

Philanthropy--General

PHOTOCOPY
PRESERVATION

'Charitable Choice' Tests Line Between Church, State

By ROBERT S. GREENBERGER

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—Operation Blessing, a group founded by Christian activist Pat Robertson that aids the homeless, recently lost a \$50,000 federal grant. The reason? The group asked those it helps if they believe that being observant Christians would save them from eternal damnation.

The grant was part of a program known as "charitable choice," which Congress approved in 1996 as part of welfare overhaul. Under the program, the U.S. gives funds to religious groups to use to combat poverty and other social ills. Opponents warn that the effort, which is strongly supported by the two presidential frontrunners, Vice President Al Gore and GOP Texas Gov. George W. Bush, will destroy the constitutional separation between church and state by mixing religion and taxpayers' funds.

But so far, the possible missteps of Operation Blessing turn out to be an aberration. Many church groups, apparently reluctant to become enmeshed in government rules and bureaucracy, aren't rushing to the federal trough. Most religious organizations that already provide social services and that get federal funds continue to carefully avoid mixing social work and proselytizing, partly out of concern about lawsuits that could lead to legal restrictions on their activities.

Seeking Constitutionality Test

"With charitable choice, we're finding that, out there, a lot of churches are complying with the constitution," and "they're not proselytizing," says Julie Segal, legislative counsel of Americans United for Separation of Church and State, one of the most outspoken opponents of charitable choice. The group continues to search for a lawsuit to test the constitutionality of the concept.

Meanwhile, one reason for the reluctance of many groups to participate may be a disconnect among conservative religious groups. National conservative religious leaders were among the strongest proponents of the charitable-choice provision. But at the local level, conservative congregations seem the least interested among religious groups in participating in charitable choice.

In a 1998 survey of 1,236 religious congregations, Mark Chaves, a University of Arizona associate professor of sociology, found that only 24% of those who described themselves as theologically and politically conservative said they would be interested in joining the program, but 47% of self-described liberal or middle-of-the-road groups were interested.

Some conservative groups fear that accepting federal funds and the government rules that go with them could lead to a slide toward secularism. "The natural drift of government involvement and government funding is to become more and more like your secular-government host," says Joseph Loconte, an expert on charitable choice at the Heritage Foundation, a conservative think tank. "There is a deep, abiding and rational suspicion that government can't keep its mitts off these groups," he adds.

No one knows how many religious groups are participating in charitable choice, or how much public money is being

Mixing Church and State

Some religious groups that receive public funds to perform social services under the charitable-choice program:

Faith and Families:

Works with over 90 local churches in Shreveport, La., and supports a job-placement program under a contract with the state.

Payne Memorial Outreach Center:

An arm of Payne Memorial African Methodist Episcopal Church, Baltimore. Runs a job-placement-and-training program under a state contract.

Faith Works:

Coalition of about 68 churches in Redding, Calif. Works under a county contract to provide assistance to

people trying to make the transition to work from welfare.

United Community Center:

Works with community churches in Fort Worth, Texas. Uses state funds to provide job-search-and-preparation skills to people moving to work from welfare.

The Exodus Program:

Operated by Christ Emanuel Christian Fellowship in Cincinnati. Uses county funds to support job-readiness education program for people coming off welfare.

spent, because the funds are being doled out by states and local governments.

The program tries to attract individual churches to get involved with social services. But religious groups that have a long history of such work and of accepting government funds have solved the potential constitutional problem—and the problem of seeping secularism—by establishing separate affiliates to perform such functions. Indeed, most feel more comfortable operating that way.

The Catholic Church, for example, has for more than 100 years sponsored social services through Catholic Charities, an affiliate. Father Kevin Sullivan, chief operating officer for Catholic Charities of the archdiocese of New York, says, "We have always believed that the separation of church and state doesn't mean that there is no role for religious-affiliated organizations to participate in providing needed health and human services."

Still, the actions of Operation Blessing, which is working to get its funding restored, show how easy it can be for any religious organization to cross the fine line between aiding the needy and possibly breaching the separation between church and state. And while charitable choice is politically popular, the idea is fraught with ambiguities.

Carl Esbeck, a law professor at the University of Missouri law school, says charitable choice is grounded in a neutrality principle in constitutional law that says all private-sector providers of social services, whether religious or secular, should be treated equally. "What's important is that the provider of services be effective. There is anecdotal and increasingly empirical evidence that a strong spiritual base by the provider makes them more effective," says Mr. Esbeck, who developed the charitable-choice concept for GOP Sen. John Ashcroft of Missouri, author of the charitable-choice amendment.

'Keeping a Healthy Separation'

But Melissa Rogers, associate general counsel of the Baptist Joint Committee on Public Affairs, disagrees. "We take the view that government should be neutral to religion. And it does that best by refusing to fund it, refusing to advance it and by keeping a healthy separation between church and state."

Further, while the law says religious organizations that receive direct government funds can't use the money to proselytize, it is silent on whether these groups may use their own funds to attempt religious conversions of those receiving the social services.

Similarly, the law permits religious organizations that receive federal funds to maintain their constitutional exemption from hiring-discrimination rules. Barry Lynn, executive director of Americans United for Separation of Church and State, calls that provision "an absurd contradiction. If [a religious group] is working on secular issues, why the need to hire only people of one religion?"

Oliver Thomas, a special counsel for the National Council of Churches, agrees. He contends that having a religiously mixed work force is the best way to ensure that

groups don't proselytize those who receive their services. "If a church wants to get a grant, they ought to be required to give up their right to discriminate in hiring on that program," he says.

There also are sharply divided views over the charitable-choice amendment's looser regulations for religious organizations that receive federal funds through vouchers, rather than directly through grants or contracts. Under the law, if the government provides a voucher to a recipient of services who then uses the voucher to pay for services, the religious group is free to conduct all of its activities, including efforts at conversion.

Supporters say this permits an organization to maintain its religious character while accepting federal funds. But Ms. Segal of Americans United complains that "The money doesn't become clean just because the recipient walks it from the government to the church."

Sen. Ashcroft insists that his legislation has "good firewalls against abuses." He says charitable choice allows organizations to maintain their religious character. And to protect against infringements on recipients' rights, "we give the absolute right to the individual to reject proselytizing" and receive services somewhere else, he says.

Despite the constitutional issues at stake, it is unlikely that the courts will step in soon to determine whether the line between church and state needs to be adjusted.

"I don't think the courts are prepared to tell us they're not going to allow some experimentation on this, if there are adequate safeguards," says Mr. Thomas of the National Council of Churches. "This is the way the whole country is moving, and Congress is one step ahead of the country with the charitable-choice provision."

House GOP Readies New Bill to Protect Members of Managed Health-Care Plans

By SHAILAGH MURRAY

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The debate over patients' rights awoke from an August snooze, as House Republicans prepared to introduce their own bill to protect members of health plans, and the American Medical Association endorsed an earlier bipartisan bill.

The Republican bill, sponsored by Reps. John Shadegg of Arizona and Tom Coburn of Oklahoma, goes far further than a Republican plan that cleared the Senate in mid-July. In particular, it covers all 161 million privately insured Americans and gives people the right to sue their plans when something goes wrong.

It is a milder version of a bill introduced by Democratic Rep. John Dingell of Michigan and Republican Reps. Charles Norwood of Georgia and Greg Ganske of Iowa. The question now is whether the new bill can win back Republicans who have already endorsed the bipartisan plan.

As the House gears up to debate managed care this fall, the right to sue has emerged as the pivotal issue. "To just say no is very bad law," said Rep. E. Clay Shaw Jr., a Florida Republican and a prominent backer of the bipartisan bill. The Senate bill wouldn't allow lawsuits and would limit patient recourse to an extensive appeals process. "There's got to be something to give people a voice," Rep. Shaw said. "To me, that's just common sense, and I don't know why the business community is so worked up about it."

Although Reps. Coburn and Shadegg had hoped to gain the AMA's endorsement, that went to the bipartisan bill in a ringing statement released yesterday. "This bill embodies all the principles we've been talking about and asking for," said AMA President Thomas R. Reardon. "Basically, it has everything we want."

Nevertheless, the Coburn-Shadegg bill puts Republican detractors on the spot.

The bill has many similarities to the bipartisan approach, especially the scope and liability provisions. It also has a procedural advantage: Although the House leadership has yet to actively promote the plan, House Speaker Dennis Hastert of Illinois has promised to schedule a vote on it in September. The bipartisan bill, however, must maneuver its way onto the floor, most likely as an amendment to other legislation.

On the other hand, the Clinton White House has endorsed the bipartisan bill and vowed to veto the Senate bill and anything that resembles it.

"Given there's a bill already that's supported by a majority of the House and that the president endorses, we don't see the need for anything else," said White House spokesman Barry Toiv.

The Coburn-Shadegg bill was expected to be released yesterday but was delayed

in order to give the House Republican leadership time to review it. Rep. Coburn said the holdup is over technical details and that he expects the final version of the bill to be issued later this week.

If the bill uses similar language to the bipartisan plan, that is because Rep. Coburn, a practicing physician, helped to craft some of the bipartisan plan's provisions as part of an effort to move managed-care reform forward. Both measures would allow gynecologists and pediatricians to be classified as primary-care doctors, would provide for independent external reviews when health plans deny care and would guarantee coverage of emergency care.

But Rep. Coburn believes the bipartisan bill goes too far and could drive up health-care costs, a common Republican refrain in the Senate managed-care debate as well. "This is a bill that solves the problem but doesn't raise costs at the same time," he said of his own effort.

Under the Dingell-Norwood-Ganske bill, patients would have the right to sue their health plans in state courts. Under the Coburn-Shadegg measure, suits would be allowed only in cases of physical injury or death and would be filed only in federal court, where jury awards tend to be smaller. A summary of the Republican bill said it would protect plans from punitive damages "if they promptly follow the recommendations" of an external appeals panel (as does the bipartisan bill) and would bar most suits against employers. And it would allow health plans and insurers to seek certification of injuries from an outside authority before a federal suit can go forward—a major loophole, critics said.

Overall, the Republican bill defines patients' rights more narrowly. Rep. Coburn said that one of the most offensive provisions of the bipartisan plan would allow patients to find out whether their doctor has ever been sued. "Ninety percent of suits against doctors are without merit," he said. "That's like telling people what's in their water."

The challenge for Reps. Coburn and Shadegg, as well as the House Republican leadership, is winning back the 21 Republicans who co-sponsored the bipartisan bill and dissuading other GOP members who could sign on after the August recess. It may not be easy, considering members have spent the past month in their districts, getting an earful from constituents. "I feel very strongly about this," said Rep. Marge Roukema (R., N.J.), who backs the bipartisan bill. "I would like to see this as a patient issue, and not a Democratic or Republican one."

Rep. Shaw said he would consider co-sponsoring the Republican plan as well, if it meets his criteria. "I just want to see a good bill," he said.

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HEADLINE: New Englanders play their wallets close to the vest, index shows

BODY:

When it comes to charitable contributions, the South outgives the Northeast in the Generosity Index.

* *

BOSTON (AP) - Call us stingy.

An index of national generosity released yesterday demonstrates just how New Englanders take their spending habits to a parsimonious extreme.

Massachusetts residents were the country's third most prosperous in 1997, but ranked 48th when it came to charitable donations.

New Hampshire, with the eighth highest income among states, was dead last in philanthropy. Connecticut, with the nation's highest average income, was 44th.

Rhode Island, whose residents ranked 17th in income, ranked 47th in the Generosity Index. Maine, ranked 40th in income, and Vermont, ranked 34th, turned in more respectable but hardly outstanding respective rankings of 27 and 32 in the Generosity Index, which was compiled by the Ellis L. Phillips Foundation.

Mississippi ranked first in the index, followed by South Dakota, Arkansas, Oklahoma and Alabama.

The annual index measures itemized charitable contributions reported to the Internal Revenue Service compared to the average income of residents. The latest index uses the most recent figures available.

"People do have an association of New England as not terribly friendly or welcoming," said Brian Voigt, president of the Boston Chapter of the National Society of Fund Raising Executives, which held its 1999 philanthropy conference in Boston yesterday.

Bible Belt states generally outperform the rest of the country when it comes to charity, Voigt said, but there's no data that prove or disprove theories about why people in some regions give more than others.

The good news for Massachusetts is that it has risen in the ranking. Between 1991 and 1996, the Bay State was either second-to-last or dead last in charitable giving.

"We're on the move," said George McCully, who compiles the index.

The reason? McCully said a new generation of well-to-do entrepreneurs is now moving into the ranks of households with annual incomes of \$ 200,000 or more.

That privileged group added 10,676 taxpayers in 1997.

"When they enter the top group, the giving goes up," McCully said.

The Bay State's wealthiest households increased their income by 5.5 percent, he said, but their charitable giving grew by 20 percent.

As a whole, though, New England's repeated poor showing in the Generosity Index has prompted several responses.

The Giving New England project, funded by major foundations, will spend close to \$ 1 million over the next three years trying to convince New Englanders in five states to loosen their grip on their wallets when charities come knocking.

Connecticut received a separate \$ 300,000 grant to promote philanthropy in that state.

The Catalogue for Philanthropy, which McCully coordinates, was mailed for the first time last year to every Massachusetts family with an estimated income of more than \$ 125,000.

It offers recipients a choice of 100 small charities they can help support.

"It's beginning to be an effective fundraising tool," said McCully, who said the catalog raised \$ 350,000.

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HEADLINE: A PHILANTHROPIC FORCE;
WOMEN GAINING RECOGNITION AS DONORS

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BODY:

In the high stakes business of charitable fund raising, Brooke Morrow is the kind of prospect that development officers eagerly eye - or should.

As a principal partner in a \$ 2 billion-plus investment firm, her work brings her into regular contact with mega-buck corporate types. She's already a major donor herself. And at 43, she's only begun to reach her professional earnings and philanthropic stride.

Over the past few years, Morrow has contributed more than \$ 500,000 to Hollins University, a place of which she has fond memories and for which, great affinity. That's prompted her other alma mater, the University of Virginia's Darden School, to take notice. Its emissaries even paid a visit on Morrow at her Memphis office last week.

Don't hold your breath, U.Va.

"I've been out of business school for 15 years but not one person from Virginia has ever called on me," she said, contrasting that with the caring attention Hollins has paid her since her earliest working years when donations were made in \$ 100 increments. "It's not surprising. I'm probably not on U.Va.'s radar. I'm not a fat cat.<cm if need to cut, could trim from "radar" to "I think they're waking up.">

"But if people had just done their homework, it would have been smart to look at female graduates along with the males," she said. "I think they're waking up to the fact that women graduates went on to do things that are lucrative. But they're late to the party, at least for me."

Morrow's views aren't unique among women, who are just beginning to gain recognition as a philanthropic force by colleges and charities across the country.

The reason for this newfound attention is simple: money.

Consider the following IRS, Gallup poll and other major survey statistics:

*43 percent of Americans with assets greater than \$ 500,000 are women; *women own more than a third of the country's businesses and are launching new business ventures at three times the rate of men;

*women contribute to charities at a slightly higher rate than men do, and the size of their annual gifts is now only slightly lower than the average for men's contributions.

Couple those findings with the fact that baby boomers are poised to inherit an estimated \$ 13 trillion over the next 25 years in an unprecedented transference of wealth.

Suddenly it's clear why women, who outlive men by an average of seven years, are now the hottest topic in philanthropic research.

There's nothing new about women's charitable inclinations - only interest in them, said Trish Jackson of the Council for the Advancement and Support of Education.

The University of Wisconsin and other major schools, seeing what she deems "the unmatched potential" of women donors, have joined forces to launch The Women's Philanthropy Institute.

Similarly, the National Network on Women as Philanthropists was created in 1992 to connect people and programs that focus on women's giving while educating fund-raisers about women's different motivations, experiences and attitudes.

Before such groups, said Jackson, most organizations "didn't look at women as a philanthropic market unto themselves."

Except, that is, for girls' schools and women's colleges.

"The coed schools woke up and recognized they had not succeeded in cultivating women," said Cynthia Woolbright, Hollins' development vice president. "We've been at it for years. It's the nature of our institutions."

So successful are women's colleges in developing philanthropy that they consistently sweep national rankings for alumni giving rates on a per student basis.

The latest such figures in the Chronicle of Higher Education show women's colleges - including Hollins, Sweet Briar and Randolph-Macon in Virginia hold eight of the top 20 spots among all U.S. colleges, even though single-sex schools make up just 2 percent of all colleges.

That fact has startled the fund-raising Goliaths who, in turn, are changing the ways they make pitches and woo donors.

Accelerating this trend is the rapidly growing number of women in fund-raising positions, which, combined with high turnover in that field, is prompting new ideas to quickly spread.

U.Va. Law School, for instance, received kudos from Glamour magazine for

reaching out to women graduates by launching a \$ 500,000 fund drive - it netted \$ 1 million - to endow an Alumnae Lobby as part of the school's building expansion.

"It may have been the first time many of these women would have been treated as major contributors and solicited as such," said David Ibbeken, executive director of the law school's foundation, who conceded the plan initially met some skepticism.

Ironically, the idea for the Alumnae Lobby fund drive came from a U.Va. staffer who previously worked at Mary Baldwin College, a women's school in Staunton whose leadership program has received \$ 2.2 million from alumnae backers. While she's since moved on to another fund-raising job, U.Va.'s efforts to hone women attorneys' allegiance continue through periodic law alumnae symposiums.

But overall, U.Va.'s sophisticated fund-raising machine - arguably the most advanced in the state - is just beginning to examine ways to better address women, a necessity given that female students now outnumber males and their giving rates are roughly equal.

An early and embarrassing effort was a "widow's reclamation project" after U.Va. discovered long-active fans and volunteers were purged from mailing lists when their alumni spouses died. Some of those struck were women in their 70s and 80s, a generation known among fund-raisers for favoring their husbands' schools more heavily than their own.

"It was a terrible mistake not to keep them involved," U.Va. Development Vice President Robert Sweeney said, acknowledging that women also have had little presence in Virginia's record-setting \$ 1 billion campaign that recently hit its goal more than a year before it ends.

"Fund-raising programs, by their very nature, go where the money is," he said. "We focused this campaign on very large gifts and donors with a minimum capacity of \$ 100,000. That put us in the age group of 55-70, almost all male, almost all white males.

"Campaigns in the future will look a lot different. They'll be a much wider demographic," Sweeney added. "The trend in philanthropy is that people are much younger, much wealthier, much more able to give."

And much more demanding.

Hundreds of Harvard and Radcliffe graduates currently are holding their collective gifts in escrow until the Ivy League school improves the campus environment for female students and broadens the faculty, which remains mostly male.

"Men like to be involved in the institutions they support. Women demand it," said Jackson, the education vice president at the Council for the Advancement and Support of Education. "So many of our fund-raising practices have paid more attention to males than females, or treated donors as donors, without realizing that men and women approach philanthropic decisions differently."

According to published studies, women frequently give money to launch

programs and to those they view as bringing about social change. Men, conversely, tend to give more out of organizational loyalty and to support the status quo at their alma maters.

Unlike men, women generally do not respond to challenge gifts aimed at leveraging donations - a tactic universities have long favored, particularly in sports fund-raising.

Women, to a greater degree than men, instead want personal contact with the organizations they support and frequent updates on their efforts, fund-raising experts say. They often give anonymously or via bequests and are far less inclined to tie their gifts to having their names put on buildings.

Some of these distinctions already are blurring among young baby boomers of both sexes, as well as with so-called baby busters - today's 20-to-40-year-olds.

"Philanthropy has gotten much more outcome-oriented," Morrow said of donors she meets. "People want to see what you're going to do with the money."

Sweeney agrees but views age, rather than sex, as the driving force.

"It's really a generational issue," he said. "As corporate and entrepreneurial women come into prominence they tend to respond much more like men in their giving."

The group skewing fund-raising principles, he says, is the baby busters.

"They see themselves as much more empowered. They don't look at the artificial segmentation we try to place on them - law benefactors or business benefactors," Sweeney said. "They're much more issue-oriented and integrated in their thinking. They tend to be interested in specific things: peace and justice issues, quality of life issues, technology."

That's forcing the staid image of philanthropists to change, along with efforts to tap them. And that, of course, is spawning a new wave of philanthropy conferences, including a national one in April that will feature Hollins' president and another opening yesterday< cm Sunday, Oct. 24>at the University of Richmond.

"Today's future philanthropist is wearing jeans, on the West Coast and is under 35," said Woolbright. "It's mostly men but women are finding their way, as well."

"The dot.com women - there's a lot of them out there," added Morrow. "I'm going to California to meet with a divorced mother of two who developed a software package, traded it for stock in an on-line firm and is now worth \$ 150 million."

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HEADLINE: Clintons Vow to Strengthen Philanthropy

BYLINE: JENNIFER MOORE and GRANT WILLIAMS

BODY:

The first-ever White House conference on philanthropy lasted just three hours, but President and Mrs. Clinton, as well as many non-profit officials, hope to insure that the event has longer-lasting effects.

At the conference in the White House's East Room, the President vowed to ask federal officials to consider "whether we can do more things to generate a more constructive philanthropy."

But he also urged donors, especially those who have made fortunes from high-technology businesses, to "find ways to bring enterprise and opportunity to hard-working, decent people who live in places that have been totally passed by by this marvelous economic recovery."

Both he and Mrs. Clinton said they were concerned that philanthropic giving had not been increasing much as a percentage of household income, hovering at around 2 per cent for the past 30 years.

"I am glad that the sheer volume of charitable giving is going off the charts," said Mr. Clinton. But "I would feel even better if the percentage of our national income devoted to charitable giving had gone up just a little bit."

Added Hillary Rodham Clinton: "Just imagine what revolutionary progress we could bring to America, how many lives we could change, if every American family increased their giving by just 1 per cent of their income.

"We could offer child care to more than six million children, we could deliver 250 million more meals to the homebound elderly, we could guarantee Head Start to every low-income preschooler in America," she said. "We could provide shelter to four million people. We could save all the rare books in our libraries -- and still have more than enough money left over to create the equivalent of the Ford Foundation each year."

In addition to prompting Americans to give more, the Clintons also encouraged better use of donated funds.

The First Lady, for example, called on foundations to "rethink" their reluctance to give to charities money that is not earmarked for a specific project. "Foundations often will not give to operating expenses or to the kind

of day-to-day work of delivering services," she said. But "much of the work that has to be done is drudge work. It is rebuilding communities with that kind of constant attention and technical assistance. It's not very jazzy and doesn't attract new attention, but if done over the long run" it can result in major changes in society, she said.

Plans are already under way for a follow-up meeting on the West Coast sometime in the spring. While private groups have been laying the groundwork for such a meeting, organizers expected the White House to participate.

And the Bill & Melinda Gates Foundation, in Seattle, has pledged to help pay for a gathering on youth philanthropy, although it has not said how much it would provide or when a meeting would be held.

Leading the federal government's follow-up will be a new federal committee appointed by President Clinton. He said his Interagency Task Force on Nonprofits and Government would be charged with strengthening the "philanthropic partnership between the government and non-profit groups and citizens."

At least in theory, the committee will have a high profile. It will be chaired by top aides to the President and First Lady and include a dozen high-ranking Administration officials.

Mr. Clinton said that the special committee, which will consult regularly with non-profit officials, will report back to him "from time to time" on its findings and suggestions for policy changes.

Mr. Clinton told the conference that he would ask his Council of Economic Advisers to study the role of philanthropy in the American economy -- "and how they believe I can increase it." He said the council would analyze trends in charitable giving, such as assessing what would happen to philanthropy in the coming years as the baby-boom generation reaches retirement age.

Mr. Clinton said he believes that most people now agree that government and charities have to work more closely together and that neither type of organization can bear the full weight of delivering social services. "We have to have a better partnership, and it will work better if we do," he said.

In a related move, Mr. Clinton announced that he had directed officials of the Treasury Department to meet with representatives of non-profit organizations this month to discuss federal tax policy and research issues.

While the President did not elaborate on what changes might be considered, charity leaders have many ideas for what they believe should be discussed.

Some hope that the Administration will think about reviving two provisions recently considered by Congress. One would allow older people to shift assets from individual retirement accounts to charity without incurring income taxes. The other would allow people who don't itemize on their federal income-tax forms to take a charitable deduction for gifts of up to \$ 100 per family.

Arianna Huffington, a political commentator who has been involved in many efforts to promote charitable giving, hopes that the Treasury Department meeting will focus on ways to use the tax code to encourage a "hierarchy of giving." She

thinks the government should offer donors a more-generous tax break for gifts to antipoverty groups than the deductions they can claim for gifts to groups that help people at all income levels.

"If we're going to close the gap in America between the two nations," she said, referring to the growing disparity between rich people and poor people, "then we really need to draw a distinction in what kind of giving we use the bully pulpit and the tax code to encourage."

Some conference participants, however, worried that the meeting focused too much on the way that philanthropy serves the nation's most vulnerable. One observer who asked not to be named questioned the lack of attention the conference paid to arts organizations, such as symphonies and museums. "I'm concerned that philanthropy got painted as something we do for the down and out," he said, "when it's also important for raising the human spirit."

The afternoon event -- called the White House Conference on Philanthropy: Gifts to the Future -- was moderated by Mrs. Clinton and co-sponsored by the National Endowment for the Humanities. About 150 donors, charity executives, and others attended, while thousands more watched part of the conference via satellite at sites around the country.

Mrs. Clinton said that she and the President planned the event to try to "magnify and spur the philanthropic spirit of all our citizens in the new millennium."

To help illustrate the conference's themes, the White House showed a videotape of "heroes" who have given their time or money to help a cause.

The conference highlighted several new efforts aimed at increasing giving. For example, the Community Foundation Serving Boulder County, in Colorado, has created a Millennium Trust to accept contributions from residents who will be urged to donate their last hour's pay of the year. Mrs. Clinton and other conference participants praised the idea as one that should be copied across the country to encourage people at all income levels to mark the millennium with a charitable gift.

Starting next year, the Girl Scouts of the USA will allow its members to work toward a philanthropy patch called "Sharing our Strength." The goal of the patch is to encourage girls to learn how to donate and volunteer.

The Clintons and conference participants agreed that other efforts needed to be made to pass on the traditions of giving to future generations.

The First Lady said that "philanthropy must be taught," adding: "Let us find innovative ways to cultivate the innately generous spirit of our young people. New communities of donors must be asked to participate. We have to find ways to embrace and encourage philanthropists of all races, ethnicities, and colors."

At a meeting the morning before the White House conference, the Corporation for National Service invited 30 representatives of youth organizations in Washington to recommend ideas for encouraging people ages 14 to 24 to get involved in philanthropy. Among the suggestions presented to the Clintons at the White House conference: Create a Cabinet-level position that oversees programs

for young people; establish a U.S. Senate committee on youth service; and make community service a part of every youngster's education.

President Clinton himself made a strong pitch for schools to impose community-service requirements. "As you go back home, please ask the people in your state to add community service to the curriculum of the public schools," he said, noting that Maryland is currently the only state to require community service before students can get a high-school diploma. "It is the right thing to do," he said.

* * *

The South Carolina Educational Television Network, which produced the satellite broadcast and computer cybercast of the conference with \$ 276,800 from the Charles Stewart Mott Foundation, has a limited number of free videotapes available; call (800) 277-0829. The event may be viewed via computer by following the instructions on the conference's Web site at <http://www.giftstothefuture.gov>.

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Charities and Faith-Based Groups

9/29 DRAFT

Tax Ideas

Deductions for Charitable Contributions: Allow taxpayers who don't itemize to get a deduction for charitable contributions. Treasury argues that since the standard deduction includes an estimate of charitable giving, it doesn't make sense to allow both a standard deduction and a deduction for all charitable gifts. Treasury would prefer to allow non-itemizers to deduct charitable contributions above a certain floor (in 1996 estimated average giving was \$465). Several years ago, the Joint Tax Committee estimated that allowing a deduction in excess of a floor of \$500 for single filers and \$1,000 for joint filers would cost about \$6 billion per year. (See attached memo for more detail.)

Allow Charitable Contributions until April 15th: Allow taxpayers to make charitable contributions as late as April 15th and include them in their prior year's tax return, as taxpayers can currently do with IRA contributions. Allowing a charitable deduction up to the time of tax filing would likely (1) increase awareness of the deduction (2) help taxpayer planning, and (3) provide a special incentive for last minute donations. Economists at Treasury are skeptical that this idea would increase charitable contributions. They believe that the analogy to the IRA deduction is flawed because IRA deductions are capped (usually \$2,000 annual with certain limitations).

Charitable Contributions from IRAs: Allow retirees to make tax-free distributions of IRA assets to charity, without paying income tax (under current law, income put into an IRA is not taxed at the time of deposit, but it is taxed at time of withdrawal). Treasury argues that any proposal to allow tax-free rollovers of IRA assets to charity would be inequitable, because it would provide more favorable tax treatment to taxpayers who fund their charitable contributions using IRA assets than those who use other income or assets. Taxpayers who make contributions using IRA assets would (in effect) receive the benefit of a charitable contribution deduction without regard to whether they itemize their deductions, and without regard to present-law limitations on deductible charitable contributions. By contrast, taxpayers who fund charitable contributions using other income or assets would continue to be subject to these limitations. Treasury would prefer to modify the limitations on deductions in current law to make the deductions for itemizers more generous (generally, individual taxpayers may not deduct contributions that exceed 50 percent of the taxpayer's adjusted gross income). (See attached memo for more detail.)

Donations through the Tax System: Allow taxpayers to donate to charities through a "checkoff" on the federal tax form. Some states allow such donations, usually to one or two specified charities. Congressman Engle (D-NY) and Boehlert (R-NY) have introduced a bill which would allow such a checkoff and would create a national commission to establish a list of eligible charities, using a process "similar" to that by the Combined Federal Campaign for federal employees. Treasury does not like this expansion of its mission. Another, related idea would be to allow non-federal employees to give donations through the Combined Federal Campaign, a proposal which may be opposed by other umbrella charities such as United Way. Last year, the

*Copywrite
united way?*

CFC raised \$206 million from federal employees through 390 local campaigns managed by federal employee volunteers. Employees have a choice of supporting local as well as national charities and can have their donations taken directly from their paychecks. OPM would like to highlight the Campaign during the Philanthropy Conference to highlight what federal employees are doing to give back to their communities. The CFC was created by President Kennedy in 1961 by executive order.

Tax-Free Bonds for Community Charities: Propose a new capped fund for Charity Bonds, which states could use to borrow funds for charitable capital projects, such as new community centers, health clinics, child care facilities, after-school programs, and foundations. These bonds would be exempt from federal taxes and would be in addition to the current capped amount of bonds available to states for a wide range of purposes, and in addition to the new funds we've proposed for school construction bonds and Better America bonds. *who would benefit?*

Excise Taxes on Foundations: Eliminate the excise tax on investment income for private foundations in exchange for a pledge that foundations will donate more, perhaps to a single large cause. Private foundations pay an excise tax on their net investment income, which includes interest, dividends, and net capital gains and is reduced by expenses incurred to earn this income. In 1997, foundations paid \$486 million in federal excise taxes on investment income. In 1984 relief from the tax was provided to foundations that were considered to have substantial public involvement and public control. For other foundations, the tax was lowered from 2 percent to 1 percent for any foundation that increases distribution (relative to a moving average of the prior five years) by an amount equal to or greater than the amount of excise tax saved. Therefore, the current excise tax can be thought of as a combination of two taxes. First, there is a 1 percent tax for being a private foundation. Second, there is an additional 1 percent tax on those foundations that do not maintain their rate of giving. By law, foundations must donate 5 percent of their assets each year. Treasury actually likes the idea of eliminating this tax. *Count - year about just 1% tax for those who give below 5%*

Individuals Donating Services: Allow individuals to get tax deduction for donating services. Technically, under current law, neither individuals nor companies can take a tax deduction for donating services. However, companies can deduct certain business expenses if the corporation expects to receive a business-related benefit from providing the service, such as corporate goodwill. For example, a corporation that allows its employees to take time off from work to volunteer in the community may be able to deduct wages paid to those employees for hours of volunteer work. The corporation cannot deduct the value of services provided by the volunteers, only the amount of wages paid. Allowing a deduction for services rendered to a charitable organization would be difficult to administer and enforce because of issues such as the valuation and certification of service to charitable organizations. *X*

Charity Application and Disclosure Requirements: Streamline the application and disclosure process for organizations seeking non-profit status. Currently, organizations must:

1. Incorporate under the State laws of the applicable state;
 2. Apply for recognition of exemption under Section 501(c)(3) of the Internal Revenue Code by submitting an IRS Form 1023. The form is nine pages (plus a separate schedule depending on the type of organization); and
- ⑦*

3. At the end of the tax year file a "Return of Organization Exempt From Income Tax," IRS Form 990

The application forms for tax exempt status do not seem burdensome, although the IRS review can take time. However, the annual forms (990) are frequently criticized both by charities that have difficulty completing them and by the public that has difficulty reading them and both the Tax Section of the American Bar Association and the Independent Sector have proposed revision of the forms to make them easier to complete and easier to use.

Nonprofit Tax Credits: Allow nonprofits to get tax credits for hiring low income workers: Nonprofit organizations, which don't pay income tax, don't benefit from the tax credits encouraging the hiring of low income workers (the Work Opportunity Tax Credit and the Welfare-to-Work tax credit). Treasury has steadfastly resisted allowing nonprofits to obtain tax credits, or to trade them to other employers, but has issued a clarification explaining the availability of credits to for-profit employers who hire former welfare recipients who had previously worked for non-profits (an issue that had concerned many companies using intermediaries as part of their welfare to work efforts).

Non-Tax Ideas

need \$ + ticks not

Hope Fund: Call upon private foundations to fund, or propose to establish in the federal government a Hope Fund which would provide technical assistance, management advice, and seed funding for non-profits assisting the nation's low-income families. Currently, SBA's authorizing statute does not specifically prohibit SBA from working with non-profits, but it defines its mission as serving "small business" which SBA's regulations, based on a 1970 general counsel opinion, defines as for-profit entities. Interestingly, there were discussions during the creation of AmeriCorps, of having the Small Business Administration expand its mission to help the new local nonprofits that would be part of AmeriCorps, but the idea was shelved due to funding constraints (AmeriCorps was going to give SBA a grant for this purpose). SBA is concerned both about Congressional reaction and lack of resources for this new mission, but is open to further discussion.

Social Security Direct Deposit to Charity: Announce a public/private partnership to encourage Americans with some disposable wealth to automatically direct their Social Security checks to charities that benefit the poor elderly.

AAAP ?

Legal Protections for Volunteers and Donors: Provide additional legal protections for donors to encourage increased donations. The Volunteer Protection Act of 1997 protects volunteers of nonprofit and charitable organizations for personal liability for harm caused by the volunteers' acts or omissions made on behalf of the organizations and in the course of the volunteers' responsibilities. The Act does not, however, limit the liability of the charitable organizations themselves for any harm caused by their volunteers. Nor does it limit the liability for any harm caused by equipment or other tangible items that are donated to charitable organizations, although the Bill Emerson Good Samaritan Food Donation Act of 1996 does give relief from civil liability for donations of certain foodstuffs. When this legislation passed, there was

recognition on behalf of both Congress and the Administration that the legislation was entering an area traditionally left to the states.

