be understood and touched by others who reach out in turn. Each would continue to grow, to resolve feelings and problems in whatever time was left to them.

Family Survival the Goal

This small group were just four of the 25,921 people, including 7,400 advanced cancer patients, who received social work counseling and care-at-home services as individuals, in counseling groups for patients and in bereavement groups for surviving spouses during fiscal 1977-78.

Counseling during the crisis is most often needed when the patient can be cared for at home rather than in a hospital. Of the main sources of referral, the vast majority, 54 per cent, were from clients themselves, or their relatives, family and friends, an indication of the familiarity of our service in the tri-state metropolitan region of New York, New Jersey and Connecticut.

Responding to the needs of thousands of people trying to cope with the emotional, psychological and financial impact of advanced cancer is the primary responsibility of this agency. And we see families when they are deep in crisis, when feelings rage and when the practical problems of living each day seem overwhelming.

The crisis occurred for Josephine T., a young mother of two children when she called in panic about her husband who was being discharged from the hospital with little hope for recovery. Both accepted our professional counsel and with new found strength, were able to plan ahead and sort out financial problems. In the process, she was helped to recognize and face her own emotional stress and fatigue.

It occurred for Victor G., when he was told of his wife's diagnosis for the first time. Sorting out problems and creating a viable care-at-home plan which included homemaker-home health aide assistance for Mrs. G. with the children, enabled Victor to continue working and keep the family together.

The crisis occurred for Elizabeth S., an elderly widow who refused to enter a nursing home following hospital discharge and insisted on returning home. A desperate call

social services

from her sister brought immediate professional counsel and care-at-home assistance enabling Mrs. S. to maintain her independence and dignity while living at home.

Preventing family breakdown, dependency and bankruptcy among self-maintaining low and middle-income families affected by advanced cancer is of prime concern to Cancer Care. By working with family members who, in most instances, want to care for their loved ones at home, we help patients and families to stay together and to remain independent.

In essence, professional counseling helps people to mobilize their own strengths, fosters self-respect and builds morale during a crisis that could leave many feeling powerless and immobilized by fear. Ours is a human, family-centered approach rather than medical and disease-centered only.

When appropriate to the counseling plan worked out with

Sources of Referrals

Relatives, Family Members Friends, Patients	54 per cent
Hospital Social Service Departments and private physicians	29 per cent
Cancer Care Volunteers Social agencies	7 per cent
Clergy, Corporations, Others	10 per cent

patient and the family, supplementary financial assistance is given to self-supporting families to help extend their resources in meeting the cost of care-at-home services. During fiscal 1977-78 families required approximately 600,000 hours of such services. Cancer Care expended upwards of $660,000 in the effort to ease financial burdens.

How vital this financial assistance was becomes clear when one considers that 61 per cent of our patients were married and that almost 40 per cent were between the ages of 46 to 64, among the most productive income-earning years for any adult.

The Aging Know Their Needs

Of the patients served by Cancer Care, Inc. this year, 63 per cent were over age 60, and 14 per cent were women living alone. Growing old carries with it special problems such as chronic illnesses and living on fixed incomes amid rising costs. Many older patients need information and help in applying for Medicare or other benefits they may be entitled to. Most often, they want to stay in their own homes or apartments as long as possible before hospitalization, or to return to them following discharge. Many fear becoming totally dependent on their children or of not being able to afford needed care in today's economy. While many cannot physically manage without assistance, they fear the loss of dignity and independence that comes from making their own decisions even as illness progresses.

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social services

Adept at assessing needs and finding ways to deal with them, social workers can dissipate such fears and provide for a patient's needs. Mrs. Millicent C., a 71-year-old widow living alone is typical. Following a mastectomy, she was forced to use a wheel chair and was persuaded to enter a nursing home, which she left just after four days. Counseling established that what she really needed and wanted was homemaker help for 6 to 8 hours a day to cause the least disruption in her life.

"If I am to be limited by cancer," she said, "then I must do everything I can to remain at home in a manner acceptable to me."

Social workers deal with older patients' special strengths, experience, knowledge and life-style to help them live each day as meaningfully as possible.

Bereavement Counseling

Group bereavement counseling of spouses is now in its eighth year at Cancer Care, Inc. Those who took part this year benefited from the experience of reaching out to others in similar circumstances and sharing their experiences.

At one meeting, a widow announced that after many months, she was finally able to buy a daily newspaper for herself — a task performed by her spouse for many years.

Mrs. Joan C., a recently bereaved widow, gasped that she, too, had begun to think of herself as "really strange" for not being able to approach a newsstand. This information was immeasurably helpful to her.

Following the shock of loss, a spouse often experiences disbelief that wife or husband is gone and may try to continue functioning as though the partner is still present.

David G., a widower, saw resemblances to his wife in people on the street and actually followed a woman who greatly resembled his wife. Lucy C., a recently bereaved widow, expressed surprise that her spouse was not in the next room. Joseph D., a widower, found himself telephoning his wife as he always did when away from home.

While individual counseling remains the most frequently employed modality for helping the majority of Cancer Care's clients, those suited to the group process are able to express their deepest feelings and to find support for their grief.

Significantly, serious illness and mortality, common among bereaved spouses during the first two years following the death of the patient, has been observed to be much reduced in bereaved spouses receiving counseling at Cancer Care, Inc.

A New Satellite Office

In June, the agency took a historic step and opened its first satellite office in Woodbury, New York, near the border of Nassau and Suffolk Counties. This new office now provides more accessible service to all of Long Island's residents.

Social work staff have already observed new patterns of service emerging at Woodbury. Perhaps because of its suburban environment, it is not unusual for entire families to come to Woodbury in the family car at the very first visit.

Skills and Knowledge

The aim of Cancer Care's educational program is to strengthen professional work on behalf of the catastrophically ill. Staff is encouraged to participate in seminars and meetings in which new developments are discussed and new techniques explored.

Graduate students are regularly placed at the agency for clinical training in social work under supervision, studying for their Master's degrees from the accredited schools of social work at Adelphi, Columbia, Fordham, New York and Yeshiva Universities.

Published by the agency this year, our study, LISTEN TO THE CHILDREN!, documents the devastating effects on children of the impending loss of a parent. Delinquency and compulsive behavior can develop, schoolwork often suffers and psychiatric help may be needed. The study notes that how a child is told about a parent's illness may be more important than what he is told. Of particular significance, the study's findings may also have wide relevance to the suffering children experience at the loss of a parent for any reason, such as through separation and divorce.

Partially funded by a grant from the Ittleson Foundation, LISTEN TO THE CHILDREN! has been widely distributed to professionals and laymen throughout this country and abroad and is being used by a score of universities in courses of study in schools of social work, nursing and medicine.

Information is shared with other professionals through seminars and staff members' participation in interdisciplinary conferences. Social service staff participated in the Fourth Annual Educational Conference on Grief and Bereavement at Yeshiva University; at the YM and YWHA's session on "Chronic Illness and Death: How to Cope and Who Can Help;" and at Stern College for Women's seminar on "Introduction to Social Work."

The agency's film, "A Special Kind of Care," publications, and reports are used for professional education and training, and our research study, *The Impact, Costs and Consequences of Catastrophic Illness on Patients and Families* published in 1973, is still in general demand. ■

10 Volunteerism, that singularly American institution by which people give voluntarily of their resources, time and energy to support a cause they believe in, is a powerful force behind Cancer Care, Inc.

At the core of the agency are outstanding volunteers, thousands of dedicated men and women who serve on the Board of Trustees and on such committees as Social Service, Development, Public Affairs, Affiliate and Contributing Groups, and as members of 70 Cancer Care, Inc., chartered Chapters in the tri-state metropolitan region of New York.

No less vital to the life of the agency are the hundreds of thousands of contributors nationwide who gave more than three million two hundred fifty thousand dollars in support of the agency's work. Worthy of special mention are the many who have remembered us in their bequests, wills and trusts.

Around the Tri-State Region

Chapter members organized and held events such as theater luncheons, outdoor art shows and flea markets to benefit Cancer Care. Spring brought jogathons, walkathons and bike-a-thons throughout the tri-state region, popular events which had the added attraction of involving both parents and children.

Deeply involved in the life of their communities, Chapter members also addressed religious, school and community groups on Cancer Care's service program.

During the year, film and stage star Vincent Gardenia joined Brooklyn volunteers at Abraham and Straus where he cooked his favorite recipe, "Spaghetti a la Gardenia," to promote the Chapters cookbook, "The Best of Brooklyn."

The Annual Luncheon

More than 1,000 Chapter members and guests attended the agency's 31st Annual Spring Luncheon at which the achievements of outstanding volunteers were recognized. Martin Gabel was Master of Ceremonies,

Irene G. Buckley, Executive Director (r.), enjoys a joke with Mr. and Mrs. John V. Lindsay and Mrs. Donald S. Stralem (l.), at the Twelve Americans: Masters of Collage benefit. Mrs. Lindsay was Chairman of the benefit. Mr. Lindsay is Master of Ceremonies for the 1979 Annual Luncheon.

volunteers at the core

and many other stars of stage, screen and television, presented service awards to seventeen "Star Campaigners" who individually raised $1,000 or more. Eighteen of 70 Chapters received special awards and recognition for high achievements in local fund raising, new membership enrollment, and door-to-door and canister campaigns.

The 1978 Media Award was presented at the luncheon to WNEW-TV's Midday Live with Bill Boggs in recognition of its fine coverage of the agency's service program and views in opposition to dread disease insurance during an interview with Executive Director Irene G. Buckley in April.

A presentation in recognition of community service was made to Spectacolor, Inc., for running a message about Cancer Care on its giant electric sign on Times Square.

Benefits

Early in June hundreds of Cancer Care's supporters attended a preview performance of the show, Tribute, with Jack Lemmon in his first starring role on Broadway. The evening's chairman, Mrs. William Sarnoff, and the committee, planned a beautiful supper party following the play, Upstairs at Charley O's.

A gala sponsored by the Minnie and Abe Bergman League at its annual dusk to dawn party was a glittering affair, organized by Mr. and Mrs. Jack Less.

The gracious sponsorship by the Manhattan Chapter of Eastern Airlines' Silverliners of its party, *Salute to New York* at the Tower Suite was a stunning tour de force. Mrs. James Comerford was chairman of the Silverliners party.

In November, an exhibition of *Twelve Americans: Masters of Collage* at the Andrew Crispo Gallery, drew enthusiastic viewers. Mrs. John V. Lindsay chaired the socially prominent and successful preview reception.

Special Appeals

The high degree of motivation and commitment is evident in the productive efforts of well-informed and dedicated volunteers who give generously of their time to support the agency's services.

Under the chairmanship of Mrs. Paul H. Briger, the Special Appeals Committee was highly successful in producing substantially more funds than in the previous year.

Thrift Shop

Under the chairmanship of Mrs. James A. Hughes, the Generosity Thrift Shop processed more than 2,500 separate contributions of thousands of articles of clothing, furniture, art and household goods. Due to her unbounded energy and that of the members of her committee, sales produced a 20 per cent increase over the previous year.

A.

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C.

D.

E.

F.

A. The Minna and Abe Bergman League's founders, Rosy and Jack Lass (l.), pose with their daughter and son-in-law, Dr. and Mrs. Gerald Berg.

B. Proclaiming Cancer Care Week at City Hall ceremonies last year were (l. to r.): New York City's First Deputy Health Commissioner, Shirley Mayer, M.D., Mrs. David M. Resnik, Vice President of the Board and 1978 Campaign Chairman, John Matthews, 1978 Door-to-Door Chairman, and Mrs. Max Green, Vice President of the Board and former Chapters Coordinating Committee Chairman.

