Testimony of Brian A. Gallagher
President and CEO, United Way Worldwide
United States Senate Committee on Finance
October 18, 2011

Chairman Baucus, Senator Hatch, and Members of the Committee, thank you for inviting me to testify before the Committee on this matter of critical importance to the non-profit sector and our society in general, the charitable deduction.

I urge the Committee to preserve the charitable deduction for all donors.

With specific regard to the impact of policy changes on donors, let me start by stating that I deeply respect the work of my colleagues on this witness panel. However, I've spent my entire career, now 30-plus years, working with donors in the nonprofit sector. I know why people give and believe that limiting the charitable deduction would have a far greater impact on charitable giving than many estimate, and would significantly affect our sector's ability to deliver social services.

Recent studies indicate that a cap on the deduction could result in loss of charitable giving of between $2.9 billion and $5.6 billion each year. A variety of other proposals to limit the deduction have been circulated this year. Each proposal has two common elements: 1) they limit the value of the deduction for some group of donors, and 2) they will result in reduced giving to charity to the detriment of individuals and families who rely on our help.

If the $5.6 billion number is correct, and I believe that it is, that equates to eliminating all of the private donations each year to the Red Cross, Goodwill, the YMCA, Habitat for Humanity, the Boys and Girls Clubs, Catholic Charities, and the American Cancer Society combined. I am not arguing that those organizations would not survive limitations to the charitable deduction; United Way and these other major charities would. However, the services charities provide would be reduced at that scale.

For United Way, we calculated that a mere 2.5% reduction in revenue would result in 1.3 million fewer times that we can provide job training services for an unemployed worker, home care for an elderly citizen, service supportive housing for a single mother, or a mentor or tutor for an at-risk young person.

I know the Members of this Committee are well aware of the Census Bureau's recent report that 46.2 million Americans are living in poverty. And the unemployment rate is hovering around 9%. At a time when all manner of government funded social service programs are being cut, decreasing the capacity of charities to provide services is the wrong thing to do. Those at the bottom of the economic spectrum have suffered the most through the recession. They are also the ones who would bear the brunt of reduced giving to charity because of a tax policy change.

In my view, the Committee should be considering ways to provide additional incentives for charitable giving. You cannot solve our nation's deficit by the relatively small amount of revenue to the government garnered by limiting the charitable deduction.

I have spent literally thousands of hours getting to know people who donate to charity and why they donate. I've come to know the motives and financial limitations of all sorts of donors. We get contributions from Union workers who sacrifice to give $10 or $20 from each paycheck. We have 26,000 donors who give $10,000 per year or more, and 500 Americans that have donated a million or more to United Way.

Americans give for a variety of reasons. I think it is rare that someone gives to charity only because of a tax incentive. But tax incentives are often a factor in how much someone donates. I can tell you from my experience, large donors are very sensitive to the tax code. In a recent study we conducted, 23% of high net-worth individuals indicated that receiving tax benefits for their charitable contributions was a "major" motivation for giving.

If this Committee reduces the charitable deduction, you should expect that donors will simply withhold the difference necessary to cover the tax from their donations. A limitation on the deductibility of charitable donations isn't really an increase in tax on the wealthy so much as it is a transfer to the government of money that would otherwise go to charities. The real impact will be felt by the people we serve.

Americans from all backgrounds are generous by nature and are willing to give back to their communities. And Americans give to many causes. Arts and education are critical to our society and they merit equal support in the tax code. But United Way, at $3.9 billion last year, is the largest non-government funder of human services in the United States. We rely heavily on large donations from upper-income individuals. I hope my appearance here today helps dispel any presumption that large donors only give to the symphony or the museum; that simply isn't true. Each year, United Way receives a half billion dollars from high-income individuals who give $10,000 or more.

I have been traveling extensively during the last few years as United Way's work continues to expand to communities throughout the world. I've talked to many foreign civic and charitable sector leaders from China to France to South Korea. It's clear they seek two uniquely American exports: One is of course the American imagination that fosters business innovation and job creation; the other is our charitable spirit, which Alexis de Tocqueville wrote about in the 19th Century. It's our private sector initiative applied to solving social problems. I'm regularly asked how our system can be replicated abroad.