Second Chance Homes: Direct HHS to provide guidance to states on how they can use TANF funds to provide second chance homes, including homes funded by faith-based organizations, to teen parents to help them and their children succeed. HHS has not provided any guidance to states since the welfare law was enacted; however, extensive reports aimed at state policy makers have been released by the Center for Law and Social Policy (CLASP) and the Social Policy Action Network (the latter written by former PPI staffer Kate Sylvester). *don't need*

Assistance to Children of Prisoners: Direct HHS to issue guidance on how the TANF and Community Services Block Grant programs can be used to fund community and faith-based organizations to assist children of prisoners, and propose new CSBG funding in the FY 2001 budget for this purpose. Both the CSBG program and TANF statutes allow grants to go to religious organizations. CSBG is funded at \$500 million a year, TANF at \$16 billion. *maybe*

One model program of this type who the President suggested the Vice President might want to endorse is run by Wintley Phipps. The U.S. Dream Academy, Inc, a non-profit headquartered in Columbia, Maryland, assists children and youth who have a parent or other family members in prison, those who are falling behind in school, those who are at-risk for gang involvement or already involved in gang activity, and those already involved in the criminal justice system. Using a new \$100,000 grant from the Department of Labor, the Dream Academy will be creating a new after-school high-tech learning center in Anacostia where participants can receive academic tutorial services, mentoring, character and values based training, and other community services. A unique feature of the program is the character and values based curriculum that will teach children and young adults about values such as honesty, fairness, kindness, respect for self and other and sense of community. Because of constraints in the funding source used by the Department of Labor, the Anacostia site will not include a faith-based curriculum, but Phipps would like to include faith based involvement, including bible story readings, in future programs funded through other means. *budget*

Substance Abuse Treatment: Propose to allow federal substance abuse treatment funds to be used by faith-based organizations. This idea has been proposed by the Vice President in his campaign and is included in the Frist-sponsored Senate SAMSHA reauthorization bill. A House bill, by Representatives Watts and Talent, allows faith-based groups to receive funded through both SAMSHA and Medicaid. Currently, faith-based groups can be Medicaid providers only if they are actually health care providers (for example a Methodist hospital) or are involved in certain outreach activities. *more problematic*

Report on Federal Funds for Faith-Based Groups: Issue a report outlining how much federal funding currently helps support activities by faith-based groups. OMB has completed an analysis which estimates that in 1998 the federal government funded \$937 million in grants to faith-based programs through 21 grant programs, which seems small in the overall context of federal spending. The analysis needs refinement: somehow it neglects to include the TANF block grant, the Community Services Block Grant, and the 21st Century Schools program all of which directly or indirectly can fund faith-based groups.

After-School Programs: The President recommended we check out for possible endorsement Mayor Daley's program which involves church groups in after-school programs. Chicago's after-school program works in conjunction with the city's 10,000 Tutors program, which supplies tutors for after-school academic instructions and supervision. The 10,000 Tutors program involves four faith-based partners in recruiting tutors for the program but their involvement is strictly non-sectarian. Federal funds are not involved in either the Lighthouse program or 10,000 Tutors.

The Department of Education has made clear that faith-based groups can be partner with programs funded through the agency's 21st Century Community Learning Centers program. The Department of Education recently distributed a new comprehensive report aimed at assisting faith-based communities in becoming involved in after-school and other Department of Education programs.

Department of Education is planning to send a comprehensive mailing to every school in the nation plus other groups that will include 1) Religious Expression in Public Schools 2) A Teachers Guide to Religious Expression in Public School 3) A Parents Guide to Religion in Public Schools 4) Partnerships: Faith Communities Supporting Public Education and 5) Public Schools & Religious Communities: A First Amendment Guide *(214 new)*

Charter Schools: Release Department of Education guidance on ways faith-based groups can be involved with charter schools (per Andy Rotherham, guidance is in the works).

BR/45
② Phil. Count - Fours?

② VC - me, some VC's got of NVCA, then, don't.

③

October 5, 1999 – DRAFT

MEMORANDUM FOR THE PRESIDENT

FROM:

SUBJECT: Tax Proposals to Increase Charitable Giving

You asked us for an analysis of recent charitable giving proposals and for ideas we could implement by executive action or propose in next year's budget. Included are possible options for new tax policies that would encourage charitable activity and could be announced at the White House Conference on Philanthropy on October 21. Beyond the potential of being announced at the Conference, several of these issues could be considered for your FY2001 budget or raised in any possible tax negotiations this fall.

Opportunities to Announce New Tax Policies That Encourage Charitable Giving

Among issues for discussion at the White House Conference on Philanthropy will be the effect of tax policy on charitable giving decisions. Therefore, the Conference lends itself as an appropriate venue to announce new tax policies intended to encourage charitable behavior and simplify the process for contributors and recipients. Options to announce new tax policies include:

Option A

Direct the Treasury Department to examine and report back on new tax policies intended to encourage charitable activities among all taxpayers and streamline the process for both recipients and contributors. This option would indicate future action that could be released as part of the FY2001 budget.

Option B

Announce one or two new initiatives, which would require offsets, and direct Treasury to report back with additional ideas, which could be announced as a package in the budget.

Option C

Announce a comprehensive package of new initiatives aimed at charitable activity. This option could be exercised to stimulate broader tax discussions or used as a new policy initiative for purposes of comparison to the recently vetoed tax bill.

Further consideration should be given to the fact that the Conference is taking place at approximately the same time that the first Continuing Resolution of the Budget will be expiring, resulting in increased budget activity. Therefore, for timing reasons we may want to reconsider the release of new of any new proposals affecting revenue.

Background: Deductibility of Individual Charitable Contributions

Under current law, taxpayers who itemize their deductions can claim a deduction for contributions made to qualified charitable organizations, up to certain percentage limits. In the case of an individual taxpayer, the total deductible contributions generally may not exceed 50 percent of the taxpayer's adjusted gross income (AGI). A lower limit of 30 percent of the taxpayer's AGI applies in the case of gifts of certain appreciated property (however, taxpayers who donate appreciated property receive a special benefit, because they do not pay tax on the built-in capital gain). If the contribution is made to a private foundation, these percentage limits are reduced to 30 percent and 20 percent, respectively. Unused deductions can be carried forward for up to five years.

Individuals who elect the standard deduction (non-itemizers,) may not claim a deduction for their charitable contributions, but the amount of the standard deduction includes an allowance for estimated average charitable contributions. In 1998 there were [X] non-itemizers with an average income of [X].

Governor Bush has proposed to allow taxpayers who take the standard deduction the opportunity to deduct their charitable contributions. He has not released any details of how he would structure his proposal.

Deductibility of Charitable Contributions for Nonitemizers. One broad change that could effect both the level and composition of individual gifts would be to allow non-itemizers to claim a deduction (or tax credit) for charitable contributions above a certain floor. In addition to affecting the total amount of charitable contributions, allowing non-itemizers to take such a deduction could also affect the proportion of gifts going to different types of recipients since non-itemizers gifts disproportionately benefit religious organizations and social service groups as opposed to educational institutions and private foundations.

Option A

The floor, or level at which a non-itemizer could begin to take a deduction for a charitable contribution would be set at a level that exceeds the average charitable contribution by non-itemizers (estimated to be \$465 in 1996). Thus, for example, non-itemizers could be allowed to deduct their aggregate charitable contributions in excess of \$500. Although any proposal to allow a charitable contribution deduction (or tax credit) for non-itemizers would add complexity and some level of administrative burden, the use of the threshold amount would at least reduce potential enforcement problems and increase the possibility that the deduction (or tax credit) would reward large or increased charitable contributions.

	One Year	5 year	10 year
Cost	\$6 billion		

[TREASURY: INCLUDE EXAMPLE(S) WITH DIFFERENT CEILINGS]

Option B

One variation on this approach would be to allow non-itemizers to deduct only a portion of their charitable contributions in excess of \$500. For example, Independent Sector, an umbrella group for nonprofits, has proposed that non-itemizers be allowed to deduct 50 percent of charitable contributions above \$500. This approach is also consistent with a bipartisan supported bill, H.R. 1310, introduced earlier this year by Rep. Philip M. Crane (R-Ill.).

	One Year	5 year	10 year
Cost	\$2 billion		

[TREASURY: INCLUDE EXAMPLES WITH DIFFERENT PERCENTAGE LIMITATIONS]

Option C

A variation on this approach would be to allow non-itemizers to claim an income tax credit in lieu of a deduction. For example, non-itemizers could be allowed to claim a 15 percent tax credit for their aggregate charitable contributions in excess \$500. A tax credit for charitable contributions by non-itemizers would be somewhat more equitable than a deduction, because it would benefit all taxpayers equally, without regard to their marginal income tax rate.

	One Year	5 year	10 year
Cost			

Option D

The Senate-passed tax bill, S. 1429, included a proposal to allow non-itemizers who take the standard deduction also to claim a charitable deduction of up to \$50 for single filers and \$100 for joint filers in the years 2000 and 2001. This proposal was not included in the final conference report.

There are several problems with this proposal. Extending the charitable contribution deduction to non-itemizers in this way would probably stimulate little, if any, additional charitable giving. The proposal would be difficult for the IRS to enforce, as taxpayers would be encouraged simply to claim the maximum deduction (\$50 or \$100). Moreover, the standard deduction theoretically includes an allowance for charitable giving. Therefore, non-itemizers should not be allowed to claim both the standard deduction and a deduction for the first \$50 or \$100 of their charitable contributions.

	One Year	5 year	10 year
Cost	\$1.3 billion		

Improving Disclosure by Charitable Organizations. Because of the public nature of charities, their tax returns are open to the public and by far the most important source of public information about charitable organizations are the IRS Forms 990 annual information returns. Over the years, the amount of information to be included on these returns by charitable organizations has increased, as have the penalties for failure to file and accurately completing

these returns. Despite the evolution, the Forms 990 are frequently criticized both by charities who have difficulty completing them and by the public that has difficulty reading them.

Option A

One option would be an Executive Action calling for the IRS, charitable organizations, and various users of Forms 990 information to form a working group (perhaps facilitated by an outside consultant) to review the purposes of the Forms and see how they may be most effectively designed to meet those needs. In many cases, the forms themselves can be simplified only if there are related policy changes so any such committee could also address changes that represent tax policy improvements that will also result in simplification of the Forms. Both the Tax Section of the American Bar Association and the Independent Sector have proposed revision and improvement of the Forms 990 to make them easier to complete and easier to use.

Allowing Charitable Giving Until April 15. If the charitable deduction is meant to provide some incentive for charitable giving, there should be consideration of the entire design of the program in order to achieve this purpose in the most effective manner.

Option A

One proposal would be to allow individuals to take deductions for charitable contributions up to the time they file their income tax returns, or until April 15, whichever comes first – unlike the requirement under current law, which has a deadline of the end of the calendar year preceding the April 15 filing deadline. This proposal would provide little change in the pure economic incentive for charitable contributions. Each dollar of contribution would receive the same federal subsidy at the taxpayer's statutory tax rate. The case for allowing a deduction up until the time of filing is mainly related to planning and psychological considerations.

Under current law, contributions to IRAs are allowed until filing time. For the 1984 taxable year, 45 percent of IRA contributions were actually made in 1985. Many taxpayers take note of allowable deductions when they fill out their returns. While deductions are limited in relationship to income, taxpayers seldom know last year's total income until calculations are made during filing season. Similar arguments can be made for extending the charitable deduction. In particular, allowing a charitable deduction up to the time of tax filing would (1) advertise the value of the incentive much better, (2) help taxpayer planning, and (3) provide a special incentive for those who find that last minute payment of taxes is onerous.

Economists at Treasury are skeptical that this idea would increase charitable contributions. They believe that the analogy to the IRA deduction is not consistent because IRA deductions are capped (usually \$2,000 annual with certain limitations).

	One Year	5 year	10 year
Cost			

The Excise Tax on Investment Income of Private Foundations. Private foundations pay an excise tax on their net investment income, which includes interest, dividends, and net capital gains and is reduced by expenses incurred to earn this income. In 1984 relief from the tax was

provided to foundations that were considered to have substantial public involvement and public control. For other foundations, the tax was lowered from 2 percent to 1 percent for any foundation that increases distribution (relative to a moving base - the average of the prior five years of distributions) by an amount equal to or greater than the amount of excise tax saved. Therefore, the current excise tax can be thought of as a combination of two taxes. First, there is a 1 percent tax for being a private foundation. Second, there is an additional 1 percent tax on those foundations that do not maintain their rate of giving. While the intent of the distinction between a 1 and 2 percent rate of tax on investment income was to prevent foundation disbursements from falling, the mechanism is unduly complicated and may even reduce foundation giving.

Research shows that the average distribution rate of foundations is close to 5 percent of assets, which is the minimum disbursement requirement under current law. Even if the primary cause of the 5 percent level is the inclination on the part of the foundation to maintain their endowment over time, the operation of the excise tax provides an additional tax incentive for holding distributions close to a rate of 5 percent once it has been there for a few years.

Option 1

Entirely eliminate the excise tax on investment income for private foundations.

	One Year	5 year	10 year
Cost			

Option 2

Another option would be to eliminate the 2 percent rate and maintain a flat 1 percent rate.

	One Year	5 year	10 year
Cost			

Option 3

A third option would be to simplify the current moving base structure with a fixed annual base. The simplest base would be the minimum payout requirement already applying to foundations. A simple tax rate would apply to those foundations with payouts at or above the base and a higher rate to those below the base. This would provide significant simplification, not only in tax planning but also in the design of the Form 900PF. This straightforward approach would effectively remove the tax penalty for distributions below a moving base.

	One Year	5 year	10 year
Cost			

Tax-Free Rollovers of IRA Assets to Charity. Under current law, distributions from an IRA are includible in the gross income of the account owner, except to the extent that the distribution represents a return of after-tax contributions to the account. Also, as discussed above, current law allows taxpayers who itemize their deductions to claim a deduction, subject to certain percentage limits, for charitable contributions to qualified charitable organizations. The amount

of the itemized deductions otherwise allowable may be reduced for taxpayers with AGI above certain levels.

Governor Bush also proposed to allow people over age 59-1/2 to make charitable contributions with IRA funds without paying income tax. The final conference report included a version of this proposal, which would allow people over age 70-1/2 to make tax-free distributions of IRA assets to charity.

It is Treasury's position that any proposal to allow tax-free rollovers of IRA assets to charity would be inequitable, because it would provide more favorable tax treatment to taxpayers who fund their charitable contributions using IRA assets than those who use other income or assets. For example, taxpayers who make contributions using IRA assets would (in effect) receive the benefit of a charitable contribution deduction without regard to whether they itemize their deductions, and without regard to present-law limitations on deductible charitable contributions. By contrast, taxpayers who fund charitable contributions using other income or assets would continue to be subject to these limitations.

To the extent that the limitations on deductions under present law are too restrictive, it would be better to modify those limitations as they apply to all taxpayers than to create an exception for charitable contributions funded using IRAs. Although there is considerable support in the charitable giving community for the IRA rollover proposal, the community would also likely support a more broad-based approach.

	One Year	2003-2009	10 year
Cost		\$1.6 billion	

Importance of Steps to Eliminate Abusive Transactions Involving Charities

Any efforts to stimulate and reward charitable giving should be combined with efforts to eliminate the promotion of aggressive tax-avoidance schemes that purport to give rise to charitable contribution deductions. Treasury and the IRS will continue to work with Congress to identify the latest abuses and ensure that a charitable contribution deduction is available only for true gifts to charity. However, increased tax incentives to make donations will make abusive schemes potentially more profitable, and could make monitoring compliance more difficult.

September 9, 1999 – DRAFT

MEMORANDUM FOR THE PRESIDENT

FROM:

SUBJECT: Tax Proposals to Increase Charitable Giving

You asked us for an analysis of recent charitable giving proposals and for ideas we could implement by executive order or enact this Congressional session. Below, we analyze the major recent tax proposals intended to encourage charitable giving, including ones included in the Senate-passed tax bill and in Governor Bush's plan, as well as some possible alternatives. Several of these issues could be raised in any possible tax negotiations this fall, considered for announcement at the October Philanthropy Conference, or considered for your FY2001 budget.

Impact of General Provisions in Tax Bill on Charitable Giving

At the outset, it should be noted that while the tax bill includes some provisions to promote charitable giving, other provisions in the tax bill would lead to reduced giving. The reductions in individual income and capital gains tax rates would reduce the value of the charitable deduction for itemizers, and thus reduce the incentive for lifetime charitable gifts. In addition, repeal of the estate tax would significantly reduce the incentive for charitable contributions. The current estate tax rates of up to 55 percent provide a substantial incentive for charitable bequests. The results of economic studies of the effects of deductibility of charitable bequests suggest that repeal of the estate tax could reduce charitable bequests of the wealthy by as much as 25 percent. Estate tax returns filed in 1997 reported over \$14 billion in charitable bequests, an amount that has been growing rapidly due to the stock market boom.

With that background, here is an analysis of the specific tax proposals.

Deductibility of Individual Charitable Contributions

Recent proposals would increase individuals' deductions for charitable gifts, by allowing a deduction for non-itemizers and/or increasing the current limits on the deduction for those who itemize.

Current Law

Under current law, taxpayers who itemize their deductions can claim a deduction for contributions made to qualified charitable organizations, up to certain percentage limits. In the case of an individual taxpayer, the total deductible contributions generally may not exceed 50 percent of the taxpayer's adjusted gross income (AGI). A lower limit of 30 percent of the taxpayer's AGI applies in the case of gifts of certain appreciated property (however, taxpayers who donate appreciated property receive a special benefit, because they do not pay tax on the built-in capital gain). If the contribution is made to a private foundation, these percentage limits are reduced to 30 percent and 20 percent, respectively. Unused deductions can be carried forward for up to five years.

Individuals who elect the standard deduction (non-itemizers) may not claim a deduction for their charitable contributions, but the amount of the standard deduction includes an allowance for estimated average charitable contributions

Bush Proposal

Governor Bush has proposed to allow taxpayers who take the standard deduction the opportunity to deduct their charitable contributions. He has not released any details of how he would structure his proposal.

Senate Proposal

The Senate-passed tax bill, S. 1429, included a proposal to allow non-itemizers who take the standard deduction also to claim a charitable deduction of up to \$50 for single filers and \$100 for joint filers in the years 2000 and 2001. The Joint Committee on Taxation (JCT) estimated the proposal would cost \$1.3 billion. This proposal was not included in the final conference report.

There are several problems with this proposal. Extending the charitable contribution deduction to non-itemizers in this way would probably stimulate little, if any, additional charitable giving. The proposal would be difficult for the IRS to enforce, as taxpayers would be encouraged simply to claim the maximum deduction (\$50 or \$100). Moreover, the standard deduction theoretically includes an allowance for charitable giving. Therefore, non-itemizers should not be allowed to claim both the standard deduction and a deduction for the first \$50 or \$100 of their charitable contributions.

In addition to the proposal for non-itemizers, the Senate bill included a provision that would gradually increase the percentage limits on deductible contributions to qualified charitable organizations (other than private foundations) from 50 percent and 30 percent (in the case of gifts of certain appreciated property) of AGI, to 70 percent and 50 percent of AGI, respectively. JCT estimated this proposal would cost \$3.7 billion over 2002-2009.

The proposal to increase the percentage limits would benefit a relatively small number of taxpayers. Under current law, less than one percent of individuals who claim a charitable contribution deduction are affected by the percentage limits, but 10 percent of charitable contributions were not currently deductible because of the limits. The deduction limits are most significant for the wealthiest taxpayers, with 19 percent of charitable contributions by taxpayers with at least \$1 million in income not being currently deductible. Some of the charitable contributions disallowed due to the limit may be deducted in future years, as a result of the five-year carry forward.

An Alternative Approach

An alternative to the Senate-passed provision for non-itemizers would be to allow non-itemizers to claim a deduction (or tax credit¹) for charitable contributions above a certain floor. The floor would be set at a level that exceeds the average charitable contribution by non-itemizers (estimated to be \$465 in 1996). Thus, for example, non-itemizers could be allowed to deduct their aggregate charitable contributions in excess of \$500. Although any proposal to allow a charitable contribution deduction (or tax credit) for non-itemizers would add complexity and some level of administrative burden, the use of the threshold amount would at least reduce potential enforcement problems and increase the possibility that the deduction (or tax credit) would reward large or increased charitable contributions. In 1997, JCT estimated that allowing non-itemizers to deduct in full aggregate annual charitable contributions in excess of a flat floor of \$500 for single filers (\$1,000 for joint filers) would cost about \$6 billion per year.

One variation on this approach would be to allow non-itemizers to deduct only a portion of their charitable contributions in excess of \$500. For example, Independent Sector, an umbrella group for nonprofits, has proposed that non-itemizers be allowed to deduct 50 percent of charitable contributions above \$500. This approach is also consistent with a bill, H.R. 1310, introduced earlier this year by Rep. Philip M. Crane (R-Ill.). In 1997, JCT estimated that allowing non-itemizers to deduct 50 percent of aggregate annual charitable contributions in excess of a flat floor of \$500 for single filers (\$1,000 for joint filers) would cost about \$2 billion per year.

Would Any of These Proposals Increase Giving?

A study published in the June 1999 National Tax Journal concludes that charitable contributions are somewhat sensitive to the tax price, and thus taxpayers will give more if given a tax incentive to do so. The study found, however, that itemizers are more price sensitive than non-itemizers, implying that increasing incentives for itemizers would stimulate more giving per dollar of lost tax revenues than incentives aimed at non-itemizers. However, the level of responsiveness even for itemizers is relatively low. Although the issue remains unsettled, recent

¹ A variation on this approach would be to allow non-itemizers to claim an income tax credit in lieu of a deduction. For example, non-itemizers could be allowed to claim a 15 percent tax credit for their aggregate charitable contributions in excess \$500. A tax credit for charitable contributions by non-itemizers would be somewhat more equitable than a deduction, because it would benefit all taxpayers equally, without regard to their marginal income tax rate.

studies have generally concluded that the revenue cost of the charitable contribution deduction for itemizers exceeds the additional giving to charity.

The National Tax Journal study is based on data covering the tax law in effect from 1982-86, which allowed non-itemizers first to deduct increasing amounts until, in 1986, they could deduct the full amount of charitable contributions. In 1986, 90 percent of itemizers claimed deductions averaging \$1,463 and 46 percent of non-itemizers claimed deductions averaging \$477. From 1985 when non-itemizers could deduct 50 cents on the dollar to 1986 when they could deduct 100 cents on the dollar, the percent of non-itemizers donating rose from 42 to 46 percent and the average amount increased from \$376 to \$477. This likely overstates the true effect as many taxpayers accelerated charitable contributions into 1986, to take advantage of the non-itemizer deduction before it expired. Even so, this study found that the cost to Treasury of a full deduction to non-itemizers is likely to be more than the added giving to the charities. That is, a dollar of tax deductions produced less than a dollar of additional giving.

Research has also shown that lower-income taxpayers, who tend to be non-itemizers, are more likely to give contributions to religious charities, rather than foundations and schools favored by higher-income taxpayers. It follows, then that extension of the itemizers-only deduction to non-itemizers would confer the greatest benefit upon religious and social service charities.

Tax-Free Rollovers of IRA Assets to Charity

A second proposal made by Governor Bush would allow people over age 59-1/2 to make charitable contributions with IRA funds without paying income tax. The final conference report included a version of this proposal, which would allow people over age 70-1/2 to make tax-free distributions of IRA assets to charity. JCT has estimated that the proposal included in the conference report would cost \$1.6 billion over 2003-2009.

Current law

Under current law, distributions from an IRA are includible in the gross income of the account owner, except to the extent that the distribution represents a return of after-tax contributions to the account. Also, as discussed above, current law allows taxpayers who itemize their deductions to claim a deduction, subject to certain percentage limits, for charitable contributions to qualified charitable organizations. The amount of the itemized deductions otherwise allowable may be reduced for taxpayers with AGI above certain levels.

Discussion

Any proposal to allow tax-free rollovers of IRA assets to charity would be inequitable, because it would provide more favorable tax treatment to taxpayers who fund their charitable contributions using IRA assets than those who use other income or assets. For example, taxpayers who make contributions using IRA assets would (in effect) receive the benefit of a charitable contribution deduction without regard to whether they itemize their deductions, and without regard to present-law limitations on deductible charitable contributions. By contrast,

taxpayers who fund charitable contributions using other income or assets would continue to be subject to these limitations.

To the extent that the limitations on deductions under present law are too restrictive, it would be better to modify those limitations as they apply to all taxpayers than to create an exception for charitable contributions funded using IRAs. Although there is considerable support in the charitable giving community for the IRA rollover proposal, the community would also likely support a more broad-based approach.

Importance of Steps to Eliminate Abusive Transactions Involving Charities

Any efforts to stimulate and reward charitable giving should be combined with efforts to eliminate the promotion of aggressive tax-avoidance schemes that purport to give rise to charitable contribution deductions. Treasury and the IRS will continue to work with Congress to identify the latest abuses and ensure that a charitable contribution deduction is available only for true gifts to charity. However, increased tax incentives to make donations will make abusive schemes potentially more profitable, and could make monitoring compliance more difficult.

Demographic Characteristics of Household Contributions: 1995

	Percentage of all respondents	Average household contribution	Average percentage of household income given
	73.4%	880	2.1%
<u>Gender</u>			
Male	70.3	996	2.2
Female	76.2	781	2.0
<u>Race</u>			
White	76.6	907	2.1
Non-white	54.2	659	2.0
Black	51.0	663	1.8
Hispanic*	65.4	353	1.3
<u>Age</u>			
18-24	57.8	514	1.2
25-34	66.0	520	1.4
35-44	80.4	978	1.8
45-54	80.8	1,241	2.5
55-64	82.0	1,037	2.4
65-74	76.8	1,135	3.9
75+	70.7	666	3.2
<u>Income</u>			
Under \$10,000	47.9	207	2.7
\$10,000 - \$19,999	66.9	332	2.3
\$20,000 - \$29,999	68.1	668	2.7
\$30,000 - \$39,999	81.4	715	2.0
\$40,000 - \$49,999	83.5	572	1.3
\$50,000 - \$74,999	94.0	1,042	1.7
\$75,000 - \$99,999	86.8	1,720	2.0
\$100,000 +	92.3	3,213	3.2
<u>Religion</u>			
Catholic	75.7	508	1.2
Protestant	74.1	969	2.5
Other	83.3	1,406	2.8
None	49.3	848	1.8
<u>Marital Status</u>			
Married	80.5	1,031	2.2
Single	58.7	517	1.3
Divorced, separated, widowed	66.9	648	2.4
<u>Employment Status</u>			
Employed	78.6	968	2.0
Full-time	79.2	956	2.1
Part-time	75.5	1,020	1.6
Not employed	64.8	710	2.4
Retired	73.7	903	3.5
<u>Education Status</u>			
High school or less	63.1	580	1.5
Technical, trade school, or some college	80.5	779	1.8
College graduate	89.6	1,493	2.8

Source: Independent Sector, Giving and Volunteering in 1996

Among contributing households, demographic highlights include:

- Persons reporting religious affiliation reported contributing a higher percentage of their average household income than those with no religious affiliation (2.3 percent compared with 1.1 percent).
- Respondents 55 years of age or older gave above average percentages of their household income: 55-64=3.6 percent, 65-74=2.8 percent, 75 and up=3.7 percent.
- Retirees are the most generous givers; in 1995, they reported giving an average of 4.1 percent of their household income to charitable causes.
- College graduates reported the highest participation of all groups (82 percent).

September 9, 1999 - DRAFT

MEMORANDUM FOR THE PRESIDENT

FROM:

SUBJECT: Tax Proposals to Increase Charitable Giving

You asked us for an analysis of recent charitable giving proposals and for ideas we could implement by executive order or enact this Congressional session. Below, we analyze the major recent tax proposals intended to encourage charitable giving, including ones included in the Senate-passed tax bill and in Governor Bush's plan, as well as some possible alternatives. Several of these issues could be raised in tax negotiations this fall.

Impact of General Provisions in Tax Bill on Charitable Giving

At the outset, it should be noted that while the tax bill includes some provisions to promote charitable giving, other provisions in the tax bill would lead to reduced giving. The reductions in individual income and capital gains tax rates would reduce the value of the charitable deduction for itemizers, and thus reduce the incentive for lifetime charitable gifts. In addition, repeal of the estate tax would significantly reduce the incentive for charitable contributions. The current estate tax rates of up to 55 percent provide a substantial incentive for charitable bequests. The results of economic studies of the effects of deductibility of charitable bequests suggest that repeal of the estate tax could reduce charitable bequests of the wealthy by as much as 25 percent. Estate tax returns filed in 1997 reported over \$14 billion in charitable bequests, an amount that has been growing rapidly due to the stock market boom.

With that background, here is an analysis of the specific tax proposals.

Deductibility of Individual Charitable Contributions

Recent proposals would increase individuals' deductions for charitable gifts, by allowing a deduction for non-itemizers and/or increasing the current limits on the deduction for those who itemize.

Current Law

Under current law, taxpayers who itemize their deductions can claim a deduction for contributions made to qualified charitable organizations, up to certain percentage limits. In the case of an individual taxpayer, the total deductible contributions generally may not exceed 50 percent of the taxpayer's adjusted gross income (AGI). A lower limit of 30 percent of the taxpayer's AGI applies in the case of gifts of certain appreciated property (however, taxpayers who donate appreciated property receive a special benefit, because they do not pay tax on the built-in capital gain). If the contribution is made to a private foundation, these percentage limits are reduced to 30 percent and 20 percent, respectively. Unused deductions can be carried forward for up to five years.

Individuals who elect the standard deduction (non-itemizers) may not claim a deduction for their charitable contributions, but the amount of the standard deduction includes an allowance for estimated average charitable contributions.

Bush Proposal

Governor Bush has proposed to allow taxpayers who take the standard deduction the opportunity to deduct their charitable contributions. He has not released any details of how he would structure his proposal.

Senate Proposal

The Senate-passed tax bill, S. 1429, included a proposal to allow non-itemizers who take the standard deduction also to claim a charitable deduction of up to \$50 for single filers and \$100 for joint filers in the years 2000 and 2001. The Joint Committee on Taxation (JCT) estimated the proposal would cost \$1.3 billion. This proposal was not included in the final conference report.

There are several problems with this proposal. Extending the charitable contribution deduction to non-itemizers in this way would probably stimulate little, if any, additional charitable giving. The proposal would be difficult for the IRS to enforce, as taxpayers would be encouraged simply to claim the maximum deduction (\$50 or \$100). Moreover, the standard deduction theoretically includes an allowance for charitable giving. Therefore, non-itemizers should not be allowed to claim both the standard deduction and a deduction for the first \$50 or \$100 of their charitable contributions.

In addition to the proposal for non-itemizers, the Senate bill included a provision that would gradually increase the percentage limits on deductible contributions to qualified charitable organizations (other than private foundations) from 50 percent and 30 percent (in the case of gifts of certain appreciated property) of AGI, to 70 percent and 50 percent of AGI, respectively. JCT estimated this proposal would cost \$3.7 billion over 2002-2009.

The proposal to increase the percentage limits would benefit a relatively small number of taxpayers. Under current law, less than one percent of individuals who claim a charitable contribution deduction are affected by the percentage limits, but 10 percent of charitable contributions were not currently deductible because of the limits. The deduction limits are most significant for the wealthiest taxpayers, with 19 percent of charitable contributions by taxpayers with at least \$1 million in income not being currently deductible. Some of the charitable contributions disallowed due to the limit may be deducted in future years, as a result of the five-year carry forward.

An Alternative Approach

An alternative to the Senate-passed provision for non-itemizers would be to allow non-itemizers to claim a deduction (or tax credit¹) for charitable contributions above a certain floor. The floor would be set at a level that exceeds the average charitable contribution by non-itemizers (estimated to be \$465 in 1996). Thus, for example, non-itemizers could be allowed to deduct their aggregate charitable contributions in excess of \$500. Although any proposal to allow a charitable contribution deduction (or tax credit) for non-itemizers would add complexity and some level of administrative burden, the use of the threshold amount would at least reduce potential enforcement problems and increase the possibility that the deduction (or tax credit) would reward large or increased charitable contributions. In 1997, JCT estimated that allowing non-itemizers to deduct in full aggregate annual charitable contributions in excess of a flat floor of \$500 for single filers (\$1,000 for joint filers) would cost about \$6 billion per year.

One variation on this approach would be to allow non-itemizers to deduct only a portion of their charitable contributions in excess of \$500. For example, Independent Sector, an umbrella group for nonprofits, has proposed that non-itemizers be allowed to deduct 50 percent of charitable contributions above \$500. This approach is also consistent with a bill, H.R. 1310, introduced earlier this year by Rep. Philip M. Crane (R-Ill.). In 1997, JCT estimated that allowing non-itemizers to deduct 50 percent of aggregate annual charitable contributions in excess of a flat floor of \$500 for single filers (\$1,000 for joint filers) would cost about \$2 billion per year.

Would Any of These Proposals Increase Giving?

A study published in the June 1999 National Tax Journal concludes that charitable contributions are somewhat sensitive to the tax price, and thus taxpayers will give more if given a tax incentive to do so. The study found, however, that itemizers are more price sensitive than non-itemizers, implying that increasing incentives for itemizers would stimulate more giving per dollar of lost tax revenues than incentives aimed at non-itemizers. However, the level of responsiveness even for itemizers is relatively low. Recent studies have generally concluded that

¹ A variation on this approach would be to allow non-itemizers to claim an income tax credit in lieu of a deduction. For example, non-itemizers could be allowed to claim a 15 percent tax credit for their aggregate charitable contributions in excess \$500. A tax credit for charitable contributions by non-itemizers would be somewhat more equitable than a deduction, because it would benefit all taxpayers equally, without regard to their marginal income tax rate.

the revenue cost of the charitable contribution deduction for itemizers exceeds the additional giving to charity.

The National Tax Journal study is based on data covering the tax law in effect from 1982-86, which allowed non-itemizers first to deduct increasing amounts until, in 1986, they could deduct the full amount of charitable contributions. In 1986, 90 percent of itemizers claimed deductions averaging \$1,463 and 46 percent of non-itemizers claimed deductions averaging \$477. From 1985 when non-itemizers could deduct 50 cents on the dollar to 1986 when they could deduct 100 cents on the dollar, the percent of non-itemizers donating rose from 42 to 46 percent and the average amount increased from \$376 to \$477. This likely overstates the true effect as many taxpayers accelerated charitable contributions into 1986, to take advantage of the non-itemizer deduction before it expired. Even so, this study found that the cost to Treasury of a full deduction to non-itemizers is likely to be more than the added giving to the charities. That is, a dollar of tax deductions produced less than a dollar of additional giving.

OMITTED REFERENCE RE: CHOICE OF NON-ITEMIZER CONTRIBUTION
Tax-Free Rollovers of IRA Assets to Charity to RELIGIOUS/SOCIAL SERVICE ORG.

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Reed/Buss
What are the
policy implications
of this? *BR*

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Reed
Spesling
Podesta

WEDNESDAY, JULY 28, 1999

The New York Times

Leaders in House Covet States' Unspent Welfare Money

By TIM WEINER

WASHINGTON, July 27 — In a frantic search for the cash that they need to pass their spending bills, House Republican leaders are considering asking their party's governors to return \$6 billion in unspent welfare money to the Treasury, senior aides said tonight.

The idea was being weighed by Speaker J. Dennis Hastert of Illinois, the aides said. It is by no means clear that any of the nation's 34 Republican governors would agree to the idea, they said.

"They're going to ask the Republican governors to reprogram \$6 billion so we can put it into the appropriations bills," one senior Republican aide said. "I don't think a single governor will give a penny back."

The money would come from Federal money sent to the states in the past few years for welfare programs but which has not been spent because of changes in the system, including welfare-to-work programs, and rising employment among the poor.

Mr. Hastert's spokesman, John Feehrey, said tonight that no deci-

How far would G.O.P. governors go to help Washington?

sion had been made on the idea, but acknowledged that it was under consideration.

Although no member of Congress would comment, senior aides said the idea was being taken seriously by some members and regarded by others as quixotic at best.

Gov. Marc Racicot of Montana said the idea struck him as a tough sell.

"It would be extremely difficult," Mr. Racicot said. "It would obviously call on all of us to review where we are at and what reliance we've placed on these funds. Though we have an urge to cooperate and participate, we have obligations."

So do the House Republicans. As their deadline for passing the 13 spending bills required to run the

Government approaches, they are in an increasingly tight financial squeeze, largely of their own making.

They are bound by spending caps they devised in 1997, limiting the money they can lawfully spend. They cut \$26 billion, or about 11 percent, from the budget for domestic spending this year, and their fiscal conservatives have made hundreds of millions of dollars more cuts in domestic programs when six of the spending measures passed the House.

But now the bills to finance programs like health, education, labor, housing and veterans' affairs are coming due, and Republican moderates on the House Appropriations Committee say they are at least \$10 billion to \$15 billion shy of what they will need to win approval.

In the past five days, the House Republican leadership has resorted to increasingly unusual schemes to find the money. "Some of it is legitimate and acceptable," said the majority leader, Representative Dick Armey of Texas. "Some of it is more questionable."