C. Mrs. Donald L. Jones (l.) and Mrs. Henry Luce III chatting at an art benefit.

D. Mrs. William Sarnoff, Chairman of the "Tribute" theatre benefit, is flanked by the show's producer, Morton Gottlieb (l.) and James P. Erdman, President of Cancer Care, Inc.

E. Mrs. Ann Stevenson and Richard D. Kernan enjoying an art show.

F. Clockwise from (l.) Mrs. Richard L. Russell, Mrs. Douglas C. Lynch and Mrs. James H. H. Jenkins, Trustees, and Mrs. Samuel Ehrs, review the catalogue of The American Collector exhibition at Hammer Galleries. Mrs. Russell is Chairman of the Development Committee.

G. Irene G. Buckley, Executive Director, greets the 31st Annual Luncheon's Master of Ceremonies, Martin Gabel (l.) and Trustee Joseph S. King.

H. Mrs. Georges Gudefin (r.), Chairman of the "American Collector" Art Benefit, welcomes Maurice V. Russell, Ed.D., ACSW, Assistant Secretary of the Board, and his guest Ms. Mollie Moon, Chairman of the National Urban League Guild.

I. Mrs. Fremont Felix, Chairman of the Foundations Committee (r.), makes a point with Mr. and Mrs. R. J. Picard.

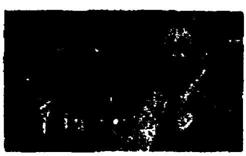
volunteers at the core

J. Silverliners Mrs. James V. Morrissey (r.) and Mrs. James Welch enjoying the glittering preview at the Hammer Galleries with their husbands. Mrs. Welch is President of the Silverliners, former Eastern Airlines Hostesses, who are a major contributing group of Cancer Care, Inc.

K. Paul H. Briger, Chairman of the Executive Committee of the Board, chats with Trustee Mrs. Richard L. Russell.

L. Mrs. Frederick L. Ehrman, Vice President of the Board (l.), shares a light moment with Mrs. Donald R. Carse, Chairman of the Social Services Committee.

M. Mrs. William Tell, Trustee and Chairman of the Chapters Coordinating Committee, is flanked by Vice Chairman of the Committee, Mrs. William Lebensfeld and John Matthews at a reception for Chapter Presidents.



G.

M.

L.

K.

J.

I.

H.

committees

As of publication date April 1979

Social Service Committee

Mrs. Donald R. Carse
Chairman

Mrs. James Comerford
Mrs. Frederick L. Ehrman
Mrs. Fremont Felix
Mrs. E. Frederick Morrow
Mrs. Max Green
Mrs. James H.H. Jenkins
Mrs. Douglas C. Lynch
Mrs. Winfred Overholser
Mrs. David M. Resnik
Mrs. Richard L. Russell
Mrs. Gertrude Steinberg
Mrs. Ann Straus
Mrs. Grant Ward
Mrs. Wallace B. White
Mrs. Frederic D. Zeman

Public Relations Committee

Mrs. David M. Resnik
Chairman

Mrs. H. Marvin Cohn
Vice Chairman

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Mrs. Hiram D. Black
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Vice Chairman

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Mrs. George Evans
Mrs. Max Green
Mrs. Steven Kohn
Mrs. Alan Krell
Mrs. Louis Maranzani
Mrs. Edward Portnoy
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Mrs. Grant Ward
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Mrs. Milton Zolot

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Mrs. Douglas C. Lynch

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James A. Hughes
Mrs. George Jaffe
Rose Leichner
Ida Orestein
Mrs. Esther Schwartz
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Mrs. John S. Wallis
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committees

As of publication date April 1979

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Josephine Belardetti
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Mrs. Clarke Coggeshall
Mrs. Joan Cowen
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Mme. Patrick Monteiro de Barros
Mrs. Walter B. Delafield
Mrs. David K. Dodd
Mrs. Robert M. Donaldson, II
Mrs. Ruth Dubonnet
Marie Ehret
Mrs. Frederick L. Ehrman
James P. Erdman
Patti Ewart
Mrs. Morton Fearey, Jr.
Mrs. Alexander P. Federbush
Mrs. Fremont Fells
Mrs. Howeth T. Ford
Mrs. Bradley Geist
Mrs. Eugene Goldberg
Mrs. Max Green
Mrs. Gertrude Griffin
Mrs. Georges Gudefin
Hazel M. Halloran
James A. Hughes
Mrs. James A. Hughes
Mrs. George Jaffe
Mrs. James H.H. Jenkins
Mrs. George Keltner
Mrs. Blake L. Lawrence
Mrs. Bruce Lee
Rose Leichner
Mrs. Sidney B. Lifschultz
Mrs. Douglas C. Lynch
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Mrs. James V. Morrissey
Mrs. William L. Musser, Jr.
Mrs. Alfred T. Ogden, II
Ida Oelstein
Mrs. Winifred Overholser
Mrs. H. Talmadge Parker
Mrs. Walter N. Pharr
Mrs. Lars S. Potter, Jr.
Mrs. David M. Resnik
Ann M. Ryan
Mrs. Henry N. Sachs
Mrs. Esther Schwartz
Mrs. M. Warren Smith
Mrs. Gertrude Steinberg
Mrs. Donald S. Stralem
Mrs. Ann M. Straus
Mrs. Nathan Strunsky
Marguerite P. Sykes, M.D.
Mrs. William Tall
Mrs. John S. Wallis
Mrs. Morris Wasson
Mrs. David A. Wegmann
Mrs. Bernard Wetchler
Mrs. Wallace B. White
Mrs. Fifield Workum*
Mrs. Humberto Zavaleta
Mrs. Frederic D. Zeman
*Deceased

Benefit Planning Committee

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Chairman

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Mrs. Paul H. Briger
Mrs. Donald R. Carse
Mrs. David K. Dodd
Mrs. Ruth Dubonnet
Mrs. Frederick L. Ehrman
James P. Erdman
Mrs. Alexander P. Federbush
Mrs. Howeth T. Ford
Mrs. Eugene Goldberg
Mrs. Max Green
Mrs. Georges Gudefin
Mrs. James H.H. Jenkins
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Mrs. Douglas C. Lynch
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Mrs. Winifred Overholser
Mrs. David M. Resnik
Mrs. Richard L. Russell
Mrs. M. Warren Smith
Mrs. Donald S. Stralem
Mrs. Ann M. Straus
Mrs. Morris Wasson
Mrs. Bernard Wetchler
Mrs. Fifield Workum*
*Deceased

Special Appeals Committee

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Chairman

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Mrs. Jonathan P. Butler
Mrs. Clarke Coggeshall
Patti Ewart
Mrs. Morton Fearey, Jr.
Mrs. Bradley Geist
Mrs. George Keltner
Mrs. Alfred Y. Morgan, III
Mrs. William L. Musser, Jr.
Mrs. David A. Wegmann

Contributing and Affiliate Groups Committee

Mrs. David M. Resnik
Chairman

Mrs. Georges Gudefin
Mrs. James V. Morrissey
Mrs. Richard L. Russell
Ann M. Ryan
Mrs. Morris Wasson
Mrs. Wallace B. White
Dr. John W. Wingate, D.C.S.

James P. Erdman ex officio on all committees of the Board

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public education

As a national, voluntary agency and a leader in helping families to cope with advanced cancer, Cancer Care, Inc. and the National Cancer Foundation, Inc., views as a most serious responsibility the commitment to foster realistic and less fearful attitudes toward cancer and to inform the public about the agency's services.

In conjunction with a vigorous public affairs program, public information and education helps to shape public attitudes and policy which encourages demand and action for less costly, more comprehensive care for the catastrophically ill.

As expressed by the Board of Trustees, the agency's views and opinions on "dread disease" insurance as impractical, costly and of little value, have received nationwide attention through the broadcast and print media.

Reference has already been made to our film, "A Special Kind of Care," widely used by professional and lay groups. In addition, the agency distributed thousands of pieces of educational literature and responded to thousands of inquiries on the emotional, social and financial aspects of advanced cancer on patients and families.

When significant articles appear in the print media, such as the review of our study, LISTEN TO THE CHILDREN!, in *McCalls Magazine*, reprints are made, shared with contributors and volunteers and distributed as a public service.

Cancer Care, Inc. Chapter Presidents

Baldwin – Rona Sonsky
Bayshore – Don King
Bayside – Shelly Reich
Bensonhurst – Ruth Furman
Boro Park – Molly Applebaum

Colonial Heights – Ray Rothman
Concourse – Molly Levine
Co-Op City – Lilyan Delman

Douglaston/Little Neck – Janet Greenberg

East Brunswick – Hollis Borak
East Windsor – Linda Herman
Edison – Leslie Heller
Elmwood – Faye Rosen

Flatbush – Jessie Talmud
Flatbush Gardens – Martha Kevelson
Flatlands – Harriet Margulis
Flushing – Shirley Kafka
Forest Hills/Briarwood – Gigi Lynch
Fort Tryon – Sydelle Phillips
Freeport – Arlene Draizin
Fresh Meadows – Anne Rosner

Gramercy – Irene Welsher
Great Neck – Dora Warshauer

Henry Hudson – Amy Shapiro
Howard Beach – Joann Gruber
Hudson County – Miriam Toffel
Huntington – Joann Ocera

Jackson Heights – Dorothy Rosner
Jericho – Elaine Morenberg

Kew Forest – Daisy Glassman
Kew Gardens Hills – Miriam Coyne

Levittown – Evelyn Sailor
Livingston – Esther Rodetsky
Long Beach – Rose Mennen

Manhattan – Phyllis Shapiro
Merrick – Maureen Zane
Mid-Island – Rhoda Schaps
Mid-Westchester – Elaine Kirschenbaum
Midwood – Roslyn Press
Monmouth/Tri-Town – Ellen Dulko
Murray Hill – Anne Levine

Nesconset – Debbie Salerno
New Canarsie – Sandra Weiss
North Jamaica – Ann Stransky
Northern Westchester – Alexandra Levine
Northport – Vicki Sundheimer

Oceanside – Joan Scheer

Par Troy – Anita Orlings
Pelham Parkway – Etta Posmanter
Peninsula – June Secular
Pequa Shores – Barbara Samberg
Port Washington – Virginia Caramanica

Rego Hills – Lillian Cohen
Riverdale – Felice Levitan
Rockaways – Jeanette Bader
Rockland – Roberta Samitt

Smithtown – Susan Frick
South Brunswick – Phyllis Schloss
South Shore/Staten Island – Arlene Held
Stamford – Marion London
Starrett City – Gert Sonnenstein
Stuyvesant – Rita Bayar
Suburban – Dorothy Ampel

Towers – Joan Garfinkel

Wayne – Shirley Sunshine
Whitestone – Daisy Schrank

Yonkers/Valentine – Sueann Witt

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CANCER CARE, INC.
NATIONAL CANCER FOUNDATION, INC.
CONSOLIDATED CONDENSED STATEMENT OF SUPPORT,
REVENUE, EXPENSES AND
CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 1978

	Total All Funds	Unrestricted Funds	Restricted Funds
Public Support, Contract Income, and Revenue:			
Public Support	$3,252,050 28	$2,314,340 49	*$937,709 79
Contract Income	36,379 99	36,379 99	
Revenue	57,888.93	56,840 54	1,048 39
Total Public Support, Contract Income, and Revenue	$3,346,117 20	$2,407,361 02	$938,756.18
Expenses			
Program Services			
Social services to patients and families including disbursements, social research, professional education and training	1,727,965 81	1,046,535 08	**681,430 73
Chapter education and information, field services to volunteers, leadership training and community education	372,150 81	372,150 81	
Public relations, public affairs and public information	89,637 77	89,434 89	202 88
Total Program Services	$2,189,754 49	$1,508,120 88	$681,633 61
Supporting Services			
Financial development and campaigns	507,872 02	507,872 02	
Management and general	326,346 17	318,764 10	7,582 07
Total Supporting Services	$ 834,218 19	$ 826,636 12	$ 7,582 07
Total Expenses	$3,023,972 68	$2,334,757.00	$689,215 68
Excess of Public Support, Contract Income, and Revenue, over Expenses	322,144 52	72,604 02	249,540.50
Fund Balances, July 1, 1977	1,260,248 29	558,342 93	701,905 36
Fund Balances June 30, 1978	$1,582,392 81	$ 630,946 95	$951,445 86

* $823,784 79 received from Chapter Local Activities
** $674,459 11 expended for Direct Disbursements to Patients and Families for Services.

