



INDEPENDENT SECTOR

*Advancing the common good
by leading, strengthening, and
mobilizing the independent sector.*

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July 11, 2005

Dear Senator:

INDEPENDENT SECTOR, a national, nonprofit organization with over 500 member charities, foundations, and corporate philanthropy programs, urges you to **support reasonable reform of the estate tax that preserves incentives for charitable giving and retains significant revenue for the federal treasury.**

Most philanthropy, including planned giving, is motivated by genuine altruism, but the stimulative effect of tax incentives such as the estate tax must not be underestimated. For decades, charitable organizations have encouraged wealthy donors to consider making bequests, establishing endowments or setting up foundations from their estates. Planned giving is now a key fundraising tool for nonprofits, and gifts from estates are an essential source of revenue. In fact, bequests have become one of the pillars of philanthropy and estate tax reform must preserve incentives for such gifts or risk eroding the foundation of that pillar.

The estate tax currently stimulates tens of billions of dollars of charitable giving each year in addition to adding \$23.4 billion to the federal treasury in 2004. In addition, a Congressional Budget Office (CBO) study recently concluded that the estate tax not only encourages charitable bequests at death, but also significantly affects the *lifetime* philanthropic behavior of wealthy individuals. According to CBO, had there been no estate tax in the year 2000, bequests and other charitable donations attributable to the estate tax would have been \$13 to \$25 billion lower *in that year alone*. Annual losses in this range would be devastating to charities - from universities to neighborhood health clinics, homeless shelters to symphony orchestras.

Some estate tax reform proposals would also result in a significant decrease in revenues to charities from bequests and other gifts. **Studies have shown that the most significant incentive for charitable contributions from estates is the top tax rate.** When the top estate tax rate was reduced in 2003 from 55% to 49%, the IRS found an 18.2% decline in charitable bequests compared to the previous year. Total bequests in 2002 were \$17.83 billion and dropped to \$14.6 billion in 2003. The top rate is scheduled to drop further to 45% in 2007 and remain there through 2009. Each drop in the rate increases the cost of charitable giving and reduces the incentive for philanthropy.

We share your concern about the importance of providing family farms and small businesses with reasonable relief so that these important assets can transfer to heirs without being divided or liquidated. Such relief is possible under current law, according to the July 2005 CBO study. By 2009, when the exemption level rises to \$3.5 million, only 65 farms in the nation will be subject to the estate tax, according to CBO, and the vast majority of family-owned businesses will be exempt as well with only 94 QFOBI estates paying taxes in 2009.

For all of these reasons, **INDEPENDENT SECTOR supports making permanent the estate tax law as it will exist in 2009 under the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) with an exemption of \$3.5 million and a top rate of 45%.** An estate tax at these levels will accomplish all of the following:

- Eliminate all but the wealthiest estates from the estate tax. Only three-tenths of one percent (0.003%), or three out of every one thousand estates, would be subject to the tax.
- Retain a reasonable incentive for planned giving in the form of bequests and other philanthropic gifts.
- Provide significant funds to the federal treasury, even at roughly 50% of the current amount.
- Give relief to nearly all family farms and family-owned businesses.

We hope you will give serious consideration to the impact on charitable giving of each estate tax proposal. The federal government and the charitable sector both require resources in order to provide responsive and innovative programs and services for the 21st century. Reasonable reform of the estate tax can accomplish that and more.

Thank you.

Sincerely,



Diana Aviv
President and CEO