For example, they declared the

\$4.5 billion found to finance the coming 2000 Census and the \$3 billion for veterans' health programs as "emergency spending," taking them off the official financial ledger, but certainly stretching the legal meaning of "emergency."

The money is to come from increasingly sophisticated gimmickry. For example, the \$3 billion for veterans would come from the borrowing authority of the Tennessee Valley Authority, converting, on paper, one agency's ability to take on debt into another's hard cash.

Still, that left Republicans billions of dollars shy. Hence the idea of going to the nation's statehouses.

Mr. Feehrey said the idea was only one of many under consideration as the House worked to meet a Sept. 30 deadline for passing the bills.

"We've had a remarkable recovery in some areas like welfare-to-work, but that success is not really reflected in our budget," he said. "To keep the budget balanced is hard work and we're looking at all different kinds of options. I'm not sure how feasible this one is."

HE PREVIOUSLY WAS SET
8-2-99

Changes to Tax Rules for Charitable Contributions: Allowing Charitable Giving Until April 15

One means to provide some incentive for charitable giving would be to allow individuals to take deductions for charitable contributions up to the time they file their income tax returns, or until April 15, whichever comes first – unlike the requirement under current law, which has a deadline of the end of the calendar year preceding the April 15 filing deadline.

This proposal would provide little change in the pure economic incentive for charitable contributions. Each dollar of contribution would receive the same federal subsidy at the taxpayer's statutory tax rate. The case for allowing a deduction up until the time of filing is mainly related to planning and psychological considerations.

Comparison to IRAs

Under current law, contributions to IRAs are allowed until filing time. For the 1984 taxable year, 45 percent of IRA contributions were actually made in 1985. Many taxpayers take note of allowable deductions when they fill out their returns. While deductions are limited in relationship to income, taxpayers seldom know last year's total income until calculations are made during filing season. From a psychological standpoint, it is at tax filing time that tax burdens are most apparent and benefits from deductions appear most real.

Similar arguments can be made for extending the charitable deduction. In particular, allowing a charitable deduction up to the time of tax filing would (1) advertise the value of the incentive much better, (2) help taxpayer planning, and (3) provide a special incentive for those who find that last minute payment of taxes is onerous.

The Advertising Factor

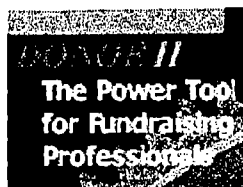
The favorable time for advertising is when people engage in activity closely associated with the product. For instance, advertisers often attach coupons to their merchandise to catch our attention as we make a purchase.

Under current law, the government does advertise its product at tax filing time, but refuses to let the taxpayer use the coupon on that year's return. Moreover, the price incentive for next year is not known until the new filing season has begun.

An Aid to Planning

Tax filing represents a unique moment when many households do their annual budget calculations, see the amount they have earned over the past year, and in some instances, determine just what they have done with their money, especially with respect to deductible expenses. It is an ideal planning period in which taxpayers can assess how much they can afford in charitable contributions. Given the tendencies of individuals to underestimate income and overstate past generosity, the tax filing period is a good time for taxpayers to assess whether they have given a reasonable percentage of income to charity.

CC: Bruce Post
Eric Liu
Michael Barr
Jerry Austin
Melanne
Shirley
Mary Ellen



THE CHRONICLE OF PHILANTHROPY MANAGING

From the issue dated Thursday, August 12, 1999



Charity: a Campaign Front-Runner

By JENNIFER MOORE and GRANT WILLIAMS

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Charity issues have become a hot topic among Presidential hopefuls staking out their positions for the 2000 campaign.

ALSO SEE:

[Lamar Alexander, Republican](#)

[Bill Bradley, Democrat](#)

[George W. Bush, Republican](#)

[Elizabeth Dole, Republican](#)

[Al Gore, Democrat](#)

[Dan Quayle, Republican](#)

Contenders from both major political parties have been promoting a variety of strategies that all share a common goal: to find ways for the government to do more to help non-profit groups -- especially those with religious ties -- carry out their charitable missions.

The convergence of opinion marks a departure from previous Presidential campaigns in which candidates tended to split down party lines, with Democrats arguing that government had the primary responsibility for

providing social services and Republicans insisting that government should simply get out of the way of private groups.

"The public knows that the sort of Great Society solutions have failed," says Arianna Huffington, a political commentator who has been involved in numerous efforts to promote charitable giving. "But the public knows that just saying that the private sector will take care of everything is an illusion: It has not been borne out."

Such a view is being echoed by the Presidential contenders in their campaign speeches. Some observers also expect the theme to become a major topic of debate in next year's Congressional, state, and local elections.

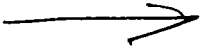
Among the proposals being touted in the race for the White House:

Aid for faith-based groups. Gov. George W. Bush, Republican of Texas, and Vice-President Al Gore, a Democrat, have each endorsed steps to make it easier for groups with religious affiliations to qualify for federal money to finance their social-service work. Both have noted that, in the past, charities that have received government aid

have been forced to compromise the religious flavor of their programs. They say they want to insure that this is not the case for future grant recipients. Other candidates who have said that so-called faith-based organizations can provide effective solutions to social problems include Republicans Lamar Alexander, former Governor of Tennessee and former U.S. Secretary of Education; Elizabeth Dole, former president of the American Red Cross and former U.S. Secretary of Transportation and of Labor; and former U.S. Senator and Vice-President Dan Quayle.

State charity tax credits. Governor Bush has recommended allowing states to use federal money to create tax credits that would make it more attractive for their residents to give to religious and other non-profit organizations that fight poverty. Each state would be able to design the credit as it chose, but Mr. Bush has said he would like individuals and companies to be able to give some of the money that they would pay in state taxes to antipoverty groups instead.

New federal charity tax deductions. Governor Bush and Mr. Alexander both say they would support a change in the federal tax code that would allow people who do not itemize to claim a charitable deduction for their donations. Mr. Alexander is also seeking an expanded tax deduction aimed at encouraging Americans to increase their charitable giving from an average of 2 per cent of their incomes to 5 per cent -- what he calls a "half tithe." Under his proposal, taxpayers would receive a double charitable deduction for all gifts that exceed 5 per cent of their incomes.



An Oval Office appeal for charities. Many of the candidates promise to use the Presidency to encourage Americans to dig deeper into their pockets. For example, Mrs. Dole, who herself has had to raise charitable donations as head of the American Red Cross, says she would "use the White House as a bully pulpit to encourage people of all ages to give their time and resources to help others." Democrat Bill Bradley, former U.S. Senator from New Jersey, has also emphasized his desire to urge people to volunteer and donate to charities.



The large number of charity proposals is a sign that "these ideas have moved into the mainstream of political thinking in this country," says Thomas E. Mann, a scholar at the Brookings Institution, in Washington.

The transformation of the nation's welfare system is a big reason for the new focus on non-profit groups. While political leaders had high expectations for what charities could do to help the poor cope with the changes, many candidates now say they realize that non-profit groups need more help if they are to play a significant role in moving people from welfare to work.

Other forces behind the current emphasis on charity include growing

public awareness of the widening disparities between rich and poor -- which has raised the profile of antipoverty services. Recent outbreaks of violence, such as the shootings at a high school in Littleton, Colo., have also led to warnings about the breakdown of civility in society.

Marvin Olasky, a senior fellow of the Acton Institute for the Study of Religion and Liberty who informally advises Governor Bush's campaign, believes that the key voters in next year's election will be those he terms "seeker moms and dads" -- a play on the term "soccer moms," which described swing voters in 1996. Mr. Olasky says "seeker voters" are hungry for leadership on such tough issues as poverty, the nature of society, and spirituality.

Others agree that charity-related policies make good politics.

→ In a recent column in *The Hill*, a newspaper that covers Congress, Dick Morris, former political consultant to President Clinton, urged candidates to boldly solicit the votes of supporters of non-profit groups by endorsing a charitable-tax credit to replace the current, less-generous tax deduction. "Politically, the Democrats own the public sector and the Republicans control the private sector," he wrote. "But the voluntary sector is up for grabs."

Some observers say charity issues may also play well with other blocs of voters, such as people in their 20s, who in polls reveal greater interest in community activism and non-profit work than do people in other age groups. Policies that promote faith-based groups may also help candidates court black voters, some political observers say, since studies have shown that the churches most interested in getting government aid for social services tend to be located in the inner city and serve predominantly black congregations.

Of all of the candidates, Governor Bush has set out the most-specific charity proposals to date. In his first major policy address as a Presidential contender, during his visit to an Indianapolis church last month, Mr. Bush outlined a dozen ideas for tax credits and other incentives worth \$8-billion to support charities.

Mr. Bush said he wants to "encourage an outpouring of giving in America" by passing an array of laws to give individuals and corporations more tax incentives to make charitable gifts, and to get more government money to private institutions, especially faith-based groups. He would also name an advocate for "faith-based action" who would report directly to him "to insure that charities are not secularized or slighted."

The Texas Governor made clear that he thinks government should actively help non-profit organizations -- not just "get out of the way" of peoples' lives. "It is not enough for conservatives like me to praise [charities'] efforts," he said. "It is not enough to call for volunteerism.

Without more support and resources -- both private and public -- we are asking the armies of compassion to make bricks without straw."

→ Mr. Bush added: "Government cannot be replaced by charities -- but it can welcome them as partners and not resent them as rivals."

Meanwhile, Vice-President Gore, in a move that surprised liberals in his party, made a speech in May that promised a "new partnership" between government and religious organizations (*The Chronicle*, June 3). He said he wants to expand the pool of federal-grant and corporate-giving programs that are open to churches, synagogues, mosques, and other religious groups that provide social services.

"These groups nationwide have shown a muscular commitment to facing down poverty, drug addiction, domestic violence, and homelessness," said Mr. Gore. "I would like to propose concrete actions to clear bureaucratic hurdles out of the way of these good men and women who are helping to solve our problems."

Most non-profit leaders say the recent attention from politicians is welcome, if somewhat overdue.

"The fact that Presidential candidates see the non-profit sector as one that is doing stuff important enough to be debated and argued over is a key indicator of the worth and value this sector now adds to the national debate," says Bill Shore, founder of Share Our Strength, a Washington organization that fights hunger and poverty, and a former aide to two Democratic Senators.

Many charity officials, however, remain skeptical about whether the rhetoric will really translate into concrete federal policies.

"I don't think we're past the photo-opportunity stage yet," says Fred Grandy, president of Goodwill Industries International and a former Republican Congressman from Iowa.

Candidates for the 2000 Presidential race have certainly seen the value of using charities and churches as backdrops for their campaign appearances.

Governor Bush unveiled his major proposals on charity issues at a gathering of the Front Porch Alliance, a group of Indianapolis government, religious, and neighborhood leaders. Vice-President Gore gave his address about faith-based groups at the Salvation Army of Atlanta.

Robbie Callaway, senior vice-president of government relations for the national office of Boys & Girls Clubs of America, says that Mr. Bush, Mr. Gore, and Mr. Bradley have collectively made far more campaign stops at local Boys & Girls Clubs than did contenders in

previous elections.

"Smart, viable candidates have recognized that charities have been active players in welfare reform, in helping communities," says Mr. Callaway. "They see there's something going on here."

Mr. Callaway says that while his group's local clubs don't actively seek the campaign stops, the appearances carry major benefits: Politicians get a firsthand look at the work of grassroots groups, and kids get the chance to be involved in the national political process.

Charity leaders are divided when it comes to evaluating the messages delivered during those stops.

One of the most contentious issues has been whether government should make it easier for faith-based groups to receive federal money. Some non-profit groups say they are alarmed by such talk, cautioning that the plans may violate the constitutional separation of church and state. But others hail the ideas, saying they exemplify the creative approaches needed to tackle deeply rooted problems.

Some non-profit officials are also concerned that some charity-related proposals may ultimately allow the federal government to shirk its responsibilities.

"It's nice to be talked about, but I think we also have to hear all of this with a certain amount of fear and trembling," says Gordon A. Raley, president of the National Assembly of National Voluntary Health & Social Welfare Organizations, which represents 58 major charities.

Mr. Raley says that if the candidates' charity proposals are driven by a desire to "help non-profits partner with government to achieve goals that both share, then we need to applaud those efforts."

But, he adds, "if what they're talking about is carrying devolution to another, lower level -- passing responsibility for the public welfare not to state or local governments but entirely to charities, without being really careful about making sure that that's the right or possible thing to do -- then we run considerable risks."

Another concern is that the spotlight on charity could have harmful side effects. For example, some organizations worry that tax proposals that favor antipoverty groups over other types of charities could wind up hurting groups that focus on the arts, the environment, education, or other causes.

One candidate, however, has rethought an earlier proposal that would have given preferential treatment to antipoverty organizations. During his 1996 Presidential bid, Mr. Alexander proposed a charity tax credit that would have applied only to gifts to non-profit groups that provide

direct services to the poor. But this time he is promoting a plan to give donors a double deduction on their federal income taxes for any amount they give to charity that exceeds 5 per cent of their incomes.

"While one of the problems with charitable giving is that most charity doesn't go to the poor," Mr. Alexander said in an interview, "it would be too complicated, and there would be too many end runs, if the government tried to narrow the definition of what a charity is."

Mr. Alexander says his view has been shaped in large part by his experience as head of the National Commission on Philanthropy and Civic Renewal, which was financed by the Lynde and Harry Bradley Foundation, in Milwaukee. That commission issued a report in 1997 with specific recommendations for how charities and foundations, as well as government and businesses, could better work together to improve society.

Perhaps just as important as what the candidates say about charities now are the issues the contenders avoid.

For example, Mr. Mann of the Brookings Institution says a big issue that deserves more attention is how to handle the continued explosion in foundation assets that stem from a soaring stock market and newly minted family funds formed by high-technology millionaires. Some observers have recommended increasing the minimum amount that foundations must pay out each year to charities, an idea that many foundations say is not needed.

"It will be very interesting to see whether any of the candidates bite" on the controversial topic, he says. "Right now they probably won't because candidates want everyone in the non-profit sector to feel warm and fuzzy toward them."

Many candidates also have yet to define their views on thorny issues that are important to people in philanthropy but do not deal directly with non-profit groups.

"The candidates have to have a consistent philosophy that puts those left behind first," says Ms. Huffington. "You cannot justify cutting the estate tax before you cut the payroll tax. In the same way, you cannot justify cutting welfare and not cutting corporate welfare."

Many political experts say they believe that the interest in charity issues is so strong that it won't be just a part of Presidential politics, but will also play an important role in races for Congress and the statehouses, and even for city and county offices.

Indianapolis Mayor Stephen Goldsmith, an adviser to Governor Bush, says he has received numerous inquiries from candidates at all levels who are interested in learning more about his city's Front Porch

Alliance. The coalition, which Mr. Bush praised in his speech last month, has brought government and churches to work on community policing, park renovation, and many other projects to improve the city.

"Combined with the attention generated by the Presidential campaigns, these issues will be predominant themes for the next year or two's worth of elections," says Mr. Goldsmith. "The closer you are to people, the more important these issues become."

To comment on this item, send a message to comment@philanthropy.com

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IRA Charitable Rollover

Although charitable giving has increased in recent years, charitable organizations still face the continued challenge of meeting the needs of the people they serve. Over the past two decades, government funding for programs that serve social needs have been significantly reduced. According to a recent study prepared for Independent Sector, under the President's FY 1998-2002 budget proposal, inflation-adjusted federal spending for FY 2002 in budget functions of concern to nonprofits would decline 3% below FY 1995 levels. Moreover, if entitlement-driven spending for income security were excluded from the calculation, inflation-adjusted spending for the remaining categories of concern to nonprofits would decline 9% below FY 1995 levels. Among those services that will suffer the largest declines in the federal share of their funding from 1996 to 2002 are: services to the elderly (from 17% to 9%); nursing homes for the elderly (from 42% to 30%); housing, community development and other community services (from 50% to 31%); home healthcare (from 39% to 27%); and food services (from 46% to 36%). Consequently, the charitable sector, which is expected to fill this gap, must constantly seek additional resources, for example, through charitable gifts, or cut back on programs as social needs continue to grow.

Excess IRA assets represent a very large, untapped source of potential support for the nation's charities. According to Joint Tax Committee staff, there is currently more than \$1 trillion in IRA accounts and \$5 trillion in defined contribution accounts, which can be rolled into IRA accounts. In addition, economists estimate that more than \$10 trillion dollars in wealth will be transferred to the so-called baby-boomer generation from their parents. One result of this large generational transfer is that, for many individuals, IRA assets accumulated under favorable market conditions will be less necessary for their retirement and, at least in part, available for charitable giving. However, current law presents serious tax disincentives to such gifts.

Under current law, IRA withdrawals are fully taxable as ordinary income to the individual in the years they occur. A donor who withdraws IRA assets for transfer to a charity is subject to tax on the entire amount, offset to varying extents by the charitable deduction. Although charitable organizations frequently receive inquiries from potential donors about giving IRA assets during their lifetimes, the tax consequences are so significant a deterrent that such gifts are rarely made.

The following are selected examples from an informal survey that was designed to solicit anecdotal information about how current tax law inhibits donors interested in making charitable gifts from the rollover of IRA assets. A growing number of individuals report that they have satisfactory arrangements in place for their retirement income, and that they want to give a portion of their IRA assets to charity. In virtually all examples collected, when the potential donors were informed that they must pay ordinary income tax on any IRA assets they give to charity, they chose not to make such gifts.

- A national disease association with headquarters in Illinois has had two inquiries this year about gifts of approximately \$1 million each from IRA assets. The first was from a widow with other assets, who considered establishing a charitable remainder trust that would not only "do some good for society" but also provide her with annual income to care for her disabled child. The second was from a highly successful businessman nearing retirement, who wanted to set up a charitable remainder unitrust. Because of the tax consequences, neither individual has made the proposed gift.
- A 71-year-old male donor with a \$1.3 million IRA wishes to make a life-income gift to a major public university in Texas. He would like to receive annual income payments that would help ensure the

care of his wife, who is in the early stages of Alzheimers. Given the tax consequences of such a gift under current, the donor has not been willing to move forward.

- The husband of a hospital volunteer at a medical center in Tennessee would like to establish a charitable trust to benefit cancer research, which was responsible for the recent death of his wife. He wants to use retirement plan assets of \$1.8 million to establish this cancer research fund, to provide himself with annual payments for retirement income, and to reduce the tax burden on his heirs, which would be greater for IRA assets than other appreciated securities. He has been advised against such a gift because of tax disincentives under current law.
- A successful entrepreneur, who is a board member of an Arizona foundation, proposed to make a life-income gift of up to \$.5 million from excess qualified pension plan proceeds. This gift, in addition to providing retirement income for himself and his wife, would assist in financing two community hospitals, a children's dental clinic, a food bank, an adult day healthcare center, long-term and rehabilitative care facilities, and a host of other medical and social services. However, upon investigation, he concluded that the tax consequences were too unfavorable
- A major university in Pennsylvania has recently received about 24 calls per year concerning gifts from IRA assets. Typical cases are in the \$100,000 range, but one inquiry was regarding a \$700,000 gift. To date, all except one of these donors have decided against making such a gift.
- In Maryland, an elderly couple, who had a lifetime commitment to volunteerism and a history of charitable giving to a hospital foundation, a community-based housing group, and a welfare-to-work training organization, inquired about establishing a charitable remainder trust from IRA assets. They wanted to benefit their philanthropic interests, but provide some additional income for whoever was the survivor. However, concern about the high level of taxation on assets withdrawn from their IRA prevented them from proceeding with the proposal.
- One major university in California has received at least 12 inquiries in the past year, and another received four inquiries, about making outright gifts or establishing charitable trusts by assigning IRA or other qualified pension assets. However, upon learning about the tax treatment of those actions, no prospect has actually made a gift.
- A contributor who wanted to donate outright his total IRA assets of \$650,000 approached a major social welfare provider in Illinois. Given the unfavorable income tax consequences under current law, he did not make the gift.
- A research university in New York has had six inquiries in the past two years about gifts in the \$1.5 to \$3.0 million range from IRA assets. Given the unfavorable tax consequence under current law, none of these gifts has materialized.
- A community foundation in California received an inquiry from a donor, wishing to use IRA assets to establish a \$.5 million scholarship fund. However, when the tax implications were reviewed, the donor declined to create this fund.

In contrast, given passage of the IRA Charitable Rollover Incentive Act (H.R. 1311) or its complement in the Senate, S1086, if IRA assets were rolled over to charity as an outright gift, they would be removed from the donor's tax calculation of ordinary income. In addition, if IRA assets were rolled

over as a life-income gift, the annual income payments from the gift would still be subject to taxation. In both cases, the donor would not receive a charitable deduction unless after-tax dollars had been contributed to the IRA.

The following example will illustrate the different tax consequences under current law and H.R. 1311/S. 1086. Mr. Smith, age 60, has accumulated approximately \$1,000,000 in his IRA and other tax-favored retirement plans. While he believes he will only need about \$750,000 for retirement, he plans to leave his IRA intact for another 10 years rather than pay tax on withdrawal of assets.

If legislation is enacted allowing charitable IRA rollovers with favorable tax treatment, Mr. Smith can transfer IRA assets he will not need for retirement to the charity as an outright gift or a life-income gift. Either way, these gifts will not be subject to tax upon withdrawal and transfer of his IRA assets to the charity. His gift would be tax-deductible only to the extent he had previously funded his IRA with after-tax dollars.

If Mr. Smith prefers a life-income gift, for example, he can transfer \$250,000 to a 7% charitable remainder annuity trust, from which he will receive \$17,500 in annual taxable income (a 7% return on the \$250,000) for life. Over the first 10 years, Mr. Smith (assuming a 39.6% tax bracket) may pay income taxes totaling as high as \$69,300 on income totaling \$175,000.

By contrast, under current law, Mr. Smith could owe an initial tax of approximately \$79,600 on the \$250,000 withdrawal, even after taking into account the charitable deduction he may receive for contributing the net proceeds to the trust. Mr. Smith may then contribute only \$170,400 to the trust, from which he will receive \$11,900 in annual taxable income (a 7% return on the \$170,400) for life. Over the first 10 years, Mr. Smith may pay income taxes totaling as high as \$47,124 on the income totaling \$119,000.

This proposed legislation is good public policy. Since other qualified retirement plans can now be rolled over tax-free into IRAs, this proposal would unlock substantial new resources for the support of charitable organizations and their public-service missions. In addition, this proposal would realign tax treatment on IRA assets to match current tax laws that apply to other assets donated to charity. Finally, to the extent that donors transfer IRA assets into life-income gifts soon after age 59½, rather than waiting until the required distributions at age 70½, this proposal would generate new tax revenues, partially offsetting revenue losses.

Implementation of H.R. 1311/S. 1086 will involve lost revenue, which was estimated by the Joint Tax Committee staff at \$1.4 billion in the first five years. However, the revenue loss would be partially offset by life-income gifts (e.g., charitable remainder trusts or charitable gift annuities) that would accelerate revenue to the degree that individuals, before age 70½ when withdrawals must begin, roll IRA funds into such gifts, which will generate taxes on the annual income payments.

Although IRA assets were originally intended as a supplement to retirement income, withdrawal is now allowed in order to assist in financing a home or a college education. It is equally, perhaps more, appropriate for public policy to allow financially successful individuals, who have reached a point where IRA and other tax-deferred retirement assets are not needed for retirement, to use those assets not to benefit personally, but to support charities that better the lives of others. Moreover, in the case of life-income gifts, a portion of the IRA assets would be retained as retirement income for the donor and his or her spouse alone, with the remainder passing to charity upon the death of the participants. Furthermore, since an IRA may now pass to charity at death by a direct or life-income gift, the

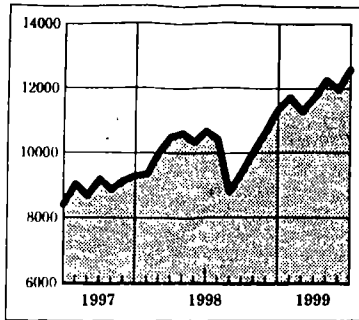
proposal parallels the current tax code.

Some may incorrectly characterize H.R. 1311/S. 1086 as a tax break for the wealthy. The plain fact is that many middle-class Americans, including teachers, nurses, sales persons, retired military, and librarians, frequently express their desire to make gifts using IRA assets. Many retirement plans have multiplied well beyond anticipated needs and expectations as a result of favorable investment markets and moderate inflation. These donors want the removal of a tax disincentive, not a tax break, in order to complete their charitable objectives. Indeed, upper-bracket taxpayers can best afford, and are most likely to make, this type of wealth transfer to charity. However, if this proposal were passed into law, although the government would give up a tax worth 39.6% of the value of the asset, the donor would give up 100% of the asset. The government would not collect tax on the transfer of the asset to charity because the transfer does not financially benefit the donor. Thus, there is no income on which to levy a tax. Rather, this untaxed asset transfer will increase private support for public services that the government would otherwise be called upon to provide. Therefore, it is good public policy to create incentives that encourage individuals, including upper-bracket taxpayers, to support philanthropy through gifts of IRA assets.

The future of the charitable sector and of the public services it provides depends upon expanding financial resources to meet increasing social needs. The existing billions of dollars in IRA assets constitute a significant, untapped resource for charitable purposes. This proposal would allow individuals, who have assets in excess of requirements for their retirement, to make penalty-free donations of IRA assets to support the charitable sector and its public-service mission. For these reasons, we urge the passage of H. R. 1311/S.1086 in its original form.

Wilshire Index

Index of NYSE, Amex and Nasdaq stocks.



THE WILSHIRE 5000 Index, representing stocks of nearly every publicly traded company with headquarters in the U.S., was 12583.60 on June 30, up from 11976.75 on the last trading day in May.

Despite Infertile Soil, New England Offers Hope for Evangelism

* * *

aving Souls Is a Challenge
Some Young Missionaries
Say That They Welcome

By BARBARA CARTON

Staff Reporter of THE WALL STREET JOURNAL
HAMPTON BEACH, N.H.—Lorie Heersink, a Campus Crusade for Christ missionary from Texas, has come north this summer looking for people to accept

IS.
"What happens after death?" she asks beach blonde on the boardwalk of this funky-tonk resort. "I think we come back, the perennials," says the woman, who declines any Christian guidance.

Ms. Heersink spots a tattooed mother, surrounded by five snacking children, and asks if she might administer a spiritual questionnaire. The woman glares, says no, and grabs a handful of potato chips.

"You get shot down a lot up here," says Ms. Heersink, a ponytailed 21-year-old from Baylor University in Waco, Texas.

Hard Sell

Nationwide, evangelicals say that their ministry is expanding and that fundamentalist Bible beliefs are on the rise. But in New England, they complain that souls are as unyielding as the region's famously stingy soil.

Only 16.5% of New Englanders have reported a born-again experience, vs. 24% nationally, according to the National Religion Research Center at the University of Chicago. Preachers say the growth in centered churches has largely been in New England, partly because local communities often fight new construction. The region's biggest city, ranks 31st in Bible reading among 210 urban areas, according to market research by publisher SRDS, of Des Moines.

And, sure, some denominations are booming here. A \$30 million Mormon temple under construction in Boston; the Christ of Latter-day Saints

Tax Report

A Special Summary and Forecast Of Federal and State Tax Developments

MORE PEOPLE GET ENSNARED by hidden tax increases.

Growing numbers of Americans are paying higher taxes because of several tax-code provisions often referred to as stealth, or backdoor, tax increases. For example, there are limits on how much may be claimed in personal exemptions and itemized deductions by people whose income exceeds certain levels. Congress approved these and other provisions because it was more politically acceptable than raising rates directly.

As taxpayer income has risen, these provisions have taken a much bigger bite. A new IRS report shows nearly 4.5 million upper-income taxpayers were hit by the itemized-deduction limitation for 1997, up 10.5% from 1996. Itemized deductions lost as a result of the provision totaled \$22.7 billion, up 20% from 1996, says IRS economist Therese Cruciano. Congress's Joint Committee on Taxation issued a report on the subject early last year.

The IRS report appears in the latest Statistics of Income Bulletin.

ITEMIZED DEDUCTIONS rose in 1997, the IRS says.

Only about 30% of all individual returns reported itemized deductions, such as charitable gifts or interest payments. The average total for itemized deductions rose 4.3% to \$16,615 on returns for 1997, the latest year for which figures are available. Based on new IRS data, Jim Seidel of RIA Group, a New York-based publisher of tax and other business information, has calculated average deductions by categories, based on adjusted gross income.

A few caveats: Average deductions may vary widely from state to state because of differing state tax laws. Also, RIA emphasizes that these are merely averages, not what anyone at the IRS considers reasonable. Medical deductions have been omitted from the following table because few people have enough to qualify.

Income	Gifts	Taxes	Interest
(-000)			
\$ 15-30	1,506	2,225	5,496
\$ 30-50	1,600	3,013	6,028
\$ 50-100	2,113	4,956	7,336
\$ 100-200	3,573	9,449	11,065
\$ 200+	19,032	35,231	22,003

WEALTHY TAXPAYERS grow wealthier and pay a bigger share of total taxes.

If you reported adjusted gross income of at least \$227,546 for 1996, you ranked among the top 1% of individual income-tax returns, a new IRS report shows. Taxpayers in this group accounted for about 16% of total adjusted gross income that year and paid 32.3% of total income taxes. For 1995, this group represented 14.6% of adjusted gross income and 30.3% of total income taxes.

To rank in the top 5% for 1996, a return had to show adjusted gross income of \$101,141 or more. Taxpayers in this group earned 30.4% of total adjusted gross income, up from 28.8% the prior year, and paid 51% of total income taxes, up from 48.9%.

The IRS also said the number of taxable returns reporting adjusted gross income of \$200,000 or more rose 20%.

NEW TAX COP: Dave Palmer takes over as IRS acting assistant commissioner for the criminal investigation division. He had been

1401 ERROR

Korean Air Confronts Dismal Safety Record Rooted in Its Culture

Military-Civilian Hierarchy
Mars Cockpit Teamwork
Rote Training Hurts, Too

Fatal Confusion Over Guam

By WILLIAM M. CARLEY
And ANDY PASZTOR

Staff Reporters of THE WALL STREET JOURNAL

Watching a Korean Air jumbo descending toward San Francisco's airport, a tower controller was agast. The blue and white 747 was turning left, cutting in front of a smaller United Airlines plane preparing to land on a parallel runway.

"Korean Air 225," the controller radioed, "it appears you're going to the left runway; 28 right, you're cleared to land."

"United 2132," the controller then radioed, "start a left turn" to avoid the Korean Air jet. "Where's he going?" asked the startled United pilot.

The Korean Air plane finally steered back to its assigned runway on the right and both planes landed safely. But the incident, last Sept. 9, was only one of the dangerous safety lapses that have bedeviled the Korean airline recently.

One of its planes scraped an engine on the runway of New York's Kennedy airport during an approach in January, near cartwheeling the jumbo jet down the field. In April, a Korean Air cargo jet taking off from Shanghai plunged to the ground, killing nine. In Korean Air's worst crash, a jetliner approaching Guam smashed into a hill in 1997, killing 228.

Cockpit Culture

These and other incidents have triggered unusually sharp criticism of Korea Air's safety practices. Concern is being voiced not only by regulators but also by other airlines and even some of Korea Air's own pilots.

Delta Air Lines, Air France and Air Canada, which through code-sharing packages had been booking passengers on Korea Air, suspended those agreements in April. In a confidential report last year to Korea Air's top management, a team of current and former Delta pilots brought in to advise the Korean airline said that unless it changed an insular cockpit culture, it was likely to suffer a "steady increase in the number of safety-related incidents and accidents," and without dramatic improvements, a "loss of public trust could even lead to the death of the airline."

Korean President Kim Dae Jung has called this safety record an embarrassment to the nation, and pointedly picked Korea Air's smaller rival, Asiana Airlines, to fly to a U.S. meeting last week. The government ministry has slammed the brakes on Korea Air's ambitious growth plans and suspended some domestic flights. And the U.S. National Transportation Safety Board, still investigating the 1997 Guam crash, is expected in September to issue findings harsh in how the pilots made

Bill Summary & Status for the 106th Congress

Item 1 of 1

PREVIOUS BILL:ALL | NEXT BILL:ALL
NEW SEARCH | HOME | HELP

H.R.1310**SPONSOR: Rep Crane, Philip M. (introduced 03/25/99)**

Jump to: Titles, Status, Committees, Amendments, Cosponsors, Summary

TITLE(S):

- **SHORT TITLE(S) AS INTRODUCED:**
Charitable Giving Tax Relief Act
 - **OFFICIAL TITLE AS INTRODUCED:**
A bill to amend the Internal Revenue Code of 1986 to allow non-itemizers a deduction for a portion of their charitable contributions.
-

STATUS: Floor Actions*****NONE*****

STATUS: Detailed Legislative Status**House Actions****Mar 25, 99:**

Referred to the House Committee on Ways and Means.

STATUS: Congressional Record Page References03/25/99 Introductory remarks on Measure (CR E561-562)

COMMITTEE(S):

- **COMMITTEE(S) OF REFERRAL:**
House Ways and Means
-

AMENDMENT(S):*****NONE*****

COSPONSORS(65):

<u>Rep Coyne, William J.</u> - 03/25/99	<u>Rep Herger, Wally</u> - 03/25/99
<u>Rep Thurman, Karen L.</u> - 03/25/99	<u>Rep Ramstad, Jim</u> - 05/14/99
<u>Rep Camp, Dave</u> - 05/14/99	<u>Rep Bishop, Sanford D., Jr.</u> - 05/14/99
<u>Rep Pastor, Ed</u> - 05/14/99	<u>Rep Rodriguez, Ciro</u> - 05/14/99
<u>Rep Nethercutt, George R., Jr.</u> - 05/14/99	<u>Rep Bono, Mary</u> - 05/14/99
<u>Rep Kolbe, Jim</u> - 05/14/99	<u>Rep Metcalf, Jack</u> - 05/14/99
<u>Rep Ehlers, Vernon J.</u> - 05/14/99	<u>Rep Kilpatrick, Carolyn C.</u> - 05/14/99
<u>Rep Bereuter, Doug</u> - 05/14/99	<u>Rep Schaffer, Bob</u> - 05/14/99
<u>Rep Myrick, Sue</u> - 05/14/99	<u>Rep Paul, Ron</u> - 06/10/99
<u>Rep Lofgren, Zoe</u> - 06/10/99	<u>Rep Waxman, Henry A.</u> - 06/10/99
<u>Rep Kildee, Dale E.</u> - 06/10/99	<u>Rep Canady, Charles T.</u> - 06/10/99
<u>Rep Woolsey, Lynn C.</u> - 06/10/99	<u>Rep Reyes, Silvestre</u> - 06/10/99
<u>Rep Watts, J. C., Jr.</u> - 06/10/99	<u>Rep Deutsch, Peter</u> - 06/10/99
<u>Rep Pelosi, Nancy</u> - 06/10/99	<u>Rep Hinojosa, Ruben</u> - 06/10/99
<u>Rep Northup, Anne</u> - 07/01/99	<u>Rep Clay, William (Bill)</u> - 07/01/99
<u>Rep Romero-Barcelo, Carlos A.</u> - 07/01/99	<u>Rep Farr, Sam</u> - 07/01/99
<u>Rep Johnson, Nancy L.</u> - 07/01/99	<u>Rep Dunn, Jennifer</u> - 07/01/99
<u>Rep Houghton, Amo</u> - 07/01/99	<u>Rep Leach, James A.</u> - 07/01/99
<u>Rep Souder, Mark E.</u> - 07/01/99	<u>Rep Emerson, Jo Ann</u> - 07/01/99
<u>Rep Smith, Nick</u> - 07/01/99	<u>Rep Foley, Mark</u> - 07/01/99
<u>Rep Callahan, Sonny</u> - 07/01/99	<u>Rep Vento, Bruce F.</u> - 07/01/99
<u>Rep Hulshof, Kenny C.</u> - 07/22/99	<u>Rep Becerra, Xavier</u> - 07/22/99
<u>Rep Barcia, James A.</u> - 07/22/99	<u>Rep Kleczka, Gerald D.</u> - 07/22/99
<u>Rep Largent, Steve</u> - 07/22/99	<u>Rep LaHood, Ray</u> - 07/22/99
<u>Rep Manzullo, Donald A.</u> - 07/22/99	<u>Rep McHugh, John M.</u> - 07/22/99
<u>Rep Traficant, James A., Jr.</u> - 07/30/99	<u>Rep Bilbray, Brian P.</u> - 07/30/99
<u>Rep Hyde, Henry J.</u> - 07/30/99	<u>Rep Gordon, Bart</u> - 07/30/99
<u>Rep Radanovich, George P.</u> - 07/30/99	<u>Rep Gutierrez, Luis V.</u> - 08/05/99
<u>Rep Miller, Gary</u> - 08/05/99	<u>Rep Matsui, Robert T.</u> - 08/05/99
<u>Rep Evans, Lane</u> - 08/05/99	<u>Rep Ewing, Thomas W.</u> - 08/05/99
<u>Rep Roybal-Allard, Lucille</u> - 08/05/99	<u>Rep Serrano, Jose E.</u> - 08/05/99
<u>Rep Bliley, Tom</u> - 08/05/99	<u>Rep Blagojevich, Rod R.</u> - 08/05/99
<u>Rep Shays, Christopher</u> - 08/05/99	

SUMMARY:

(AS INTRODUCED)

Charitable Giving Tax Relief Act - Amends the Internal Revenue Code to permit non-itemizers to deduct a portion of their charitable contributions.