CANCER CARE, INC.
NATIONAL CANCER FOUNDATION, INC.
CONSOLIDATED CONDENSED BALANCE SHEET
AS AT JUNE 30, 1978

	Unrestricted Funds	Restricted Funds
ASSETS:		
Cash in Banks and on Hand	$ 85,136 30	$741,056 50
Investment in Securities	675,047.83	12,311 30
Accounts Receivable	113,002 87	
Accrued Interest	2,700 00	
Prepaid Expenses	5,142 04	
Furniture & Fixtures	1 00	
Due from General Fund		198,078 06
Total Assets	$881,785 23	$951,445 86
LIABILITIES AND FUND BALANCES:		
Accounts Payable and Accrued Expenses	$ 30,162 10	$ -0-
Payroll Deductions Payable	18,909 34	
Deferred Income	12,024 02	
Deposits Payable	1,666 67	
Due to Restricted Fund	188,078 06	
Total Liabilities	$250,838 20	$ -0-
Fund Balances	630,946.95	951,445 86
Total Liabilities and Fund Balances	$881,785 23	$951,445 86

Cancer Care, Inc / National Cancer Foundation, Inc
One Park Avenue
New York, N.Y 10016
Attention. Board of Trustees
Gentlemen.

We have examined the Consolidated Condensed Balance Sheet of Cancer Care, Inc and National Cancer Foundation, Inc., as of June 30, 1978 and the related Consolidated Condensed Statements of Support, Revenue, and Expenses and Changes in Fund Balances and of Functional Expenditures for the year then ended. Our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Cancer Care, Inc. and National Cancer Foundation, Inc., as of June 30, 1978 and the results of its operations and changes in fund balances for the year then ended, in conformity with generally accepted accounting principles on a basis consistent with that of the preceding year.

Robert W. Taylor
Certified Public Accountant

Dec. 21, 1978

CANCER CARE, INC AND THE
NATIONAL CANCER FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 1978

	Total Program and Supporting Services	PROGRAM SERVICES: Social Services to Patients and Families Including Disbursements, Social Research, Professional Education and Training	PROGRAM SERVICES: Chapter Education and Information, Field Services to Volunteers, Leadership Training and Community Education	PROGRAM SERVICES: Public Relations Public Affairs and Public Education	PROGRAM SERVICES: Total Program Services	SUPPORTING SERVICES: Financial Development and Campaigns	SUPPORTING SERVICES: Management and General
Salaries	$1 229 003 10	$ 808,252 40	$193,493 10	$51 358 82	$ 851 104 12	$206,442 61	$171,456 43
Employee Health and Retirement Benefits	141,887 06	56,265 99	22,737 52	6,225 65	85,229 16	17,774 84	38,883 06
Payroll Taxes etc	83,172 77	35,890 98	10 820 63	2,993 61	49 505 20	13,649 17	20,018 40
Total Salaries and Related Expenses	$1,454,063 99	$ 898,208 35	$227,051 25	$60,577 88	$ 985,838 48	$237,866 62	$230,357 89
Professional Fees	28,725 37	4,860 00			4,860 00	2,875 00	20,990 37
Direct Disbursement to Patients and Families for Services	674,459 11	674,459 11			674,459 11		
Professional and Public Education	167,936 47	136,780 78	27,319 02	3,856 67	167 936 47		
Printing, Stationery, and Publication Expenses	151 954 38	5,426 23	15,597 34	819 42	21,842 99	127,648 01	2,483 38
Postage and Shipping	84,945 19	2,235 29	8 791 60	2 174 33	11,201 22	72,694 46	1,049 51
Supplies	17,152 53	8,191 02	2,865 42	1,325 88	12,382 32	2,247 61	2 522 60
Telephone and Telegraph	65,506 44	43,765 38	7,447 96	3,103 32	54 316 66	4 364 48	6,827 30
Occupancy	281,082 04	127,164 45	69 805 29	14,018 71	210 988 45	28,037 43	42,056 16
Furniture & Fixtures	6,149 25	3,870 00	86 30	185 40	4 141 70	1 653 75	353 80
Repairs, Rental - Furniture & Equipment	16 837 47	6 219 86	3,011 75	1,075 69	10 307 28	3,047 33	3,482 86
Conferences, Convention and Meetings	21 209 56	5,835 45	18 35		5 853 80	14 983 85	371 91
Affiliation Dues	2 635 14	2 000 14		45 00	2 045 14	130 00	460 00
Computer File Maintenance	11,827 46		2 052 46		2,052 46	9,775 00	
Publicity, Recruiting Expense	5,004 93	1 320 63	222 48	1,703 16	3 246 27	1,372 54	386 12
Magazines, Books and Library Expense	2,466 91	2,466 91			2 466 91		
Local Transportation and Meals	16,431 46	5,115 88	7,168 17	871 31	13 155 36	965 3'	2,310 73
Volunteer Recognition	2 996 96	65 33	2 513 56	81 00	2,659 89	210 57	126 52
Insurance	12 587 00						12,587 00
Total Expenses	$3 023,872 68	$1,727,965 81	$372 150 91	$89 837 77	$2 189,754 4[illegible]	$507,872 02	$326,246 17

Planned Giving, Bequests and Memorial Gifts

There are many ways in which you can help ensure that the vital services provided by Cancer Care, Inc. will be available not only this year, but in the years ahead. In addition to your annual contribution, we invite your consideration of alternative ways of expressing your philanthropic interest.

Planned or Deferred Giving, through an irrevocable trust, provides the donor with immediate and future tax benefits.

The Cancer Care, Inc. Pooled Income Fund offers donors a practical way of making gifts now to help finance the agency's work of tomorrow. Through a gift to the Pooled Income Fund, the contributor can:

- secure an immediate charitable deduction for federal income tax purposes;
- retain a life income interest for herself (himself), and/or a loved one.

Other forms of planned giving may include a gift of real property, life insurance or securities.

A bequest may be made to support Cancer Care, Inc.'s program using the form suggested here.

Memorial gifts are another means of providing a living tribute to a deceased relative or friend. All gifts are acknowledged with a memorial card sent to the family. The amount of the gift is not stated.

Requests for further information should be addressed to Cancer Care, Inc., Resources Development Department.

Form of Bequest

Cancer Care, Inc. and The National Cancer Foundation, Inc. deeply appreciate the support received from donors who have remembered our services in their wills. For persons who wish to make a bequest, we suggest one of the following statements for inclusion in wills:

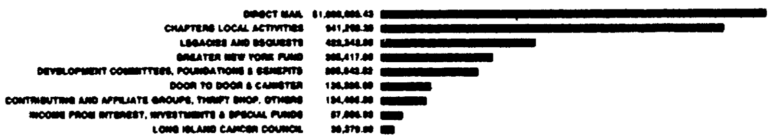
> I bequeath to Cancer Care, Inc., a not-for-profit corporation of the State of New York, having its principal office at One Park Avenue, New York, N.Y. 10016, the sum of $________ for its general corporate purposes.
>
> or
>
> I bequeath to The National Cancer Foundation, Inc., a not-for-profit corporation of the State of New York, having its principal office at One Park Avenue, New York, N.Y. 10016, the sum of $________ for its general corporate purposes.

Affiliate and Contributing Groups
(Partial Listing)

Minnie and Abe Bergman League of Cancer Care Inc.

Al-Rose Cancer Aid Organization Inc.
Associated Health Foundation
Ida Bernstein Memorial League Inc.
Boro Men's Cancer Care
Chain Store Committee for Cancer Care
District #65, Distributive Workers of America
Eastern Airlines Silverliners, Manhattan Chapter
Esquire Lodge No. 634 Knights of Pythias
Inner Circle, Inc.
Kemach Memorial Fund of Cancer Care Inc.
King Solomon Ladies Auxiliary
Mr SWorD Foundation, Inc.
Maids of Athena Empire District #6
Mutual Housing Community Chest
New York City Housing Authority
Operation Concern
Plumbing Supply Club
Queens Cancer Care Inc Choral Group
Rabinowitz Golden Endowment Fund
Telephone Pioneers of America, Edward J. Hall Chapter
Valley Stream V.F.W. Post #1790
Zonta Club of New York

Sources of Support
(As of June 30, 1978)



Listing of Bequests Received from July 1, 1977 through June 30, 1978

Anne Margaret Baer
Harry R. Bailey
Helen E. Berberich
Ruth G. Berman
Carl Besser
*John M. Bovey
*Marjorie M. Burnes
*Kathryn A. Calder
Alice Carmody
Estelle P. Cienoff
Max W. Friedemann

Lois S. Gaudin
David Goldsmith
Benjamin Gottlieb
*Loretta Grenzer
Florence Gross
*Belle Waddell Hanly
*Herman Hertz
Florence C. Horn
Winifred H. Humphrey
Arthur LeRoy LeaMond
Beatrice Gray Lentz

*Honor Marguerite Milbank
Mary R. Morton
Elizabeth H. Muller
George G. Muller
Charlotte Nelson
Ellen Perl
Ellis Rohman
Fan B. Robbins
Dora Rosen
Adelaide N. Schapiro
Betty Schweitzer

Mary Josephine Shelly
Estelle Spingarn
Wilbur Stinson
*Clotilda Straus
Mildred L. Thorndike
Kitty Traube
*Helen G. Wylly
Lillian Yampole

*Additional funds expected
(List incomplete)

Board of Trustees*

*As of publication date April 1979
†Executive Committee

Executive Staff

Irene G. Buckley
Executive Director

Mary Overton
Assistant Executive Director

Irving M. Schwartz
Business Manager

James D. Wolf
Controller

Thomas E. Garnett, Jr
Administrative Director
Social Work Program

Sylvia Weissman
Assistant Director
Social Service Department

Eva Ader
Director
Chapters Department

Reina Horwitz
Assistant Director
Chapters Department

David M. Courtman
Director
... lopment Department

Marie K. Lowenstein
Director
Women's Division

Richard Mitchell
Director
Resources Development

Sam Altalouf
Director
Public Relations Department

Zita Walsh
Assistant Director
Public Relations Department

Consultants

Carlo E. Grossi, M.D
Medical Consultant

Robert Hackenson, Ph.D
Communications Consultant

A copy of the last financial report filed with the Department of State may be obtained by writing to New York State Department of State, Office of Charities Registration, Albany, N.Y. 12231 or on request from Cancer Care, Inc.

All clients referred to in this report have been disguised to protect confidentiality

United Way
of Wyandotte County, Inc.

716 Minnesota Avenue
P. O. Box [illegible]
Kansas City, Kansas 66110
(913) 371-[illegible]

January 24, 1980

Mr. Michael Stern
Staff Director
Committee on Finance
Dirksen Senate Office Building
Room 2227
Washington, DC 20510

Dear Mr. Stern:

The board of directors of United Way of Wyandotte County (see attached list) met on January 21, 1980, and again discussed the need for amending the tax laws to allow every taxpayer to deduct contributions to charity.

Our directors believe that every effort must be made to promote the vitality of the private, voluntary sector which alone can share with Government the responsibility for providing human services.

