



**American
Red Cross**

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Before the U.S. House of Representatives Committee on Ways and Means

***Hearing on Tax Reform and Charitable Contributions
February 14, 2013***

The American Red Cross applauds the Committee on Ways and Means for recognizing the critical role the charitable community plays in America. We know you want to encourage charitable giving, and we are grateful for your recent support for extending the IRA Charitable Rollover. We welcome this opportunity to discuss how changes to the charitable tax deduction could impact us and, more importantly, those we serve.

The mission of the American Red Cross is to help prevent and alleviate human suffering in the face of emergencies by mobilizing the power of volunteers and the generosity of our donors. And every day, for more than 130 years, in thousands of communities across our country, including yours, the Red Cross has been there to respond, whether it's a hurricane, a heart attack, a call for blood, or a call for help.

While the Red Cross is not a government agency, government confers on us important responsibilities. The American Red Cross is chartered by Congress and the President to carry out a system of national and international relief to mitigate suffering caused by disasters and to provide voluntary aid and act as a medium of communication with the armed forces of our nation. The Red Cross is also the co-lead with FEMA for Mass Care under Emergency Support Function #6 of the National Response Framework.

This means the American Red Cross is required to be there when disaster strikes. But our role is more than a legal obligation; communities across the nation prepare for and depend upon the Red Cross to be an integral part of caring for their citizens. Our ability to meet their needs depends on charitable donations.

That's why we are so concerned by proposals that would cap or limit the charitable tax deduction. These changes could alter an important incentive for Americans to help their neighbors – and limits to the charitable tax deduction would limit our ability to serve them.

Like other charities, the Red Cross actually saves the government money by providing services to people using private resources and volunteers. The millions of dollars we raised for the Hurricane Sandy response and recovery means less taxpayer money the U.S. government needed to appropriate for those communities. And, because the bulk

of our workforce is volunteers, we can deliver these services much more efficiently and at less cost than government. We believe that charities are not the problem; we are the solution.

Some argue that limiting the charitable deduction will not have a significant impact on donations because only one-third of taxpayers itemize their deductions and donors give for reasons other than the deduction.

But a recent survey conducted by the Red Cross showed that nearly two out of three of our donors itemize their deductions, so these changes would hit squarely on the shoulders of our donors. And while donors do give for many reasons, every year the Red Cross sees a spike in charitable giving on the last few days of December, which can only be explained by the fact that people are taking advantage of the charitable tax deduction.

For example, the attached chart shows the Red Cross handling about 2,884 donations on an average day throughout 2012. That number increased to about 10,490 donations per day during the holiday giving season between November 26 and December 30. Then, on the last day of the year, December 31, the number of donations increased to 71,809. For comparison, that is more than we averaged on each of the first three days after Hurricane Sandy struck.

Clearly the charitable tax deduction works to incentivize giving, and Congress and the President should be careful not to do it harm. We are concerned in fact that harm already may have been done with the reinstatement of the Pease provision. While we won't know the effect of this provision for another year or so, we do know that layering on more caps or limitations to the deduction would diminish charitable giving even further.

These changes would come at the worst possible time for charities. Charitable giving overall remains flat and experts say it will take years to return to pre-recession levels. This has forced many charities to undergo continued cutbacks just to stay in business, and we have no cushion to fall back on. In recent years, the American Red Cross has been forced to reduce our field and national headquarters staff by about 10 percent at the cost of thousands of jobs. If limits are placed on the charitable deduction, it will lead to further job losses at the Red Cross and additional cuts among the 13.5 million jobs in the non-profit sector.

Cost estimates on limiting the charitable tax deduction vary. However, one analysis indicates that the proposed cap on the value of the charitable deduction to 28 percent on taxpayers earning more than \$200,000 a year could cost up to \$5.6 billion. That's more than the entire budgets of some of the largest charities, combined. But the real impact would be felt by the 50 million people that the Red Cross and other charities serve.

We believe that limiting the charitable deduction will not hurt the wealthy; instead it will hurt the most vulnerable who depend on charities. In the case of the Red Cross, it's the people who turn to us for food, shelter and comfort when their homes have been destroyed and they have nowhere else to go. Those are the people that we urge you to consider when making changes to the charitable tax deduction.

It is wrong to treat the charitable deduction as a loophole or a special interest tax break when it should be cherished as part of the fabric of our country and who we are as Americans. The charitable deduction is different from other itemized deductions because it encourages individuals to give away a portion of their income to those in need. In other words, it rewards a selfless act. This is something we have always valued as a nation. It's why the charitable tax deduction has been part of our income tax code for nearly 100 years. It is envied by other countries around the world. It's why two-thirds of the public – including those who don't itemize – oppose trimming the charitable tax deduction to lower federal deficits (Gallup Poll April 2011).

As the Committee pursues tax reform, we ask for serious evaluation of such objectives against any harmful consequences that may result from the termination or restriction of the provisions in question.

The American Red Cross believes that those adverse consequences will be particularly harsh when it comes to any significant limitation of the charitable deduction. We are convinced that limiting the charitable tax deduction will have serious effects:

- Charitable giving and charitable services will be significantly curtailed throughout the country;
- Substantial numbers of jobs will be lost in the nation's charitable sector;
- Government agencies will feel the need to replace many of the lost services with government-administered services, thus increasing the size and the cost of government;
- And, most importantly, that the charitable-giving element of our country's heritage – an element that we believe is universally valued within the Congress – will be seriously damaged.

Given the significance of these consequences, the Red Cross is confident that the Committee will reach the conclusion that the benefits of limiting the deduction are simply not worth the harm that would be caused.

We strongly urge you to preserve the current charitable tax deduction and encourage more people to support the charities of their choice. We look forward to working with you to help strengthen and grow the charitable community in America.