ALLOW CHARITABLE CONTRIBUTION DEDUCTION FOR NON-ITEMIZERS **(Sec. 808 of S. 1429, The Taxpayer Refund Act of 1999, as Reported by the Finance Committee)**

Oppose. Extending the charitable contribution deduction to non-itemizers who make relatively small gifts would create unnecessary complexity, would probably stimulate little additional giving, and would create a difficult enforcement problem for the IRS. Some of these concerns would be addressed if the proposal were modified to limit the deduction to charitable contributions above a certain level.

Present Law

Generally, taxpayers who itemize their deductions may claim a charitable contribution deduction (subject to certain percentage limitations) for contributions made to a qualified charitable organization. Individuals who elect the standard deduction may not claim a deduction for charitable contributions made during the taxable year.¹

Proposal

The proposal would allow taxpayers who do not itemize their deductions to claim an above-the-line deduction for charitable contributions. The deduction would be limited to a maximum of \$50 for single filers and \$100 for joint filers. JCT estimated that allowing such a deduction only for 2000 and 2001 would cost a total of \$1.3 billion.

Talking Points

- The standard deduction theoretically includes an allowance for charitable giving. Therefore, non-itemizers should not be allowed to claim both the standard deduction and an above-the-line deduction for the first \$50-\$100 of their charitable contributions.
- Because the amounts involved (\$50-\$100 per return) would be relatively small, IRS enforcement would be difficult. Thus, the proposed deduction would represent a de facto increase in the standard deduction.
- Proponents of a non-itemizer deduction argue that non-itemizers are frequent charitable givers and that allowing a deduction would increase charitable giving by non-itemizers. However, given the proposed \$100 cap on deductible charitable contributions, the

¹In contrast to present law, during 1982-1986 non-itemizers were allowed a deduction for charitable contributions in addition to the standard deduction, subject to differing limitations during those years. The maximum charitable contribution deduction for non-itemizers was \$25 for 1982 and 1983, and \$75 for 1984. For 1985, 50 percent of the amount contributed was deductible (without a dollar cap) and, for 1986, 100 percent of the amount contributed was deductible (without a dollar cap).

proposal is unlikely to encourage increased charitable giving.

Better approaches

- A better approach would be to allow a deduction to non-itemizers for charitable contributions above a set floor. Assuming that the floor is set at a level that exceeds the average charitable contribution by non-itemizers, such a proposal would be more likely to encourage increased charitable giving and to reduce the potential for abuse.
- For example, non-itemizers could be allowed to deduct aggregate charitable contributions which exceed the greater of \$500 or 1% (or 2%) of the taxpayer's AGI.
 - Establishing a floor based on a combination of a fixed dollar amount and a percentage of AGI would serve two purposes. Use of a fixed dollar amount (e.g., \$500) would be consistent with the notion that the standard deduction includes an allowance for average charitable contributions, and that a deduction should be available only for charitable contributions above that minimum amount. At the same time, establishing a floor based on the greater of a fixed dollar amount or a percentage of the taxpayer's AGI would raise the threshold for high income taxpayers. Thus, it would encourage taxpayers to give a greater share of their income to charity.
 - According to one estimate, the average annual charitable contribution by nonitemizers in 1996 was \$465.
 - Although there is conflicting data, some surveys indicate that aggregate annual charitable contributions by individuals have averaged between 1% and 2% of personal income. Such surveys would support setting the floor on deductible charitable contributions between 1% and 2% of AGI.
- Because non-itemizers would be able to deduct only their contributions above the set floor, they would not receive a "double benefit" as a result of claiming both the standard deduction and a charitable contribution deduction.
- Although any proposal to allow a charitable contribution deduction for non-itemizers would add complexity and some level of administrative burden, the use of a threshold amount would at least reduce the possibility that taxpayers would claim deductions for charitable contributions that they cannot substantiate.
- On the other hand, placing a floor on a charitable giving deduction may not encourage additional giving, but merely provide an incentive for some taxpayers to "bunch" their giving in order to exceed the floor in particular years.
- Similar versions of a charitable deduction for nonitemizers have been proposed in recent years. In 1997, JCT estimated that allowing nonitemizers to deduct aggregate annual

charitable contributions in excess of a flat floor of \$500 for single filers (\$1,000 for joint filers) would cost \$6-\$6.5 billion per year. Other proposals would allow nonitemizers to deduct only a percentage of aggregate charitable contributions above a certain floor.

Other proposals to increase charitable giving

- Increase the present-law AGI percentage limitations on deductible charitable contributions (sec. 809 of S. 1429). The Senate proposal would gradually increase the percentage limitations on deductible contributions to public charities from 50% and 30% (in the case of gifts of certain capital gain property) of AGI, to 70% and 50% of AGI, respectively. JCT estimated that this proposal would cost a total of \$3.7 billion over 2002-2009.
 - Such an overall increase in the percentage limitations would be preferable to providing relief only to those taxpayers contributing IRA assets to charity (see below).
- Allow tax-free rollovers of IRA assets to charity (sec. 1009 of Conference Report to H.R. 2488). JCT estimated that this proposal would cost a total of \$1.6 billion over 2003-2009 (roughly \$230 million per year).
 - This proposal is problematic because it would provide more favorable tax treatment to individuals who fund their charitable contributions using IRA assets. Such taxpayers would be permitted to avoid present-law restrictions on deductible charitable contributions, such as the AGI percentage limitations under section 170, the overall limitations on itemized deductions under section 68, and the requirement that the taxpayer itemize his or her deductions.

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- 22nd Annual Conference - Springfield, MA - October 21-25
- 23rd Annual Meeting - Atlanta, GA - October 21-25
- 24th Annual Meeting - Atlanta, GA - October 21-25
- 25th Annual Meeting - Atlanta, GA - October 21-25
- 26th Annual Meeting - Atlanta, GA - October 21-25
- 27th Annual Meeting - Atlanta, GA - October 21-25
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- 49th Annual Meeting - Atlanta, GA - October 21-25
- 50th Annual Meeting - Atlanta, GA - October 21-25

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Is Charitable Giving by Nonitemizers Responsive to Tax Incentives? New Evidence

Abstract - Was nonitemizer giving responsive to the 1982-6 "above-the-line" tax deduction provided for in the 1981 Economic Recovery Tax Act? Here, a Tobit model is applied to Treasury Individual Tax Model file data for 1985 and 1986 to estimate the price elasticity of nonitemizer giving. Nonitemizer giving is found to be price-responsive. The responsiveness is, however, smaller than that for itemizer giving (at least for 1986 when the nonitemizer deduction was fully phased in), suggesting diminishing returns from extending the itemizers-only deduction to nonitemizers. These findings also question whether the nonitemizer deduction can be touted as a highly efficient tax subsidy.

INTRODUCTION

At present, the U.S. tax code only permits taxpayers who itemize their deductions to deduct for tax purposes the value of their charitable giving. Nonitemizers claim the standard deduction in lieu of reporting any itemized deductions. But this has not always been the case. Best remembered for slashing individual and corporate marginal tax rates and subsequently indexing the tax brackets for inflation, the 1981 Economic Recovery Tax Act (ERTA) also contained a provision phasing in a tax deduction for charitable contributions by nonitemizers. This "above-the-line" deduction was treated as an experiment and was scheduled to expire at the end of 1986. Since the Tax Reform Act of 1986 was silent on this provision, it expired as scheduled. The existence of the above-the-line deduction permits an estimation of the responsiveness of nonitemizer giving to tax incentives. It then becomes possible to directly compare the responsiveness of nonitemizer giving to that of giving by itemizers. Such a comparison can be instructive in light of current proposals to reinstitute a tax deduction for nonitemizer giving as well as proposals for other sorts of above-the-line deductions (such as education savings accounts, medical savings accounts, etc.).

The ERTA provided for the phasing in of the above-the-line contributions deduction over the five-year period 1982-6. During the first three years of the phase-in period, there were strict dollar limits on the amount of giving that nonitemizers could deduct for tax purposes. In 1982 and 1983,

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TABLE 1
NONITEMIZERS CLAIMING THE DEDUCTION

Year	Number of Nonitemizer Returns	Number of Nonitemizer Givers	Percent of Returns Giving	Dollars Claimed* (in Billions)	Average Dollars Claimed per Giver
1982	61,904,623	19,284,231	31.10	\$0.43	\$22
1983	61,091,018	22,512,944	36.90	\$0.51	\$23
1984	61,235,616	22,920,542	37.40	\$1.17	\$51
1985	61,812,103	25,359,085	41.00	\$4.72	\$186
1986	62,378,162	28,041,097	45.00	\$13.28	\$474

*Dollars claimed refers to the amount deducted on the return, which for 1982-5 would have been a fraction of the dollar value of total giving. In 1986, since nonitemizer giving was 100 percent deductible, dollars claimed and dollars deducted would have been equal.

nonitemizers were permitted to deduct 25 cents on the dollar only for the first \$100 of giving. (Only the first \$50 of giving was deductible for married couples filing jointly.) In 1984, the ceiling on deductible giving was raised to \$300. The ceilings were removed in 1985 and nonitemizers were allowed to deduct 50 cents on the dollar. In 1986, the deduction was fully phased in and nonitemizer giving was 100 percent deductible.

Inclusion of the above-the-line deduction in ERTA, as Clotfelter (1980) noted, was intended to offset the disincentive effect from increases in the standard deduction over the decade prior to 1981. Between 1970 and 1980, the standard deduction rose from \$1,000 to \$3,400 in current dollars, an increase of 74 percent in real terms. As the standard deduction rose, so also did the proportion of taxpayers who do not itemize and thus received no tax incentive to engage in charitable giving—from 52 percent in 1970 to 69 percent in 1980. The nonitemizer deduction in ERTA was aimed at stimulating charitable contributions by this growing class of taxpayers.

Table 1 indicates the extent to which nonitemizers claimed the special deduction. Note the dramatic increases in reported giving that coincided with the lifting of the contribution limits in 1985 and 1986.

It has been a decade since the above-the-line deduction was allowed to expire. But the issue of charitable giving by nonitemizers has not lost its saliency. Leg-

islation restoring a tax incentive for nonitemizer giving was introduced in the recently concluded 105th Congress. H.R. 1338 sponsored by Representative Souder (R-IN) provided for the deductibility of nonitemizer giving above a floor of \$1,000 (\$2,000 for married couples filing jointly). Fifty cents of nonitemizer giving on the dollar (above a \$500 floor) would have been deductible under H.R. 2499 sponsored by Representative Crane (R-IL).

This paper will assess the responsiveness of nonitemizer giving to the tax incentive provided by the above-the-line deduction, using tax data from 1985 and 1986. The remainder is divided into four sections. A short review of the literature on charitable giving is provided in the next section. The third section describes the model and data to be used. The fourth section presents the empirical results and provides some interpretation. The last section closes with a discussion of some possibilities for further research.

LITERATURE REVIEW

There is a sizable literature dealing with the effect of tax incentives upon charitable giving. Most studies have found giving to be highly price elastic, implying that the deduction stimulates more in giving than it costs the treasury in terms of foregone tax revenue.¹ The deduction is thus said to meet the test for being "treasury efficient."² More recent studies using

Charitable Giving by Nonitemizers

panel data, such as Broman (1989), Ricketts and Westfall (1993), Randolph (1995), and Barrett, McGuirk, and Steinberg (1997), have challenged the conclusion of treasury efficiency, estimating considerably smaller magnitude price elasticities. Income elasticity is generally estimated between 0.5 and 1.0.

Only a handful of studies, though, has addressed the specific question of nonitemizer giving, and the issue remains unsettled. Dye (1978) used data from a survey of low-to-middle income households to investigate the existence of an "itemization effect"—whether the observed differences in contributions across households might simply reflect the effect of itemization status rather than price. The coefficient on a dummy variable representing itemization status was estimated to be positive and significant, a result which was interpreted as evidence in favor of such an effect. Using the same data set as Dye but focusing on a narrower income range, Boskin and Feldstein (1977) obtained results that argued against an itemization effect's existence. The hypothesis of an itemization effect was also tested for and rejected by Brown (1987).

A small number of studies have simulated the consequences of extending the itemizers-only deduction to nonitemizers. These include Feldstein and Taylor (1976) and Clotfelter (1980). Extending the deduction to nonitemizers was concluded to stimulate more in giving than it would cost the treasury in foregone revenue. Since the findings were driven by the assumption of identical price elasticities for both nonitemizers and itemizers, though, they may be suspect.

Only two studies have explicitly estimated the price elasticity of nonitemizer giving. The first of the two, Robinson

(1990), used tax data from 1985 and obtained results that were, due to the large standard errors, inconclusive.³ More recently, Dunbar and Phillips (1997) estimated a nonitemizer price elasticity using a set of panel data covering both 1985 and 1986. A model of year-to-year changes in contributions similar to that employed by Broman (1989) was estimated. It was shown that the above-the-line deduction was a highly efficient tax subsidy, with the price elasticity of nonitemizer giving estimated at -3.36. It was also demonstrated that the boosting of the deductible portion of nonitemizer giving from 50 percent in 1985 to 100 percent in 1986 prompted 1985 nongivers to become givers in 1986. In light of these findings, the authors questioned the wisdom of Congress' permitting the nonitemizer deduction to expire in 1986 as scheduled.

MODEL AND DATA

This study will follow the standard practice of modeling charitable giving by means of a double-log specification. The logged value of charitable contributions is represented as a linear function of the log of the after-tax "price" of giving, logged disposable income, number of dependent children, and dummy variables for both marital status and age. A Tobit regression is used to account for the non-negativity constraint on total giving.⁴ For itemizers, the difference between Tobit and ordinary least squares (OLS) is unimportant, as the vast majority of itemizers reported positive giving. But for nonitemizers, the majority of whom did not claim the above-the-line deduction, Tobit is the more appropriate regression.⁵ Following is a description of each of the regression variables.

¹ The price elasticity of nonitemizer donations was estimated to be insignificantly different from zero, as well as insignificantly different from the price elasticity of donations by itemizers.

⁴ One could also motivate the use of Tobit by the possibility that some nonitemizers with positive giving may have failed to claim the deduction due to a lack of sophistication about the tax code, a failure to keep records, or a fear of the IRS.

⁵ The superiority of Tobit over OLS for nonitemizer giving is discussed in detail by Robinson (1990).

¹ For a more comprehensive review of the literature, see Clotfelter (1985) and Steinberg (1990).

² See Barrett (1991).

GIVING. In 1985 and 1986, both itemizers and nonitemizers could receive a tax break by reporting charitable contributions on their tax returns. For nonitemizers in 1986, as well as for itemizers in both years, donations were deductible on a dollar-for-dollar basis. In 1985, nonitemizers could only deduct one dollar for every two in contributions, so that year's contributions deduction would have to be doubled to determine total giving. To avoid taking the log of zero, the standard practice is to adjust reported giving upward by some nominal amount, in this case \$10.

PRICE. The price variable is defined as the after-tax cost to the donor of contributing \$1 to charity.⁶ For itemizers and 1986 nonitemizers, the federal tax deduction reduces the after-tax price of a \$1 cash donation to \$1 minus the marginal tax rate. For 1985 nonitemizers, the after-tax price of donating \$1 cash would be \$1 minus half the marginal tax rate. To avoid the endogeneity bias arising from the dependence of marginal tax rate on total giving, the standard practice is to use the after-tax price corresponding to the first dollar of giving, as well as to exclude so-called "borderline itemizers" for whom charitable contributions represent the difference between the decision to itemize or not to itemize.⁷

Because in 1985 and 1986 the tax code favored noncash gifts over cash gifts, separate prices were calculated for the two

types of gifts and filers were grouped by income class with separate weights calculated for each class. Further reducing the price of giving are state-level tax deductions.⁸ While state tax rates are smaller than federal rates, their effect is not trivial.⁹ In 1985, for example, income taxes were levied by 44 states plus the District of Columbia, with 36 permitting the deduction of charitable contributions. Marginal tax rates exceeded 10 percent in nine of those states, topping out at 16 percent in Minnesota. Following other studies, filers subject to the peculiar rate structure of the alternative minimum tax were excluded from the final sample.

INCOME. Disposable income is taken to be the difference between before-tax income and exogenous-of-giving taxes. For before-tax income, many studies have simply used adjusted gross income (AGI). But AGI alone provides an incomplete picture of pretax income. Certain forms of income are partially excluded from AGI, and there are numerous "adjustments to income" that are subtracted out prior to figuring AGI. An alternative is to use AGI plus the excluded part of pension income, dividend income, Social Security income, and unemployment compensation, as well as the adjustments for the two-earner married deduction, IRA and Keogh plan contributions, and penalties for early withdrawal of savings.¹⁰ This should provide a more accurate picture of before-tax income.¹¹ From this measure of before-tax

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income is subtracted the tax liability associated with a charity deduction of zero. If instead the actual tax liability was subtracted from before-tax income, an element of bias could be introduced due to the dependence of tax liability on total charitable contributions. To avoid taking the log of zero or a negative number, filers whose disposable income was nonpositive were excluded from the final sample.

Additional variables are used for dependents, marital status, and age. The dependents term is defined as the sum of the number of exemptions claimed for dependent children living at home and for dependent children living away from home. Marital status and age are represented by dummy variables. The marital status dummy is set equal to one for married taxpayers filing jointly and zero for single filers. Following Slemrod (1989), married taxpayers filing separately were excluded due to the possibility that their inclusion could bias the estimated price and income elasticities. The age dummy is set equal to one if any age exemptions were claimed, and zero otherwise.

Two sets of tax data are used, the 1985 and 1986 Individual Tax Model (ITM) files, compiled by the Statistics of Income division of the IRS.¹² Of the 108,840 returns in the unweighted 1985 ITM data set, 3,104 were prior-year returns. Deleting those left 105,736 returns, of which 75,331 (71.2 percent) were itemized and 30,405 (28.8 percent) claimed the standard deduction. The relatively high proportion

of itemized returns reflects the oversampling of high-income returns, which are more likely to be itemized. (Overall, 39 percent of the 101.7 million returns filed in 1985 itemized their deductions.¹³) A total of 72,203 (95.8 percent) of the itemizers and 11,000 (36.2 percent) of the nonitemizers reported positive giving. For the 1986 ITM set, the figures were 75,400 returns, of which 1,913 were prior-year returns, leaving 73,487 returns split between 53,598 (72.9 percent) itemizers and 19,889 (27.1 percent) nonitemizers. Charitable contributions were claimed by 51,344 (95.8 percent) of those itemizers and 7,439 (37.4 percent) of the nonitemizers. As for the borderline itemizers, the contributions deduction represented the difference between the decision to itemize or claim the standard deduction for 1,462 (1.9 percent) of the 1985 itemizers and 381 (0.7 percent) of the 1986 itemizers.

Some interesting observations can be drawn from employing the sample weights and breaking down reported giving in the 1985 and 1986 ITM sets by AGI class. Such a breakdown is presented on the following page (Table 2).

An inspection of the weighted data suggests that nonitemizer giving appeared responsive to the enhancement of the tax incentive from 1985 to 1986.¹⁴ Between 1985 and 1986, the proportion of nonitemizers who gave rose across all income classes, while the proportion of itemizers (for whom the tax treatment was not sweetened) who donated did not. At all

An alternative would have been to employ expected future price and lagged price, but that would have required panel data to which the author did not have access.

Conversely, there is the possibility that some filers who would otherwise have itemized might choose to become nonitemizers in 1985 and 1986 to take advantage of the standard deduction and above-the-line nonitemizer deduction. Since the data do not provide information on these filers' other potential deductions, however, it was not possible to delete those so-called borderline nonitemizers.

Since state income taxes are deductible at the federal level and federal income taxes are deductible in certain states, there is an interaction between the federal and state deductions. This interaction was accounted for in constructing the price term.

Estimation of state tax rates for all taxpayers was not possible since the 1985 and 1986 ITM data sets suppressed the state indicator for taxpayers with adjusted gross income (AGI) exceeding \$200,000.

Excluded capital gains were not added back since 1986 capital gains realizations contain a large transitory component due to taxpayers' response to enactment of the Tax Reform Act of 1986 and its boosting of the top tax rate on capital gains.

While this is preferable as a measure of pretax income, the results were not dependent upon its use.

¹¹ The decision to focus on those years has to do with the specifics of the nonitemizer charity deduction. Although the special deduction existed from 1982 through 1986 and it is possible to obtain ITM files for all five years, for the years 1982-4, nonitemizers were permitted to deduct only token amounts.

¹² Clotfelter (1990).

¹⁴ The evidence from Table 2 is not conclusive on this point, because in 1985 and 1986, the criteria differ for whether it is advantageous to the taxpayer to be an itemizer. Conceivably, some 1985 itemizers may have opted to become 1986 nonitemizers to take advantage of the combination of the standard deduction and the jump from 50 to 100 percent in the contributions deduction. An example is a filer who donates generously to charity but for whom all other potentially itemizable deductions total less than the standard deduction. For that filer, it would be advantageous to itemize in 1985 but switch to nonitemizer status in 1986. Some of the boost in nonitemizer giving in 1986 could be an indication of such changes in filing status by large donors rather than a behavioral response to the more favorable tax treatment.

TABLE 2
1985-86 GIVING BREAKDOWN (WEIGHTED)

Year	Filing Status	AGI Class	Percent Donating	Average Donor's Gift
1985	Nonitemizers	<= \$20,000	36.5	\$339
		\$20,000-\$40,000	62.8	\$448
		\$40,000-\$60,000	73.3	\$636
		>\$60,000	74.0	\$742
		totals	41.6	\$376
	Itemizers	<= \$20,000	79.4	\$746
		\$20,000-\$40,000	91.1	\$854
		\$40,000-\$60,000	95.7	\$1,225
		>\$60,000	97.1	\$4,135
		totals	90.3	\$1,358
1986	Nonitemizers	<= \$20,000	39.9	\$388
		\$20,000-\$40,000	66.7	\$610
		\$40,000-\$60,000	79.4	\$1,031
		>\$60,000	79.6	\$1,973
		totals	45.6	\$477
	Itemizers	<= \$20,000	76.4	\$653
		\$20,000-\$40,000	90.5	\$837
		\$40,000-\$60,000	94.9	\$1,192
		>\$60,000	97.1	\$4,711
		totals	89.6	\$1,463

income levels, nonitemizers who gave contributed more, on average, in 1986, when nonitemizer giving was fully deductible, than in 1985 when it was not. The average nonitemizing donor's gift jumped from \$376 in 1985 to \$477 in 1986. For the highest AGI class, the rise in the average nonitemizer gift was more pronounced, from \$742 in 1985 to \$1,973 in 1986. On the other hand, in both years, the proportion of nonitemizer givers was considerably smaller than the proportion of itemizer givers. For all incomes, the average nonitemizing donor also reported less giving than the average itemizing donor -- even in 1986 when the tax treatment of nonitemizer and itemizer gifts was identical. This last point suggests that reported giving by nonitemizers may be less responsive to tax incentives than reported giving by itemizers.

RESULTS

The responsiveness of charitable contributions to tax incentives is estimated using a Tobit regression on the standard

double-log model of charitable giving. Separate results are presented for the years 1985 and 1986 when the dollar ceilings on deductible nonitemizer giving were lifted. Regarding the price responsiveness of nonitemizer giving, the 1985 results are suggestive but inconclusive. The results obtained using the 1986 data are more conclusive. The reporting of separate results for itemizers permits a comparison of the two filing classes' price sensitivity. As a check, the itemizer results can also be compared with those of other studies that used similar tax data to examine itemizer giving.

Table 3 presents the coefficient estimates from performing a Tobit regression on the double-log giving model with the 1985 data. Separate coefficient estimates are provided for nonitemizers and itemizers. Standard errors are reported in parentheses.

Begin by looking at the findings for 1985. Evidently, the deductibility of giving stimulated donations by both classes of filers. Price elasticity for both itemizers and nonitemizers came out negative and

Charitable Giving by Nonitemizers

TABLE 3
1985 AND 1986 REGRESSION RESULTS
(ITEMIZERS AND NONITEMIZERS)

Year	Term	Itemizers	Nonitemizers
1985	INTERCEPT	-4.460 (0.084)	-10.754 (0.498)
	LN(PRICE)	-1.052 (0.060)	-1.827 (0.910)
	LN(DISPOSABLE INCOME)	0.929 (0.009)	1.370 (0.062)
	DEPENDENTS	0.099 (0.006)	-0.097 (0.025)
	MARITAL STATUS DUMMY	0.438 (0.020)	0.300 (0.057)
	AGE DUMMY	0.535 (0.021)	1.155 (0.067)
	N	55,591	23,656
	PROPORTION DONATING	95.5%	44.2%
	PRICE ELASTICITY	-1.005 (0.057)	-0.807 (0.402)
	INCOME ELASTICITY	0.887 (0.009)	0.605 (0.027)
1986	INTERCEPT	-4.428 (0.098)	-11.327 (0.581)
	LN(PRICE)	-1.302 (0.076)	-1.295 (0.440)
	LN(DISPOSABLE INCOME)	0.913 (0.011)	1.466 (0.071)
	DEPENDENTS	0.100 (0.008)	-0.091 (0.030)
	MARITAL STATUS DUMMY	0.463 (0.026)	0.270 (0.069)
	AGE DUMMY	0.544 (0.028)	1.110 (0.027)
	N	37,077	14,231
	PROPORTION DONATING	95.3%	49.2%
	PRICE ELASTICITY	-1.241 (0.072)	-0.637 (0.216)
	INCOME ELASTICITY	0.870 (0.011)	0.721 (0.035)

significant. While the nonitemizer point estimate came out smaller than the itemizer point estimate, the hypothesis that price elasticity for the two filing classes was equal could not be rejected, nor could the hypothesis that the nonitemizer price elasticity is equal to the -1 critical value for treasury efficiency. Income elasticity was estimated to be positive and in the inelastic range for both filing classes.

More conclusive are the results obtained using the 1986 data. As with 1985, for both filing classes, price elasticity came out negative and significant. This time, though, due largely to the decline in the size of the standard error associated with the nonitemizer price elasticity, the hypothesis that the two elasticities were equal could be rejected. Evidently, in 1986, donations by nonitemizers were less responsive to the tax subsidy than were donations by itemizers, even though gifts by the two filing classes received identical tax treatment. Alternately, the hypothesis that nonitemizer price elasticity is equal to the -1 critical value still could not be rejected, although the margin narrowed. Estimates of income elasticity for the two filing classes again came out in the positive and inelastic range.

Both the 1985 and 1986 results, though, have certain shortcomings. For the 1985 results, the drawback is the large standard error associated with the nonitemizer price elasticity. Going from 1985 to 1986, the standard error on the nonitemizer price elasticity dropped by half. This drop-off is likely attributable to the increase in the size of the range over which the nonitemizer price variable varied. Only 50 percent of nonitemizer giving was deductible in 1985, while 100 percent of

nonitemizer giving was deductible in 1986. For 1986, then, there would be greater variation across taxpayers in the price term than in 1985.¹⁵ Giving by itemizers, on the other hand, was 100 percent deductible in both years. Hence, there was little change between 1985 and 1986 in the standard error associated with the itemizer price elasticity.

For the 1986 results, the drawback is of a different nature. There is the possibility that the 1986 giving data may be contaminated by taxpayer timing behavior related to the landmark tax reforms enacted that year. The Tax Reform Act of 1986 may have influenced the timing of charitable contributions in two ways. First, marginal tax rates fell (from 1986 to 1988, the top rate was slashed from 50 to 28 percent), thereby reducing the tax subsidy for deducting contributions. Filers claiming a deduction for their donations would have faced a strong temptation to move post-1986 giving forward into 1986 in order to capitalize on the larger tax subsidy. The extent to which itemizers, and particularly high-income itemizers, moved giving forward into 1986 in response to the 1986 tax reforms has been examined by Auten, Cilke, and Randolph (1992). Plus, the Tax Reform Act of 1986 permitted the expiration of the nonitemizer deduction at the end of 1986, encouraging nonitemizers to accelerate post-1986 giving into 1986. Such timing behavior is less of a concern for the 1985 data, as the 1986 tax reforms didn't really take shape and begin to gain political momentum until early 1986.¹⁶

Despite those shortcomings, some significant generalizations can be drawn from Table 3. First, it appears that charitable giving by nonitemizers is responsive to tax incentives. The estimated price elas-

ticities are negative and significant for both 1985 and 1986. Similar estimates of price elasticity were obtained for both sets of nonitemizer regressions, despite the fact that the tax treatment of charitable giving by that class of filers was not constant during 1985-6. The after-tax price of giving by nonitemizers fell dramatically when contributions went from being 50 percent deductible in 1985 to 100 percent deductible in 1986. The similarity of the price elasticity estimates despite the changed tax treatment of nonitemizer giving is persuasive.

While giving by nonitemizers appears responsive to tax incentives, it seems that the degree of responsiveness is smaller than that for itemizers—at least for 1986 when the above-the-line deduction was fully phased in and giving by both filing classes was deductible on a dollar-for-dollar basis. This is a potentially important finding. If giving by nonitemizers is less price responsive, then extending the deduction to nonitemizers would yield a smaller boost to giving than that implied by estimates of the price elasticity for itemizers. Studies such as Feldstein and Taylor (1976) and Clotfelter (1980), which simulated the effect of enacting a nonitemizer deduction by assuming the two classes of taxpayers to have identical price elasticities, would, then, have overstated the boost to giving. This finding also implies diminishing returns from extending the itemizers-only deduction to nonitemizers. Those taxpayers whose giving is the most price sensitive, the itemizers, can of course already claim the deduction. Extending the itemizers-only deduction to nonitemizers would then simply have the effect of making available a tax deduction to a group of taxpayers whose giving is less sensitive to tax incentives. Total giving increases, but at a diminished rate.

Why might nonitemizers be less price responsive? One explanation has to do with income. Nonitemizers have, on av-

erage, lower disposable incomes than do itemizers. The existence of disparities in disposable income between nonitemizers and itemizers is noteworthy, because there is some evidence that the price responsiveness of giving may rise with income. A finding that high-income filers may be more responsive than their lower-income counterparts was presented by Feldstein and Taylor (1976) and Auten, Cilke, and Randolph (1992). The evidence on this point, however, is not conclusive, as the findings of two other studies—Clotfelter and Steuerle (1981) and Robinson (1990)—were ambiguous.

To test whether price elasticity might vary with income, separate regressions were performed on the 1985 and 1986 data for each of four AGI classes. Because nonitemizers tend to cluster toward the lower end of the income scale, only itemizers were included in the regressions. The results are presented in Table 4 and appear to buttress the findings of Feldstein and Taylor (1976) and Auten et al. (1992). For both 1985 and 1986, the estimated price elasticities rise steadily in magnitude with income, from insignificantly different from zero for the lowest income class to significantly more than zero for the highest income class. Note that in both years it is only for the highest income class that the price elasticity exceeds in magnitude the critical value of -1. Evidently, the itemizers-only tax deduction is treasury efficient only for the highest income taxpayers.

TABLE 4
PRICE ELASTICITY BY DISPOSABLE
INCOME CLASS

Data Set	Disposable Income Class	Price Elasticity
1985 ITM	\$1-\$40,000	-0.08 (0.15)
	\$40,000-\$70,000	-0.47 (0.13)
	\$70,000-\$100,000	-0.62 (0.17)
	>\$100,000	-1.42 (0.19)
1986 ITM	\$1-\$40,000	-0.25 (0.20)
	\$40,000-\$70,000	-0.59 (0.15)
	\$70,000-\$100,000	-0.82 (0.24)
	>\$100,000	-2.18 (0.22)

¹⁵ For a nonitemizer facing the lowest (0 percent) federal marginal tax rate, the after-tax price of donating one dollar cash would be one dollar in 1985 and 1986 (ignoring state taxes). The after-tax price of making the same donation for a nonitemizer facing the top federal marginal tax rate (50 percent) would be only 75 cents in 1985 and 50 cents in 1986, hence the larger variation in the price term for 1986.

¹⁶ See Birnbaum and Murray (1987) for a superb account of the maneuverings through Congress of the Tax Reform Act of 1986.

But perhaps there's more to it than simply income differences. An alternative explanation holds the possibility of intrinsic differences between nonitemizers and itemizers. Perhaps nonitemizer giving is truly less sensitive to tax considerations. How might this be? One possibility mentioned by Robinson (1990) has to do with the connection between itemization status and home ownership. Most taxpayers who itemize do so because of the deduction for home mortgage interest. To the extent that there is a link between home ownership and a commitment to the community, itemizers might be expected to contribute more to charitable causes than non-itemizers. There is also the argument that nonitemizers may be less sophisticated than itemizers in terms of understanding the tax code. Non-itemizers are, after all, a special class of taxpayers. They claim no itemized deductions of any sort. They are not required to maintain as many records for tax purposes. Their level of expertise and ability to capitalize on tax benefits is likely to be inferior to that of itemizers. As such, it is entirely plausible that taxpayers who don't itemize would be intrinsically less responsive to tax incentives than those who do.

These findings also cast some doubt on the conclusion of Dunbar and Phillips (1997) that the nonitemizer deduction is a highly efficient tax subsidy. Recall that Dunbar and Phillips found nonitemizer giving to be highly price elastic, with a price elasticity of -3.36—larger than all but a handful of studies have obtained for itemizers and easily exceeding the standard for treasury efficiency. Here, the point estimates for nonitemizer price elasticity were considerably smaller, and for neither 1985 nor 1986 could the hypothesis that price elasticity equaled the critical value of -1 be rejected.

CONCLUSIONS

In order to stimulate charitable giving by nonitemizers, the 1981 ERTA included

a provision phasing in, over the period 1982-6, a full tax deduction for non-itemizer giving. It appears to have succeeded. Charitable contributions by nonitemizers seem to have been responsive to the decrease in the after-tax "price" of giving occasioned by the special deduction. Using Tobit to estimate a model of giving on 1985 and 1986 tax data, the price elasticity of nonitemizer giving was determined to be negative and significant. For 1985, when nonitemizer donations were 50 percent deductible, the price elasticity of nonitemizer giving was found to be insignificantly different from that of itemizer giving—a result which parallels that of Robinson (1990). More conclusive are the findings for 1986, when the above-the-line deduction was fully phased in and giving by both nonitemizers and itemizers was deductible on a dollar-for-dollar basis. Those results indicate a price elasticity for nonitemizer giving smaller in magnitude than that for itemizer giving. Such would imply diminishing returns from extending the itemizers-only deduction to nonitemizers. It would also suggest that earlier studies, which assumed identical price elasticities for the two filing classes in simulating the effect of extending the itemizer deduction to nonitemizers, would have overpredicted the boost to giving. Income elasticities of between 0.5 and 1.0 were estimated for both classes of filers.

A related issue is that of how an extension of the itemizers-only deduction to nonitemizers might alter the overall mix of giving. Which charities would benefit most? It has already been noted that, on average, nonitemizers tend to display lower incomes than itemizers. But Feldstein (1975) and Clotfelter (1990) have noted that giving by lower-income filers tends to be concentrated with religious charities. (Giving by high-income filers favors other charities such as museums and schools.) It follows, then, that extension of the itemizers-only deduction to

Charitable Giving by Nonitemizers

nonitemizers would confer the greatest benefit upon religious charities. That conclusion may be of particular interest, in light of recent proposals by Senator Ashcroft (R-MO) and others to expand the role of faith-based organizations in fighting poverty and meeting other social needs.