We further believe that encouragement for charitable giving should not be denied to a large segment of taxpayers; the opportunity to give must not become the province of only the wealthy.

The board of directors has gone on record endorsing the Fisher-Conable/Moynihan-Packwood bills and requests that this endorsement be entered in the records at the hearings before the Subcommittee on Taxation and Debt Management.

Sincerely,

Charles Eklund

C. E. Eklund
President

CEK:dg

cc: Senator Robert J. Dole
Senator Nancy Landon Kassebaum
Congressman Larry Winn, Jr.
Congressman Jim Jeffries

enclosure

OFFICERS AND BOARD OF DIRECTORS
UNITED WAY OF WYANDOTTE COUNTY, INC.
1979-80

PRESIDENT..Charles E. Eklund (2nd term)
VICE-PRESIDENT - CAMPAIGN..............................Fred A. Dunmire
VICE-PRESIDENT - MANAGEMENT..........................Walter C. Raynes (2nd term)
VICE-PRESIDENT - PLANNING & BUDGETING..................Glen H. DeWerff
VICE-PRESIDENT - COMMUNITY DEVELOPMENT.............Patrick L. Williams (resigned)
SECRETARY..Wilma J. Scroggins (2nd term)
TREASURER..William M. Jaksetic
ASSISTANT TREASURER..............................Ruben R. Marques

****

R. J. Breidenthal, Jr.
Security National Bank of K.C.
One Security Plaza
Mail: P. O. Box 1250 - 66117
621-8485 1982-1

Lezlie A. Brillhart (Mrs. Robt. A.)
2647 Minnesota Avenue - 66102
371-7749 1980-1

Vernon L. Briscoe
Milgram Food Stores, Inc.
4231 Clary, P. O. Box 5
Kansas City, Missouri 64130
861-5280, Ext. 235 1980-1

~~James H. Browne~~ (Deceased 6-7-79)
Lucille E. Browne (Mrs. James H.)
1317 North 12th Street - 66102
321-5513 U*-1980

Clarence C. Casey
Rosedale State Bank & Trust Co.
3500 Rainbow Boulevard - 66103
236-7700 1980-1

Gloria Castor (Mrs. Robt. B.)
2010 Washington Boulevard - 66102
281-5079 1981-1

Kermit O. Chaney
The Gas Service Company
803 Armstrong Avenue
Mail: P. O. Box 1430 - 66117
371-3120 1982-1

Robert L. Christine
Air Cargo Terminals
3163 Fairfax Trafficway
Mail: P. O. Box 15077 - 66113
371-7900 1982-2-F

Connie Coburn (Mrs. F. Dwight)
2122 North 43rd Terrace - 66104
287-2234 1982-2-F

Rev. Raymond J. Davern
Donnelly College
1236 Sandusky Avenue - 66102
621-6070, Ext. 47 1981-2-F

Pat DeGoler (Mrs. James S.)
8015 Everett Court - 66112
299-6192 1982-1

Daniel B. Denk
McAnany, Van Cleave & Phillips
4th Floor, Security Nat'l. Bank Bldg.
6th & Minnesota Avenue - 66101
371-3838 1981-1

GLEN H. DeWERFF (Vice-Pres. - Planning & Budgeting)
Board of Education
625 Minnesota Avenue - 66101
621-3073, Ext. 240 1980-1

FRED A. DUNMIRE (Vice-Pres.-Campaign)
Commercial National Bank
601 Minnesota Avenue
Mail: P. O. Box 1400 - 66117
371-0035 1981-2-F

CHARLES E. EKLUND (President)
Home State Bank
Minnesota Avenue at 5th - 66101
321-3333 1980-1

Lester C. Fiatte
Communications Workers of America,
Local #6331, AFL-CIO
253 North 35th Street - 66102
321-7709 1982-1

Officers and Board of Directors 1979-80 (Continued) 2.

Charles T. Firth
Inter-State Federal Savings & Loan Assn.
711 Minnesota Avenue - 66101
371-1083 1981-1

Gail Goble (Mrs. Stanley A.)
Sunshine LTD
125 Oak Street
Bonner Springs, Kansas 66012
441-1850 U*-1981

Melvin C. Heuer
Manager of Production & Distribution
Board of Public Utilities
700 Minnesota Avenue - 66101
281-8100 U*-1981

Carl L. Holloway
GMAD Assembly Division
Fairfax Plant
100 Kindelberger Road - 66115
281-6206 1982-1

Berdean Isham (Mrs. Ray V., Jr.)
2103 Washington Boulevard - 66102
321-4020 1981-2-F

WILLIAM M. JAKSETIC (Treasurer)
Brotherhood Bank & Trust
756 Center City Plaza - 66101
321-4242 1980-1

Hon. Norman E. Justice
Construction & General Laborers'
Local Union #1290, AFL-CIO
2600 Merriam Lane - 66106
432-1903 or 432-2440 1980-1

~~RICHARD J. LABRECQUE (Gen. Chmn.-Campaign)~~
(Resigned - effective 11/19/79)
1982-1

Rev. Albert H. Lumpkin
1608 North 21st Street - 66102
371-3272 1981-1

RUBEN R. MARQUEZ (Assistant Treasurer)
Coronado Federal Savings & Loan Assn.
Indian Springs Shopping Center
4601 State Avenue
Mail: P. O. Box 2423 - 66110
287-2220 1982-2-F

~~David E. Marshall~~ (Resigned - effective 7-2-79)

Susan Masson (Mrs. R. Alexander)
1-1 Winding Ridge
Quivira Lake, K.C.K. -66106
284-3551 1980-2-F

Jean G. McLain (Mrs. Ernest L.)
4745 Haskell Avenue - 66104
287-5729 1982-2-F

Joseph C. Meek, M.D.
Director of Health Care Outreach
Kansas University Medical Center
Second Floor "A" Building
39th and Rainbow - 66103
588-5000 U*-1980

Naomi Murphy (Miss)
United Auto Workers Local #31
1019 Waterway Drive
Mail: 3177 Cleveland - 66104
342-7330 or 371-1391 1981-2-F

Darrell D. Newkirk, M.D.
City-County Health Department
619 Ann Avenue - 66101
321-4803 U*-1980

David A. Nichols
Tower State Bank
1314 North 38th Street
Mail: P. O. Box 2389 - 66110
371-3100 1982-2-F

WALTER C. RAYNES (Vice-Pres.-Management)
U. S. Post Office Department
1021 Pacific Avenue - 66110
374-4344-5-6 1980-2-F

Edward F. Rosche
Kenton Glass Company
1212 Barnett
Mail: P. O. Box 2352 - 66110
621-1165 1982-1

Gary L. Russell
The Shopper Publications, Inc.
340 North 18th Street - 66102
371-6684 1981-2-F

Russell O. Sage
Sun Savings Association
1300 North 78th Street - 66112
334-1800 U*-1981

~~Wayne F. Schiltz~~ (Resigned - effective 10-15-

WILMA J. SCROGGINS (Mrs. D.R.) (Sec'y.)
2201 North Sherman - 66101
371-6852 1982-2-F

Officers and Board of Directors 1979-80 (Continued) 3.

Norman J. Steffey
Edwardsville State Bank
P. O. Box 13246
Edwardsville, Kansas 66113
441-6800 1982-1

Rosella Caldwell Swisher (Mrs. L. B.)
2317 North Early Street - 66101
321-6302 1980-1

JOHN R. THOMSON (Chm.-Public Information Committee)
The Kansan
901 North 8th Street - 66101
371-4300 EX OFFICIO

ANNETTE THURSTON (Executive Director)
United Way of Wyandotte County, Inc.
710 Minnesota Avenue
Mail: P. O. Box 1246 - 66117
371-3674

~~Luther D. White~~ (Resigned-effective 9/17/79)

Betty J. White (Mrs. Luther D.)
D & H Tire Service
919 Troup Avenue - 66104
621-1155 or 334-4905 U*-1981

~~PATRICK L. WILLIAMS~~ (Vice-Pres.-Community Development)
(Resigned-effective 9/17/79)

Jack York
AFL-CIO Tri-County Labor Council of Eastern Kansas - United Steel Wkrs. of America #4991
Mail: 47 South 58th Terrace - 66102
287-4604 1981-2-F

Mary Ruth Yulich (Mrs.)
2106 Chester Court - 66106
831-4582 1980-2-F

STATEMENT OF HAYDEN W. SMITH,
SENIOR VICE PRESIDENT
COUNCIL FOR FINANCIAL AID TO EDUCATION, INC.

BEFORE THE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
SENATE FINANCE COMMITTEE

IN REGARD TO THE MOYNIHAN-PACKWOOD BILL, S. 219

February 25, 1980

Mr. Chairman and Members of the Committee:

I am pleased to have this opportunity to submit a written statement to the Committee on behalf of the Council for Financial Aid to Education (CFAE) in regard to S. 219.

The Council for Financial Aid to Education (CFAE) is a nonprofit service organization which promotes voluntary support of higher education from all sources, but particularly the corporate community. The Council itself neither collects nor disburses funds. It is supported by annual contributions from over 400 leading American corporations, and is governed by a board of directors consisting of ten college presidents and twenty corporate executive officers.

Under present law, a deduction for charitable contributions is allowed to individual taxpayers if and only if they itemize all their personal deductions in arriving at taxable income. Some saving in tax liability is possible for any taxpayer so itemizing provided that charitable contributions and other itemized deductions exceed the "zero bracket amount" appropriate to the taxpayer's filing status. In addition, present law treats a deduction for charitable contributions as an item of tax preference for purposes of the alternative minimum tax and the maximum tax.

The proposed legislation, S. 219, would change the law so that charitable contributions would be allowed as a deduction from gross income in arriving at adjusted gross income. Thus, the deduction would be allowed in addiiton to a taxpayer's zero bracket amount, and the charitable contributions deduction would no longer be treated as an item of tax preference.

The net effect of this change would be to allow all taxpayers to deduct their charitable contributions, whether or not they otherwise itemize their personal deductions. Such a change in the law has long been advocated by CFAE, as evidenced by the attached resolution of its Board of Directors, dated June 10, 1977, and the CFAE continues to believe that this legislation is in the national interest.

While there are a number of arguments in favor of this bill that arise from the realm of political and social philosophy, they have already been articulated clearly by Representatives Fisher and Conable, Mr. John Gardner, and others in oral testimony to the Committee on January 30 and 31, and need not be repeated here. CFAE subscribes to those arguments and endorses the philosophical principles upon which they are based.

I should like to argue in favor of this legislation on grounds which arise from the principles of economics and the theory of taxation. These are matters which deal with equity, logic, and efficiency. There are three points to be made, all of which support the objectives of this bill: (1) the proposed treatment of charitable contributions for tax purposes is more consistent with the economic character of charitable giving than is the case under present law, (2) the proposed legislation would provide incentives for higher levels of charitable giving than at present, not only because Professor Martin Feldstein's econometric model supports such a conclusion, but also because the logic of economic analysis supports both Professor Feldstein's model and the conclusion, and (3) the additional incentives for charitable giving would result in significant increases in the amounts of charitable giving across a wide spectrum of income brackets, increases which in the aggregate would exceed the loss of tax revenue to the Treasury.

The first point is one which, to the best of my knowledge, has not been mentioned in prior testimony. The treatment of charitable contributions as an allowable deduction from adjusted gross income in arriving at taxable income is tantamount to characterizing such contributions as personal consumption expenditures. All the other items which are allowable deductions are indeed consumer expenditures, and they are deductible either because they reflect involuntary outlays as a result of accident or illness or a loss due to a casualty of some sort, or because they reflect outlays for certain taxes paid to state and local governments, or because they reflect outlays for purposes which society wishes to encourage. In all these instances, the expenditure provides either a direct benefit to the taxpayer or a partial offset to an inadvertent worsening of the taxpayer's physical health or economic condition. All of these expenditures represent outlays for which the taxpayer receives goods and services in return.

