The Jewish Federations® OF NORTH AMERICA
Washington D.C. Office

THE **STRENGTH** OF A PEOPLE.
THE **POWER** OF COMMUNITY.

April 14, 2015

Subject: Submission to Senate Finance Committee Individual Income Tax and Business Income Tax Workgroups

The Jewish Federations of North America ("JFNA") is the national organization that represents over 150 Jewish Federations, their affiliated Jewish community foundations, and more than 300 independent network communities. In their individual communities, the Jewish Federation together with network volunteers (collectively the "JFNA system") the umbrella fundraising organization as well as the central planning and coordinating body for an extensive network of Jewish health, education, and social service agencies. Thus, the JFNA system raises and allocates funds for almost one thousand affiliated agencies that provide needed social, medical and educational services to almost one million individuals throughout the country.

Each Jewish Federation conducts a yearly fundraising endeavor (“the annual campaign”) and collectively the JFNA System raises almost $950 million each year from over 400,000 donors. In addition to this campaign, the planned giving and endowment departments of Jewish Federations and their affiliated Jewish community foundations raise almost $1.6 billion each year through a variety of planned giving vehicles including charitable gift annuities, charitable trusts, donor advised funds, and supporting organizations, among others. Income and grants from such planned gifts also flow to support mission-related charitable activities. The combination of a large annual campaign and sophisticated planned giving operations serve to make the JFNA system one of the largest philanthropic networks in North America.

The JFNA system is especially proud of the important role that donor advised funds and supporting organizations play in supporting our endeavors. In addition to maintaining active grant-making programs in support of our mission, such funds build our endowment assets to help assure the continued existence of the Jewish Federation movement. According to our most recent survey, Jewish Federations and affiliated Jewish community foundations have combined endowment assets of approximately $16 billion and make annual grants that exceed $1.4 billion from such funds to other public charities, with significant charitable distributions flowing to support both Jewish and non-Jewish causes, domestically and internationally.

The Importance of Tax Incentives in the Tax Code: The federal income tax has included tax incentives for charitable donations for almost 100 years. Although it has undergone numerous revisions and amendments, often tightened by adding regulatory rules and requirements for certain types of donations or restrictions to the operations of certain giving vehicles, and sometimes broadened by raising the contribution limits or expanding the types of permissible charitable recipients, the concept of a deduction for contributions to charitable organizations remains fundamental to the social contract that binds individuals, charities, and the government.

We are proud that Jewish Federations and affiliated Jewish community foundations employ the highest ethical standards of self-regulation in the governance and operation of our fundraising and planned giving practices and regularly share our expertise with policy makers and charities outside of the Jewish community on a variety of charitable giving issues. We continue to work closely with officials at the Treasury Department and the Internal Revenue Service as they work to promulgate guidance on some of the provisions added to the tax code by the Pension Protection Act of 2006 ("PPA") regarding donor advised funds and supporting organizations. For further information, we have linked our comments submitted in 2007 to the Treasury Department in connection with the Congressionally-mandated study on donor advised funds. Please click here to view our comments.

Our Charitable Mission and the Tax Code: Perhaps the primary mission of JFNA is to assist Jewish Federations as they inspire members of the Jewish community to fulfill our religious duty to be charitable (“tzedakah”) and to meet our collective responsibility to build community and improve the entire world (“tikkun olam”). Although it is true that the importance of these principles transcend the income tax code or particular incentives, such as the charitable contribution deduction, we also recognize that such provisions permit many of our donors to extend their levels of generosity. It is

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these contributions that truly are the lifeblood of the JFNA system allowing us to meet our philanthropic goals.

Similar to other large national charities, the JFNA system has a sophisticated fundraising operation as well as highly-organized procedures for allocating funds to a broad range of social service programs and general charitable needs throughout their communities and overseas. As such, we see both sides of the charitable deduction equation: how donors react to tax provisions, as well as the role that philanthropic dollars play to support programs assisting the most vulnerable. Our perspective on the income tax code and charitable giving incentives is grounded in almost 100 years of experience. Although the donor base to our annual campaign is large, with over 400,000 contributors each year, we also recognize that the vast amount collected comes from a relatively small number of gifts. As a result, a so-called "90-10" rule operates so that the overwhelming percentage of dollars raised flow from a small, but tax-sophisticated donor group, who regularly make large gifts, either through the annual campaign contribution or more importantly, through the use of planned giving vehicles, as discussed below. In either case, this tax sophistication permits such individuals and their planned giving advisers to structure gifts so that the maximum amount of funds flows to Jewish Federations and, in turn to beneficiary agencies, today, rather than later.