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Economies of Scale in Property Tax Assessment

Abstract - We estimate the costs of performing property tax assessments using a translog cost function over a sample of 138 county-level assessment offices in Georgia. We find that there are substantial economies of scale. For example, computed at the sample means, a ten percent increase in the volume of assessments results in an increase of approximately three percent in total costs. The model considers both the number of parcels and the value of parcels as alternate measures of volume; both measures give similar results. We also estimate a two-product cost function, with residential and nonresidential property assessment as the different outputs. These results show no evidence of economies of scope, and calculated economies of scale are very close to the single output results.

INTRODUCTION

Empirical estimates of economies of scale in the provision of government services are useful in decisions regarding jurisdiction or service consolidations, and in decisions concerning the reassignment of functions to special districts. There is a substantial literature dating back to the early 1960s attempting to estimate the extent of economies of scale in the provision of government goods and services. One of the first studies, conducted by Hirsch (1965), investigated the effect of various factors on the cost of municipal refuse collection service. Other work related to the issue of economies of scale in the provision of public services includes Ahlbrandt (1973) and Duncombe and Yinger (1993) on fire services, Deller et al. (1988) on roads, Walzer (1972) and Gyimah-Brempong (1987) on police, Kitchen (1976) on refuse collection, DeBoer (1992) on public libraries, and Callan and Santerre (1990) on education.¹ Early studies of economies of scale for government services used functional forms that did not necessarily exhibit the theoretical properties associated with cost functions. Recent research, however, is based more heavily on the economic theory of cost minimization and takes greater care in specifying the empirical model. An example is Duncombe and Yinger (1993), who investigate the existence of returns to scale in the provision of fire protection, and allow costs to vary by the level of activity or output, service quality, the number of persons served, and the number of functions performed (i.e., economies of scope).

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¹ Fox (1981) reviews the research on economies in education.



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August 11, 1999

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Comments:

Attached is an excerpt from IRS Publication 526, which describes the percentage limits on charitable contribution deductions. The document was printed from the IRS Web site and is difficult to read—you may want to download your own copy. The site is: http://www.irs.ustreas.gov/prod/forms_pubs/pubs.html

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Charitable Contributions

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Introduction

This publication discusses organizations that are qualified to receive deductible charitable contributions, the types of contributions you can deduct, how much you can deduct, what records to keep, and how to report charitable contributions. A **charitable contribution** is a donation or gift to, or for the use of, a **qualified organization**. It is voluntary and is made without getting, or expecting to get, anything of equal value.

Qualified organizations. Qualified organizations include nonprofit groups that are religious, charitable, educational, scientific, or literary in purpose, or that work to prevent cruelty to children or animals. You will find descriptions of these organizations under *Organizations That Qualify To Receive Deductible Contributions*.

Form 1040 required. To deduct a charitable contribution, you must file Form 1040 and itemize deductions on Schedule A. The amount of your deduction may be limited if certain rules and limits explained in this publication apply to you.

Useful Items

You may want to see:

Publication

- ☐ 78 Cumulative List of Organizations
- ☐ 561 Determining the Value of Donated Property

Form (and Instructions)

- ☐ Schedule A (Form 1040) Itemized Deductions
- ☐ 8283 Noncash Charitable Contributions

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Checks. A check that you mail to a charity is considered delivered on the date you mail it.

Credit card. Contributions charged on your bank credit card are deductible in the year you make the charge.

Pay-by-phone account. If you use a pay-by-phone account, the date you make a contribution is the date the financial institution pays the amount. This date should be shown on the statement the financial institution sends to you.

Stock certificate. The gift to a charity of a properly endorsed stock certificate is completed on the date of mailing or other delivery to the charity or to the charity's agent. However, if you give a stock certificate to your agent for the issuing corporation to transfer to the name of the charity, your gift is not completed until the date the stock is transferred on the books of the corporation.

Promissory note. If you issue and deliver a promissory note to a charitable organization as a contribution, it is not a contribution until you make the note payments.

Option. If you grant an option to buy real property at a bargain price to a charitable organization, you cannot take a deduction until the organization exercises the option.

Borrowed funds. If you make a contribution with borrowed funds, you can deduct the contribution in the year you make it, regardless of when you repay the loan.

Conditional gift. If your contribution is a conditional gift that depends on a future act or event that may not take place, you cannot take a deduction. But if there is only a negligible chance that the act or event will not take place, you can take a deduction.

If your contribution would be undone by a later act or event, you cannot take a deduction. But if there is only a negligible chance the act or event will take place, you can take a deduction.

Example 1. You donate cash to a local school board, which is a political subdivision of a state, to help build a school gym. The school board will refund the money to you if it does not collect enough to build the gym. You cannot deduct your gift as a charitable contribution until there is no chance of a refund.

Example 2. You donate land to a city for as long as the city uses it for a public park. The city does plan to use the land for a park, and there is no chance (or only a negligible chance) of the land being used for any different purpose. You can deduct your charitable contribution.

Limits on Deductions

If your total contributions for the year are 20% or less of your adjusted gross income, you do not need to read this section. The limits discussed here do not apply to you.

The amount of your deduction may be limited to either **20%, 30%, or 50%** of your adjusted gross income, depending on the type of property you give and the type of organization you give it to. These limits are described below.

If your contributions are more than any of the limits that apply, see *How To Figure Your Deduction When Limits Apply*, later.

Out-of-pocket expenses. Amounts you spend performing services for a charitable organization, which qualify as charitable contributions, are subject to the limit of the organization. For example, the 50% limit applies to amounts you spend on behalf of a church, a 50% limit organization. These amounts are considered a contribution to a qualified organization.

50% Limit

The 50% limit applies to the total of all charitable contributions you make during the year. This means that your deduction for charitable contributions cannot be more than 50% of your adjusted gross income for the year.

Only limit for 50% organizations. The 50% limit is the only limit that applies to gifts to organizations listed below under **50% Limit Organizations**. But there is one exception.

Exception. The 30% limit also applies to these gifts if they are gifts of capital gain property for which you figure your deduction using fair market value without reduction for appreciation. (See **30% Limit**, later.)

50% Limit Organizations

You can ask any organization whether it is a 50% limit organization, and most will be able to tell you. Or you may check IRS Publication 78 (described earlier).

Only the following types of organizations are 50% limit organizations.

- 1) Churches, and conventions or associations of churches.
- 2) Educational organizations with a regular faculty and curriculum that normally have a regularly enrolled student body attending classes on site.
- 3) Hospitals and certain medical research organizations associated with these hospitals.
- 4) Organizations that are operated only to receive, hold, invest, and administer property and to make expenditures for the benefit of state and municipal colleges and universities and that normally receive substantial support from the United States or any state or their political subdivisions, or from the general public.
- 5) The United States or any state, the District of Columbia, a U.S. possession (including Puerto Rico), a political subdivision of a state or U.S. possession, or an Indian tribal government or any of its subdivisions that perform substantial government functions.
- 6) Corporations, trusts, or community chests, funds, or foundations organized and operated only for charitable, religious, educational, scientific, or literary purposes, or to prevent cruelty to children or animals, or to foster certain national or international amateur sports competition. These organizations must be "publicly supported," which means they normally must receive a substantial part of their support, other than income from their exempt activities, from direct or indirect contributions from the general public or from governmental units.
- 7) Organizations that may not qualify as "publicly supported" under (6) but that

meet other tests showing they respond to the needs of the general public, not a limited number of donors or other persons. They must normally receive more than one-third of their support either from organizations described in (1) through (6), or from persons other than "disqualified persons."

- 8) Most organizations operated or controlled by, and operated for the benefit of, those organizations described in (1) through (7).
- 9) Private operating foundations.
- 10) Private nonoperating foundations that make qualifying distributions of 100% of contributions within 2 1/2 months following the year they receive the contribution. A deduction for charitable contributions to any of these private nonoperating foundations must be supported by evidence from the foundation confirming that it made the qualifying distribution timely. Attach a copy of this supporting data to your tax return.
- 11) A private foundation whose contributions are pooled into a common fund, if the foundation would be described in (8) above but for the right of substantial contributors to name the public charities that receive contributions from the fund. The foundation must distribute the common fund's income within 2 1/2 months following the tax year in which it was realized and must distribute the corpus not later than 1 year after the donor's death (or after the death of the donor's surviving spouse if the spouse can name the recipients of the corpus).

30% Limit

The 30% limit applies to:

- Gifts of capital gain property to 50% limit organizations. (For other gifts of capital gain property, see **20% Limit**, next.) However, the 30% limit does not apply when you choose to reduce the fair market value of the property by the amount that would have been long-term capital gain if you had sold the property. Instead, only the 50% limit applies. See *Capital Gain Property*, earlier, and *Capital gain property election* under *How To Figure Your Deduction When Limits Apply*, later.
- Gifts (other than gifts of capital gain property—see **20% Limit**, later) for the use of any organization.
- Gifts (other than gifts of capital gain property—see **20% Limit**, later) to all qualified organizations other than 50% limit organizations. This includes gifts to veterans' organizations, fraternal societies, non-profit cemeteries, and certain private nonoperating foundations.

Student living with you. Amounts you spend on behalf of a student living with you are subject to the 30% limit. These amounts are considered a contribution for the use of a qualified organization.

20% Limit

The 20% limit applies to all gifts of capital gain property to or for the use of qualified organizations (other than gifts of capital gain property to 50% limit organizations).



Table 3. Filled-In Worksheet for Limit on Deductions

Who can use this worksheet. You can use this worksheet if you made charitable contributions during the year, and one or more of the limits described in this publication under *Limits on Deductions* apply to you. You cannot use this worksheet if you have a carryover of a charitable contribution from an earlier year.

General instructions:

- The terms used in this worksheet are explained earlier in this publication.
- If your answer to any line is less than zero, enter zero.
- For contributions of property, enter the property's fair market value unless you elected (or were required) to reduce the fair market value as explained under *Giving Property That Has Increased in Value*. In that case, enter the reduced amount.

Step 1. List your charitable contributions made during the year.

1. Enter your contributions to 50% limit organizations. (Include contributions of capital gain property if you reduced the property's fair market value. Do not include contributions of capital gain property deducted at fair market value.)	1	2,000
2. Enter your contributions to 50% limit organizations of capital gain property deducted at fair market value	2	28,000
3. Enter your contributions (other than of capital gain property) to qualified organizations that are not 50% limit organizations	3	5,000
4. Enter your contributions "for the use of" any qualified organization. (But do not enter here any amount that must be entered on line 6.)	4	-0-
5. Add lines 3 and 4.	5	5,000
6. Enter your contributions of capital gain property to or for the use of any qualified organization. (But do not enter here any amount entered on line 1 or 2.)	6	-0-

Step 2. Figure your deduction for the year and your carryover to the next year.

7. Enter your adjusted gross income.	7	50,000
8. Multiply line 7 by 0.5. This is your 50% limit.	8	25,000

Contributions to 50% limit organizations

9. Enter the smaller of line 1 or line 8	9	2,000	Deduct this year	2,000	Carryover to next year
10. Subtract line 9 from line 1	10				-0-
11. Subtract line 9 from line 8	11	23,000			

Contributions not to 50% limit organizations

12. Add lines 1 and 2.	12	30,000			
13. Multiply line 7 by 0.3. This is your 30% limit.	13	15,000			
14. Subtract line 12 from line 8.	14	-0-			
15. Enter the smallest of line 5, 13, or 14.	15		-0-		
16. Subtract line 15 from line 5.	16			5,000	
17. Subtract line 15 from line 13.	17	15,000			

Contributions of capital gain property to 50% limit organizations

18. Enter the smallest of line 2, 11, or 13.	18		15,000		
19. Subtract line 18 from line 2.	19			13,000	
20. Subtract line 15 from line 14.	20	-0-			
21. Subtract line 18 from line 13.	21	-0-			

Contributions of capital gain property not to 50% limit organizations

22. Multiply line 7 by 0.2. This is your 20% limit.	22	10,000			
23. Enter the smallest of line 6, 17, 20, 21, or 22.	23		-0-		
24. Subtract line 23 from line 6.	24			-0-	

Step 3. Summarize your deductions and carryovers.

25. Add lines 9, 15, 18, and 23. Enter the total here and on Schedule A (Form 1040)	25	17,000		
26. Add lines 10, 16, 19, and 24. Enter the total here. Carry it forward to Schedule A next year.	26			18,000

How To Figure Your Deduction When Limits Apply

If your contributions are subject to more than one of the limits just discussed, you can deduct them as follows:

- 1) Contributions subject only to the **50% limit**, up to 50% of your adjusted gross income.
- 2) Contributions subject to the **30% limit**, up to the **lesser** of:
 - a) 30% of adjusted gross income, or
 - b) 50% of adjusted gross income **minus** your contributions to 50% limit organizations, **including** contributions of capital gain property subject to the 30% limit.
- 3) Contributions of **capital gain property** subject to the **30% limit**, up to the **lesser** of:
 - a) 30% of adjusted gross income, or
 - b) 50% of adjusted gross income **minus** your other contributions to 50% limit organizations.
- 4) Contributions subject to the **20% limit**, up to the **lesser** of:
 - a) 20% of adjusted gross income,
 - b) 30% of adjusted gross income **minus** your contributions subject to the 30% limit,
 - c) 30% of adjusted gross income **minus** your contributions of capital gain property subject to the 30% limit, or
 - d) 50% of adjusted gross income **minus** the total of your contributions to 50% limit organizations and your contributions subject to the 30% limit.

If more than one of the limits described above limit your deduction for charitable contributions, you may want to use the worksheet in *Table 4* on page 15 to figure your deduction and your carryover.

Example. Your adjusted gross income is \$50,000. During the year, you gave your church \$2,000 cash and land with a fair market value of \$28,000 and a basis of \$22,000. You held the land for investment purposes. You do not choose to reduce the fair market value of the land by the appreciation in value. You also gave \$5,000 cash to a private foundation to which the 30% limit applies.

The \$2,000 cash donated to the church is considered first and is fully deductible. Your contribution to the private foundation is considered next. Because your contributions to 50% limit organizations (\$2,000 + \$28,000) are more than \$25,000 (50% of \$50,000), your contribution to the private foundation is not deductible for the year. It can be carried over to later years. See *Carryovers*, later. The gift of land is considered next. Your deduction for the land is limited to \$15,000 (30% of \$50,000). The unused part of the gift of land (\$13,000) can be carried over. For this year, your deduction is limited to \$17,000 (\$2,000 + \$15,000).

A Filled-in Worksheet for Limit on Deductions in *Table 3* on page 10 shows this computation in detail.

Capital gain property election. You may choose the 50% limit for gifts of capital gain property to 50% limit organizations instead of the 30% limit that would otherwise apply. If you make this choice, you must reduce the fair market value of the property contributed by the appreciation in value that would have been long-term capital gain if the property had been sold.

This choice applies to all capital gain property contributed to 50% limit organizations during a tax year. It also applies to carryovers of this kind of contribution from an earlier tax year. For details, see *Carryover of capital gain property*, later.

You must make the choice on your original return or on an amended return filed by the due date for filing the original return.

Example. In the previous example, if you choose to have the 50% limit apply to the land (the 30% capital gain property) given to your church, you must reduce the fair market value of the property by the appreciation in value. Therefore, the amount of your charitable contribution for the land would be its basis to you of \$22,000. You add this amount to the \$2,000 cash contributed to the church. You can now deduct \$1,000 of the amount donated to the private foundation because your contributions to 50% limit organizations (\$2,000 + \$22,000) are \$1,000 less than the 50% of adjusted gross income limit. Your total deduction for the year is \$25,000 (\$2,000 cash to your church, \$22,000 for property donated to your church, and \$1,000 cash to the private foundation). You can carry over to later years the part of your contribution to the private foundation that you could not deduct (\$4,000).

Carryovers

You can carry over your contributions that you are not able to deduct in the current year because they exceed your adjusted gross income limits. You can deduct the excess in each of the next 5 years until it is used up, but not beyond that time. Your total contributions deduction for the year to which you carry your contributions cannot exceed 50% of your adjusted gross income for that year.

Contributions you carry over are subject to the same percentage limits in the year to which they are carried. For example, contributions subject to the 20% limit in the year in which they are made are 20% limit contributions in the year to which they are carried.

For each category of contributions, you deduct carryover contributions only after deducting all allowable contributions in that category for the current year. If you have carryovers from 2 or more prior years, use the carryover from the earlier year first.

Example 1. Last year, you contributed \$11,000 to a 50% limit organization, but because of the limit you deducted only \$10,000 and carried over \$1,000 to this year. This year your adjusted gross income is \$20,000 and you contribute \$9,500 to a 50% limit organization. You can deduct \$10,000 (50% of \$20,000) this year. Consequently, in addition to your contribution of \$9,500 for this year, you can deduct \$500 of your carryover contribution from last year. You can carry over the \$500 balance of your carryover from last year to next year.

Example 2. This year your adjusted gross income is \$24,000. You make cash contributions of \$6,000 to which the 50% limit applies

and \$3,000 to which the 30% limit applies. You have a contribution carryover from last year of \$5,000 for capital gain property contributed to a 50% limit organization and subject to the 30% limit or contributions of capital gain property.

Your contribution deduction for this year is limited to \$12,000 (50% of \$24,000). Your 50% limit contributions of \$6,000 are fully deductible.

The deduction for your 30% limit contributions of \$3,000 is limited to \$1,000. This is the lesser of:

- 1) \$7,200 (30% of \$24,000), or
- 2) \$1,000 (\$12,000 minus \$11,000).

(The \$12,000 amount is 50% of \$24,000, your adjusted gross income. The \$11,000 amount is the sum of your current and carryover contributions to 50% limit organizations, \$6,000 + \$5,000.)

The deduction for your \$5,000 carryover is subject to the 30% limit for contributions of capital gain property, which is \$7,200 (30% of \$24,000). Since your carryover is less than \$7,200, you can deduct it in full.

Your deduction is \$12,000 (\$6,000 + \$1,000 + \$5,000). You carry over the \$2,000 balance of your 30% limit contributions for this year to next year.

Carryover of capital gain property. If you carry over contributions of capital gain property subject to the 30% limit and you choose in the next year to use the 50% limit and take appreciation into account, you must refigure the carryover. You reduce the fair market value of the property by the appreciation and reduce that result by the amount actually deducted in the previous year.

Example. Last year your adjusted gross income was \$50,000 and you contributed capital gain property valued at \$27,000 to a 50% limit organization and did not choose to use the 50% limit. Your basis in the property was \$20,000. Your deduction was limited to \$15,000 (30% of \$50,000), and you carried over \$12,000. This year your adjusted gross income is \$60,000 and you contribute capital gain property valued at \$25,000 to a 50% limit organization. Your basis in the property is \$24,000 and you choose to use the 50% limit. You must refigure your carryover as if you had taken appreciation into account last year as well as this year. Because the amount of your contribution last year would have been \$20,000 (the property's basis) instead of the \$15,000 you actually deducted, your refigured carryover is \$5,000 (\$20,000 - \$15,000). Your total deduction this year is \$29,000 (your \$24,000 current contribution plus your \$5,000 carryover).

Additional rules for carryovers. Special rules exist for computing carryovers if you:

- Were married in some years but not others,
- Had different spouses in different years,
- Change from a separate return to a joint return in a later year,
- Change from a joint return to a separate return in a later year,
- Had a net operating loss,
- Claim the standard deduction in a carryover year, or
- Become a widow or widower.

Faith-Based Efforts: The Promise and Limitations

With the support of New Democrats and compassionate conservatives, faith-based charities are in vogue.

Both Vice President Al Gore and Texas Gov. George W. Bush have espoused greater reliance on church and community organizations to provide social services for the poor and infirm. Mr. Bush's self-style "bold new approach" is a centerpiece of his campaign; a top advisor, Indianapolis Mayor Stephen Goldsmith, insists there's a role for faith-based charities in every single program for the poor.

Some of these initiatives are impressive, including Mr. Goldsmith's Front

up as a separate, non-profit entity.

These folks welcome the new focus on faith-based efforts. They see plenty of potential as well as real limitations. Above all, they stress, faith-based initiatives have to supplement government efforts, rather than substitute or replace them.

On the Democratic side, what's striking is that Mr. Gore's call for involving religion more in social services attracted such little flak from the Democratic left. As the party has moved away from its zealous ideological moorings, Mr. Gore's assertion that "freedom of religion need not mean freedom from religion" seems less controversial.

Mr. Bush, in an artfully crafted speech in Indianapolis, sounded all the right notes about both faith-based charities and the role of government. Nevertheless, the agenda of GOP conservatives worries people like Sister Ann Forrest, who runs Catholic Charities' Mt. Carmel transitional program for homeless women. Missouri Sen. John Ashcroft and others in the religious right have suggested that the fundamental problem of poor people is insufficient religious influence. Studies have demonstrated that religious kids are less likely to try drugs or engage in violence.

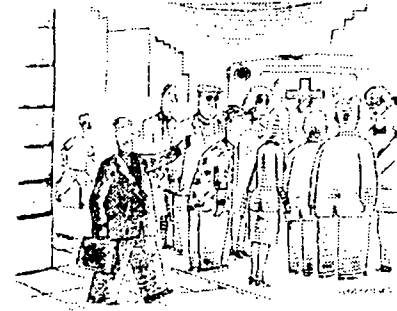
Yet Sister Ann, who deals with scores of homeless women—many of them drug addicts—brings a different perspective. "Many of these women have a profound relationship with God," she says. "Religion and treatment can and should go hand-in-hand; to say one is more important would be a big mistake."

An even bigger worry is that compassionate conservatives advocate faith-based charities as a way to reduce the role and the resources that government provides. Gov. Bush proposes \$8 billion worth of tax credits and grants to faith-based charities and synagogues that help the poor. That may well be a good idea; certainly religious people

engender more trust than government bureaucrats. But few experts believe that \$8 billion would go very far in alleviating the problems of day care, drugs, hunger, homelessness and violence.

A look at Catholic Charities' efforts in Washington provides a microcosm of that reality. Its St. Joseph's Day Care Center in Northeast Washington takes care of 44 kids, ages three to five, from the Edgehill public-housing complex. The cost is \$145 a

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*"Let me through.
I'm a compassionate conservative!"*

week per kid with about 80% of that tab picked up by a government subsidy.

But there is a waiting list of more than 60 kids, says Jenelle Starghill, the director, and given the lack of resources, there are no infants. It would take \$400,000 to build a facility up the street to come close to meeting the needs of that community. Catholic Charities officials shake their heads at the notion that tax credits for charitable causes would produce these sort of resources.

Sister Ann works prodigiously at raising funds for her transitional shelter, yet HUD picks up about two-thirds of her \$370,000 budget. "Without government assistance we couldn't keep our doors open."

Mr. Bush says reliance on faith-based charities would not replace government but require an unspecified "different role," and that these churches and other organizations need more resources. Just this week, he told the Urban League that his state should be a model for changes that could be made nationally.

But if Texas were the model for social services, it would be a step back for many Americans. Texas is the second-worst state in the country in percentage of children without health insurance—almost 20% above the national average—and ranks near the bottom in most other measurements of health care and poverty.

"The faith-based focus (of Gov. Bush) is good," says Steve Hay, the director of Catholic Family Services in Lubbock, "but not if you throw more responsibility and not more resources to churches and individuals." In his community over the past year, he says, state funds for utility assistance for the poor have been slashed and housing subsidies have been cut. The Bush administration "has helped faith-based organizations navigate through bureaucracies," notes Diane Stewart of the Center for Public Policy Priorities in Austin. "But there has been no real transfer of resources to these organizations."

The GOP front-runner's call for greater involvement by faith-based institutions is a good idea; he'll have ample opportunity in the campaign to provide more specifics. But in looking at his record—as opposed to his rhetoric—it's instructive to keep in mind the admonition of Sharon Daly, Vice President of Social Policy for Catholic Charities: "Some proponents of shifting government responsibilities to religious organizations exaggerate the limited evidence, fail to point out there is very little longitudinal evidence and tend to compare a few high-quality religious programs with the worst secular or private programs."



Politics & People

By Albert R. Hunt

Porch Alliance, in which the city collaborates with churches and neighborhood associations to deal with youth violence, illiteracy and other problems. In Boston, Rev. Eugene Rivers' efforts to help troubled and violence-prone teenagers have been so successful that the juvenile murder rate has fallen to almost zero.

Last Friday I spent a chunk of the day visiting facilities with people who know a lot about faith *and* serving the poor. They are with Catholic Charities USA, which has been doing what the vice president and Texas governor are talking about for almost ninety years.

Catholic Charities provides emergency and social services—ranging from shelters and soup kitchens to day-care centers and summer camps to centers for senior citizens—for more than 10 million people. Its annual budget exceeds \$2 billion, of which almost two-thirds comes from the government; Catholic Charities is an arm of individual Catholic dioceses but is set

Why Greens Should Love Pesticides

By DENNIS AVERY

Gerber recently announced that henceforth its baby foods will be free from genetically modified crops—and will be organically grown to boot. Then the Environmental Protection Agency announced that it was banning a major pesticide, methyl parathion, that has been used in fruit and vegetable production for decades.

Upscale homemakers across the land are no doubt rejoicing over the additional "food safety" for their families. Unfortunately, the real-world results are likely to be more cancer and less wildlife habitat.

When I joined the U.S. Department of Agriculture in 1959, the world feared a billion Third World people would die in famines. Then came the Green Revolution, and Norman Borlaug was awarded the 1970 Nobel Peace Prize for giving most of humanity its first real food security. Now we're ready to turn our backs on both food security and wildland conservation—to eliminate food risks we can't even find.

Thanks to the Green Revolution, the only famines in recent decades have been those caused by governmental policies such as Mao Tse-tung's "Great Leap Forward" in China and civil wars in Africa. Increased food security is a major reason why the world's population is now projected to stabilize at 8.5 billion in 2035, instead of spiraling upward. We've fed the Third World so well that young couples now believe their children will live to maturity, and they stop after two or three babies instead of six or 16.

The second-biggest achievement of the Green Revolution is saving wildlands with higher yields. We're currently feeding more than twice as many people as lived in 1950, and doing it from essentially the

same 37% of the planet's land area that we farmed in 1950.

Higher crop yields have saved more than 15 million square miles of wildlife habitat from being plowed for low-yield traditional farming. That's equal to the total land area of the U.S., Europe and South America. We got those higher yields with hybrid seeds, irrigation, chemical fertilizer—and pesticides.

The first impact of a global mandate for organic farming would be the plow-down of five million to 10 million square miles of



High-tech farming: Reverting to organic methods would require plowing far more acres of wilderness to feed the world.

wildlife habitat, much of it in the densely populated tropics, which have perhaps 100 times as many wild species per square mile as the U.S. or Europe. Not only do organic crops suffer more pest losses but organic farmers refuse to fertilize with nitrogen taken from the air. They would have to plow down the equivalent of the whole U.S. land area for green-manure crops like clover.

There is no vegetarian trend to ease the world's impending agricultural burden. In-

stead, higher incomes are driving the biggest surge of meat and milk consumption the Third World has ever seen. To save the current wildlands despite the larger, more affluent population in the next century, we will have to triple the yields on the land we're already farming. We will probably have to triple the use of pesticides as well (particularly of herbicides, which help cut soil erosion with no-plow, low-erosion farming systems.) We will also need more biotech breakthroughs like the new high-yielding crops for acidic tropic soils recently pioneered in Mexico.

Do pesticide residues cause cancer? We've added 30 years to our lifespans in the 20th century, eight of them since we started spraying pesticides widely. Cancer experts say our real cancer risks are smoking, too much fat, too few fruits and vegetables—and the genetic cancer tendencies inherited from our own families. After billions of dollars spent trying, not one pesticide-residue cancer victim has been found.

Methyl parathion is unquestionably a deadly chemical—if you walk into the cloud of gas just sprayed on a field of crops. But it effectively kills the bugs that love to eat growing fruits and vegetables; and plentiful fruits and vegetables prevent cancer. The quarter of our population that eats the most produce has half the cancer risk of the quarter that eats the least. And it makes no difference whether these fruits and vegetables were grown using pesticides.

President Clinton just awarded the Na-

tional Science Medal to Bruce Ames of the University of California, Berkeley. Mr. Ames says we get 10,000 times more cancer risk from the natural chemicals in our fruits and vegetables than from pesticide residues. In neither case is there enough dosage to cause cancer.

For decades, methyl parathion and the other organophosphates were rated "safe for use" with a safety factor 100 times the "no effect" levels in the rat tests. In 1996, however, the Food Quality Protection Act allowed the EPA to plug in a 1,000-fold safety factor. This, despite no evidence that any consumers had been hurt by pesticides.

Will we now be safer? Jacqueline Hamilton of the Natural Resources Defense Council, says, "We don't have to point to bodies lying on the ground with their tongues hanging out. There is significant evidence that much lower levels of these chemicals, at critical levels of development, can cause lifelong deficits, potentially." There you have it, folks, modern environmentalism is protecting you—potentially.

We know for certain that we can save millions of square miles of wildlands by using pesticides, fertilizers, biotechnology and the other tools of our expanding scientific knowledge for high-yield agriculture and forestry.

Humanity in the 21st century can banish hunger, end nutritional deficits in its children—and save virtually all of the remaining wildlands in the process. But there are only two ways to do it: either murder four billion people, or use chemicals and biotechnology to triple the yields on the land we're already farming.

Mr. Avery is director of the Center for Global Food Issues of the Hudson Institute and the author of "Saving the Planet with Pesticides and Plastic: The Environmental Triumph of High-Yield Farming" (Hudson Institute, 1995).

THE WALL STREET JOURNAL

THURSDAY, AUGUST 12, 1999

The Clintonesque George Bush

By Edward H. Crane

WASHINGTON
Bill Clinton's impact on the American polity was never more evident than in the major address that the Republican Presidential aspirant George W. Bush gave in Indianapolis last week. The speech was, well, Clintonesque.

A Cato Institute analysis in February of President Clinton's January State of the Union Message counted some 95 separate proposals for Federal action, ranging from "rapid response teams" when local businesses close to demands that local school districts adopt Federal "discipline policies."

Governor Bush's speech was by no means as sweeping as that of our undisciplined President, but in at least one important aspect it was remarkably similar: both speeches were utterly casual in their assumption that virtually any problem confronting the American people is an excuse for action by the Federal Government.

Thus, Governor Bush proposed in his Indianapolis speech Federal efforts to deal with the children of prisoners, after-school activities and "maternity group homes," while calling for major Government financing of local religious and charitable organizations.

The Framers of the Constitution, of course, had quite another vision in mind. Governance, in their scheme of things, was to take place at the state and local levels. The national Government was "delegated" certain limited powers, primary among them national defense and, with the passage of the Civil War amendments, the protection of our civil liberties. So that there would be no confusion, the 10th Amendment made clear that powers not granted to the Federal Government were to be reserved to the states or to the people.

Financing maternity group homes was not part of the scheme.

Governor Bush's speech also included elements that could have come straight out of the Progressive Policy Institute, the think tank of the so-called New Democrats. The bible of the New Democrats is "Reinventing Government," written by David Osborne and Ted Gaebler. The authors state that they "believe deeply in government," while admitting that it can be a bit ham-fisted in dealing with social problems. So, they set out to design a government that works more like the private sector, which is a neat trick if you can pull it off.

Edward H. Crane is the president of the Cato Institute.

Which they don't. But the book is an intelligent effort to do so. It's full of market-oriented jargon, "seed money" projects, incentive programs, plans to persuade "various interest groups to embrace common goals and strategies." Underneath it all, however, is a desire to define those "common goals" at the Federal level.

"Those who steer the boat have far more power than those who row it," they write. "Governments that

A speech suggests the Republican front-runner's true agenda.

focus on steering actively shape their communities, state and nations. They make more policy decisions. They put more social and economic institutions into motion. Some even do more regulating. Rather than hiring more public employees, they make sure other institutions are delivering services and meeting communities' needs."

All of which is pretty much what George W. Bush spoke about in Indianapolis. In calling for Federal financing of local social programs, the Texas Governor sounded the New Democrat theme: "It will be government that directs help to the inspired and the effective." His call for a "compassion capital fund" that would "identify good ideas transforming neighborhoods and lives and provide seed money to support them" could easily have been written by David Osborne.

In fact, Mr. Bush's speechwriter appears to have been moonlighting for Hillary Rodham Clinton. In a June speech in Paris, Mrs. Clinton took direct aim at the Goldwater-Reagan wing of the Republican Party, complaining that "there are those... who insist on assaulting government, who claim that if we would only abolish or severely weaken it that everyone's freedom and prosperity would blossom." This, she said, "is a very mistaken notion."

George W. Bush agreed in his talk, ridiculing those with a "destructive mindset: the idea that if government would only get out of the way, all our problems would be solved. An approach with no higher goal, no nobler purpose than 'Leave us alone.'"

Never mind the Clintonesque dissembling in both statements: Those Americans who desire far less government don't want to "abolish" it, nor do they claim that "all our prob-

lems would be solved." The significance here is that both Hillary Clinton and George W. Bush are taking aim at the same people for the same reasons. And the similarities don't end there.

Hillary: "We need strong and efficient governments... that are able to empower citizens." George W.: "Government must be carefully limited — but strong and active and respected within those bounds."

The latter statement is defining for the Eastern Establishment of the Republican Party. In the tradition of Nelson Rockefeller, George Romney, Bob Dole and Governor Bush's father, George Bush, these Republicans pay lip service to "limited government" to keep the conservative-libertarian majority of the party on board, but then govern with "strong and active" intervention.

One wonders, for instance, just what "bounds" Governor Bush has in mind, given the role he sees for the Federal Government in supporting maternity group homes.

The straightforward attack by Governor Bush on the Goldwater-Reagan wing of the Republican Party in his Indianapolis speech is, in fact, an attack on Steve Forbes and Dan Quayle, who best represent that tradition among the Republican Presidential hopefuls. Given the absurd campaign contribution limits, the handiwork of Common Cause, the attack is primarily focused on Mr. Forbes, who is the only candidate with the resources to seriously challenge Mr. Bush.

The task for Mr. Forbes, who carries the Reagan mantle, is to expose George W. as, if not a New Democrat, an Eastern Establishment Republican in good standing. That won't be easy, as the Governor has surrounded himself with conservatives, a few former Reagan advisers and even a libertarian or two, perhaps to limit scrutiny of his actual agenda.

But that agenda was on display in Indianapolis last week, and it ought to give pause to those limited-government Republicans who truly want to put an end to Bill Clinton's political legacy. □

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The New York Times

WEDNESDAY, AUGUST 4, 1999

Liberties

MAUREEN DOWD

The Boy Can't Help It

Pierce and Demi and Liam were there. And Quentin and Salman and Spike and Amber. I never actually saw any of them. I had to content myself with glimpses of Kevin Bacon's pouffy hair and Madonna's pouffy biceps.

Descend with me to the seventh circle of buzz, the ground zero of zing, the hub of hip, the Sodom of synergy. Beneath the Statue of Liberty the masses, the tired and un-humble, yearning to be chic, huddled at Tina Brown's Talk party. In the glow of Chinese lanterns, here was the perfect Gotham froth — the maitre d' of the Four Seasons and the window dresser for Barneys and the publicist for Kevin Costner and the toupee for Andrew Stein.

Queen Latifah was at the microphone chanting, pausing only to wonder whether the Miramax chief and Talk sugar daddy Harvey Weinstein pronounced his name "steen" or "stine."

There was, of course, a rigid caste system. An elderly man in a wheelchair was turned back after he mistakenly rolled down the gangplank toward a ferryboat reserved for celebrities and nicknamed the "star barge."

"The man in the wheelchair does not belong here," hissed a Talk sherpa, banishing him to the hoi polloi ferry even as he unfastened the chain for Diane von Furstenberg and Barry Diller.

Tina Brown was glowing. She had aced her first test. Everybody was talking about Talk. (Though the cover, laid out so that George W. appears to be leering at Gwyneth Paltrow's squished cleavage while Hillary gazes up, away from the actress's bondage lingerie, is jarring.)