None of these characteristics apply to charitable contributions. A charitable gift represents an outlay not for goods and services received and for which there is no direct benefit to the taxpayer. In economic terms, charitable gifts are not consumer expenditures, rather they are income transfers.

Transfer payments of this type are well recognized in the descriptive format of macroeconomics. In our national income accounts, for example, all payments by government, business, and consumers not for goods and services currently produced are excluded from the definition of the gross national product, the net national product, and the national income itself. Transfer payments reflect a wide variety of transactions in which money is disbursed not in exchange for goods and services rendered but as a form of income redistribution. They do not add to the total of income available for spending but merely reallocate the income that is available.

The picture for the individual, or the household, is much the same as for the national economy. Income can be, and is, transferred as unilateral payments either as a voluntary sharing of that income or as agreed upon under some arrangement between the parties. Charitable contributions are examples of the former; alimony payments are examples of the latter. The common characteristic of all income transfers is that the payment involves a reduction in the level of income available for the individual's enjoyment, not an expenditure for which he or she receives something in return.

That being the case, it is much more appropriate for income tax purposes that charitable contributions be allowed as a deduction from gross income in arriving at adjusted gross income than that they be allowed as a deduction from adjusted gross income in arriving at taxable income. The treatment of alimony payments under present law reflects the income transfer characteristic of those transactions; similar recognition should be accorded to the voluntary gifts to charitable organizations made by all taxpayers.

As I understand the structure of the British income tax, charitable giving is explicitly recognized as an income transfer, and income so transferred is not taxed to the donor. The general principle involved is that any taxpayer may transfer income to another entity under prescribed legal arrangements and that income so transferred is then taxed to the transferee not the transferer. Where the transferee is a recognized charitable organization, it is tax exempt; hence, the income transferred to charitable purposes is not taxed at all.

The net effect of our present law is precisely the same, but only if the taxpayer itemizes his or her charitable giving and other personal deductions. For the nonitemizer, income transferred to charitable organizations by gift is not explicitly recognized as such; hence, it is subject to tax just as though it were retained by the taxpayer and spent for personal enjoyment. The Moynihan-Packwood bill would correct this inequity by giving recognition to charitable contributions as transfers of income rather than personal consumption expenditures.

The second point I wish to make is that the deductibility of charitable giving for tax purposes provides an incentive for the taxpayer to give more than he or she would if such contributions were not deductible. This is not the same thing as saying that the deductibility of contributions influences the taxpayer's decision to give or not to give. Clearly that decision reflects nontax considerations such as philosophical conviction, religious belief, charitable instinct, peer pressure, and simple altruism. What the tax deduction does is to influence the amount of giving once the decision to give has been made.

The way in which this works can easily be described as a theoretical principle of economic analysis. We begin with the simple observation that the amount of an individual's giving depends on the cost that he or she is willing to bear in terms of income foregone. In circumstances where there is no income tax, or where there is an income tax and charitable contributons are not deductible at all, the cost of a gift to the taxpayer is equal to the amount of the gift.

Under an income tax situation, however, where charitable contributions are deductible, the after-tax cost to the taxpayer is something less than the amount of the gift. This arises from the fact that the deduction results in a decrease in tax liability as compared to what it would have been had no gift been made and deducted from taxable income. This reduction in tax liability, or tax savings, decreases the net after-tax cost of the gift to the taxpayer. As a result, it is possible for the taxpayer to increase the size of the gift without incurring any increase in the cost of the gift as compared to what it would have been had the gift not been deductible.

The numerical amounts involved are a function of the applicable tax rate to which the taxpayer is subject. That is, the amount of the tax saving, the amount by which the net cost of the gift is reduced, and the amount by which the gift can be increased depend on the tax bracket, or marginal tax rate, which applies to the taxpayer's taxable income. The higher the tax bracket, the larger all the amounts are.

One or two examples will illustrate the operation of this principle. If the taxpayer is in the 14% tax bracket, the net cost of a one dollar gift to charity, after tax, is 86 cents, because the deductibility of the gift reduces taxable income by one dollar and reduces the taxpayer's tax liability by 14 cents. Assuming that the taxpayer is willing to bear a cost of one dollar after tax, the actual gift can be increased to \$1.16; a gift of \$1.16 reduces taxable income by that amount, and with a marginal tax rate of 14% the taxpayer's tax liability is reduced by 16 cents, leaving a net cost after tax of one dollar.

Similarly, if the taxpayer is in the 32% tax bracket, the net cost of a one dollar gift to charity, after tax, is 68 cents, because the deductibility of the gift reduces taxable income by one dollar and reduces the taxpayer's tax liability by 32 cents. If the taxpayer is willing to bear a cost of one dollar after tax, the actual gift can be increased to \$1.47, because a gift of \$1.47 reduces taxable income by that amount and the 32% rate reduces the tax liability by 47 cents, leaving a net cost after tax of one dollar.

In general, where the marginal tax rate is _r_, the amount by which a taxpayer can increase the size of his or her gift, without incurring any increase in the net cost of the gift after tax, is 1/1-_r_. And the higher the marginal tax rate, the larger the amount by which the gift can be increased. In actuality, other provisions of the tax law can make the calculation more complex, as in cases where the taxpayer is subject to the minimum tax or the maximum tax. And where gifts are made in the form of appreciated property, which if sold would give rise to long-term capital gains subject to tax, the potential for increasing the size of the gift is greatly enhanced.

If the net cost after tax is viewed as the "price" of giving, as in Professor Feldstein's analysis, the relationship between the tax rate and the amount of charitable giving becomes quite clear. The lower the "price," the larger the amount given; the higher the "price," the smaller the amount given. This relationship is in addition to the effect of income alone. As income rises, taxpayers give more to charity because they have more to give _and_ because the net cost after tax per dollar of gift decreases. The value of Professor Feldstein's studies in this area lies in the fact that he has been able to separate the income effect and the "price" effect associated with the levels of charitable giving. And it is hardly surprising that his best estimate of the price elasticity of giving (i.e. the sensitivity of changes in giving to changes in price) is approximately -1.3 for the entire taxpayer population.

This single number is obviously a weighted average of the price elasticities applicable to all individual taxpayers. In theory, the price elasticity facing any individual taxpayer is inversely related to the marginal tax rate in such a way that the effect of deductibility versus nondeductibility would range from -1.16 for those in the 14% tax bracket to -3.33 for those in the 70% tax bracket. A price elasticity of -1.3 corresponds to a marginal tax rate of about 24%, the tax bracket for joint returns with taxable incomes between $16,000 and $20,200 under current law. In a rough way, this income bracket represents the average level of taxable incomes weighted by levels of giving.

Professor Feldstein's results, therefore, are supported broadly by the logic of economic analysis. Giventhe level of cost that taxpayers are willing to bear as a result of charitable giving, the deductibility of contributions makes it posible for them to increase the amounts of their gifts over the level that is equal to that cost. The higher the marginal tax rate, the greater the amount by which giving can be increased without any change in the net cost after tax. Under such circumstances, it is easy to understand that a change in the "price" of giving would lead to a more-than-proportionate change in the amount of giving.

This brings me to the third point. The empirical studies by Professor Feldstein and others aimed at estimating the differences in the price elasticity of giving at different income levels have generally led to unsatisfactory results in terms of statistical confidence. While it is possible to say with considerable confidence that giving is very responsive to changes in price (i.e. tax rates) for the taxpaying population generally and for the upper income groups in particular, it is not possible to be equally certain about taxpayers in the lower income groups. The measurements are contradictory and inconclusive.

Treasury has interpreted this to mean that there may well be little or no increased giving as a result of S. 219. It is argued that those who do not now itemize their deductions are essentially those in the lower income brackets who are not sensitive to the price of giving, that nonitemizers already make substantial gifts to charity without any tax incentive whatever, and that a change to above-the-line treatment of contributions would cause a sizeable loss of tax revenue without inducing a comparable gain in total giving.

This interpretation fails to take account of the sheer size and income distribution of those who do not itemize. According to IRS estimates, there will be some 64.1 million taxpayers utilizing the standard deduction rather than itemizing their deductions for 1979, and this number represents 69% of the 93.0 million tax returns expected to be filed. According to the staff of the Joint Committee on Taxation, it is estimated that some 71.0 million <u>taxable</u> returns will be filed for 1979, and that 43.2 million, or 60.1%, will be nonitemizers. These two estimates indicate that there will be 22 million nontaxable returns for 1979. It is obvious that S. 219 is likely to have little if any influence on the charitable giving or the taxes paid by this body of taxpayers.

However, the income distribution of the taxable returns reveals much about the potential impact of S. 219. According to the report of the staff of the Joint Committee, individuals with incomes of \$15,000 or more make up 33.8% of all nonitemizers filing taxable returns, and for all taxpayers with incomes of \$15,000 or more nonitemizers account for 38.6% of the total. These taxpayers face marginal tax rates of 24% or higher and constitute the income groups for which the theoretical price elasticity has an absolute value of 1.3 or more. Furthermore, a recent Gallup survey reveals that for income groups of \$15,000 and over, charitable gifts by itemizers averaged more than three times the charitable gifts of nonitemizers.

It is not necessary to assume that S. 219 will automatically and immediately induce nonitemizers to give at the same levels as itemizers; clearly there are factors other than the tax incentive that influence the levels of charitable giving and some of these are correlated with the question of itemization or nonitemization under the present law. However, the relative importance of those with above average incomes among nonitemizers and the relative importance of nonitemizers among those with above average incomes are both so great that the overall impact of S. 219 is virtually certain to be significant. The bill will reduce the "price" of giving by an appreciable amount for a very sizeable segment of the taxpaying population in the middle and upper income groups.

It is, indeed, precisely this segment of the population from which most of the effect of S. 219 is likely to be derived. Among nonitemizers, the average amounts of charitable giving for taxpayers in income brackets above \$15,000 are substantially larger than those for taxpayers in income brackets below \$15,000. This being the case, and given the relatively high price sensitivity of giving by those with incomes above $15,000, it follows that a disproportionate amount of the total additional giving induced by S. 219 will come from these middle and upper income groups.

In one of Professor Feldstein's simulations of the 1978 counterpart to the Moynihan-Packwood bill, 60% of the total increase in all nonitemizers' giving was accounted for by those with incomes of $15,000 and over, despite the fact that the number of nonitemizers in these groups was only about a third the number of itemizers with incomes below $15,000. The combined effect of higher levels of average giving and greater sensitivity to a reduction of the price of giving was more than enough to offset the numerical disadvantage. The further increase of the zero bracket amount in 1979 would logically suggest that those with incomes of $15,000 or more will account for even more than 60% of the induced giving if the provisions of S. 219 are adopted.

The sheer number of taxpayers with taxable incomes below $15,000 is so large that the total amount of induced giving by this segment of the nonitemizer population will not be insignificant even though the average increases may be quite small. There are 28.5 million taxpayers in these low income groups with taxable incomes; while they do not itemize, they do give in the range of $100 to $250 to charity; while they are less sensitive to changes in the price of giving than are those with higher incomes, the change in the law will induce them to give more. Whatever the total amount of induced giving by these low income taxpayers, that gain taken together with the very large amounts of induced giving by those with $15,000 or more of taxable income adds up to an increase in charitable contributions in excess of the loss of tax revenue to the Treasury.

These considerations lead CFAE to favor the passage of S. 219 even though the share of any overall increase in giving that accrues to higher education may well be quite small. In addition to all the noneconomic arguments advanced by others in favor of this legislation, the questions of economic equity, logic, and efficiency lend support to the desirability of this proposed change in the tax law.

