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Before the
Senate Committee on Finance

Hearing on Examining Charitable Giving and Trends in the Nonprofit Sector
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Chairman Wyden, Ranking Member Crapo and Members of the Senate Committee on Finance:

The Association of Fundraising Professionals (AFP) appreciate your efforts to seek stakeholder and public feedback about charitable giving and trends in the nonprofit sector. AFP is pleased to present the following comments based not only on research—developed by ourselves as well as in collaboration with partners in the sector—but also on the comments and perspective of our more than 23,000 members in the United States.

AFP represents both individual fundraisers and charities that raise more than $100 billion annually. Our members work for a wide variety of organizations, from multi-national institutions to small, grassroots organizations, addressing every mission conceivable, from religion and social services, to education, healthcare, and the arts. Every member agrees to abide by AFP's *Code of Ethics*, the only enforceable fundraising code in the world.

Our members are on the ground, communicating with donors everyday and running capital campaigns, direct mail operations, major gifts meetings and email and social media initiatives. They see first-hand the impact of government policy on fundraising and charities and understand the importance of tax policy that incentivizes giving and volunteering.

Giving Trends and Challenges

<u>*Overall*</u>

At first glance, one might look at charitable giving numbers overall and think that the state of giving in the United States is very strong.

Giving USA 2021: The Annual Report on Philanthropy for the Year 2020, published by Giving USA Foundation, reported that overall giving to U.S. charities in 2020 reached an estimated $471.44 billion, the highest level ever recorded. Giving was led by individuals, who accounted for roughly 70% of overall giving. That giving grew to record levels in 2020, despite the pandemic, is a testament to the generosity of the American people.

In addition, AFP's own *Fundraising Effectiveness Project* (FEP), administered by the AFP Foundation for Philanthropy in collaboration with GivingTuesday, found that giving increased by over 10.6% and the number of donors grew by 7.3% in 2020 compared to 2019. The FEP tracks data from almost 3,000 charities, ranging in budget size from $100,000 - $10 million, tending to exclude larger organizations such as hospital and universities and making the data more representative of the typical charity experience in the U.S.

However, these numbers, impressive as they are, overshadow an important trend that is slowly transforming our country's philanthropic tradition: Participation in charitable giving is declining. *The Giving Environment: Understanding Pre-Pandemic Trends in Charitable Giving*, published by the Indiana University Lilly Family School of Philanthropy at IUPUI in 2021, found that just 49.6% of U.S. households made a charitable contribution in 2018. That figure is a decrease of almost 17 percentage points from 2000, when 66.2% of American households gave charitable donations.

Fewer Americans are giving to charity every year, but fortunately they are giving significantly more. Essentially, it is wealthy Americans—what fundraisers call major donors and now even mega-donors—who are driving the increase in charitable giving every year.

The *Fundraising Effectiveness Project's* (FEP) preliminary 2021 data underscores this challenge. Gifts from small donors (less than $500) fell sharply and accounted for just 9.5% of all giving in 2021. The main drivers of giving, and the growth in giving seen in 2021, were again major donors.

This is not to say that the average American is not generous. Crowdfunding campaigns—where charities, other kinds of organizations and even individuals ask for very small donations from a very large group of donors—continue to be successful, and Americans are generous in these and other informal ways of giving and volunteering.

Nevertheless, this trend is a huge challenge for the charitable sector and for all of American society. Our charitable sector is a crucial partner with the governmental sector in meeting the needs of communities that are disadvantaged and straining to provide services. Our tradition of philanthropy is based on egalitarian principles where everyone contributes to the greater good. Philanthropy should not become the domain of only the wealthy. We need to encourage giving from all segments of our society, not just the wealthy, and tax policy is one means to do that.

<u>*2021*</u>

The Fundraising Effectiveness Project publishes quarterly data, and final figures from the fourth quarter of 2021 are still coming in. However, the FEP noted throughout 2021 that giving continued to grow—significantly in the first quarter (roughly 10%) and then flattening out in the second and third quarter. The FEP is estimating that giving for 2021 will have grown slightly overall, roughly by 2.7% compared to 2020 numbers, once all data is accounted for from participating charities.