This perspective convinces us that each of the several "proposals" to reform the charitable contribution deduction such as a percentage limit on the value of the deduction, an overall cap on itemized deductions, imposition of a "floor" on deductible contributions, or limits on that value of the deduction for the contribution of certain appreciated assets such as contained in the 2014 Tax Reform draft proposed by former House Ways & Means Committee Chairman Dave Camp (R-MI) ("Camp Draft") will lead to a significant decrease in giving to the JFNA System. With government funding for social service and medical programs continuing to decrease, any such diminution in support of charitable contributions will further hamstring the operations of Jewish Federations and their affiliated agencies in their mission to help the most vulnerable among us. We urge that that the value of the charitable contribution deduction remains linked to a taxpayer's

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marginal tax bracket. In addition, we recommend that several so-called charitable giving “tax-extender” provisions such as the IRA Charitable Rollover be made a permanent part of the tax code and that the provision be expanded to include rollover gifts to donor advised funds and supporting organizations.

Importance of Other Charitable Vehicles: Over the past several decades, the JFNA system has fostered growth in charitable giving through donor advised funds and supporting organizations (known as “participatory funds”). Participatory funds, whose existence stems from the charitable contribution deduction, offer an economical and efficient means for those with sufficient assets and charitable intent to benefit the community through an ongoing partnership with public charities such as Jewish Federations or affiliated Jewish community foundations. Such funds are an indispensable tool in encouraging intergenerational involvement in charitable activities through family philanthropy. In addition to providing financial resources for critical human services in the local Jewish and general communities and supporting charitable causes across the globe, participatory funds also advance the values and goals of the JFNA system by nurturing relationships between philanthropists and Federation volunteer and professional leadership, as well as helping to build endowment assets.

One of the greatest strengths of the JFNA system lies in our unique ability to match our donor's interests with the funding needs of both the Jewish and the general community. These needs are often met with new charitable contributions or with contributions that replenish grants from existing participatory fund balances. Because these funds can continue for extended periods of time, including the lifetime of the donor and spouse, heirs, and additional successors, the relationship between the Jewish Federation and the donor continues to grow over time and succeeding generations of philanthropists and community leaders can be fostered and encouraged. In this way, our participatory funds are vital to the achieving the ongoing mission of Jewish Federations.

In recent years, participatory funds also provide a reliable pool of dollars to support the annual campaigns of Jewish Federations, which is the primary financial resource for ongoing operating

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budgets. Grants from these funds now comprise up to twenty percent of the annual campaign. Additional grants to Jewish Federations are common in the case of extraordinary needs or supplemental campaigns for natural and manmade disasters, as well as during economic downturns, such as the one experienced just a few years ago.

Permitting, indeed encouraging, participatory funds to exist for extended periods of time provides Jewish Federations and related Jewish community foundations with the ability to grow the endowed assets of these publicly-supported charities. Healthy endowments at Jewish Federations and related Jewish community foundations help to assure the continued existence of these organizations for generations to come. This is why the proposal that would effectively require donor advised fund contributions to be distributed within 5 years as contained in last year's Camp Draft would undermine the broader charitable purpose of such funds and could be devastating to participatory funds in general and Jewish Federations in particular. Our donors, especially those who support our work by establishing participatory funds with us, ensure that we continue to fulfill our charitable mission through grants to worthwhile charitable endeavors. Rather than adhering to an arbitrary numerical formula, our philanthropic spending policy is truly donor-driven and recognizes community needs both today and into the future.

As the Committee continues to consider tax reform proposals, we urge that participatory funds be allowed to flourish and be left with a minimum of regulatory burdens. JFNA agrees with the bottom-line conclusion of the Treasury Department's *Report on Supporting Organizations and Donor Advised Funds* issued in December, 2011, that "the Pension Protection Act of 2006 appears to have provided a legal structure to address abusive practices and accommodate innovations in the sector without creating undue additional burdens or new opportunities for abuse." The Treasury Report further notes that "it is appropriate that the contribution deduction rules faced by donors to supporting organizations and donor advised fund sponsoring organizations are the same as those applicable to donors to other public charities." We urge that donor advised funds and supporting foundations be treated in a

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manner similar to other public charities during tax reform deliberations.

Tax Reform and Specific Proposals: JFNA applauds the Senate Finance Committee, through the work of the charitable reform workgroups, for undertaking such a deliberative process and analyzing the many issues that need to be considered in contemplating fundamental tax reform. However, as it pertains to the charitable contribution deduction, we remind the Committee that any proposal that could result in a decrease in charitable giving will have significant negative consequences for America's charities, including the JFNA system. The charitable contribution deduction remains the only provision in the income tax law where an individual must "give away" income or assets in order to receive a deduction. As has been true since the enactment of the income tax law, this selfless act deserves to be promoted and encouraged by the tax code.

Proposals to limit the value of the charitable contribution deduction, place a dollar cap on total tax deductions, or transform the charitable deduction into a tax credit with artificial floors and ceilings, would result in less giving and cripple charities that strive to provide a safety net to so many who are not fully served by the government such as feeding the hungry, clothing the naked, and healing the sick. Similarly, any additional burdensome restrictions on the operations of participatory funds would inhibit vitally needed resources for charities throughout the country. JFNA remains committed to ensuring that federal tax policies, especially the charitable deduction, continue to incentivize the flow of funds from individuals to public charities. We realize that the Committee will face difficult decisions over the next several months. We urge you to resist taking any actions that could diminish our national heritage of broad-based philanthropy.

For more information regarding this submission, please contact:
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