Council for Financial Aid to Education, Inc

EXCERPTED FROM THE MINUTES OF THE BOARD OF DIRECTORS MEETING OF JUNE 10, 1977, PAGES 3 AND 4.

Resolution in regard to Federal Tax Legislation

The chairman referred the board to a resolution recommending that charitable contributions be allowed as a specific deduction from income for all taxpayers in addition to the standard deduction. He noted that a like resolution has been adopted by The United Way and other philanthropic organizations and the Executive Committee recommended its adoption by the Council.

On motion duly made, seconded and unanimously carried, the following resolution was adopted:

The Board of Directors of the Council for Financial Aid to Education, Inc., having noted that the progressive expansion of the standard deduction in the federal income tax has induced nearly three-fourths of all individual taxpayers not to itemize their charitable contributions and other personal deductions, and that nonitemizing taxpayers are denied the specific tax incentives for increased charitable giving available to itemizing taxpayers, recognizes that the progressive expansion of the standard deduction has had and will continue to have undesirable effects on the total amount of individual charitable contributions and on the composition of that amount of charitable giving among taxpayers in various income groups, and adopts the following resolution:

"RESOLVED, that the Board of Directors of the Council for Financial Aid to Education strongly supports the charitable deduction feature of the federal tax law as the most equitable means of giving all taxpayers the opportunity to support, and to be involved in, the voluntary charitable enterprises of their choice. The Board recommends that charitable contributions be allowed as a specific deduction from income for all taxpayers, in addition to the standard deduction. The Board further recommends that this resolution be made known to all interested parties, especially the leadership in, and supporters of, higher education, urging them to take appropriate action in support of this position."

There being no further business to come before the meeting, the meeting was adjourned at 12:00 noon.

Respectfully submitted,

/s/ Anne Ellison
Secretary

United Way OF CENTRAL JERSEY, INC.
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX • (201) 247-3727
32 Ford Ave., P.O. Box 210, Milltown, NJ 08850

March 5, 1980

Mr. Michael Stern
Staff Director
Committee on Finance
Dirksen Senate Office Building
Room 2227
Washington, D.C.

Dear Mr. Stern:

Enclosed please find a copy of United Way of Central Jersey's Resolution with regard to the Fisher-Conable/Moynihan-Packwood Bills. Please note that the United Way Board of Trustees voted unanimously to adopt this resolution at its board meeting on February 7, 1980.

Sincerely,

Rosalie Burns Davis

Rosalie Burns Davis
Executive Director

RBD/sjk
Enclosure
cc: United Way of America -
Government Relations Division

RESOLUTION

WHEREAS, the Fisher-Conable/Moynihan-Packwood Bills allow all taxpayers a deduction for their charitable gifts whether they itemize or not; and

WHEREAS, the Fisher-Conable/Moynihan-Packwood Bills reduce taxes for those who need it most, i.e., moderate income Americans; and

WHEREAS, almost 60 percent of the benefits go to families with income of less than $20,000; and

WHEREAS, charitable giving to institutions supported by these Americans is increased by an amount larger than the tax revenue losses; and

WHEREAS, philanthropy - the private and voluntary giving of time, money, and labor - plays a far larger role in the United States than any other country; and

WHEREAS, Americans annually donate to various non-profit organizations over $30 billion and an equivalent amount in philanthropic volunteer work; and

WHEREAS, this non-profit segment of the private sector reaches into almost every field of human interest, supporting an incredible variety of institutions, agencies, organizations and local community efforts; and

WHEREAS, taken all together, those human service efforts constitute an indispensible part of American life;

NOW, THEREFORE, BE IT RESOLVED, that there be entered into the Minutes of the United Way of Central Jersey, Inc. Board of Trustees meeting on February 7, 1980 our unanimous approval and support of the Fisher-Conable/Moynihan-Packwood Bills; and

BE IT FURTHER RESOLVED that a copy of the Resolution be forwarded to Michael Stern, Staff Director, Committee on Finance, Dirksen Senate Office Building, Room 2227, Washington, D.C. with copies forwarded to United Way of America's Government Relations Division; and

BE IT FURTHER RESOLVED that copies of the Resolution also be forwarded to Senators Harrison A. Williams, Jr. and William W. Bradley and Representative Frank Thompson, Millicent Fenwick, and Edward J. Patten with a request for their co-sponsorship of the Bills.

Adopted: February 7, 1980

John M. Cooney, President
United Way of Central Jersey, Inc.

ATTEST:

William A. Kish
William A. Kish, Secretary

Box 866
Custer, So. Dak. 57730
February 15, 1980

Mr. Michael Stern, Staff Director
Dirkson Senate Office Building, Room 2227
Washington, D. C. 20510

Dear Mr. Stern;

Herewith is my written testimony in support of the Charitable Contributions Bill No. S.219 sponsored by Senators Packwood and Moynihan and 29 Senate co-sponsors.

This bill would permit donors to deduct charitable gifts whether or not they itemize their other deductions. I feel this is very important because an increasingly larger portion of our population is falling into the Senior Citizen category, as well as many others who would have an incentive to give to charities if there was a tax break.

Charities state in large print: "Your contribution is tax deductible", however this is true for only a select few who fall in a tax bracket where itemizing charitable gifts is worthwhile.

Certainly, in a time when we are talking about "equal rights" for everything else, it is time to have an equal right to deduct charitable contributions for all and not just the wealthy.

"In God We Trust" is on our coins, and we call ourselves a religious nation, yet tax incentives discourage putting more of our money behind our religious beliefs. Certainly, our beliefs ought to be deeper than whether or not we can get a tax deduction, but a tax break would provide a better motivation to increase the giving of money as well as time and talents to the church of our choice.

As Senators Moynihan and Packwood have stated, the time has come for a further change intended to bolster philanthropy, to allow all taxpayers with generous impulses--not just wealthy ones who itemize--to obtain the benefit of a charitable deduction.

We must not transfer our responsibility for human welfare to public agencies!

Bill No. S.219 would take a long step toward the strengthening of some of the most worthwhile institutions and organizations in the society, and toward the reinforcing of one of the noblest impulses that mankind possesses.

Please vote YES in favor of Bill No. S.219!

Sincerely,

Dorothy Delicate

Dorothy Delicate (Mrs. Donald)

cc: Rep. James Abdnor
Rep. Tom Daschle
Sen. George McGovern
Sen. Larry Pressler

Volunteer Services Council

FOR WICHITA FALLS STATE HOSPITAL
Box 300
Wichita Falls, Texas 76307

March 7. 1980

Michael Stern, Staff Director
Committee on Finance
Dirkson Senate Office Building
Room 2227
Washington, DC 20510

RE: Moynihan-Packwood (S. 219) Bill

Dear Sir:

The Volunteer Services Council of Wichita Falls State Hospital, Wichita Falls, Texas, has passed a resolution endorsing the Moynihan-Packwood (S. 219) Bill and requests that this endorsement be entered into the hearings' official records.

The passage of this bill would permit taxpayers to take a deduction for their charitable contributions regardless of whether or not they itemize their income tax returns and would help to offset the loss in contributions that has accompanied the recent increases in the level of the standard deductions.

Without the bills' passage, the current trend of erosion in private giving is expected to continue at an accelerated pace thus weakening the ability of charitable organizations to respond effectively to community needs.

The passage of S. 219 is needed and highly encouraged.

Sincerely,

Lois Gallenberger

Lois Gallenberger
Vice-Chairman
Volunteer Services Council

LG/db

co

MILLSAP, MILLSAP & THOMPSON
ATTORNEYS AT LAW
FIRST AND NORTH STREETS
WOODLAND, CALIFORNIA 95695
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RUSSELL MILLSAP
ROBERT R. MILLSAP, JR.
ANDREW THOMPSON, JR.

MAILING ADDRESS
P. O. BOX 367
WOODLAND CALIFORNIA 95695

March 31, 1980

Mr. Michael Stern, Staff Director
Committee on Finance, Room 2227
Dirksen Senate Office Building
Washington, D.C. 20510

Re: S1825, S1984, S2220

Dear Mr. Stern:

On January 17, 1980 I sent a report to the Secretary of Agriculture under his program entitled "Structure of Agriculture" in which I discussed the impact of federal estate taxes on family farms, and also the 160-acre limitation under the federal reclamation law. The following are excerpts from that report which deal with the federal estate tax law.

I have just completed trial of a lawsuit in Napa County Superior Court, California, relating to approximately 13,000 acres of grazing land located in Glenn County, California, and which was the principal asset in a decedent's estate. The decedent left a surviving wife, and two adult sons. The cash and other liquid assets were insufficient to discharge the federal estate tax obligations. Also, the decedent probably could not have qualified as a participant in the farming operations although the estate did, in fact, obtain a ten-year extension for payment of the federal estate tax as a closely held business at the time he filed a return. While the lawsuit involved charges of mismanagement against the corporate executor, it did touch upon the subject matter of all of the above three mentioned bills.

The Internal Revenue Service estate tax attorney who testified in this matter was uncertain as to whether or not the ten-year extension would have been extended upon audit. However, it does appear that it would have been a considerable hardship if the extension had not been allowed. I do not know what S2220 provides, but if it would in any respect aid the continuation of family businesses during the transition period following the death of a key family member, it is badly needed. The principal problem arises in many decedent estates involving family farms or closely held businesses simply because the impact of the federal estate tax is too severe at those levels. The following is my statement to Secretary Bergland regarding the impact of the federal estate tax on family farms.

We are now finding that the reclamation laws are being interpreted and utilized for the benefit of large farm operators on the one hand and to the detriment of the small operators for whom the Reclamation Act was designed to help. We see the same situation occurring in regard to the federal estate tax law!

The fundamental purpose of the federal estate tax law was not to develop tax receipts for the United States government. In fact, the amount of taxes generated from the estate tax law is almost miniscule compared to taxes collected from the income tax law and other sources. In enacting the estate tax law the Congress had a social purpose in mind rather than a tax collecting device. That purpose was to prevent the accumulation of huge estates. In a sense it was a form of socialism as it did attempt to prevent the accumulation of huge estates and to give some impetus to a wider distribution of wealth among the people. I enclose for your consideration an excerpt from the third edition (1964) of "Federal Income Estate and Gift Taxation" by Boris I. Bittker, Professor of Law at Yale University. It is clear enough from this article that what I have just said regarding the purpose of the law is correct.

It would be difficult, if not impossible, to question the estate tax law if it had been enacted for the fundamental purpose of raising revenue On the other hand, if it was based on a social purpose as I have already indicated, then it is always open to question as to whether or not that social purpose is being accomplished by the law enacted for that purpose. I think that the law has failed in its purpose.

Under the federal estate and gift tax law prior to passage of the tax reform act of 1976, the tax rate for a person with a six million dollar estate was 70% and increased to 77% up to 10 million dollars. The tax on a 10 million dollar estate would amount to approximately six million dollars. The decedent's heirs would then receive about four million dollars.

Under the tax reform act of 1976 the rate of 70% is achieved at five million dollars, but the rate never goes higher. For the next five million dollars, up to 10 million dollars, the estate would pay seven per cent less than under the old law, or a total of $350,000. This saving would be available also for every five million dollars beyond that. A man with a one hundred million dollar estate would pay approximately $6,650,000 less than he would have paid under the old law. With inflation there are literally thousands of ten million dollar estates.