I found it ironic that one of the proposals for reforming charitable giving incentives in the tax code here in the U.S. was based on the U.K. model, which funnels a tax credit to charities through the government. Around the time the Domenici-Rivlin proposal was released (Nov. 2010), I was advising leaders in the United Kingdom who were looking for new ways to stimulate charitable giving.

Within American culture, innovation is prized. It is most noted as an achievement in the American business sector. But the nonprofit sector is the cradle of innovation in providing social services and solving social problems. We are dynamic and responsive to the needs of the people we serve. We are always finding new ways to do things more efficiently, and with many fewer resources than government. This initiative, for which our business sector is known, permeates the charitable sector too. We are the source of much of the social innovation you have seen in our country for decades. This is possible because of generous private giving in America.

The point is that our charitable sector is the envy of the world. We have an effective and efficient system. That is in part due to the historic tax treatment of charitable donations. The deduction rate simply tracks with the donor's tax rate. The effect of that is that income donated to charity is not taxed.

This connection to the tax rates is the strength and simplicity of the charitable deduction. Perhaps my biggest concern about the deduction is that it would for the first time "decouple" the deduction from the tax rate. Once you have done that, then it is a simple matter to repeatedly return to the deduction as a source of more revenue. Even when tax reform is not on the table, perhaps well-meaning Senators will see this as an offset for their own priority programs. A cap can be lowered another fraction of a percent, a floor can be raised a few hundred dollars, an arbitrary tax credit can be reduced; until there is little left to resemble a tax policy that reflects our nation's philanthropic heritage. This would just be the beginning of a whittling-away at our charitable sector.

Of course, many tax incentives are designed to stimulate certain types of activities. In most cases, the conduct the tax code incentivizes is also beneficial to the individual tax payer. The conventional wisdom in our nation is that homeownership is good. So the tax code incentivizes homeownership. But of course, the taxpayer who gets the incentive also receives a benefit of owning a home.

The charitable deduction is perhaps unique among tax deductions. No personal gain or benefit is conferred to a donor by donating to charity. By allowing donors to deduct the donations at the same rate as their tax rate, you are simply not penalizing them for giving away income. And every cent of their donation is going back into their community. In other words, while the federal government may be losing some revenue from that dollar, the entire dollar is going to advance the common good. What could be a better use of that dollar?

We have to create more private investment incentives to address our nation's growing human need. It not only allows for vital resources, it also encourages an active and engaged citizenry. Simply put, people, not institutions, solve problems.

A good example is the parents and families of drunk-driving victims advocating and saying: *We won't let it happen again*. They worked together and they changed conditions. Today, organizations like Mothers Against Drunk Driving and others are strengthening these laws and achieving sustainable results.

As a father of two daughters, an issue close to my heart is girls in sports. Leaders at high schools and colleges weren't just sitting around one day thinking, "You know, we could use more womens' athletic programs." It took young women, parents, and coaches making it an issue and working with their institutions to provide greater opportunities.

The loss of social movements like these coupled with proposed reductions in federal social services programs could negatively impact individuals and families for years to come. Dramatic cuts by Congress began last year, and more are coming. The so-called "super committee" will likely make even more dramatic cuts, or automatic reductions to social services will occur. At the same time, states are in budget crises and are making deep cuts in state-funded programs. But the need is not going away.

The Low Income Heating Energy Assistance Program (LIHEAP) is being cut, but people will still need help paying their heating bills this winter. Child Care and Development Block Grants will be cut, but single moms will still need help with child care so they can work. Workforce training programs will be cut, but unemployed workers will still need training to return to work. We can help these people pay their utilities, get child care, and get job training. But we can help fewer of them if our donations are reduced because of limitations on the deduction.

Our nation is enduring a drawn-out, jobless recovery, which has been especially hard on the poor and middle class. In the short term, you could help ease the economic suffering of millions of Americans by enabling charities to do more.

Over the long-term, investments in social services or “human success” can help our nation recover and prosper. There can be no sustained economic success without human success; there never has been. We in the nonprofit sector are investing in human success. And we need the help of this Committee and Congress to make that investment.

Thank you.

# # #