However, it should be noted that giving, including the 2021 estimated increase by the FEP, is not uniform across the sector. Larger charities that are well-known tend to receive a majority of contributions. In 2015, giving to the top 400 largest charities, as noted in T*he Chronicle of Philanthropy* that year*,* exceeded $100 billion. In 2020, roughly $1 out of every $11 donated went to the 100 largest charities in the U.S., as detailed by *The Chronicle of Philanthropy*.

During the pandemic, this trend was even more pronounced, as larger charities, especially those in pandemic relief, health care and social services, saw their giving rates increase rapidly, while smaller organizations, and especially arts and humanities groups, saw their giving shrink. 2021 data from the FEP saw this trend slowly begin to reverse as the world recovered from the pandemic, with smaller charities finally beginning to see gains in their giving rates.

However, AFP member comments from our *Fundraising Confidence Survey, January 2022* reveal that many charities, especially smaller organizations, have a long way to go in recovering from the pandemic. Fundraisers have been unable to meet with donors in-person, which is so important in developing relationships. Others report donor fatigue, whereby donors are overwhelmed by so many growing needs that originated from the pandemic and aren't as interested in giving for the moment.

In addition, just as the pandemic was winding down and fundraisers were feeling more optimistic, charities and their donors are now faced with skyrocketing gas prices, rising inflation costs, geopolitical conflict and weak consumer confidence. These challenges are likely to impact low- to mid-level donors the most, exactly the group of donors who are participating less in philanthropy.

Policy Changes to Encourage Giving

This daunting set of challenges, coupled with the household decline in charitable giving participation, could severely hinder the ability of the sector to meet the needs of communities across America. But Congress can help charities overcome these challenges and at the same time encourage more Americans to participate in philanthropy. AFP recommends that Congress support two important charitable tax giving incentives. Each will incentivize different groups of donors to give to their favorite causes and allow charities to continue to meet the needs of our communities.

Universal Charitable Deduction

The universal charitable deduction allows donors to take a tax deduction, up to a certain level, for their charitable gifts whether or not they itemize their taxes. The deduction incentivizes all donors to give but can be especially attractive for donors who make smaller level gifts, as they are typically taxpayers who do not itemize their taxes.

The universal charitable deduction has been enacted into law by Congress temporarily several times in the past only to expire and be reinstated by later Congresses. The latest version was created in 2020 through both the CARES Act and the later Consolidated Appropriations Act, creating together a deduction of $300 for an individual taxpayers and $600 for married couples filing jointly. The deduction expired at the end of 2021.

Research from the Fundraising Effectiveness Project has found that the incentive in the universal charitable deduction was quite powerful for gifts of $300, the limit of the deduction for individual taxpayers.

- There was a 7.5% jump in $300 gifts in 2020 compared to 2019 (the latest year without the universal charitable deduction).
- There was a 7.5% jump in $300 gifts in 2021 compared to 2019.

On December 31, the last day of the year when many charitable contributions are given so donors can take advantage of tax incentives, charities experienced a:

- 33% jump in $300 gifts in 2020 compared to 2019.
- 7% jump in $300 gifts in 2021 compared to 2019.

The data for gifts of $600, the limit for the deduction for couples filing jointly, also demonstrates the power of the incentive, though it’s important to note that the couple’s deduction was enacted in December 2020. Nevertheless, the data shows the difference the deduction had:

- There was a 1.2% **decrease** in $600 gifts overall in 2020 compared to 2019 (again, the couple’s deduction was not available until December 2020).
- Nevertheless, on December 31, 2020, there was still a 12% increase in gifts of $600 compared to the same day in 2019.

Then in 2021, when the couple's $600 deduction was available throughout the year:

- There was a 5.0% increase in $600 gifts overall in 2021 compared to 2019.
- There was a 5.1% increase of $600 gifts on December 31, 2021, compared to the same day in 2019.

While there are many factors that contribute to increased donations, one contributing factor was clearly the availability of the charitable deduction to nonitemizers. The universal charitable deduction works, and this data only accounts for two specific levels of gifts, just to show the deduction's impact.

Congress can help alleviate some of the difficulties the sector is facing by approving another universal charitable deduction.