The First Lady unburdened herself in an interview with the adoring journalist Lucinda Franks, working for the adoring Mr. Weinstein. (Gwyneth, Tina and Hillary are the rough-hewn mogul's treasured troika of blond Miramax princesses.) Ms. Franks is married to Robert Morgenthau, the Manhattan District Attorney, who is Mayor Rudolph Giuliani's old rival.

Fans and foes of Mrs. Clinton were left reeling by her contention that the President's chronic philandering was caused by "abuse" he suffered as a little boy when his mother and grandmother battled over him.

In her book, Mr. Clinton's mother recalled the custody fight over Bill that erupted with her mother, after

Virginia married the hard-partying Roger Clinton. At one point, grandma even burned ma's white leather jacket.

In a political climate that cherishes dissension, there is such rare unanimity of revulsion at Mrs. Clinton's interview that she is now trying to slink away from it.

Everyone is fed up with the creepy dynamics of this warped marriage. We have lost all hope of getting any shred of authenticity from either Bill or Hillary — unless it's the authen-

Hillary, Tina & Gwyneth.

ticity of the deluded. They have chosen tactics over truth with such consistency that it's impossible to accept anything they say.

Many liberals were rooting for Hillary to run for the Senate as a payback for all the alley cat had done. She had been publicly stoic through bruising betrayals.

But once again, she has taken on a contradictory image with dizzying speed. Comparing herself to Jesus and her husband to the betraying Peter, Hillary says he has a "weakness," like a gambler or alcoholic. "Everybody," she says, "has some dysfunction in their families."

He's scarred, she says, by two women who adored him and who are not here to offer rebuttal. After talking about how hard it is for a guy to be yanked between female relatives, Hillary recreates that very situation, forcing Mr. Clinton to choose between defending his mother and grandmother and agreeing with his wife.

She is right that the President has fine qualities. But how many people have to be smeared to get him off the hook? The Talk interview is like that old saw about the guy who would run over his own grandmother to help his career.

Her interview is also chilling in its casual acknowledgment of Mr. Clinton's infidelities. Hillary joined in efforts to dismiss as mendacious tarts all the women who claimed, truthfully, to have been involved with her husband. But now she concedes, oh, yeah, the boy's a mess.

For the Clintons, talk is always cheap. □

The New York Times

WEDNESDAY, AUGUST 4, 1999

July 22, 1999

**“THE DUTY OF HOPE”
FACT SHEET**

“We have always found our better selves in sympathy and generosity. Americans will never write the epitaph of idealism. It emerges from our nature as a people, with a vision of the common good beyond profit and loss. Our national character shines in our compassion.” -- Governor George W. Bush

EXECUTIVE SUMMARY

As President, Governor George W. Bush will commit himself and the nation to mobilizing the armies of compassion – charities and churches, communities and corporations, ministers and mentors – to save and change lives, as he has done in Texas. These groups are proving that real change comes from the bottom up, not the top down.

That is why Governor Bush envisions a different role for government – a role based on the belief that government should turn first to faith-based organizations, charities, and community groups to help people in need. Resources should be devolved, not just to the states, but to the charities and neighborhood healers who need them most and should be available on a competitive basis to all organizations – including religious ones – that produce results. **This is the next bold step of welfare reform.**

To eliminate barriers to faith-based action and to encourage an outpouring of giving, Governor Bush will:

- Expand “charitable choice” and remove barriers to the participation of faith-based groups in government programs.
- Establish an “Office of Faith-Based Action” in the Executive Office of the President.
- Expand the federal charitable deduction to people who do not itemize.
- Promote a new charitable state tax credit.
- Provide new incentives for corporate giving.

As President, Governor Bush will lead a determined attack on need, launching initiatives to:

- Break the cycle of violence that grips the 1.3 million children of prisoners.
- Open federal after-school programs to community groups, churches, and charities.
- Create a “Compassion Capital Fund” to invest in charitable “best practices.”
- Increase drug treatment funding and make faith-based and other non-medical drug treatment programs eligible for federal funds.
- Establish pilot “Second Chance” homes for unwed teenage mothers, and faith-based pre-release programs for prisoners.
- Make permanent the \$5,000 adoption tax credit.

In the first year of his presidency, Governor Bush will dedicate about \$8 billion – an amount equal to 10 percent of the non-Social Security surplus – to provide new tax incentives for giving, and to support charities and other private institutions that save and change lives. These efforts will prove, in word and deed, that prosperity has a purpose.

Sharing the Dream

"Our country must be prosperous. But prosperity must have a purpose. The purpose of prosperity is to make sure the American dream touches every willing heart. The purpose of prosperity is to leave no one out... to leave no one behind."

– Governor George W. Bush

America has never been more prosperous. But that prosperity is not shared by all. There is still too much poverty and despair amidst abundance. More than one out of six American families with children live with an income of \$17,000 a year or less. There are roughly 14 million young people at risk of not reaching productive adulthood; 1.3 million children with a mother or father in prison; 520,000 children in foster care, more than one-fifth of whom are waiting to be adopted; and, in 1997, over one million babies were born to unwed mothers, 380,000 of whom were under the age of 20.

As President, Governor Bush will commit the country to rallying the armies of compassion nationwide, as he has done in Texas, to ensure the American dream touches every willing heart and no one is left behind as we enter the 21st Century.

A Different Role for Government

"Today I want to propose a different role for government. A fresh start. A bold new approach... We will make a determined attack on need, by promoting the compassionate acts of others. We will rally the armies of compassion in our communities to fight a very different war against poverty and hopelessness, a daily battle waged house to house and heart by heart. This will not be the failed compassion of towering, distant bureaucracies. On the contrary, it will be government that serves those who are serving their neighbors. It will be government that directs help to the inspired and the effective. It will be government that both knows its limits and shows its heart. And it will be government truly by the people and for the people."

– Governor George W. Bush

Governor Bush believes that real change comes from the bottom up, not the top down. Thus, in seeking to help those in need, his administration will look first to faith-based organizations, charities, and community groups that have a track record of success. This is the next bold step in welfare reform.

Governor Bush believes that we should support these private and faith-based efforts first and foremost because they work. But we should also promote them because the challenges they face are often greater than the resources they possess. He recognizes that local efforts lack scale, that good intentions often lack resources, and that volunteerism alone is not enough. That is why he is proposing a different role for government – a role based on these principles:

- Government should energize private action, not control it, by identifying what works and helping to bring good ideas to scale.
- Resources should be devolved, not just to the states, but to charities and neighborhood healers who need them most.
- Those resources should be made available through contracts, certificates or grants on a competitive basis to all organizations – including religious ones. This competition will spur more innovative programs and better results.
- Organizations receiving resources should not be forced to compromise their core values and spiritual mission.
- Participation in faith-based programs should be truly voluntary, and secular alternatives should exist for beneficiaries.
- Government programs should be committed to pluralism – not discriminating for or against Christians, Muslims, or Jews – or good people of no faith at all.

As President, Governor Bush will follow these principles in mobilizing charities and churches, communities and corporations, ministers and mentors. He will make promoting these armies of compassion a priority of his administration. Indeed, in the first year of his presidency, Governor Bush will dedicate about \$8 billion – an amount equal to 10 percent of the non-Social Security surplus – to provide new tax incentives for giving, and to support charities and other private institutions that save and change lives.

Encouraging an Outpouring of Giving

Americans are a generous people. In 1998, charitable giving totaled \$175 billion, an increase of nine percent over the previous year. However, when measured as a percent of gross domestic product, Americans give the same amount today (2.1 percent) as they did in 1971.

As President, Governor Bush will propose initiatives that will stimulate additional charitable giving:

- Expand the Federal Charitable Deduction: Under current law, only people who itemize deductions are allowed to claim a tax deduction for their charitable donations. About 80 million people – 70 percent of all filers – do not itemize. As President, Governor Bush will propose giving every taxpayer the ability to deduct his or her charitable donations. This change will generate billions of dollars annually in additional charitable contributions.
- Promote a Charitable State Tax Credit: Governor Bush supports legislation that would provide a credit (of up to 50 percent of the first \$500 for individuals and \$1,000 for married couples) against state income or other taxes for contributions to charities addressing poverty and its impact. States would be able to designate the

charities they want to target with the credit. States would also be permitted – at their option – to offset the costs of this credit by using money from the Temporary Assistance to Needy Families (TANF) program. This optional tax credit would give states additional flexibility in addressing human needs.

- Permit Charitable Contributions from IRAs Without Penalty: Under current law, withdrawals from Individual Retirement Accounts are subject to income tax. This creates a disincentive for retirees to contribute some or all of their IRA funds to charity. Thus, Governor Bush supports legislation that would permit individuals over the age of 59 to contribute IRA funds to charities without having to pay income tax on their gifts.

Governor Bush believes that corporations must be full partners in the effort to mobilize and strengthen our charities. As President, he will introduce legislation to:

- Extend the New Charitable State Tax Credit to Corporations: Governor Bush will allow corporations to participate in the new Charitable State Tax Credit. Under his proposal, corporations will be eligible for a tax credit of 50 percent of the first \$1,000 donated to charities dedicated to fighting poverty. In a nation with over five million corporations, this tax credit should help stimulate new partnerships between corporate and social entrepreneurs.
- Raise the Cap on Corporate Charitable Deductions: Under current law, a corporation can deduct charitable donations until their value exceeds 10 percent of the company's taxable income. As President, Governor Bush will propose legislation to raise this cap to 15 percent, encouraging firms to raise their giving to charities that address human needs.
- Provide Liability Protection for Corporate In-Kind Donations: The 1996 Good Samaritan Food Donation Act protects donors of foodstuffs to charities from liability, except in cases of gross negligence. The 1997 Volunteer Protection Act provided similar protection to individual volunteers. What is lacking is protection for corporate in-kind donations. Many charities, churches, and community groups need vehicles to transport the elderly, computers to educate children, and facilities to hold classes. To encourage such in-kind gifts, Governor Bush supports legislation limiting the civil liability of businesses that donate equipment, facilities, vehicles or aircraft to charitable organizations, except in cases of gross negligence.

Eliminating Barriers to Faith-Based Action

"We found that government can spend money, but it can't put hope in our hearts or a sense of purpose in our lives. This is done by churches and synagogues and mosques and charities that warm the cold of life. A quiet river of goodness and kindness that cuts through stone." -- Governor George W. Bush

Social scientists have documented the power of religion to protect families and change lives. Studies indicate that religious involvement reduces teen pregnancy, suicide, drug

abuse, alcoholism, delinquency, and crime. For example, over a decade's worth of "faith factor" research by Dr. David Larson of the National Institute for Healthcare Research and other scholars reveals that poor inner-city youth who attend church are only about half as likely to drop out of school, use drugs, or commit crimes as otherwise comparable youth without religion in their lives.

Similarly, grassroots inner-city outreach ministries have been credited by numerous leading social scientists with playing a major role in helping at-risk youth to avoid violence, achieve literacy, and find jobs. In short, faith-based charities and community groups are proving every day that religion, in the words of UCLA's James Q. Wilson, "creates an opportunity for personal transformation."

In recognition of the growing success of faith-based charities, the 1996 welfare reform bill, which replaced Aid to Families with Dependant Children with Temporary Assistance to Needy Families (TANF), contained a "charitable choice" provision. This provision allowed states to contract with religious organizations "on the same basis as any other non-governmental provider without impairing the religious character of such organizations." Despite this provision, the Administration continues to support regulations that hinder the ability of faith-based charities to provide needed services:

- On September 24, 1998, the U.S. Department of Agriculture notified the Salvation Army's Adult Rehabilitation Center (ARC) in Nashville, Tennessee, that it could no longer act as a food stamp agent, making low-cost, bulk purchases on behalf of the center's residents, because ARC was not certified as a "treatment center." Although the center protested that it was technically a church and provided no medical treatment, USDA forced it to withdraw from the food stamp program. The resulting increase in food costs has forced the center to curtail other services.
- In 1997, the Raleigh Rescue Mission, which ministers to the homeless by providing shelter, Bible study, and chapel services, decided not to apply for a grant under the North Carolina Emergency Shelter Grants program, administered by the Department of Housing and Urban Development, because HUD regulations require these activities to be provided in a non-religious manner.
- The federal Community Development Block Grant program prohibits, as a general rule, CDBG assistance from being provided to "primarily religious entities for any activities, including secular activities." This prohibition has had a chilling effect on faith-based organizations' willingness to apply for federal funds. According to the executive director of the International Union of Gospel Missions, if these groups have to "strip" their programs of "moral and spiritual aspects, then they wouldn't be worth doing."

Governor Bush believes America must stop trying to eliminate poverty, crime, and addiction with one hand tied behind its back. Thus, he is committed to removing all remaining barriers to the participation of faith-based groups in government programs. As President, he will:

- Expand “Charitable Choice:” Governor Bush is committed to making “Charitable Choice” explicitly applicable to all federal laws that authorize the government to use non-governmental entities to provide services to beneficiaries with federal dollars. Participation in faith-based programs should be truly voluntary. Faith-based organizations should be permitted to engage in inherently religious activities – as long as secular alternatives are also available, and those inherently religious activities are privately funded.
- Eliminate Other Barriers to Faith-Based Action: Even if “Charitable Choice” is expanded across the board, barriers to the use of federal funds by faith-based groups will remain. Governor Bush believes a concerted effort to identify and remove all such barriers is needed. That is why he will:
 - Establish an “Office of Faith-Based Action” in the Executive Office of the President: This office will identify barriers to faith-based action, serve as a national clearinghouse for information on effective faith-based groups, and assist faith-based organizations that need help with regard to federal action.
 - Encourage the Establishment of State Offices of Faith-Based Action: Governor Bush will make federal matching funds available to encourage states to establish their own offices to facilitate faith-based action.
 - Promote Alternative Licensing Regimes: As President, Governor Bush will promote alternative licensing regimes at the state and federal levels that recognize religious training as an alternative form of qualification.

Examples of the New Approach in Action

New incentives to encourage giving, combined with the elimination of barriers to charitable and faith-based action, form the essential foundation for attacking specific areas of need. The following are examples of just a few of the initiatives Governor Bush will launch as President – initiatives that illustrate a different and innovative approach to empowering the compassionate good work of private organizations and charities.

Children of Prisoners: The U.S. prison population has tripled in the past 15 years. On any given day there are 1.2 million people in prison. This has helped protect our communities from predators. But it has left an enormous problem: an estimated 1.3 million children who have a mother or a father – or both – in prison. Studies show that these children are six times more likely to be incarcerated than the average child.

As research by the University of Pennsylvania’s John DiIulio and others has shown, too many of these children live in poverty and suffer from the lack of “loving, capable, responsible adults who can teach [them] right from wrong.”

Governor Bush believes that these innocent victims of crime should have a special claim on our conscience and on our resources. Unfortunately, there are no federal funds

specifically earmarked today for children of prisoners. Thus, as President, Governor Bush will:

Launch an Initiative Directed at Children of Prisoners: This program will make grants available on a competitive basis to faith-based and community groups committed to improving the life prospects of the low-income children of prisoners, through services ranging from church-based preschools to family-rebuilding programs for probationers and ex-prisoners.

After-School Programs: Studies indicate after-school programs help reduce drug use, teen pregnancy, and criminal behavior by providing supervised activities during the peak hours for juvenile crime. Unfortunately, some federal after-school programs tend to discourage the participation of faith-based groups and other community organizations. For example, under the 21st Century Community Learning Centers program, which is one of the largest federal sources of funding for after-school activities, only schools are eligible to compete for funds. The Clinton-Gore Administration has recently proposed opening just 10 percent of the program's funding to competitive bidding. As President, Governor Bush will take a different approach and:

Open the Entire 21st Century Program to Competition: Governor Bush will introduce legislation to open 100 percent of the 21st Century program's funding to competitive bidding. This will allow youth development groups, local charities, churches, synagogues, mosques and other community and faith-based organizations to compete for these federal funds on an equal footing with schools.

Fund a New After-School Program Using Certificates: Governor Bush will empower lower-income parents by providing them with certificates that can be used to pay for after-school activities of their choosing – whether run by a community group, a neighborhood church, or a local school.

Best Practices: Thirty years of social policy have shown that often the most effective efforts have not been large, nationally-directed programs, but smaller, local initiatives. These initiatives are shaped by need, not by bureaucrats. Unfortunately, innovative practices tend to spread slowly because the social marketplace, unlike the commercial marketplace, has no "invisible hand" to promote good ideas, and few financing institutions to help take those ideas to scale. Governor Bush believes that the federal government should help fill this need through an initiative to:

Establish a "Compassion Capital Fund." Governor Bush will establish the Compassion Capital Fund – a public/private partnership that will fund research into "best practices" among charitable organizations, support technical training in those practices, and provide start-up capital to qualified charitable organizations that wish to expand or emulate model programs. He will challenge the private sector to match federal funding of the program.

Drug Treatment: Studies show religion is a powerful tool in helping individuals overcome drug and alcohol addiction. However, government regulations tend to view addiction as a disease and prohibit or discourage the licensing of non-medical, faith-based treatment programs.

Governor Bush addressed this problem in Texas by signing legislation exempting programs that do not provide medical treatment, such as Teen Challenge, a nationally-recognized faith-based drug treatment program, from state licensing requirements. Since then, 38 non-medical, faith-based treatment programs have been established under alternative licensing arrangements. As President, Governor Bush will:

Promote Results-Oriented Drug Treatment Programs: Governor Bush will make performance-based grants for drug treatment programs available to the states and ensure that non-medical, faith-based and community-based organizations are eligible to receive federal drug treatment funds on the same basis as any other organization.

Prison Ministries: The power of religion to transform lives has been demonstrated in programs that address everything from drug addiction to domestic violence. This power is now being used to harness change behind prison walls.

The State of Texas has permitted Prison Fellowship Ministries to take over a unit of the state prison in Sugar Land, Texas, and establish “InnerChange” – the nation’s first, 24-hour-a-day, Bible and values-based pre-release program, aimed at helping inmates achieve spiritual and moral transformation. Prisoners voluntarily enroll in the program 12 to 18 months prior to release, and receive services for up to 12 months after release.

It is still too early to measure the effectiveness of the InnerChange program. However, there are some positive preliminary indications, and several states are considering implementing similar faith-based programs. To obtain more data on the effectiveness of these programs, Governor Bush will:

Provide Funding for Pilot Faith-Based Prison Programs: Funding for faith-based pre-release programs will be provided at four federal prisons. To generate substantial data on the efficacy of these programs, the pilot projects should be geographically diverse, and encompass facilities with different levels of security.

“Second Chance” Maternity Group Homes: In 1997, over 350,000 unwed mothers under the age of 20 gave birth in the United States. These mothers and their children face extraordinary odds in achieving success. Studies have shown that only about half of these mothers graduate from high school and 80 percent go on welfare. In addition, their daughters are more likely to have children out of wedlock themselves.

The 1996 welfare reform bill requires minor parents to live in an adult-supervised setting in order to receive welfare (TANF) funds. When a conventional adult-supervised setting is not available because of abuse or abandonment by the parent or guardian, federal law

requires states to provide or assist in locating alternative living arrangements. Some states have turned to so-called "Second Chance" homes as the alternative. These homes provide young mothers with an opportunity to develop good parenting skills, finish school, and enter the workforce.

Unfortunately, many teenage mothers are placed in a virtually independent living environment because Second Chance homes are not easily available. Indeed, federal regulations currently do not allow federal funds to be used for the purchase or construction of a facility. Governor Bush believes that to break the cycle of children having children the federal government should:

Fund "Second Chance" Maternity Homes: As President, Governor Bush will provide funding for pilot maternity group homes through a block grant to the states. The states will be authorized to make the funds available either as certificates to individuals, or as competitive grants to providers, who will be able to use the funds to purchase or operate a facility.

Foster Care: There are now 520,000 children in foster care, more than one-fifth of whom are waiting to be adopted. Countless more children outside the foster care system are waiting to be adopted into loving families. Although the 1997 Adoption and Safe Families Act did much to move these children to safe adoptive homes, more needs to be done. For example, the cost of adoption still remains a major issue when couples decide to adopt. These costs also may prevent loving, low-income families from considering adoption at all. As President, Governor Bush will:

Make the Adoption Tax Credit Permanent: To help make adoption a more affordable option for families at any income level, Governor Bush will make permanent the current \$5,000 adoption tax credit, which would otherwise expire in 2001.

The Governor's Record: Faith in Action

Since his first campaign for governor in 1994, George W. Bush has made mobilizing faith-based and charitable organizations a top priority. Under his leadership, Texas has led the nation in enabling these groups to deliver services to those in need. Specifically, Governor Bush:

- Created the "Governor's Advisory Task Force on Faith-Based Community Service Groups" in 1996 to identify obstacles to faith-based groups and recommend ways to create an environment that permits them to flourish. The Task Force recommendations were translated into a series of new faith-based laws signed by Governor Bush.
- Issued an executive order in 1996 making Texas the first state in the nation to implement the landmark "charitable choice" provision in the 1996 federal welfare

reform law. This law gives states the option of using private and religious charities to deliver welfare services.

- Dramatically expanded “charitable choice” principles to all contracts entered into by the Texas Department of Human Services, abstinence education grants awarded by the Texas Department of Health, and poverty-fighting initiatives funded by the Community Services Block Grant Act.
- Led Texas to become the first state to permit a state prison unit to be operated by volunteers from a church ministry.
- Thwarted an attempt by state bureaucrats to shut down various faith-based drug treatment centers, including “Teen Challenge” in San Antonio, and subsequently established alternative licensing procedures that exempt non-medical faith-based programs.
- Created a pilot program establishing four “Second Chance” group homes for unwed teen welfare mothers run by faith-based and other private groups.
- Advocated and signed into law the Texas Religious Freedom Restoration Act, which strengthens and protects Texans’ right to practice their religion free from government intrusion.
- Proposed and signed a “Good Samaritan” law that provides liability protections to health professionals who donate charitable care to needy Texans.
- Recommended and signed a law requiring the Texas Department of Human Services to designate certain employees as liaisons to faith-based organizations to promote community services for the needy.
- Recommended and signed a law requiring each of Texas’ 28 local workforce development boards to promote Welfare-to-Work partnerships with faith-based groups in a way that respects their unique religious character.

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08/02/99 18:06 FAX

NATL ECONOMIC COUNCIL

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THE PRESIDENT HAS SEEN
8-30-99

B Reed
See my notes and
questions, advise -

B Reed

See my notes and
questions, advise

PHILIP HARRIS

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Podesta

Issue	The Vice President	Governor Bush	Current Law
Private Funding for Faith-Based Organizations	The Vice President has called upon corporations to match contributions to faith-based organizations just as they do other charities. <i>Didn't sign a bill on this</i> <i>Didn't sign a bill on this</i>	Governor Bush has proposed to encourage increased private giving by 1) providing a state tax credit to corporations that donate to charities dedicated to fighting poverty; 2) increasing the amount of charitable donations companies can deduct to 15 percent of the company's taxable income; and 3) <u>limiting the civil liability of companies that donate equipment, facilities, vehicles, or aircraft to charitable organizations, except in cases of gross negligence.</u>	States currently have the authority to provide credits against state taxes. Governor Bush does not appear to have enacted such a law in Texas. Under current law, companies can deduct charitable contributions until their value exceeds 10 percent of the company's taxable income. Current law already limits the liability of companies that donate food, and individuals who volunteer for charitable organizations.
Increasing the Influence of Faith Based Organizations	The Vice President has said that faith-based organizations will be integral to the policies set forth in his Administration, as they should be at the state and local level, and that he would work to "scale up" the efforts of faith-based organizations to bring their leadership into all levels. <i>not bad</i> <i>not bad</i>	Governor Bush has said he would establish an "Office of Faith-Based Action" in the Executive Office of the President, and would encourage similar state offices. He also would establish a Compassion Capital Fund to fund research on best practices among charitable organizations, support technical training in those practices, and provide start-up capital to qualified charitable organizations that wish to expand or emulate model programs. He would challenge the private sector to match federal funding of this effort.	Through the Justice Department, the Administration has awarded "values-based" grants to faith-based organizations for crime prevention.

Further...

Issue	The Vice President	Governor Bush	Current Law
Federal Funding for Faith-Based Organizations	The Vice President has proposed to extend the welfare law's "charitable choice" provision to new areas such as drug treatment, homelessness, and <u>youth violence prevention</u> , so long as individuals have secular alternatives and no one is required to participate in religious observances as a condition of receiving services.	Governor Bush has proposed to expand "charitable choice" to all federal laws that authorize the government to use non-governmental entities to provide services to beneficiaries with federal dollars. Faith-based organizations should provide secular alternatives, and fund inherently religious activities through private funds.	The welfare law's charitable choice provision, which also applies to the Community Services Block Grant and the formula funds in DOL's Welfare-to-Work program, allows states to use the TANF block grant to administer services through contracts with charitable or religious organizations. Organizations receiving such funds may not expend them for sectarian worship, instruction, or proselytizing, and cannot be required to alter their practices or internal governance, or to remove religious symbols in order to qualify. The state must provide individuals who object to being served by a religious organization with an alternate provider.
	Waitley Phipps program -- someone should see him on VP's behalf, endorse it -- I should have	He promised to launch initiatives involving faith-based organizations to:	The Supreme Court has held that religiously affiliated groups may receive government funds so long as they do not use them to fund religious activities, but the government cannot fund "pervasively sectarian" groups.
	Mayor Daley already gives after-school to church schools -- should check it out and endorse	1) help children of prisoners;	The Administration has long supported second-chance homes (which were authorized by the welfare law) and the adoption tax credit (which was enacted in 1996).
	VP should be for this -- could give a family, family reunification speech including 1, 5, 6	2) fund after-school programs with vouchers and open the entire 21 st Century Program to competition by faith-based groups (only 10 percent is awarded by competition now, the rest goes to schools);	
		3) launch performance-based drug treatment programs;	
		4) fund pilot pre-release prison programs;	
		5) fund second-chance homes for teenage mothers through a block grant to states; and	
		6) make permanent the current \$5,000 adoption tax credit, which expires in 2001.	

But what have we done to promote them? Maybe I could highlight this as a way to increase their visibility and number

But what have we done to promote them? Maybe I could highlight this as a way to increase their visibility and number

8-30-99

Issue	The Vice President	Governor Bush	Current Law
Expand the Federal Charitable Deduction		Governor Bush has proposed to allow all taxpayers the ability to itemize their charitable donations, at an estimated cost of \$8 billion a year.	Currently, only individuals who itemize can claim a deduction for charitable contributions.
Promote a Charitable State Tax Credit		Governor Bush said he would support legislation to provide a credit against individual state taxes for contributions to charities addressing poverty. States could use TANF funds to pay for this credit.	Currently, TANF funds can only be used to provide tax credits in very limited circumstances, such as funding a refundable state Earned Income Tax Credit paid to needy families.
Permit Charitable Contributions from IRAs	N/A	Governor Bush said he would propose legislation to allow people over age 59 to make charitable contributions with IRA funds without paying income tax.	Under current law, individuals pay income tax on distributions to the extent they represent pre-tax contributions.

Brown

Is this a good idea
 Sounds good
 What would it cost -
 VP perhaps should adopt it

B Reed

Is this a good idea

Sounds good

What would it cost

VP perhaps should adopt it

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can do any more by Ex. Order
or in this ~~to~~ Congressional system
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Pls do this ASAP. —

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BC

Bush and Gore Find the Faith In Social Policy

INDIANAPOLIS
PRESIDENTIAL campaigns, God bless 'em, are great for airing out the arguments over things that divide Americans.

What most of us fail to appreciate, though, is how much campaigns also serve the opposite purpose: They reveal, often quite by surprise, when Americans have stumbled into agreement on some issue.

So it was in watching Texas Gov. George W. Bush campaign for the Republican presidential nomination here a few days ago. He came to Indianapolis to call



for government and religious organizations to work far more closely to combat social ills, in part by having government agencies contract with church groups to provide social and welfare services.

In a speech to a racially diverse audience at a local church, Mr. Bush did an impressive job of laying out this case for "faith-based institutions" as government's partner in social change. But the Bush argument was less surprising than the fact that it roughly parallels a position Democratic Vice President Al Gore laid out back in May. Thus, a formerly radical idea that once engendered charges that the wall separating church and state was crumbling has somehow become mainstream.

To which there are two important reactions. First, this is a good thing. There is every reason to think that church-based programs work better than many ill-fated government antipoverty programs of the last half-century. Government's healthy separation from religion had grown into an unhealthy animosity, and this is a smart step back toward a better balance.

But the second point is equally important. This move toward "faith-based institutions," while promising, is no panacea. Its adherents know that. John DiIulio, a social scientist who has been one of the intellectual driving forces in pushing greater reliance on faith-based institutions, warns in a forthcoming article: "It remains to be seen how, if at all, local faith-based efforts can be taken to scale in ways that predictably, reliably, and cost-effectively cut crime, reduce poverty, or yield other desirable social consequences." The danger is that politicians could come to view these enterprises as an excuse for government to avoid its own larger responsibilities.

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STILL, TO WATCH Mr. Bush here was to see how much attitudes have changed on the mingling of government and religious social work. He came to Indianapolis to visit Metro Church, an inner-city parish that is part of Mayor Stephen Goldsmith's "Front Porch Alliance." That's a program in which the city tries to help churches, synagogues and mosques expand their own programs to fight crime, give child care or help those trying to get off welfare, in part through modest city grants.

Metro Church occupies a former elementary school to house its programs, including a summer camp for kids, a social center to keep teens off the streets, and job-training classes in computers and culinary skills for neighborhood adults, including some trying to escape the welfare rolls. In offering these services, Metro Church is part of a quiet nationwide effort that operates largely below the media radar line.

As Mr. Bush tours the church, he shows how dramatically the politician's attitude toward discussing personal religious faith has been transformed over the last decade, from reticence to readiness. At one point he listens to a group of ministers from the Ten Point Coalition, a program that cooperates with police to patrol neighborhood streets every Friday night to contain crime. After the ministers talk, Mr. Bush looks at them intently and declares without hesitation: "I believe in the power of faith. It can transform lives. It changed mine."

THEN, MR. BUSH gave his speech, in which he called for breaking down laws and regulations that now prevent government programs from contracting out to faith-based groups to provide social services. He also advocated \$8 billion in new tax credits to funnel private contributions into such programs.

In his own speech on the topic in May, Mr. Gore broke with Democratic Party orthodoxy by calling for expanding the "charitable choice" provision of the 1996 welfare-overhaul law, which already allows states to use faith-based institutions for some welfare programs. Mr. Gore called for using this approach for drug treatment, homelessness and youth-violence programs as well.

As they carry word of this movement to their respective parties, Mr. Gore and Mr. Bush face opposite but equal challenges. Mr. Gore comes from a party and an administration that initially resisted the charitable choice provision in the new welfare law. Can Mr. Gore show that he and Democrats now have their hearts in this approach?

And Mr. Bush comes from a Republican Party in which some would use private charity as an excuse for ending government social services. To them, Mr. Bush sent a simple message: "Government cannot be replaced by charities." Does he have the courage to keep delivering that message?

*I did this in Am
at the 50s!*

 *** TX REPORT ***

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July 22, 1999

"THE DUTY OF HOPE" FACT SHEET

"We have always found our better selves in sympathy and generosity. Americans will never write the epitaph of idealism. It emerges from our nature as a people, with a vision of the common good beyond profit and loss. Our national character shines in our compassion." -- Governor George W. Bush

EXECUTIVE SUMMARY

As President, Governor George W. Bush will commit himself and the nation to mobilizing the armies of compassion – charities and churches, communities and corporations, ministers and mentors – to save and change lives, as he has done in Texas. These groups are proving that real change comes from the bottom up, not the top down.

That is why Governor Bush envisions a different role for government – a role based on the belief that government should turn first to faith-based organizations, charities, and community groups to help people in need. Resources should be devolved, not just to the states, but to the charities and neighborhood healers who need them most and should be available on a competitive basis to all organizations – including religious ones – that produce results. **This is the next bold step of welfare reform.**

To eliminate barriers to faith-based action and to encourage an outpouring of giving, Governor Bush will:

- Expand "charitable choice" and remove barriers to the participation of faith-based groups in government programs.
- Establish an "Office of Faith-Based Action" in the Executive Office of the President.
- Expand the federal charitable deduction to people who do not itemize.
- Promote a new charitable state tax credit.
- Provide new incentives for corporate giving.

As President, Governor Bush will lead a determined attack on need, launching initiatives to:

- Break the cycle of violence that grips the 1.3 million children of prisoners.
- Open federal after-school programs to community groups, churches, and charities.

August 12, 1999 – DRAFT

MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed
Eric Liu

SUBJECT: Tax Proposals to Increase Charitable Giving

You asked us for an analysis of recent faith-based proposals and for ideas we could do by executive order or enact this Congressional session. Last week, we gave you an overall comparison of how the proposals made by Governor Bush and the Vice President compare to current law. Below, we analyze the major recent tax proposals intended to encourage charitable giving, including ones included in the Senate-passed tax bill and in Governor Bush's plan, as well as some possible alternatives. Several of these issues could be raised in tax negotiations this fall. Finally, we are working on a detailed analysis of current federal support for faith-based organizations as well as some new ideas, which we plan to submit to you when you return from vacation.

Deductibility of Individual Charitable Contributions

Recent proposals would increase individuals' deductions for charitable gifts, by allowing a deduction for non-itemizers and/or increasing the deduction for those who itemize.

Current Law

Under current law, taxpayers who itemize their deductions can claim a deduction for contributions made to a qualified charitable organization, up to a limit of 50 percent of adjusted gross income (30 percent in the case of gifts of certain capital gains property). Individuals who elect the standard deduction (non-itemizers) may not claim a deduction for charitable contributions, but the amount of the standard deduction includes an allowance for estimated average charitable contributions.

Bush Proposal

Governor Bush has proposed to allow taxpayers who take the standard deduction the opportunity to deduct their charitable donations. He has not released any details of how he

~~AK/DE/AG~~

ERIC/PAUL/CR -

We need NEC's perspective on this. Good memo, but we shouldn't bypass them. Paul, can you ask their views. (we're just responding to a POTUS request.)

-BR

would structure his proposal.

Senate Proposal

The Senate-passed tax bill, S. 1429, included a proposal to allow non-itemizers to deduct charitable contributions, which was not included in the final conference report. The Senate proposal would allow taxpayers who take the standard deduction to also claim a charitable deduction of up to \$50 for single filers and \$100 for joint filers in the years 2000 and 2001. The Congressional Joint Committee on Taxation (JCT) estimated the proposal would cost \$1.3 billion.

Treasury staff say they would likely oppose a tax proposal structured like this. Though we have not had them do official analysis, staff indicated that extending the charitable contribution deduction to non-itemizers in this way would create unnecessary complexity, create a difficult enforcement problem for the IRS, and probably stimulate little additional giving. Moreover, the standard deduction theoretically includes an allowance for charitable giving. Therefore, they argue, non-itemizers should not be allowed to claim both the standard deduction and a deduction for the first \$50 or \$100 of their charitable contributions.

In addition to the proposal for non-itemizers, the Senate-passed bill increased the amount itemizers could deduct for charitable contributions. The Senate proposal, not included in the conference report, included a provision that would gradually increase the percentage limitations on deductible contributions from 50 percent and 30 percent (in the case of gifts of certain capital gain property) of Adjusted Gross Income (AGI) to 70 percent and 50 percent of AGI respectively. JCT estimated this proposal to cost \$3.7 billion over 2002-2009.

An Alternative Approach

Treasury has indicated that a better approach to the Senate-passed provision for non-itemizers would be to allow a deduction for charitable contributions above a set floor. Assuming that the floor is set at a level that exceeds the average charitable contribution by non-itemizers, such a proposal would be more likely to encourage increased charitable giving and to reduce the potential for abuse. For example, non-itemizers could be allowed to deduct aggregate charitable contributions which exceed the greater of \$500 or 1 percent (or 2 percent) of a taxpayer's AGI. *

Establishing a floor based on a ^{contribution} ~~contribution~~ of a fixed dollar amount and a percentage of AGI would serve two purposes. Use of a fixed dollar amount (e.g., \$500) would be consistent with the notion that the standard deduction includes an allowance for average charitable contributions, and that a deduction should be available only for charitable contributions above that minimum amount. At the same time, establishing a floor based on the greater of a fixed dollar amount or a percentage of the taxpayer's AGI would raise the threshold for high-income taxpayers, encouraging them to give more to charity. Although any proposal to allow a charitable contribution for non-itemizers would add complexity and some level of administrative burden, the use of the threshold amount would at least increase the possibility that deduction would reward large or increased charitable contributions.

