



INDEPENDENT SECTOR
A vital voice for us all

Statement of Independent Sector

Hearing before the Senate Committee on Finance

Federal Estate Tax: Uncertainty in Planning Under the Current Law

November 14, 2007

The role of charities and foundations, which now number 1.4 million, is far too valuable in American civic life to be overlooked in the national conversation about estate tax reform. From hospitals to homeless shelters to art museums and little leagues; from religious congregations to universities, the charitable sector manages to reach every aspect of American life. Therefore, on behalf of Independent Sector, a coalition of charities, foundations and corporate giving programs, we ask that the impact on nonprofit organizations be kept in mind as this Committee considers the implications of reforms to the federal estate tax.

The federal government and the charitable sector share a unique partnership in addressing many social concerns. Repeal of the estate tax would cost about \$1 trillion in federal tax revenues in the first ten years, once the added interest on the federal debt is taken into account. Revenue losses this big would significantly worsen the already severe federal budget problems the nation faces. Many charitable organizations serving the most vulnerable among us, particularly health and human services organizations, rely on state and federal government funding to support community programs. Those revenues are already at risk, and a full repeal of the estate tax will only serve to further dry up funding for these critical services.

Americans have always supported a strong and independent charitable sector. Policy makers have long recognized the vital role tax incentives play in encouraging Americans, particularly wealthy taxpayers, to give back to the community. According to the Internal Revenue Service, in 2006 almost two-thirds of charitable bequests came from estates valued at over \$10 million, and three-quarters of bequests came from those valued at over \$5 million. In this context, it is clear that a repeal of the estate tax would be very disruptive. The Congressional Budget Office has estimated that if the federal estate tax had not existed in 2000, charitable donations would have been reduced by a stunning \$13 to \$25 billion that year. This massive potential loss in donations is more than the total amount that all corporations gave to charity in 2000. The CBO study, like a number of earlier studies, found that the estate tax leads affluent individuals to donate more than they otherwise would, because such donations – whether made during life or as bequests at death – sharply reduce estate tax liability.

If the estate tax were retained in a smaller form, the CBO study indicates that the drop in charitable giving would be much smaller. An exemption of the first \$2 million to \$3 million of an individual's

estate (and twice that amount for couples) would have reduced charitable giving by just \$1 billion to \$6 billion in 2000. Again, this is compared to a drop of up to \$25 billion if the tax were entirely eliminated.

Tax incentives are a basic part of the nation's charitable infrastructure, and the estate tax has for decades been one of the most important of these incentives. Retaining a smaller, reformed estate tax would be a sensible way to preserve charitable donations and protect federal and state budgets, while responding to the criticism the current estate tax has engendered.

Permanent repeal or irresponsible reform of the estate tax would benefit the few at the expense of the many. Repealing the estate tax would seriously damage the power of hundreds of thousands of individuals who work with the nonprofit community to improve the public good through charitable contributions, volunteering and advocacy. The solution is to protect family farms and small business owners while also ensuring adequate federal revenues and encouraging charitable contributions that help nonprofits implement, complement and enhance services provided by government and business. We urge you to protect individual legacies while safeguarding the legacy of a better future for all.

We ask that you give serious consideration to the impact on charitable giving of each estate tax proposal. Both the federal government and the charitable sector need sufficient resources to meet the diverse challenges of the 21st Century. Careful and reasonable reform of the estate tax will make that possible.

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