Some benefit under the new law has been obtained by increasing the level at which the estate tax has its impact, and this is a distinct advantage to estates up to approximately $350,000. Under the old law an estate of $350,000, would $350,000, would have approximately $275,000 as taxable estate, and this would be taxed at approximately $70,000.00. Under the new tax law, a $350,000 estate would be taxed at approximately $62,000.00. Now, most active farmers usually have by the time of their death accumulated easily $350,000 in net assets subject to taxation. It is clear that a farmer leaving an estate of $350,000 is not substantially better off under the new law than under the old law. As a matter of fact, he is worse off inasmuch as the gift and estate tax have been unified into one tax. The benefits the farmers and other small business people could achieve from making gifts during their lifetime under the gift tax law, and then passing the balance of the estate under the estate tax law have all been lost with the exception of annual gifts of $3,000.00 to each donee. For the small operator this loss is enough to bankrupt the estate and cause its liquidation. This means that the farmer's son cannot inherit the land and continue the family farm operation on the one hand. On the other hand the farming assets will pass to larger operators who have the resources to purchase the property.

It is interesting to note also that under the old law a net estate of one million dollars would pay a tax of approximately $300,000. Under the new tax law a net estate of one million dollars would pay a tax in just slightly more than that amount. Under the new law the estate would be in the 41% tax bracket and under the old law the estate would be in the 39% bracket.

I know from thirty years of law practice in my home community, which is primarily agricultural, that the impact of the federal estate tax is rapidly becoming rather devastating. This is particularly true for estates in the ranges that I have mentioned.

Now, what great social purpose is being accomplished by the federal estate tax law in this day and age? Certainly, under the old law at a time when it was originally enacted and up until about 1950, the estates of family farmers and small business people were in lower brackets. After that date and up to the present time inflation has set in such that these people are severely penalized by the very law that was supposed to affect only large estates. It's the little guy whose wealth is being "more widely distributed". The combining of the gift tax with the estate tax was a further blow to the small businessman and family farmer.

It also should be noted that the small businessman or family farmer does not have sufficient assets to be able to utilize other tax saving devices such as foundations, heavy investments in other tax shelters, and the like. There are also other tax benefits that are available to special groups such as oil companies, etc. which are not available at all to the family farmer or small businessman. He is also usually in debt, and often has low cash reserves in order to continue business. He is the least able to suffer a tax bite in the form of death taxes.

There is not doubt that the tax law is taking 70% of a tycoon's estate is dealing his family a substantial blow. For example, out of $100,000,000 estate they would have left only about $30,000,000. That is pretty tough! Actually, it may change their method of operation, but it won't put them out of business nor cause them to change their lifestyle in the slightest, nor will it prevent a son or daughter from getting a start in the same type of business.

On the other hand, when a small businessman or family farmer dies, his estate is so decimated that the operation is likely to go out of business and the opportunity to continue in business for his heirs is lost. Considering these two situations, one cannot help but realize that the purpose of the estate tax law, as in the case of the reclamation law, has been completely perverted. The people who were intended to be helped and preserved have become the victims of that very law!

It seems to me that if it is desirable in this country to maintain a large middle class of independent business and farming people as a matter of social policy, that we could best accomplish this by confining the impact of the federal estate tax to much higher levels even than those now proposed. Raising the estate tax credit to $70,700.00 is some help, but it is terribly inadequate to rectify the injustices that were created by the 1976 tax reform act. Personally, I do not believe that the gift tax and the federal estate tax should have been unified into one tax structure, but should have been left divided into two separate taxes, each having their own rate structure and exemptions.

Very truly yours,

Russell Millsap
MILLSAP, MILLSAP & THOMPSON

RM/cr

cc: Bob Bergland, Secretary of Agriculture
Senator Alan Cranston
Senator S. I. Hayakawa
Senator Harry Byrd
Congressman Vic Fazio
Mr. Kelsey Hatcher
Mr. James Long

PART II

Federal Estate and Gift Taxation

Introduction

The taxes that are the subject of Part II are not important sources of government revenue. The Federal Government has collected $40 to $100 billion in taxes annually since World War II; of this amount, estate and gift taxes have yielded only between $0.5 to $2.0 billion a year. With heavy commitments for arms and foreign aid in prospect for some time to come, total tax levies are not likely to be greatly reduced. But estate and gift taxes will continue to produce only a modest part of the total, and any future increases in total collections are likely to be accompanied by a decrease in the relative contribution of the estate and gift taxes. The revenue from these taxes is dwarfed not only by the enormous yields from the taxation of personal and corporate income; it is meager even by comparison with the federal taxes on alcohol and tobacco. Before World War II, estate and gift taxes contributed a larger share of total federal tax revenue than they have since, their proportion during the fiscal period 1935-1941 being about 7 per cent of the total. But during that period, total federal tax collections averaged only $5 billion per year — a low level, which, unhappily, is not likely ever to be approached again.

Raising the rates would increase the yield of the federal estate and gift taxes, but no foreseeable increase would convert them into serious competitors of the federal income tax. In fact, even if a draconic Congress were to transmute the federal estate tax into an escheat measure, taking 100 per cent of the net estate, its yield would still be only a small part of total tax revenues. Estate tax returns filed in 1961, for example, reported net estates (gross estates less allowable deductions for funeral and administration expenses, debts, charitable bequests, and so on) aggregating $9.6 billion. Outright confiscation of these estates, then, would have produced — along with a group of new Congressmen, no doubt — only about 12 per cent of total federal expenditures for that year. If the present exemption of $60,000 per estate had been allowed by the hypothetical Congress, the yield would have been reduced to about $6 billion. In the same year, federal income and excess profits taxes produced about $62 billion in revenue, and the federal taxes on alcohol and tobacco a total of more than $5.1 billion. It is not surprising, then, that when cold and hot wars have created a need for more billions in government revenue in recent years, Congress has raised these funds by increasing the income tax rates, rather than by changing the estate and gift tax schedules.

State governments, too, have looked elsewhere than to death and gift taxes to satisfy the need for funds. During the fiscal year 1962, for example, death and gift taxes produced for the states only about $0.5 billion out of about $20.6 billion in tax collections, or about 2.5 per cent of the total; in only two states (Conn cut and New Hampshire) did the yield from these taxes represent 5 per ce more of total collections. Their yield was relatively somewhat more imp before World War II, but even then they ranked much behind collections state taxes on retail sales, gasoline, tobacco, alcoholic beverages, and moto hicles.

The raising of revenue, of course, is not the only function of taxation. In some taxes are not expected to produce any revenue; if the Treasury repo sharp increase in the yields from the taxes on adulterated and renovated b filled cheese, firearms, or narcotics, Congress would not applaud but rather start an investigation.

Unconstrained by a conception of taxation for revenue only, contem economists have stressed the contribution that taxes may make toward stabi the national economy.

In this view, tax policy may be a counter-cyclical weapon, deliberatel ployed to combat manic-depressive fluctuations of the business cycle. Thus inflation threatens, taxation can be used to sop up excess consumer purc power, to discourage investment, or to encourage savings. By reducing th mand for goods and services, such tax collections would serve to moderate o vent inflation of the price level. When unemployment develops, on the hand, taxes can be reduced to encourage spending, thus increasing the de for goods and services and putting men and machines back into production. federal personal income tax is suited to these tasks, it is asserted, because th gressive rate schedule acts to increase rapidly the financial pressure on th payer during a "boom," while it works equally rapidly to diminish that pr during a recession. This characteristic has been termed "cycle-sensitivity" c cause the tax responds automatically to changes in income (without even a c in the prescribed rates), "built-in flexibility."

Just as estate and gift taxes lag far behind the income tax in the power to revenue, so they are far less promising as counter-cyclical instruments. T sure, decedents' estates vary in value with changes in the price level, and the the progressive federal estate tax possesses a degree of "built-in flexibility gifts are larger during "booms," as seems likely, the gift tax yields shoul and fall with the business cycle. But the impact of gifts and inheritance o nation's total pattern of consumption, saving, and investment cannot be grea force that carries the threat of price inflation during full employment is the erally increased national income, not the fact that the wealth of a few person have been augmented to some extent by gift or inheritance. The personal in tax, with stepped-up rates if necessary, can accomplish infinitely more in th of checking inflation than even a confiscatory estate tax.

Whatever slight counter-cyclical pressure the estate tax might exert woul be felt promptly (as in the case of an income tax withheld at the source, f ample), but rather would follow sluggishly, because of an almost inevitable in computing and collecting the tax. Moreover, abrupt alteration of the tax rates discriminates unfairly among taxpayers, since the tax liability fal cording to the accident of the date of death. To be sure, sharp changes in ir tax rates penalize those taxpayers whose earning patterns happen to be abno but these inequities are proportionately less serious than in the case of the tax. The incomes of most taxpayers rise and fall with the business cycle, b heritance — if it comes at all — is likely to come only once or twice in a lif An increase in the gift tax rate, on the other hand, would lose much of its tiveness if taxpayers postponed the making of gifts in anticipation of a ra luction in a downswing of the business cycle. Although an increase in income tax rates can also be vitiated to some extent by postponing or accelerating certain transactions, the danger is not as great because taxpayers generally have less control over income items than over donative transfers. It is not surprising, then, that economists have not regarded estate and gift taxes as helpful tools for stabilizing the economy at a high level of employment and production.[1]

What then is the function of these taxes, which neither raise substantial amounts of revenue nor serve to stabilize the nation's economy? The answer may be found in the history of estate and gift taxation, for the proponents of these taxes have not sought to conceal their aims.

In a 1906 message to Congress, advocating a progressive inheritance tax, President Theodore Roosevelt said:

> . . . [T]he prime object should be to put a constantly increasing burden on the inheritance of those swollen fortunes which it is certainly of no benefit to this country to perpetuate.[2]

A little earlier, in a speech on laying the cornerstone of the House of Representatives office building, he had been a bit more detailed:

> . . . I feel that we shall ultimately have to consider the adoption of some such scheme as that of a progressive tax on all fortunes, beyond a certain amount, either given in life or devised or bequeathed upon death to any individual — a tax so framed as to put it out of the power of the owner of one of these enormous fortunes to hand on more than a certain amount to any one individual; the tax, of course, to be imposed by the National and not the State Government. Such taxation should, of course, be aimed merely at the inheritance or transmission in their entirety of those fortunes swollen beyond all healthy limits.[3]

The suggestion was greeted with enthusiasm by the liberal and radical press, and with dismay and predictions of doom by more conservative commentators. Somewhat earlier, Andrew Carnegie had announced his support of increased inheritance taxation in a magazine article that attracted widespread attention, including a cordial compliment from John D. Rockefeller. Carnegie said:

> The growing disposition to tax more and more heavily large estates left at death is a cheering indication of the growth of a salutary change in public opinion. The State of Pennsylvania now takes — subject to some exceptions — one tenth of the property left by its citizens. The budget presented in the British Parliament the other day proposes to increase the death duties; and, most significant of all, the new tax is to be a graduated one. Of all forms of taxation this seems the wisest. Men who continue hoarding great sums all their lives, the proper use of which for public ends would work good to the community from which it chiefly came, should be made to feel that the community, in the form of the State, cannot thus be deprived of its proper share. By taxing estates heavily at death the State marks its condemnation of the selfish millionaire's unworthy life.
>
> It is desirable that nations should go much further in this direction. Indeed, it is difficult to set bounds to the share of a rich man's estate which should go at his death to the public through the agency of the State, and by all means such taxes should be

[1] For an evaluation of the economic role of transfer taxation, see Harriss, Economic Effects of Estate and Gift Taxation, in Federal Tax Policy for Economic Growth and Stability, 84th Cong., 1st Sess., 855 (1955); see also Bloch, Economic Objectives of Gratuitous Transfer Taxation, 4 Nat. Tax J. 139 (1951); Eisenstein, The Rise and Decline of the Estate Tax, in Federal Tax Policy for Economic Growth and Stability, id. 819 (1955).