In 1997, JCT estimated that allowing nonitemizers to deduct aggregate annual charitable contributions in excess of a flat floor of \$500 for single filers (\$1,000 for joint filers) would cost \$6-\$6.5 billion per year.

Treasury has not raised any objections to the other proposal in the Senate-passed bill, which increased the present-law limitations on deductible charitable contributions for taxpayers who itemize. *how many but this bill?* *was* *any*

Would Any of These Proposals Increase Giving?

A new study published in the June 1999 National Tax Journal indicates that nonitemizers are price responsive, and thus will give more if given a financial incentive to do so. The study found, however, that itemizers are even more price sensitive, implying that increasing incentives for itemizers is a more efficient way to increase giving. The study is based on a demonstration in effect from 1982-86, which allowed non-itemizers first to deduct a capped amount and then, in 1986, to deduct the full amount of charitable contributions. In 1986, 90 percent of itemizers claimed deductions averaging \$1,463 and 46 percent of non-itemizers claimed deductions averaging \$477. From 1985 when non-itemizers could deduct 50 cents on the dollar to 1986 when they could deduct 100 cents on the dollar, the percent of non-itemizers donating rose from 42 to 46 percent and the average amount increased from \$376 to \$477.

The article notes that other research has shown that lower-income taxpayers, who tend to be non-itemizers, are more likely to give contributions to religious charities, rather than the museums and schools favored by higher-income taxpayers. It follows, then, that extension of the itemizers-only deduction to non-itemizers would confer the greatest benefit upon religious charities.

Tax-Free Rollovers of IRA Assets to Charity

A second proposal made by Governor Bush would allow people over age 59 to make charitable contributions with IRA funds without paying income tax. Neither the Senate nor the House tax bill contained this proposal.

Treasury staff say Treasury would likely oppose tax-free rollovers of IRA assets to charity because it would provide more favorable tax treatment to individuals who fund their charitable contributions using IRA assets than those who use other income or assets. Thus, these taxpayers would be permitted to avoid present-law restrictions on deductible charitable contributions.

JCT has estimated such a proposal would cost \$1.6 billion over 2003-2009.

Memo for David Beier
October 21, 1999
Peter Buckley
Venture Philanthropy

philanthropy

Venture Philanthropy is a new approach to philanthropy that has emerged from the minds of the people that have transformed technology, in particular, the minds of Silicon Valley. Traditional Philanthropists would consider giving money to worthy causes and after much deliberation they would grant money to the worthiest causes. This would most assuredly be enough to start new initiatives, but seldom enough to bring them to fruition. The new breed of philanthropist is also a "social entrepreneur". These "social entrepreneurs" are mostly venture capitalists and internet/technology moguls who have accumulated great wealth in the recent technology boom. These new philanthropists wish to give, not only of their wealth, but also of their time and expertise. Through investments of time, energy and know-how, the non-profits and charities receive much needed support in areas such as strategic planning, business management, communications and technology matters. In this way, the non-profit can survive fiscally, as well as, provide much needed services. Additionally, the new trend in philanthropy is not only to give but also to teach others how and why to give. The new rich are very young and most do not come from great wealth. Therefore, a lack of education about philanthropy exists. Many organizations such as those that follow have taken the lead in educating the corporate community about reasons for giving and opportunities to give. Here are a few examples to review:

- **Robin Hood Foundation**: a past example of an "engaged style of giving". Attorneys, accountants and management consultants who wished to give not only of their money, but also of their time and expertise to help recipient organizations succeed, began this foundation in the late 80's.
- **Social Venture Partners**: a Seattle-based organization inspired by Paul Brainerd, former Aldus Corporation president, that seeks to develop philanthropy and volunteerism to achieve positive change in the Puget Sound region. Using the venture capital approach as a model, SVP is committed to giving time, money and expertise to create partnerships with not-for-profit organizations. SVP is committed to investing in Children and Education. An example of SVP's work is Project Look; a program designed to constructively fill after-school time in areas of low-income housing. Project Look aims to give kids tutoring, mentoring and help with family problems-all in their own neighborhood.
 - www.svpseattle.org
- **The Entrepreneurs' Foundation**: a foundation begun by Gib Myers to benefit education and youth development in the San Francisco Bay Area. The EF has developed a unique service center to harness the potential of Silicon Valley companies enabling them to become better corporate citizens. The members of the EF are venture capitalists who approach principals at successful target start-ups (in the mezzanine stage of development, i.e. doing well and desiring expansion) and convince them to donate equity, usually in the form of common stock options, to the EF. When the company goes public or is taken over, the EF

exercises the options. The money made in the transaction is used to strengthen SF Bay charities (The first donation from the EF is expected sometime in the near future) In the meantime, the EF challenges these companies to draw up community involvement plans outlining direct philanthropic goals. The EF is located in a region where the infrastructure is primed for expansion, however the communities in the area are struggling to survive. The EF strives to level the playing surface, by encouraging its clients to reinvest in the surrounding community. The EF treats giving like an investment.

- *Note Kevin Fong of the Mayfield Fund (Gib Myers Corporation) will be in attendance on Friday*
- www.the-ef.org
- **The Community Foundation Silicon Valley:** founded in 1954 the CFSV has grown and changed with Silicon Valley. The CFSV is a resource for those in the Silicon Valley interested in philanthropy. The CFSV put out a report in November 1998 entitled “Giving Back, The Silicon Valley Way”, which chronicles the new culture of giving and volunteerism in the Silicon Valley. Peter Hero is the president of CFSV. He is frequently quoted in these articles. One of the CFSV’s most notable accomplishments was the establishment of SV2, Silicon Valley Social Ventures.
 - www.cfsv.org
- **Silicon Valley Social Ventures (SV2):** a network of partners, each contributing time and money, with the goal of building a new generation of donors from the many young Silicon Valley tycoons. Steve Kirsch, CEO of InfoSeek, is a key member.
- **The Peninsula Community Foundation:** In 1964, caring local citizens created the Peninsula Community Foundation to serve as a permanent charitable institution dedicated to addressing the changing needs of the San Francisco Peninsula. The PCF sees itself as a resource where needy organizations can link up with caring contributors. Recently the PCF has developed The Center for Venture Philanthropy. The Center for Venture Philanthropy is a forum for community donors to collaborate and catalyze societal change. An outgrowth of the CVP is Philanthropy 2000 and the Venture Van. Philanthropy 2000 highlights community issues and the work of non-profits, while the Venture Van provides a “campus on wheels” for like minded investors to study non-profit strategies en route to site visits.
 - www.pcf.org
- **The American Leadership Forum Silicon Valley:** is an organization dedicated to building a better Silicon Valley community by joining and strengthening leaders to serve the common good. The ALFSV brings these leaders together to collaborate and create solutions and strategies to address giving in the Silicon Valley.
 - <http://206.67.61.169/pilot/>

Some experts believe that the traditional model of philanthropy encourages non-profits work hard to create a facade of virtue in order to receive grants. On the other hand, this new engaged style of giving used by many new philanthropists focuses on improving organizational virtues, such as developing the acumen to buy real estate at good value or providing human resources training to hire competent staff. These new philanthropists have a competitive style and drive; they want to see the organizations that they contribute to succeed, and they are willing and able to contribute their own time, money and talents to achieve that goal.

I spoke with Patty Burnesse of the Entrepreneurs' Foundation and she stressed that venture philanthropy is not e-philanthropy. These venture philanthropists use the medium of the Internet to attract customers (most of which are technology companies) and to spread their message, however this is not to be confused with e-philanthropy. Venture philanthropists take a cut of the money to prevent paying from their own pockets.

NEW  PROFIT inc.

FAX COVER SHEET

TO: ERIK LIU

PHIL WU

FAX: 202-456-2878

FROM: VANESSA KIRSCH

DATE: OCTOBER 19th

RE:

Pages to follow cover sheet:

7

If there are any problems with this fax, please call (617) 252-3220.



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THE CHRONICLE OF PHILANTHROPY GIFTS & GRANTS

From the issue dated October 21, 1999

Moving Giving off the Dime

Can White House increase share of U.S. income that goes to charity?

By THOMAS J. BILLITTERI

Washington

The Central Union Mission here opened its doors to the homeless and hungry in 1884, and over the years the charity has weathered the contrary ways of American donors.

During the Great Depression, giving to Central Union rose. "People had more sense of urgency about helping other people," says David

Treadwell, the charity's executive director. But today, as America rides the crest of a prosperity wave, Central Union must struggle to persuade small, one-time donors to become major, committed ones. "People read about how great the stock market is doing and they're afraid to miss out," Mr. Treadwell says.

He has put his finger on one of the troublesome aspects of private giving in America. Despite a record peacetime economic expansion, charitable giving in some ways remains stuck in neutral.

ALSO SEE:

[Philanthropy Takes the Bully Pulpit](#)

[Big Gifts Do Little to Change National Giving Averages](#)

[Growing Ranks of Fund Raisers Haven't Increased a Key Measure of Giving](#)

[Giving by Americans, 1968-1998](#)

While the total dollar amount of giving has been increasing, for three decades Americans have never given more than 2.1 per cent of their annual pre-tax income to charity. Not only that, but giving by individuals has not exceeded 1.6 per cent of gross domestic product, which measures the nation's output of goods and services.

Against this backdrop, the Clinton Administration this week plans to hold a high-profile White House Conference on Philanthropy, a one-

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day event that is aimed at elevating the issue of private giving and volunteering to one of national importance. Experts in the non-profit world generally laud the effort, but they say Washington must do far more than mount a bully pulpit in an effort to persuade Americans to be more charitable. Policy makers, they say, must treat philanthropy with the same degree of importance that they assign to the federal budget, the stock market, and other measures of national vitality and economic health.

Specifically, charity advocates want the government to refine the federal tax code in ways that encourage more giving, especially among middle- and lower-income donors; to devote more resources to collecting reliable data on why, how, and how much people give; and to learn more about the uses -- and misuses -- of philanthropy in social policy.

If the White House simply says, "Let's just have more giving," that is not quite enough, says Charles T. Clotfelter, director of the Center for the Study of Philanthropy and Voluntarism at Duke University. "The questions are, do we have the right amount of giving, is it directed in the correct way, are we providing the right incentives for people to give, and do people have enough information to make choices?"

The White House has some good news to build on, of course. Total contributions from individuals grew from \$71.3-billion in 1975 to \$134.8-billion in 1998, after adjusting for inflation, according to the latest estimates from *Giving USA*, a statistical almanac published by the American Association of Fund-Raising Counsel. What's more, giving by the most affluent Americans is on the rise. In 1996, people with incomes of \$1-million or more reported giving an average of \$137,000 to charity, up from about \$113,000 in 1995.

Yet, when measured against the yardstick of personal and national prosperity, American generosity has hardly budged for decades.

In 1968, amid a potent upturn in inflation, a rise in taxes to pay for the Vietnam War, and a personal-savings rate of nearly 8 per cent of take-home pay, Americans gave 2.1 per cent of their pre-tax income to charity. In 1998, with inflation and unemployment low, household income high, and a savings rate of only 0.5 per cent, Americans gave even less of their treasure to charity than in 1968: only 1.9 per cent of pre-tax income.

New data from Independent Sector, a Washington advocacy group of charities and foundations, affirm the trend. A study of giving and volunteering to be released this week shows that average household contributions dropped slightly from 1995 to 1998, to 2.1 per cent of household income.

"With wealth going up, when we already consume a good deal, and

when our economy is good enough that savings seem less important, one would expect that more of that surplus would go to charity," says Julian Wolpert, a Princeton University professor who studies patterns of charitable giving.

Even gifts from the super-rich -- \$16-billion this year alone from Microsoft founder Bill Gates and his wife, Melinda, for example -- have not assuaged the concern about the level of giving in America.

"We do see some increase in giving among the wealthy," says Virginia A. Hodgkinson, a Georgetown University philanthropy scholar and a former vice-president of Independent Sector, "but nothing in comparison to their growth in wealth."

Why personal generosity remains flat is cause for spirited debate. But with little reliable data on giving habits, the deliberations are far from conclusive.

Some observers, such as Susan Saxon-Harrold, vice-president for research at Independent Sector, say that the average charitable gift per household remains low because more people of modest means are joining the ranks of donors. Still other observers cite an erosion of spiritual and moral values for the stagnation in generosity.

"The moral training of our nation has been on the downhill," says Mr. Treadwell, of Central Union Mission. "You hear about a Bill Gates giving \$16-billion, but other people are unwilling to sacrifice \$16 because they're wrapped up in selfishness."

Notwithstanding the theories, many charity advocates believe that Americans, on average, have more room to be generous.

Claude Rosenberg, a former investment manager who founded an organization called Newtithing Group, in San Francisco, to encourage greater philanthropy, has reviewed Internal Revenue Service figures to determine that Americans could donate another \$242-billion this year "without it creating any sacrifices for anybody." More than three-fourths of that giving, he says, could come from the richest 3 per cent of Americans who file tax returns.

Many wealthy people "are really not sure how much they should give or even where to put" their charitable dollars, Mr. Rosenberg says. "In fact, many of the people are so overwhelmed with solicitations already that they almost throw up their hands and say, 'I don't know what I'm going to do.' So they just procrastinate."

As Mr. Rosenberg suggests, wealthy people hold special potential for charities. But relying on the rich to shore up the nation's record of generosity has its limits.

For one thing, says Mr. Clotfelter of Duke University, while the number of affluent people in America is growing, "the wealthy are not numerous, so they can't really contribute that much" to raising the national average on giving as a percentage of personal income. In 1996, the number of people with adjusted gross incomes of \$1-million or more grew 28 per cent from the year before, to 111,000, showing that the ranks of the wealthy are on the rise. But those wealthy filers still represented only about 1 in 800 U.S. taxpayers.

Moreover, many observers say that cuts in the top income-tax rate over the decades have diminished an important incentive for people -- especially rich ones -- to give: the opportunity to keep their money out of the government's hands.

When the top tax rate was above 90 per cent in the 1940s, 1950s, and 1960s, a wealthy donor wound up spending less than 10 cents to give a dollar to charity; hanging on to the dollar meant losing 90 cents of it to the Internal Revenue Service.

But in recent years Congress has slashed the top tax rate -- to 50 per cent in 1983 and then to 28 per cent in 1986, before raising it again in the 1990s to the current 40 per cent. Today, it costs a donor in the top tax bracket as much as 60 cents to give a dollar to charity.

"On one side, there is more wealth," Mr. Clotfelter concludes, "but on the other side, the wealthy don't have as much tax-related incentive to give."

Of course, not everyone agrees that taxes -- or the possibility of escaping them -- are the way to promote giving. "I don't think being heavily taxed makes people feel very charitable," says Alan Reynolds, director of economic research at the conservative Hudson Institute. "It makes them feel ripped off."

Mr. Reynolds's comment points up the starkly drawn battle line over taxes and philanthropy. Those lines are no more clear than in the debate over whether to eliminate the so-called death tax on the estates of the wealthy.

Conservatives have long said that estate taxes lead to the demise of family businesses, raise interest rates, and bring in little net revenue to government. Supporters contend that the taxes spur philanthropy and discourage dynastic concentrations of family wealth.

Eliminating the estate tax "won't automatically increase or decrease giving," says Paul G. Schervish, director of the Social Welfare Research Institute at Boston College. But, he says, it would "provide a better terrain for increased charitable giving because it will enable people to have more of their income and wealth to dispose of."

Still, David Joulfaian, an analyst in the U.S. Treasury Department's Office of Tax Analysis, suggests in a recent paper that eliminating the estate tax could cost charities between \$1-billion and \$1.5-billion a year. Eugene C. Steuerle, a senior fellow at the Urban Institute, a Washington think tank, also concludes that the estate tax creates an important incentive for wealthy people to give to charity. People with a net worth of \$10-million or more at death bequeath about a third of their estates to charity, with the estate tax playing a significant role in many of those decisions, he says.

Whatever the course of national tax policy, many analysts are sanguine about the future of giving. Some cite the growth of the Internet as a fund-raising tool, saying it will lead many Americans to give for the first time or to give more than they have in the past. Others expect a spate of bequests when today's Silicon Valley millionaires reach old age.

But the biggest reason for the optimism can be summed up in one word: demographics. In coming decades, the World War II generation is expected to transfer trillions of dollars in wealth to heirs, to charity, and to government in the form of estate taxes. Charity could reap a significant harvest from that transfer. In a new study, Mr. Schervish forecasts that the total wealth transfer will be "many times greater" than current estimates of about \$13-trillion, and he foresees the awakening of "a sleeping giant of charitable giving" as a result.

But many analysts are adopting a wait-and-see posture on wealth-transfer projections, saying the reality will depend on what happens in the stock market. A run-up in stock prices could propel the value of the transfer to \$30-trillion or more. A Wall Street meltdown, on the other hand, would mean all bets were off.

What's more, even if tens of trillions of dollars indeed do change hands in the next half century, charities aren't insured a resulting bonanza.

"There's hope, but no assumption" of that, says Sylvia Ronsvalle, executive vice-president of Empty Tomb, a religious, research, and social-services organization in Illinois. Among religious fund raisers, she says, the prevailing view is that without better education on philanthropy, billions of dollars could pass to heirs or be paid out in estate taxes with nary a thought about charity.

"Unless some education takes place in the near future," Ms. Ronsvalle says, "people will die without wills -- or by default that money will go to families because it won't occur to people to give to charities."

With so many unsettled questions about giving in America, the non-profit world is looking for leadership from policy makers in

Washington. Their hope: that the White House Conference on Philanthropy will spur Washington to take the subject of charity more seriously.

The greatest need, many observers say, is for better basic data on philanthropy. Says Mr. Wolpert of Princeton: "The private sector relies a lot on all kinds of data that is paid for lavishly by government. We need to know a lot more about the non-profit sector and about philanthropy."

Besides improving government's commitment to data collection, charity advocates say, the White House needs to play a stronger leadership role in amending the tax system to encourage philanthropy.

One way might be to allow donors to take a double deduction for gifts to charities that certify they will use the contributions exclusively to help the poor.

While some non-profit groups, such as Harvard University, have amassed record endowments, many soup kitchens and shelters are struggling to stay open, notes Curt Weeden, president of Corporate Contributions Management Academy, a Palm Coast, Fla., organization that trains business executives on philanthropy. "Our prosperity often masks some of the problems we have," he says. "Folks living at or below the poverty line are still in very significant need of support."

Other tax ideas also need a serious look from the White House and Congress, charity advocates say. They point to two provisions that died last summer in the bitter fight over taxes. One would allow older people to shift assets from individual retirement accounts to charity without incurring income taxes; the other would allow people who don't itemize on their federal income-tax returns to take a charitable deduction for gifts up to \$100 per family.

Even more fundamental than tax changes, charity advocates say, is a need for Presidential leadership in examining the proper role of philanthropy in American society -- particularly in an era when both major political parties favor shifting the administration of more and more social-welfare programs from government to non-profit groups.

The way to help philanthropy more dramatically than through a one-day White House conference, Mr. Wolpert says, "is to show some strong advocacy for the people who would benefit either from philanthropy or from government programs." The White House, he says, should "dramatize the problem of poor children in this country, with a clear message that both charity and government have important roles but that the charitable role is only a tiny proportion of what needs to be done. The major responsibility remains with government."

If participants at the White House conference want a reminder of the

role that charity plays in caring for the poor, they need only look out the window of 1600 Pennsylvania Avenue. Across from the executive mansion is Lafayette Park, where the down and out of the nation's capital often gather in twos and threes. Among them are clients of the Central Union Mission.

"The guys who spend the night with me," says Mr. Treadwell, reflecting on this week's philanthropy conference, "go to Lafayette Park and watch the White House during the day."

To comment on this item, send a message to comment@philanthropy.com

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[Graphic Version]

Conference Agenda

The White House Conference on Philanthropy will take place on October 22, 1999 in the East Wing of the White House. The following agenda reflects the two hour satellite broadcast. All times are Eastern Time.

Philanthropic giving is (and has long been) practiced by every segment and level of American society. It is a form of citizenship that strengthens communities and civil society. Like citizenship, it must be taught.

1:00 - 3:00PM Topics of Discussion:

Expanding the American Tradition of Philanthropy

This first session will explore ways that the American tradition of philanthropy can be expanded and passed on to future generations as we enter a new century and a new millennium.

Discussants:

- Emmett D. Carson, President and CEO, the Minneapolis Foundation
- Peter D. Hart, Peter D. Hart Associates
- Dorothy A. Johnson, President, Council on Michigan Foundations
- Justin R. Timberlake, N'SYNC

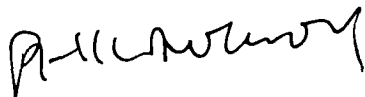
New Giving for the Next Millennium

American philanthropy, like America itself, is changing and many new, creative forms of giving will characterize the new century. New donors, particularly those from technology, have become innovators in philanthropy and have found kindred spirits among social entrepreneurs who are applying new thinking and business solutions to community problems.

Discussants:

- Kevin A. Fong, General Partner, Mayfield Fund
- Catherine Muther, Founder, Three Guineas Fund
- Steve Case, Chairman and CEO, America Online
- William P. Massey, President, National Charities Information Bureau

3:00 - 3:30PM Town Hall Discussion Moderated by First Lady Hillary Rodham Clinton



**THE WHITE HOUSE
WASHINGTON**

October 21, 1999

**WHITE HOUSE CONFERENCE
ON PHILANTHROPY: GIFTS TO THE FUTURE**

DATE: October 22, 1999
LOCATION: State Floor
TIME: 12:30pm
FROM: Ellen McCulloch-Lovell
Shirley Sagawa

I. PURPOSE:

You and the First Lady will participate in the first White House Conference on Philanthropy. You will make brief remarks announcing Administration initiatives establishing a new Interagency Task Force on Nonprofits and Government, a Department of the Treasury follow-up meeting with nonprofit leaders, and a study by the Council of Economic Advisers on the role philanthropy plays in the economy, including an analysis of the factors that affect giving and demographic and other trends that will affect giving. Prior to the event you will meet with the panelists, conference supporters, and the outstanding individual philanthropists – the “heroes of philanthropy” – who are profiled in the introductory video to be shown to East Room and satellite audiences.

II. BACKGROUND

The White House Conference on Philanthropy is a three hour discussion with twenty discussants and a live audience of approximately 200 that will be broadcast from the East Room of the White House to downlink sites across the country. The first session will cover the ways we can teach or transmit the philanthropic tradition to future generations, and the second will explore how changing demographics, the transfer of wealth and new technologies will transform American philanthropy in the years ahead. These panels will be followed by an open discussion with some pre-determined participants in the audience. This conference was conceived by the Office of the First Lady and the

White House Millennium Council in consultation with experts from foundations, leading nonprofits, and researchers.

The conference will begin with a four minute introductory video shown to the East Room and the satellite audiences. This video will profile eleven "heroes" of American philanthropy from a wide range of backgrounds. The video makes the point that *all* Americans can be philanthropists and that American philanthropy will reflect the demographic changes transforming America in the 21st century. The first panel, "Expanding the American Tradition of Giving," features four panelists who represent scholarship and new research, community foundations, youthful donors, and experts who are working with youth. The purpose of this session is to explore how the ethic of giving can best be taught and to highlight some imaginative current efforts to involve youth.

The second panel, "New Philanthropy in the New Millennium," features three outstanding new donors and philanthropists who are actively promoting more giving by entrepreneurs, the newly wealthy, and ordinary Americans. The third segment of the program will feature an open discussion which the First Lady will moderate. Observing and participating in the discussion will be an audience of some 200 leaders from philanthropic institutions, nonprofit organizations, youth groups, and researchers, educators and innovative new donors.

The first two hours of the conference will be broadcast by satellite by South Carolina Educational Television. Over 3,443 sites will receive the signal, and several public broadcasting networks will transmit it as well. Public access and cable channels will reach a potential audience of 10.5 million cable viewers, and South Carolina ETV's own network will reach 1,200 schools and other sites. 153 sites, in 42 states, have registered at our online website. Many of these local sites will sponsor their own conferences or forums in conjunction with our event. The American Red Cross and United Way cooperated to organize a number of these local conferences, but other groups – the Forum of Regional Association of Grantmakers, the National Committee on Planned Giving, and the National Association of Fund-Raising Executives also are planning special events around the broadcast. The American Red Cross will host one large forum at its national headquarters on 17th Street.

The conference provides a forum for announcing a series of action steps from both the government and our private sector partners.

Government:

- You will announce the creation of a new Interagency Task Force on Nonprofits and Government. This Task Force will be charged with studying ways to improve collaboration between the nonprofit sector and federal agencies. The Interagency Task Force will be co-chaired by the National Economic Council, the Domestic Policy Council, and your Chief of Staff.

- The Department of Treasury will sponsor a follow-up forum with representatives of the nonprofit sector to discuss issues affecting the charitable sector.
- The Council of Economic Advisers will be charged with preparing an analysis of research on the economic impact of the nonprofit sector and new studies of possible governmental measures that could increase private giving.
- The Corporation for National Service is sponsoring a youth roundtable this morning to discuss ways that young people can be encouraged to become more active donors and volunteers.

Private Sector:

- The National Charities Information Bureau, in cooperation with AOL, charitableway.com and Greatergood.com, and with participation by officials from the Office of the Vice President, the Department of Commerce, and the White House Millennium Council, is sponsoring a roundtable on e-philanthropy at the U.S. Chamber of Commerce. The President of NCIB will announce a commitment to hold follow-up forums and that the participating corporations have agreed to four principles that should guide online philanthropy.
- The Bill and Melinda Gates Foundation will announce that it will support the costs of a follow-up meeting with youth organizations to discuss how they can work together to promote youth philanthropy.
- The Girl Scouts of America has announced the creation of a new patch program, the Strength and Sharing Girl Scouts Philanthropy Patch program.
- The AOL Foundation just launched its online philanthropy portal, www.helping.org which provides potential donors information about hundreds of thousands of nonprofit organizations. Steve Case, CEO of AOL, is on the second panel of the conference.

The White House Conference on Philanthropy is sponsored by the White House Millennium Council in partnership with the National Endowment for the Humanities. Major support comes from the Charles Stewart Mott Foundation which is providing funds to South Carolina Educational TV for the cybercast and satellite broadcast. Additional support comes from Jill Iscol and the Iscol Family Foundation, the Marcie Polier Family Foundation, the J. Paul Getty Trust, and the Community Foundation-Silicon Valley. The American Red Cross and United Way of America have provided significant in-kind support by organizing a nationwide network of downlink sites to receive the satellite signal.

III. PARTICIPANTS

Briefing Participants:

The President
The First Lady
Ellen McCulloch-Lovell
Shirley Sagawa

Meet and Greet:

The President
The First Lady

Speakers:

Emmett D. Carson, President and CEO, The Minneapolis Foundation
Justin Randall Timberlake, N'SYNC
Peter D. Hart, Founder, Peter D. Hart Research Associates
Dorothy A. Johnson, President, Council of Michigan Foundations
Steve Case, Co-Founder, Chairman and CEO, America Online, Inc.
Catherine (Cate) Muther, Founder, Three Guineas Fund
Kevin A. Fong, General Partner, Mayfield Fund
Paul Amos, President and CEO, South Carolina Educational TV

Heroes:

Myrian Bodner
Gil Castellanos
Laura Castellanos, Mother
Matel Dawson
Mary Grayson
Regina Jennings
Dr. Rolland Lowe
Matthew Nonnemacher
John Nonnemacher, Father
Rev. Ann Pearson
Esperanza Rich
William Shelton III
Harrison Steans

Funders:

William S. White, President and CEO, The Charles Stewart Mott Foundation
Ann Young Orr, Chief of Staff, National Endowment for the Humanities
Jill Iscol, Iscol Family Foundation
Marcie Polier, CEO, Entdata.com
Beety Beene, President & CEO, United Way of America
Bernardine Healy, President, American Red Cross

Others:

Secretary Shalala
Paul Newman

Event Participants:

The President
The First Lady

Panel 1:

Emmett D. Carson, President and CEO, The Minneapolis Foundation

Justin Randall Timberlake, N'SYNC

Peter D. Hart, Founder, Peter D. Hart Research Associates

Dorothy A. Johnson, President, Council of Michigan Foundations

Panel 2:

Steve Case, Co-Founder, Chairman and CEO, America Online, Inc.

Catherine (Cate) Muther, Founder, Three Guineas Fund

Kevin A. Fong, General Partner, Mayfield Fund

Open discussion:

Rebecca L. Adamson, Founder and President, First Nations Development Institute

Lorraine Cortes-Vazquez, President, Hispanic Federation

Malik Evans, Sophomore, University of Rochester

Rosabeth Moss Kanter, Professor, Harvard Graduate School of Business Administration

Rosario "Chayo" Long-Mendez

William P. Massey, President, National Charities Information Bureau

Margaret (Peg) Talburt, President, Michigan Women's Foundation

William S. White, President, The Charles Stewart Mott Foundation

IV. SEQUENCE OF EVENTS

12:35pm YOU and the First Lady receive briefing in Map Room.

12:50pm YOU and the First Lady proceed to the Blue Room for meet and greet.

12:59pm Ellen Lovell begins program and introduces video.

Video is shown to live and broadcast audience.

1:00pm YOU and the First Lady are announced into the East Room and proceed to the stage.

The First Lady makes welcoming remarks and introduces YOU.

YOU make remarks and return to seat on stage.

The First Lady begins first session discussion from seat and introduces panelists on stage.

The First Lady calls on Emmett Carson to make brief remarks.

The First Lady responds and calls on Lorraine Cortes-Vazquez to make brief remarks and asks for additional comments from Evan Mendelson and Peg Talburtt.

Lorraine Cortes-Vazquez makes brief remarks and turns to Evan Mendelson (in audience) for additional comments.

Evan Mendelson makes brief remarks and turns to Peg Talburtt (in audience) for additional comments.

1:42pm **YOU have the option to respond.**

The First Lady calls on Peter Hart to make brief remarks.

Peter Hart makes brief remarks.

The First Lady turns to Justin Timberlake for additional comments.

Justin Timberlake gives brief reply.

The First Lady turns to Dorothy Johnson to make brief remarks.

Dorothy Johnson makes brief remarks.

The First Lady asks Dorothy Johnson to introduce Chayo Long-Mendez (in audience.)

Chayo Long-Mendez gives brief reply.

1:59pm **YOU have the option to respond.**

The First Lady responds to the discussion and calls on Patty Stonesifer (in audience.)

Patti Stonesifer makes brief remarks.

2:06pm The First Lady wraps first session and invites audience to break.

2:11pm The First lady introduces the second session and second round of panelists proceed to seats on stage.

The First Lady introduces panelists and turns to Kevin Fong to begin discussion.

Kevin Fong makes brief remarks.

The First Lady turns to Cate Muther, who makes brief remarks.

The First Lady turns to Steve Case, who makes brief remarks.

The First Lady makes brief remarks and calls on Bill Massey (in audience.)

Bill Massey makes brief remarks.

The First Lady responds and has the option to call on Rosabeth Kanter (in audience.)

The First Lady wraps discussion and YOU make concluding remarks.

2:31pm YOU depart.

V. PRESS PLAN

Open Press

VI. REMARKS

Provided by Speechwriters

NEW PROFIT Inc.**Fax Cover Sheet****TO:** Anna for Eric**FAX #:** 202.456.2878**FROM:** Vanessa Kirsch**DATE:** Oct. 13, 1999**RE:** Conference Call**Pages to follow cover sheet:** /

If there are any problems with this fax, please call (617) 252-3220.

NEW PROFIT Inc.

Memo

To: Eric Liu

From: Vanessa Kirsch

Date: October 13, 1999

Re: Conference Call

Eric,

Here are some of the names for a conference call. A draft agenda is included below.

John Markison, Chair, National Venture Capital Asc.	609-896-1900
Dan Kingsley, National Venture Capital Assoc.	703-351-3327
Kim Smith, New Schools Fund	650-556-2342
Gib Myers, Entrepreneurs' Foundation	650-854-5560
Paul Shoemaker, Social Venture Partners	206-374-8757
Mark Nunnally, Bain Capital	617-572-2711
Alan Khazei, City Year	617-927-2338
Vanessa Kirsch, New Profit Inc.	617-252-3221
Eric Liu	

Agenda

- I. Introduction/Review of White House philanthropy conference
- II. Opportunities for Venture Philanthropy
- III. Ideas to leverage White House conference to promote philanthropy
 - Possible announcements?
 - Follow-up task force
 - Other
- IV. Next Steps

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

SUBJECT: Supporting the Role of Nonprofit Organizations

The United States
America is the richest and most generous nation on Earth. In 1998, an estimated \$148 billion was given by individuals, communities, foundations, corporations and other private philanthropies to a wide variety of worthy causes and organizations. Individuals accounted for 77 percent of all contributions in 1998 and their giving has increased 32 percent since 1995.

And over the next 22 years,
This is a significant trend since an estimated \$20 trillion in charitable giving will be transferred in charitable gifts over the next 20 years. Moreover, philanthropy is also exhibited by millions of Americans who also give their time and energy by helping people in need and investing in their communities.

In many cases it is the nonprofit sector *that converts* which translates philanthropy into services within our communities -- helping people in need, providing health care and educating our Nation's youth. *is* America's nonprofit sector represents a significant presence in our national life. The nonprofit sector is an integral component of our national economy while at the same time performing a vital service role. The nonprofit sector, *which* embraces approximately [X] million organizations with operating expenditures of some [X] billion as of 199[X].

The nonprofit sector represents many different types of entities, both those which are member serving, and the other, which is essentially public serving. Even the public serving portion of the nonprofit sector embraces many different types of entities, which includes faith-based organizations, foundations, most of our civic organizations, half of our hospitals, half of our colleges and universities and more than half of our social service organizations providing everything from housing for the homeless to information on crucial unmet needs.

Beyond the significant contribution that faith-based organizations make in our communities, the other part of the public-serving portion of the nonprofit sector had expenditures of [X] billion, representing [X] percent of the U.S. gross national product. Even though these expenditures are heavily concentrated in the health component of the sector, which alone accounts for [X] percent of the total; and in education, which accounts for another [X] percent. Most of these organizations, however, are in the fields of social service, civic action, and mutual aid. There are hundreds of thousands of these nonprofit organizations that form a critical component of our Nation's community life.

There is great opportunity to forge collaborative efforts between the nonprofit and government sector to address pressing public problems. Such an approach relies on nonprofits for what they do best -- identifying problems, mobilizing fresh thinking and energy, caring for those in need on a human scale, and promoting social change. For example, Federal grant programs from the National Science Foundation and the National Institutes of Health assist nonprofit research institutions that search for cures to cancer. Another example is the Corporation for National Service, which partners with nonprofits throughout the Nation to deliver critical services such as afterschool and tutoring programs for young people in local communities. The challenge of promoting government and the nonprofit sector working together in an effort to address public

problems is to find ways to protect and enhance what is unique and special about nonprofit organizations, while accepting the advantages of partnerships with other components of American life.

Therefore, today I am asking the Federal agencies to assist me in this effort. I direct the Directors of the White House Domestic Policy Council and The National Economic Council to convene an Interagency Task Force on Nonprofits and Government (hereinafter referred to as "Task Force"). The purpose of this Task Force will be twofold: first to identify current forms of collaboration between the Federal Government and nonprofits; and second, to evaluate ways that this collaboration can be improved.

Structure of the Council

The Assistant to the President for Domestic Policy in conjunction with the Assistant to the President for Economic Policy and the Assistant to the President and Chief of Staff to the First Lady will Chair the Task Force. The Office of the Vice President and the Office of Management and Budget will be regular participants.