AFP encourages Senators to support and approve the Universal Giving Pandemic Response and Recovery Act led by a bipartisan, bicameral group of lawmakers, including Sens. James Lankford (R-OK), Chris Coons (D-DE), Mike Lee (R-UT), Jeanne Shaheen (D-NH), Tim Scott (R-SC), Amy Klobuchar (D-MN), Susan Collins (R-ME) and Catherine Cortez Masto (D-NV), as well as Reps. Chris Pappas (D-NH) and Jackie Walorski (R-IN). The legislation would raise the previous $300/$600 cap to roughly $4,000 for individuals/$8,000 for couples and make gifts to donor-advised funds eligible for the universal charitable deduction.

We note that the deduction created through the Universal Giving Pandemic Response and Recovery Act is only effective until the end of 2022. Given the impact of the deduction, we believe that it should be extended through, at least, the end of 2023.

The universal charitable deduction will democratize giving by further incentivizing all American taxpayers—regardless of their income—to give to charity, thereby ensuring that our country retains a strong and independent civil society. It will also provide needed resources for charitable and faith-based organizations to continue providing vital services to families, workers, and communities, especially those critically impacted by the ongoing pandemic and now facing challenges related to rising inflation and weak consumer confidence. We urge Congress to pass and enact the universal charitable deduction swiftly.

Legacy IRA Act

In 2015, Congress passed the PATH Act, which included the IRA Charitable Rollover provision that allows individuals age 70½ to make direct tax-free gifts of up to $100,000 annually to charities from their IRA.

The IRA charitable rollover provision is complementary legislation to the universal charitable deduction in that it is also a strong incentive for donors to give, but focuses on a different group of donors than the universal charitable deduction.

Seniors typically make up more than 40% of the donor base for a charity, and with the historically strong performance of the economy and the stock market often have significant funds in their IRAs. While some donors might balk at giving thousands of dollars in cash to a charity, transferring funds from their IRAs, especially if their retirement is taken care of, is eminently more attractive and doable.

The impact of the IRA Charitable Rollover is significant. Recent survey data from FreeWill's online giving platform found a 390% increase in total IRA Charitable Rollover gifts from 2019 to 2021. That increase is even more impressive given that required minimum distributions from IRAs were eliminated for 2020 as part of Congress' pandemic relief measures.

Given the IRA charitable rollover's effectiveness and the need for greater participation in philanthropy, AFP supports an expansion of the rollover, and specifically the bipartisan Legacy IRA Act (S. 243), sponsored by Senators Debbie Stabenow (D-MI) and Kevin Cramer (R-ND). The legislation would allow taxpayers age 65 and over to direct up to $400,000 annually in IRA distributions to charities, charitable gift annuities and charitable remainder trusts. A modified version of the Legacy IRA Act has been included as part of a bipartisan retirement package, the Securing a Strong Retirement Act (H.R. 2954) that has been approved by the House Ways and Means Committee. We urge the Senate Finance Committee to include S. 243 in a future retirement package.

Conclusion

The charitable deduction—created more than 100 years ago— is a powerful symbol of the American tradition and system of philanthropy. It represents a gesture of confidence on the part of the people by way of their elected representatives, an acknowledgement of the effectiveness of nonprofit and community action and a commitment to the longstanding tradition of philanthropy in America. The deduction binds together the interests and concerns of all of us for the betterment of our society.

The charitable deduction is the only deduction where the money a person spends or contributes doesn't benefit themselves directly. The mortgage deduction is for buying a house. Scholarship, education and health deductions relate to money spent to help a person's family. But the charitable deduction involves a selfless, generous motivation—giving to a cause that might never directly benefit the donor.

The deduction's enhancement value is clear: a calculation of the deduction shows that for every $1 of potential tax revenue invested through the deduction, the public and communities across America receive approximately $2.5 in philanthropic services. That rate of return is extraordinary. We should be investing more in the deduction and encouraging additional philanthropy though provisions such as:

- The Universal Charitable Deduction through the Universal Giving Pandemic Response and Recovery Act; and

- An expansion of the Charitable IRA Rollover through the Legacy IRA Act.

Thank you for your consideration and your work in keeping the American tradition of philanthropy strong and vibrant for decades to come.

Respectfully,

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