[2] 17 Roosevelt's Works (Memorial edition, Charles Scribner's Sons, New York, N.Y., 1925) 401, 434.

graduated, beginning at nothing upon moderate sums to dependents, and increasing rapidly as the amounts swell, until of the millionaire's hoard, as of Shylock's, at least

'The other half
Comes to the privy coffer of the State.

This policy would work powerfully to induce the rich man to attend to the administration of wealth during his life, which is the end that society should always have in view, as being by far the most fruitful for the people. Nor need it be feared that this policy would sap the root of enterprise and render men less anxious to accumulate, for, to the class whose ambition it is to leave great fortunes and be talked about after their death, it will attract even more attention, and, indeed, be a somewhat nobler ambition, to have enormous sums paid over to the State from their fortunes.[4]

Although these statements of Roosevelt and Carnegie, like subsequent defenses of our existing estate and gift taxes, were undoubtedly a response to the "robber baron" era of American history, they did not sound a wholly new note. Throughout the nineteenth century death taxation had been advocated primarily as an instrument for the equalization of wealth. Indeed, Jeremy Bentham had used the very phrase "equalization of fortunes"[5] and John Stuart Mill had suggested "as a possible mode of restraining the accumulation of large fortunes in the hands of those who have not earned them by exertion, a limitation of the amount which any one person should be permitted to acquire by gift, bequest, or inheritance."[6] This drive toward equalization has drawn its strength from several sources: a moralistic abhorrence of idleness or profligacy, thought to be a result of unearned wealth; the belief that the economic well-being of the community requires that all its members earn their own livings; and an ethical insistence upon equality of opportunity. No doubt these sources, and others, have contributed in different degrees to the views of individual supporters of gift and estate taxation.

Although the history of the relationship of democratic thinking to the institution of inheritance is still to be written, one may surmise that much of the popular support for death taxes in our country has stemmed from the "democratic dogma," no doubt with a strong tinge of puritanical disapproval of idleness. The burgeoning of state inheritance taxes in the eighties and nineties of the last century must have been an offshoot of agrarian and labor unrest, and, though the present federal estate tax was adopted in 1916 under the pressure of war, its roots and later history are both bound up with the democratic dream of equal opportunity for all. Even before the freedom to *amass* a fortune was challenged by the income tax, there were doubts whether such a fortune should be *passed along* intact to those who had not earned it. American fiction has often glorified the poor boy who became the head of an enterprise by marrying the boss's daughter, but there is no record of similar enthusiasm for the boss's son who took his father's place by inheritance.

Theorists have developed a number of other defenses of inheritance taxation. It has been suggested, for example, that the death tax is an appropriate toll charged by the state for use of the probate machinery and for other services in facilitating the transfer of private property at death. Others have argued that the state is collecting a belated fee for protecting the property during the decedent's lifetime or, more cynically, that it is levying a kind of penalty for any tax evasion that the decedent may have indulged in during life. Still others assert that inheritance comes as a windfall; therefore the tax imposes no sacrifice on the heirs,

[4] Reprinted from North American Review for June, 1889, in Carnegie, The Gospel of Wealth (Doubleday Doran Co., Garden City, N. Y., 1933) 1, 9-11.
[5] Principles of the Civil Code, Part II, c. III.

and they have an ability to pay that justifies the levy. One of the most influential of American authorities on public finance, E. R. A. Seligman, based his own support of the inheritance tax on arguments like these, rejecting the equalization of wealth theory as "very distinctly socialistic." [7] But it is hard to escape the conclusion that today's gift and estate taxes rest squarely on equalitarian foundations, to which these other theories are little more than decorative buttresses. Consequently one's attitude toward the tax is probably governed by the degree to which one wishes to see inequality of inheritance reduced. It is worth noting that for social and economic reasons some may favor equalization of *inherited* wealth without objecting to the same extent, if at all, to fortunes achieved by the personal effort of their owners.

Only an examination of the Treasury's files would disclose the extent to which estate and gift taxes have succeeded in their purpose of breaking up great family fortunes. Only since 1932 could important results have been achieved in this direction; before then, a net estate of $5 million, for example, would have been subjected to a federal tax of only about $500,000.[8] Between 1932 and 1950, as a result of several increases in rates, the tax on an estate of that size moved upward from a little more than $1 million to about $2 million.[9] The top tax bracket, reached by estates that exceed $10 million, has been 77 per cent since 1941. There have been examples since then of enormous estates that were really hard hit by death taxes. The $19.5 million estate of Robert W. Goelet was reduced to a net of less than $3 million by federal taxes of $11.5 million, state taxes of $4 million, and administration expenses of $1 million.[10] The estate of Mrs. Andrew Carnegie fared somewhat better, the federal and state tax bill being a little more than $11.5 million on an estate of $20.5 million of which $2.5 million was left to charity.[11] After the charitable legacies and taxes were paid, $6.5 million was left for the private beneficiaries.

In the case of the largest estates, the tax burden is often kept within manageable limits only by substantial bequests to non-profit family foundations or other institutions. The Edsel Ford estate paid nearly $25 million in federal estate taxes, but the figure would have been vastly larger if the Ford Foundation had not received all the decedent's nonvoting stock in the Ford Motor Company.[12] Henry Ford's estate, variously estimated at $70,000,000 to $500,000,000[13] would also have gone primarily to the federal government had it not been for his huge bequest to the Ford Foundation. Of course, since the tax rate does not reach 100 per cent, such charitable transfers do not come entirely out the Treasury's share of the estate. Even in the largest estates, nearly 25 per cent of the charitable contribution is taken from the decedent's other beneficiaries. But a charitable transfer may enable the individual heirs to retain control of the family fortune, either when nonvoting stock is transferred to the foundation or, if the foundation is in

7 In 1945 the Soviet Union, which had reinstated the institution of inheritance after its initial abolition, repealed its heavy inheritance tax altogether. Gsovski, Soviet Law of Inheritance: I, 45 Mich. L. Rev. 291, 299 (1945). Among American states, only Nevada shares this distinction Nev. Const., Art. X, §1.

8 The taxes paid in the early twenties by a group of large estates are reported in 37 Trust Companies 242 (1923); see Myers, The Ending of Hereditary American Fortunes (J. Messner, Inc., 1939) 276-290, 302-303, 327-332, 343, 356, 361.

9 State taxes (to the extent that they exceed the credit for state death taxes, see page 1325 infra) would impose an additional burden in most cases, but they would not ordinarily approach the federal tax in magnitude.

10 New York Times, August 18, 1950, page 7, col. 6.

11 Id., September 22, 1948, page 36, col. 6.

12 Id., September 28, 1947, page 24, col. 1.

friendly hands, even when voting stock is transferred to it.[14] On the other hand, if the entire estate had been left to the individual heirs, a sale to raise cash to meet the necessarily larger tax liability might have either created an unknown and potentially troublesome minority stockholding group[15] or terminated the family's control altogether. One need not deny the strength of the humanitarian impulse to suggest that charity is rewarded in these cases. Indeed, with stratospheric estates there may be no practicable alternative to becoming a benefactor of mankind.

The table below, compiled from Treasury reports, presents a composite view of the federal tax liabilities reported by certain large estates during 1959. It will be noted that the effective federal estate tax rate was 25 per cent on net estates of $1 to $2 million and 43 per cent on net estates of $5 million and over. Because the state tax liability is not reported, the total tax burden cannot be computed, but the credits taken for state death taxes under §2011 (supra note 9) disclose that these state taxes were not less than the amounts set out in lines 8 and 9 of the table.

TAXATION OF CERTAIN LARGE ESTATES[16]
(Returns filed in 1959)
In millions of dollars

	Gross Estates	
	$1-2 million	*$5 million and over*
1. Number of estates	759	84
2. Gross estate (aggregate)	$1038	$865
3. Charitable deductions (aggregate)	$ 60	$207
4. Other deductions (aggregate)	$ 265	$220
5. Net estate before exemption (aggregate)	$ 712	$438
6. Total federal estate tax (aggregate)	$ 189	$190
7. Effective federal estate tax rate (line 6 divided by line 5)	25%	43%
8. State death taxes	$25 or more	$40 or more
9. Effective state death tax rate (line 8 divided by line 5)	3.5% or more	9.1% or more

In estimating the extent to which moneyed dynasties are dying out under today's tax structure, it must be remembered that inter vivos gifts may escape the estate tax altogether. The federal gift tax rate is only three-quarters of the estate tax rate, so a sizeable fortune may be transferred at a comparatively modest tax

[14] The House version of the Revenue Act of 1950 would have denied the charitable deduction when the contributor or his family had control of the foundation to which shares of a family corporation were transferred. The provision was eliminated by the Senate. See Senate Finance Committee, S. Rept. No. 2375, 81st Cong., 2d Sess., pages 38-39.

[15] In the case of the Ford Motor Company, a successful suit by a minority stockholder led to Henry Ford's purchase in 1919 of all minority interests. See Dodge v. Ford Motor Co., 204 Mich. 459, 170 N.W. 668 (1919); Couzens v. Commissioner, supra page 919; Swards, The Legend of Henry Ford (1948) 64-74.

In 1956, the Ford Foundation sold part of its holdings in the Ford Motor Company, and these shares were given voting rights before the sale.

[16] Compiled from Treasury Department, Statistics of Income. The information is taken from returns filed by citizens and resident aliens during the calendar year 1959, irrespective of date of death, and does not reflect corrections resulting from the Internal Revenue Service's audit of the returns. One other matter of importance is that the "net estate before exemption," upon which the tax rate is here computed, does not include several items of economic value to the heirs, e.g. tax-exempt life insurance. From the point of view of the heirs who receive such items, the effective tax rate is lower than the table indicates.

USO

ANNISTON

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P. O. Box 2263 Anniston, AL 36202

March 18, 1980

Mr. Michael Stern
Staff Director
Committee on Finance
Dirksen Senate Office Building
Room 2227
Washington, D. C. 20510

Dear Mr. Stern:

The USO Council of Anniston, at their February 21, 1980 Annual meeting adopted a resolution, on behalf of the USO Center of Anniston, the armed forces personnel and dependents it serves, to unanimously endorse the Moynihan-Packwood (S-219) and Fisher-Conable (H.R.-1785) Bills presently before the Senate and House of Representatives, respectively.

We are firmly convinced that passage of these bills will enhance the private voluntary sector of our nation in their quest to provide a greater delivery of human services, especially as it relates to United Way agencies. USO Anniston, an affiliate of National USO, is a member agency of Calhoun County United Way.

Please include this letter as part of the official testimony on behalf of both bills.

Sincerely,

J. Bert Smith

J. Bert Smith
President

cc: United Way of America

A UNITED WAY AGENCY

VOLUNTEER AND INFORMATION AGENCY, INC.
THE VOLUNTARY ACTION CENTER FOR GREATER NEW ORLEANS
211 CAMP STREET
NEW ORLEANS, LA 70130
525-7131

March 31, 1980

Michael Stern
Staff Director
Committee on Finance
Dirksen Senate Office Bldg.
Room 227
Washington, D.C. 20510

RE: FISHER-CONABLE and MOYNIHAN-PACKWOOD LEGISLATION

Dear Mr. Stern:

The Board of Directors of the Volunteer and Information Agency, Incorporated, officially endorsed by resolution at its March 13, 1980, meeting the Fisher-Conable and Moynihan-Packwood charitable contributions legislation.

The agency believes that the strength of private charitable giving has major impact on the funding of human services and that legislation encouraging charitable donations is necessary during times of increased inflation to support and protect the delivery of human services. This is especially important at a time of decreased federal funding for human services.

Please enter this endorsement into your official records.

Sincerely,

Carol Asher

Carol Asher
Executive Director
Volunteer and Information Agency

CA/zdm

UNITED WAY
SUPPORTED