Membership. The Task Force shall be composed of the:

- (1) Secretary of Health and Human Services
- (2) Secretary of Treasury
- (3) Secretary of Labor
- (4) Secretary of Education
- (5) Attorney General
- (6) Secretary of Housing and Urban Development
- (7) Secretary of Agriculture
- (8) Secretary of Transportation
- (9) Administrator of the Small Business Administration

The Chairs of the Task Force may call upon these and other officials as they deem appropriate to further the purposes of this overall effort or to participate in specific aspects of it. For example, matters relating to nonprofit management would involve the Small Business Administration. Matters relating to the economic impact of nonprofits would involve the Council of Economic Advisors. The Chairs, after consultation with Task Force members, will appoint staff members to coordinate the Task Force's efforts. The Chairs may call upon the participating agencies for logistical support to the Task Force, as necessary. Members of the Task Force may delegate their responsibilities under this order to subordinates.

Objectives of the Task Force

Among its objectives, the Task Force will:

1. Inventory Federal agency programs that maintain formal relationships with nonprofit organizations. The Task Force will develop and maintain a coordinated inventory of agency programs that partner with nonprofit organizations and provide analyses of their

effectiveness. The inventory of nonprofit program participation should be available to the public.

2. Study how the Federal Government can be more responsive to the mission of nonprofit organizations. The Task Force will explore ways to assist nonprofits in their public missions, including cross-program and cross-agency strategies that recognize the community-based focus of many nonprofit organizations. The Task Force will also examine collaborative efforts between nonprofits and the Federal Government, develop options for improving these operations and examine the application of the model to other governmental efforts.
3. Evaluate data and research on trends on nonprofits and philanthropy. Understanding the significance of the relationship between the nonprofit and government sector requires an understanding of the presence that the nonprofit sector has on the economy and in its role in national public service. The Task Force will oversee the coordination of agency efforts to identify the contributions made by the nonprofit sector and information regarding philanthropic activity.
4. Develop further policy responses. The Task Force will meet to discuss new findings and to consider new or modified Administration responses on coordinating efforts between the Federal Government and the nonprofit sector. For example, the Task Force will explore incentives that encourage philanthropy and service, efforts to help nonprofits develop and grow, and ways to reduce governmental barriers to innovate nonprofit enterprises. Recommendations for initiatives will be discussed in the Task Force for consistency with overall Administration policy. From time to time, the Task Force will report to me on the results of its efforts.

The information gained from this Task Force will be used to recommend further action to foster better collaboration between the nonprofit and government sector in our effort to mobilize public energies, encourage philanthropic activities and more effectively respond to societal needs.

General Provisions

This order is intended only for internal management of the executive branch. This order is not intended, and should not be construed to create, any right, benefit, or trust responsibility, substantive or procedural, enforceable at law or equity by a party against the United States, its agencies, its officers, or its employees. This order shall not be construed to create any right to judicial review involving the compliance or noncompliance with this order by the United States, its agencies, its officers, or any other person.



**Department Of The Treasury
Office of Tax Legislative Counsel
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220**

October 18, 1999

To: Eric Liu

Fax: 456-2878

Number of pages (including this coversheet): 2

From: Steven D. Arkin
Deputy Tax Legislative Counsel

Tel: 202/622-1336

Fax: 202/622-9260

Comments:

See attached.

NOTE: THIS MESSAGE IS INTENDED ONLY FOR THE USE OF THE INDIVIDUAL OR ENTITY TO WHOM IT IS ADDRESSED AND MAY CONTAIN INFORMATION THAT IS PRIVILEGED, CONFIDENTIAL, AND/OR RESTRICTED AS TO OR EXEMPT FROM DISCLOSURE UNDER APPLICABLE LAWS. If the recipient of this message is not the addressee (i.e. the intended recipient), you are hereby notified that you should not read this document and that any dissemination, distribution, or copying of this communication, except insofar as is necessary to deliver this document to the intended recipient, is strictly prohibited. If you have received this communication in error, please notify the sender immediately by telephone, and you will be provided further instructions about the return or destruction of this document. Thank you.

UNCLASSIFIED



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

MEMORANDUM FOR: Eric Liu
Deputy Assistant for Domestic Policy

FROM: Jonathan Talisman *JT*
Deputy Assistant Secretary (Tax Policy)

Steven D. Arkin *SDA*
Deputy Tax Legislative Counsel

SUBJECT: IRS Tax Exempt Advisory Committee

DATE: October 18, 1999

As we discussed, the Treasury Department recently announced the formation of a "tax exempt advisory committee" at the IRS. At the October 22nd philanthropy conference, the President or First Lady could bring the following information to the attention of the conferees:

In view of the growing size and importance of the nonprofit sector of the economy, a new "Tax Exempt and Government Entities" division is being established at the Internal Revenue Service (IRS), which will be one of the four main customer groups at the newly reorganized IRS. As part of this effort, the Treasury Department also announced in July of this year the formation of a "tax exempt advisory committee" to provide an organized public forum for discussions between the IRS and representatives of charities and other tax-exempt organizations. This advisory committee will enable the IRS to receive regular input with respect to the development and implementation of IRS policies and practices affecting tax-exempt organizations.

The Administration asked for nominations of individuals to serve on the tax-exempt advisory committee, which will be composed of representatives of a broad range of nonprofits and other customers served by the new IRS division. In response, over 100 nominations were received from private citizens representing different charities and other tax-exempt entities. The selection process is now underway, and the advisory committee is expected to be up and running by early next year.

This advisory committee will promote an on-going dialogue between the IRS and the nonprofit community about tax administration issues, including issues that impact philanthropy in particular. We hope that both the new IRS division and the advisory committee will serve as models for future efforts to provide coordinated avenues for charities and other nonprofits to communicate, and improve their working relationships, with all Federal agencies.

cc: Eric Gould, Melissa Schroder, Michael Barr, Ellen Lovell, Shirley Sagawa

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

SUBJECT: Supporting the Role of Nonprofits Organizations

America's nonprofit sector represents a significant presence in our national life. The nonprofit sector embraces many different types of entities, which include churches, foundations, environmental groups, civic organizations, and a wide assortment of service agencies providing everything from health care to education to housing for the homeless to information on crucial unmet needs.

The nonprofit sector is an integral component of our national economy while at the same time performing a vital service role. The nonprofit sector embraces approximately [X] million organizations with operating expenditures of some [X] billion as of 199[X]. Indeed, the nonprofit sector accounts for most of our civic organizations, half of our hospitals, half of our colleges and universities and more than half of our social service organizations.

There is great opportunity to forge collaborative efforts between the nonprofit and government sector to address pressing public problems. Such an approach relies on nonprofits for what they do best -- identifying problems, mobilizing fresh thinking and energy, caring for those in need on a human scale, and promoting social change. The challenge of promoting government and the nonprofit sector working together in an effort to address public problems is to find ways to protect and enhance what is unique and special about nonprofit organizations, while accepting the advantages of partnerships with other components of American life. *Examples?*

Therefore, today I am asking the Federal agencies to assist me in this effort. I direct the Directors of the White House Domestic Policy Council and The National Economic Council to convene an Interagency Task Force on the Relation of Nonprofit and Government Activities *See* (hereinafter referred to as "Task Force"). The purpose of this Task Force will be to identify what the Federal Government can do to foster the valuable work of nonprofits and develop better collaboration between nonprofits and government.

Structure of the Council

The Assistant to the President for Domestic Policy in conjunction with the Assistant to the President for Economic Policy will co-chair the Task Force. The Office of the Vice President, the Office of the First Lady and the Office of Management and Budget will be regular participants.

Membership. The Task Force shall be composed of the:

- (x) Secretary of Health and Human Services
- (x) Secretary of Treasury
- (x) Secretary of Labor
- (x) Secretary of Education
- (x) Attorney General
- (x) Secretary of Housing and Urban Development

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(DPL)

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- (x) Secretary of Agriculture
- (x) Secretary of Transportation
- (x) Director of the Office of Management and Budget
- (x) Chair of the Council of Economic Advisors
- (x) Assistant to the President for Domestic Policy
- (x) Assistant to the President for Economic Policy
- (x) Assistant to the President for Public Liaison

— shorter list

The Co-Chairs of the Task Force may add such other officials as they deem appropriate to further the purposes of this overall effort or to participate in specific aspects of it. The Co-Chairs, after consultation with Task Force members, will appoint staff members to coordinate the Task Force's efforts. The Co-Chairs may call upon the participating agencies for logistical support to the Task Force, as necessary. Members of the Task Force may delegate their responsibilities under this order to subordinates

Objectives of the Task Force

Among its objectives, the Task Force will:

1. Study how the Federal Government can be more responsive to the mission of nonprofit organizations. Many Federal programs address issues identical to the task of nonprofit organizations. The Task Force will examine collaborative efforts between nonprofits and the Federal Government and examine options for improving these operations. The Task Force will explore cross-agency and cross-program strategies in an effort to address broader community-based needs of many nonprofit organizations.
2. Inventory Federal agency programs that involve nonprofit organizations. The Task Force will develop and maintain a coordinated inventory of agency programs that involve nonprofit organizations and provide analyses of their effectiveness. The inventory of nonprofit program participation should be available on an easily accessible website.
3. Examine "best practices" of government-nonprofit partnerships. The Task Force will examine successful collaborative efforts between the nonprofit and government sector in addressing important public societal needs and examine the application of the model to other governmental efforts.
4. Evaluate data and research on trends on nonprofits and philanthropy. Understanding the significance of the relationship between the nonprofit and government sector requires an understanding of the presence that the nonprofit sector has on the economy and in its role in national public service. The Task Force will oversee the coordination of agency efforts to identify the contributions made by the nonprofits sector and information regarding philanthropic activity.
5. Develop further policy responses. The Task Force will meet at the call of the Co-Chairs to discuss new findings and to consider new or modified Administration responses on coordinating efforts between the Federal Government and the nonprofit sector.

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The information gained from this Task Force will be used to recommend further action to foster better collaboration between the nonprofit and government sector in our effort to mobilize public energies and more effectively respond to societal needs.

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- (x) Secretary of Health and Human Services
- (x) Secretary of Treasury
- (x) Secretary of Labor
- (x) Secretary of Education
- (x) Attorney General
- (x) Secretary of Housing and Urban Development

ADD SBA

- (x) Secretary of Agriculture
- (x) Secretary of Transportation
- (x) Director of the Office of Management and Budget
- (x) Chair of the Council of Economic Advisors
- (x) Assistant to the President for Domestic Policy
- (x) Assistant to the President for Economic Policy
- (x) Assistant to the President for Public Liaison

*Dove include here as well as above?
[check youth violence memo]*

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5. Develop further policy responses. The Task Force will ~~meet at the call of the Co-Chairs to discuss new findings and to consider new or modified Administration responses on coordinating efforts between the Federal Government and the nonprofit sector~~ and ways to foster the valuable work of nonprofits.

doesn't this belong in 3?

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NEW  PROFIT Inc.

Fax Cover Sheet

TO: ERIK LUI

FAX #: 202-456-2878

FROM: VANESSA KIRSCH

DATE: OCT. 13, 1999

RE: CONFERENCE CALL

Pages to follow cover sheet: /

If there are any problems with this fax, please call (617) 252-3220.

NEW PROFIT inc.**Memo**

To: Patty Burnes, Erik Lui, Paul Shoemaker, Kim Smith, Mark Nunnelly, Jed Emerson, Alan Khazei

From: Vanessa Kirsch

Date: October 13, 1999

Re: Conference call

Greetings! Thank you all for finding the time in your schedule for this last minute, but important, conference call.

The conference call will take place tomorrow morning, October 14, at 10:30 am EST (7:30 on the West Coast). The operator will be calling you and the call will be a quick 30 minutes.

In talking with Erik Liu of the White House it has become clear that the White House Conference on Philanthropy might be an excellent opportunity for us to build momentum both behind our collective efforts in venture philanthropy.

While the focus of the call will be on October 22nd and the possibility of making any kind of announcement, I trust it will also be a chance for us to think collectively about on going and future activities with the White House and other government entities.

The agenda will be as follows.

Thanks, Vanessa

Agenda

- I. Introduction/Review of White House philanthropy conference**
- II. Opportunities for Venture Philanthropy**
- III. Ideas to leverage White House conference to promote philanthropy**
 - Possible announcements?**
 - Follow-up task force**
 - Other**

NEW PROFIT inc.**Memo****To: Eric Liu****From: Vanessa Kirsch****Date: October 6, 1999****Re: Thoughts on the October 22 Conference on Philanthropy**

The opportunity to highlight and elevate the discussion on innovative philanthropy through the upcoming White House Conference on Philanthropy is very exciting. What follows are a couple of quick thoughts on how we can use this opportunity to introduce and promote the ideas of venture philanthropy, social entrepreneurship and New Profit Inc.

- **Venture Philanthropy Now is Like National Service in 1992**
The venture philanthropy idea today is where the national service idea was in 1992 and it is poised to make major leap forward with White House support. In 1992, national service was a concept that was being tested but was struggling for attention and support from the government and opinion leaders (Initially there were eight demonstration national service programs – today there are over 500). Venture philanthropy is an idea currently bubbling up from the grass roots in the same way. It has the capacity to be as powerful and transformative as national service was, especially if given early recognition. One of the hallmarks of the Clinton Administration has been to find good ideas and roll them out across the country. Besides Americorps, this includes the New Markets Initiative, the Education 2000 Initiative and the America Reads Initiative, to name a few. In the past few years a number of venture philanthropy efforts have been launched including Social Venture Partners, Entrepreneurs' Foundation, New Schools Fund, Roberts Enterprise Development Fund, and New Profit Inc. With the exponential growth in new wealth in the country, infusion of philanthropic dollars into the non-profit sector can only be expected to continue. Already the media has begun to pick up on this new wave of giving, as evidenced by recent articles in Wired, Tech Capital, Boston Globe, Chronicle of Philanthropy and the New York Times. This conference has the potential to be looked back upon as a critical turning point when venture philanthropy became a part of the popular policy dialogue.

- **Engage Venture Capital Companies and Individual Venture Capitalists**
Just as corporations committed themselves to youth issues through America's Promise, the National Venture Capital Association could make a commitment to contribute to the existing venture philanthropy field through one or more of the following methods: pledging a financial commitment (the goals should be to get \$10 million in commitments by October 22); generating attention and publicity through including venture philanthropy on web pages and promoting the social entrepreneurs by including venture philanthropy in public relations efforts. In addition, individual venture capitalists as companies could make commitments like Monitor to provide not only financial but intellectual capital to the emerging social entrepreneur field.
- **Publicize Themes of Venture Philanthropy Movement**
 - Get Personally Involved
 - Think Big
 - Transfer Skills not just Money
(*These three ideas come from WSJ editorial by Michael Milken 10/4/99)
 - Accountability/Performance Funding
 - Scale/High Impact
 - Network Effects/Leverage
- **Post Conference Task Force on Government's Role in Philanthropy**
Following this conference a task force on government's role in this new form of philanthropy could be launched. It's purpose would be to think about how to implement some of the ideas fomented during the Conference, like a small business administration for non-profits, challenge grants for venture philanthropy funds, etc. Some questions this group could address are:

How might we align tax policy to ensure new and sustained investment in the non-profit sector?

How can we bridge philanthropic investment capital with great ideas to create leverage for disadvantaged communities?

What can government do to promote social entrepreneurship? ...etc.

P.S. Rubin would be a great chair of this task force.

→ John Matheson - (Chair of Board)
Edwin VF - NVCAT
(NJ)
609 896 1900

→ Dan Kinsley - from E.D., now head of foundation
(Mark HESAN, now E.D.)

Marty J. Hoffmann

10/12/99 10:39:32 PM

Record Type: Record

To: Karin Kullman/OPD/EOP@EOP

cc:

Subject: Philanthropy Conf.

I wanted to pass this on to you to see if its something that would be appropriate to use during the Philanthropy Conf. It ws passed on to us from Rep. Engel and Boehlert--



"Calvelli, John" <John.Calvelli@mail.house.gov>

10/06/99 02:33:39 PM

Record Type: Record

To: Rebecca Hunter/WHO/EOP

cc:

Subject: FW: Checkoff (Brain/Hunter)

> As we briefly discussed on the phone, Congressmembers Engel and Boehlert
> (R-
> NY) have introduced legislation (The Checkoff for Charity Act) which would
> allow
> taxpayers to contribute to charitable organizations through a designation
> on their
> tax returns.
>
> The White House is hosting a White House Conference on Philanthropies on
> October 22nd. According to the memo we recived explaining the event, the
conference would explore how we can sustain and expand our tradition of
giving for
future generations. This may be an excellent forum to highlight our
bipartisan
> legislative initiative. What do you think?
>
> Here are some highlights of the legislation:
> * It is modeled after the Combined Federal Campaign (CFC) which was
> initiated in 1961 by President Kennedy (a program currently available only
> to federal employees)
> * The Checkoff would be budget neutral
> * Has the potential of raising close to \$5 billion for charitable
> organizations.

> * We have already received the support of the National Italian
> American Foundation, our local chapter of the Boys and Girls Club and
> WNET/Thirteen as well as interest in the legislation and requests for
> further information from organizations such as Cooley's Anemia, The
> Lighthouse, the Leukemia Society and Amnesty International. We are
> currently working with Community Health Charities and the Combined Federal
> Campaign to disseminate the information and receive feedback on the
> proposal.

> * General Colin Powell has informed us of his support for the idea
> and has expressed an interest in meeting with the supporters of the
> legislation later this year.

> * 17 Current co-sponsors: Boehlert, Serrano, Wynn, Owens, Rodriguez,
> Velazquez, Towns, Weiner, Lewis, Lowey, Forbes, McNulty, Carolyn McCarthy,
> Blagojevich, Jackson-Lee, Kelly
>

> I have taken the liberty of attaching our latest Dear Colleague. Thanks
> for your interest and let me know what you think. (202-225-2464 or cell
> 202-225-8819)
>

> SUPPORT CHECK-OFF CHARITY FOR LEGISLATION
>

> Dear Colleague:
>

> We are writing to urge you to co-sponsor HR 2053, the Check Off for
> Charity Act of 1999. This legislation would create a mechanism by which
> all taxpayers can contribute to a wide-range of charities through a
> designation on their tax returns.
>

> The Check-Off for Charity Act would provide taxpayers with the option of
> voluntarily earmarking some of their earnings for a group of charities
> modeled after the popular Combined Federal Campaign (CFC), an annual
> fund-raising drive conducted by federal employees in their workplace each
> year. Contributors would also be allowed to take a tax deduction on the
> money they have designated for the charities.
>

> In 1994 the CFC raised approximately \$195 million in donations from more
> than 1.6 million contributors. In 1995, 41% of federal employees
> participated in the CFC with an average contribution of \$142.00. Based on
> CFC participation levels, Check-Off for Charity would have the potential
> of raising more than \$4.8 billion for charitable organizations.
>

> During the current Congress, members have introduced legislation which
> would provide a check-off for the Olympics, libraries, schools, public
> broadcasting and national parks. Our legislation would provide the
> American people an effective mechanism to support these and other
> worthwhile initiatives.
>

> For more information on this legislation, or to sign on as a co-sponsor,
> please have your staff call Chris Pernie or John Calvelli at 5-2464.
>

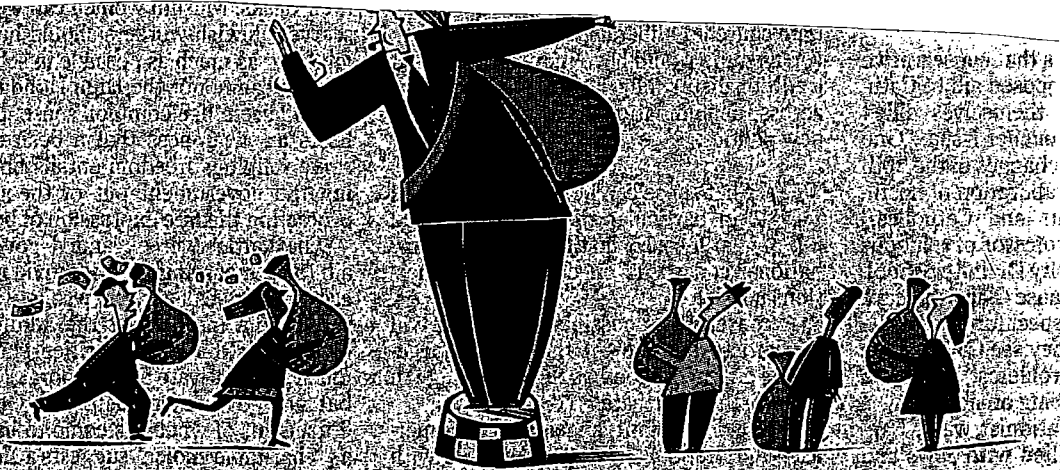
> Sincerely,
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> Eliot L. Engel
> Member of Congress

Sherwood L. Boehlert
Member of Congress

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BY JIM DANDY FOR THE WASHINGTON POST

He Who's Got It Gets to Give It

By PETER FRUMKIN

Few people paid much mind in August when Microsoft's Bill Gates deposited a new block of stock into his private foundation, making it the biggest in the country with a permanent endowment of \$17 billion. But when Gates announced two weeks ago that he would give \$1 billion

to fund science scholarships for minority college students—one of the largest single philanthropic commitments ever—his decision was met with doubts about the wisdom of investing such large sums in such a targeted manner.

Philanthropy has become a controversial matter these days, particularly when donors make their own decisions about how and when to spend their money rather than leaving those details to professionals in the foundations they have set up. Yet we all stand to benefit from this very personal form of giving—and

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See PHILANTHROPY B4, Col. 1

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PHILANTHROPY. From B1

from active, committed donors who use their funding to express their own, sometimes quirky, visions of the common good.

Why should we value such donor-driven philanthropy? On the face of it, some large donations seem bizarre, perhaps even misguided. In San Francisco, for example, PeopleSoft Inc. co-founder David A. Duffield committed his foundation to spending \$200 million to make sure that every cat and dog in America has a home—because of his affection for his miniature schnauzers. Individual donors often choose to do things on a scale that few perpetual foundations or government agencies would entertain. In Madison, Wis., toy maker W. Jerome Frautschi decided that his hometown would benefit from a downtown arts district. So he pledged \$100 million—a donation equivalent to the annual budget of the National Endowment for the Arts and that dwarfs the arts grants usually disbursed by foundations—to see his vision enacted. In New York City, Irene Diamond spent her foundation right out of existence in part by funding AIDS research because she felt the work simply could not wait.

While consensus may have existed in the past about how the wealthy should conduct their giving, philanthropy is now entering a period of great flux, uncertainty and experimentation. How the growing ranks of billionaires, the surging number of multimillionaires, and the millions of millionaires make their decisions is going to grow ever more controversial as the amount of philanthropy in the coming decades continues to rise with the anticipated \$10 trillion transfer of wealth from members of the baby boom generation to their descendants.

Donors have long faced two options when they approach the question of how best to disburse their funds. First, they can take charge of their giving, forgoing a foundation completely or setting one up merely as a vehicle for current donations. Second, they can avoid the topic by postponing their giving until after their deaths and by placing funds into private foundations. Since the turn of the century, the United States has been famous for

Make More, Give More?

How much money should a private foundation—one that makes grants based on a charitable endowment and does not actively raise funds or seek public financial support—give away each year? Although there is a legal requirement of at least 5 percent of the value of a foundation's assets, some movers and shakers in the charity business are angling for more.

A bit of background: To thwart a private foundation's ability to build up assets without giving any of them away, Congress set (in the Tax Reform Act of 1969) and later revised a minimum amount that private foundations are required to distribute. This is the rule for all private foundations, whether they make lots of money or none at all. Initial penalties for failure to comply include an excise tax of 15 percent on amounts not distributed.

That 5 percent can include administrative expenses in running a grant-making program as well as direct charitable activities such as hiring researchers to do a study and publishing its results or sponsoring a conference. (The IRS has found that 93 percent of all such distributions are grants, however.) IRS data from 1995 showed that the average rate paid out by foundations was 5.8 percent.

But is that enough? The National Network of Grantmakers (NNG) thinks the recent growth of foundation endowments should be reflected in increased giving—specifically “social change” giving that addresses the root causes of poverty. The Foundation Center, which monitors trends in



BY JIM DANDY FOR THE WASHINGTON POST

previous year, but did not pay out more than the minimum requirement.

The NNG has campaigned to get those foundations that are meeting the 5 percent minimum to raise it to 6 percent, though there has been no official action by Congress so far. Folks in this camp often refer to this as a payout, although that term does not appear in the legislation.

Those who favor keeping the rule as it stands are concerned with protecting foundations' endowments in the long run. An ongoing study by the Council on Foundations (COF) found that if permanent endowments paid out at rates higher than 5 percent, their assets would erode, which would reduce their ability to give. The COF supports the 5 percent minimum rule and believes that foundations that don't adhere to it must be penalized, but its appetite for further government involvement ends there.

COF's general counsel, John Edie, suggests that the make-more, give-more approach does not factor in certain realities: If a foundation does not meet the 5 percent standard at the end of a given year, critics may

demur at lack of giving. But that

ted to high-engagement, personal philanthropy. Instead of just writing checks, these donors get involved with the organization they support, and share their financial and management expertise where needed. Other small groups of young donors seeking to learn about giving have been formed, most with the goal of reclaiming for donors an active role in spending the money they donate.

Among donors with more modest resources, there is also a trend away from creating small foundations or giving to community foundations. Fidelity Investments and other mutual fund companies have had tremendous success in creating charitable gift funds for their customers. These allow donors to maintain full control over their charitable donations and to disburse grants whenever and however they desire. These gift funds bypass the growing number of philanthropic consultants and grant administrators. Many members of the new generation of donors thus appear to be reconsidering and acting upon steel magnate and philanthropist Andrew Carnegie's famous dictum that to die rich is to die disgraced.

The shift is controversial. Some onlookers are made wary by the prospect of large amounts of philanthropic money being used to advance individual, even idiosyncratic, visions rather than being placed in a foundation for perpetuity in order to accomplish more neutral collective purposes. In their eyes, the tradition of large foundations is comforting, precisely because decisions about the use of philanthropic funds are eventually distanced from the values and interests of the donor. After all, some see the tax exemption given philanthropic funds as a reason for viewing them as quasi-public funds. But such an interpretation of the purpose of philanthropy is misguided: Philanthropy is most powerful and best serves the common good when it expresses personal values. It deserves not just the recognition it gets through the tax code, but a high level of public tolerance.

When donors choose a direction or a cause and define a particular private vision of the public good, they can at times challenge wisdom built up through years of public-sector priority setting and spending. Gifts for arts centers and animal shel-

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PRESERVATION

of multimillionaires, and the millions of millionaires make their decisions is going to grow ever more controversial as the amount of philanthropy in the coming decades continues to rise with the anticipated \$10 trillion transfer of wealth from members of the baby boom generation to their descendants.

Donors have long faced two options when they approach the question of how best to disburse their funds. First, they can take charge of their giving, forgoing a foundation completely or setting one up merely as a vehicle for current donations. Second, they can avoid the topic by postponing their giving until after their deaths and by placing funds into private foundations. Since the turn of the century, the United States has been famous for the latter approach: Americans have created some 50,000 private foundations, most established in perpetuity and many with very broad and amorphous charters. Private foundations now control assets totaling more than \$350 billion and disburse about \$18 billion in grants each year to nonprofit service providers. Roughly half of all foundation grants are made by the 300 largest institutions. Beneath that stratum, thousands of small and mid-size foundations are the vehicles through which individual donors and families give.

Foundations have not always been a politically popular solution to the giving problem. When John D. Rockefeller approached Congress in 1911 with the goal of getting a charter for his foundation, he was rebuffed, and the idea of a foundation was dismissed as a scheme to perpetuate wealth indefinitely. Since then, foundations have been regulated to some extent and their operations have been transformed by a growing cadre of professional managers who now take care of most of the details involved in giving money away. Perpetual foundations continue to represent a viable solution for donors who are interested in leaving a lasting legacy and are willing to delegate, after their death, decisions about how exactly their funds should be used.

Investor Warren Buffett, for one, has argued that his talent lies in making his money grow, not in figuring out how to give it away. As a consequence, Buffett has declared his intention to create a foundation

administrative expenses in running a grant-making program as well as direct charitable activities such as hiring researchers to do a study and publishing its results or sponsoring a conference. (The IRS has found that 93 percent of all such distributions are grants, however.) IRS data from 1995 showed that the average rate paid out by foundations was 5.8 percent.

But is that enough? The National Network of Grantmakers (NNG) thinks the recent growth of foundation endowments should be reflected in increased giving—specifically “social change” giving that addresses the root causes of poverty. The Foundation Center, which monitors trends in philanthropy, compiled data that showed private foundations amassed \$56 billion more in 1998 than the



that will receive the bulk of his estate after his death; trusted and talented scientists and experts will then administer it in the public interest.

In recent years, however, the monopoly that perpetual private foundations have held on the imaginations of the wealthy appears to be slipping. Questions about the permanence of the donors' intent, issues of intergenerational equity and doubts about the wisdom of professionalizing philanthropy are pushing some younger donors to define a do-it-yourself option. Many

as it stands are concerned with protecting foundations' endowments in the long run. An ongoing study by the Council on Foundations (COF) found that if permanent endowments paid out at rates higher than 5 percent, their assets would erode, which would reduce their ability to give. The COF supports the 5 percent minimum rule and believes that foundations that don't adhere to it must be penalized, but its appetite for further government involvement ends there.

COF's general counsel, John Edie, suggests that the make-more, give-more approach does not factor in certain realities: If a foundation does not meet the 5 percent standard at the end of a given year, critics may decry its lack of giving. But that foundation has time in the following year to make up the difference, and often the totals cannot be calculated by what is technically the end of a year, anyway, due to market fluctuations. Also, a typical permanent endowment that meets its 5 percent requirement (and is subject to certain taxes on investment income) has to pay in the neighborhood of 4.5 percent more to cover asset management fees, inflation, etc. That means the endowment must invest to get an annual return of about 10 percent if it is to exist in perpetuity—which could force it into riskier investment ventures.

—Bonnie Benwick, for Outlook

high-tech entrepreneurs who have made their fortunes through a hands-on approach to business are unwilling to leave the decisions to others. A new rhetoric of “social investing” has caught on among these younger givers, many of whom want to see concrete results for each grant they make.

One of the most imitated models was established in Seattle by Paul Brainerd, founder of the software company Aldus. Brainerd created Social Venture Partners, a group of affluent young people commit-

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When donors choose a direction or a cause and define a particular private vision of the public good, they can at times challenge wisdom built up through years of public-sector priority setting and spending. Gifts for arts centers and animal shelters ultimately reaffirm that there is more than one way of setting our collective priorities and of building a better society. In the case of Irene Diamond, the donor's commitment, vision and funding played a key role in the discovery of protease inhibitors, one of the most promising treatments for AIDS to date.

Still, when Gates decides to commit \$1 billion to minority science education, he inevitably opens himself up to criticism. Some have already protested that he would have been better off focusing on financial need rather than targeting a particular group. Controversy is simply an unavoidable consequence of such donor-directed philanthropy.

As gifts get larger and larger, the private interests and values of donors are only going to get more controversial. Nevertheless, huge donations such as Walter Annenberg's commitment to improving public schools, Ted Turner's billion-dollar pledge to the United Nations, and Gates's scholarships signal that donors of large amounts are beginning to assert themselves as never before. This new period of personal giving is challenging us to think differently about the meaning and rationale for philanthropy. Rather than second-guess the specific causes that donors choose to support, we should encourage a broad and active market of competing private visions of the public good, while celebrating the huge wave of unfiltered pluralism that donor-driven philanthropy is beginning to unleash on American society.

The New Givers

Bill Gates's \$1 billion donation is a hint — a big hint — of how new money is remaking philanthropy.

HOW MUCH IS BEING GIVEN AWAY?

Americans are donating more to charity than ever — \$175 billion in 1998 alone. Much of that comes from low- and medium-income families, but this year, high-tech millionaires — previously criticized for not contributing enough — have made a number of high-profile donations. Observers say that by steering clear of the biggest, most august charities, these entrepreneurs — most notably Bill Gates, whose billion-dollar education grant will largely go to community-based scholarship funds — will change the way Americans think about charity.

HOW DOES NEW CHARITY DIFFER?

"In the 1960's, most philanthropy was demonstration-oriented, with the assumption that the government would eventually take over the problem," says Jacqueline Novogratz, a manager at the Rockefeller Foundation. Today, she says, "it's much more risk-taking and outcome-oriented." Fueled by high-tech profits and directed by an army of newly minted M.B.A.'s, the new philanthropy uses Silicon Valley's methods of making money for the counterintuitive task of giving it away. This so-called venture philanthropy focuses on "start-

up" charities where a quick infusion of funds can have a big impact. And it focuses on results. According to Marianne Briscoe, a California consultant to nonprofits: "The feeling used to be, you've got to get their hearts. But the venture philanthropists want to see the numbers."

HOW IS IT BEING ORGANIZED?

New philanthropic structures have arisen to accommodate these new ideas. The Women's Technology Cluster, for example, is a business incubator group that provides start-up capital to female-owned businesses that commit to donating a portion of their profits. Donors are also sharing their expertise through donor networks and funders' collaboratives like the Threshold Foundation, the Funding Exchange and the Jewish Funders Network. Meanwhile, to help those who aren't schooled in the new thinking, Harvard's Hauser Center for Nonprofit Organizations is giving a three-day workshop for wealthy individuals, and the Rockefeller Foundation offers a four-week course in "strategic giving." (It costs \$10,000, plus a commitment to donate \$10,000 more during the course.)

IS EVERYBODY ON BOARD?

Not exactly. For one thing, it's difficult to calculate the return on bettering the world. "If you are able to take a homeless person off the street," says Claude Rosenberg, a philanthropist, "how do you quantify that in dollar terms?" And Mark Kramer, a venture capitalist, recently wrote an influential attack on venture philanthropy in *The Chronicle of Philanthropy*. "Of all the fields to emulate," he wrote, "trying to fit the iron fist of venture capital into the velvet glove of philanthropy is the most dangerous metaphor of all."

WHERE DOES IT ALL END?

Well, some of the new philanthropy still goes to pet causes. David Duffield, a cofounder of Peoplesoft, spent \$200 million to establish a foundation in the name of Maddie, his beloved miniature schnauzer. Paul Allen (a Microsoft cofounder) and Gordon Moore (an Intel cofounder) have given millions to the SETI (Search for Extraterrestrial Intelligence) Institute. And in September, the Volunteer Exchange of Santa Clara County — which matches Silicon Valley volunteers to needy organizations — held a mock I.P.O. But they raised a disappointing \$70,000, almost none of it from individual investors.

— John Cook



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Follow Your Passion

By MICHAEL MILKEN

The assets of U.S. charitable foundations are approaching the total value of all companies listed on U.S. stock markets in the mid-1960s and could reach \$1 trillion in a decade. Still, foundation assets are dwarfed by the world economy, and foundations know that the challenge of philanthropy is as great as ever. That challenge—highlighted by reports that assets of the Gates Foundation now exceed \$17 billion—is to go beyond merely supporting worthy causes and actually find permanent solutions to what seem like intractable problems. I believe there are six keys to meeting the challenge.

- *Follow your passion.* Earlier in this century, philanthropy often flowed from the wills of dead industrialists. In recent decades, it's as likely to have come from a very alive business leader, entertainer, artist or sports star. The most effective of these patrons begin the process of giving by asking what they care about passionately. Intensely felt core beliefs provide the motivation to stick with a project for years even when discouraged by lack of progress. "Our greatest weakness," said Thomas Edison, "lies in giving up. The most certain way to succeed is to always try just one more time." In the nearly two decades since my brother and I established the Milken Family Foundation, its individual programs have evolved with the

times. But our passion for advancing education, medical research and the global democratization of access to capital has not wavered.

- *Get personally involved.* There's no substitute for rolling up your sleeves and working with the people who can make a difference. They get the benefit of your participation and you gain a direct understanding of the real problems and potential solutions, which makes you a more informed giver. My duties as chairman of CaP CURE, which supports cancer research, involve me with dozens of medical schools, researchers, biotechnology and pharmaceutical companies, government organizations and public-policy leaders.

- *Think big.* The value of the world's financial and industrial assets, perhaps \$100 trillion by conventional measures, might triple if you include (as I believe we should) the value of human capital. While even the Gates Foundation appears small in this context, it will magnify its ability to produce lasting world-wide social effects by using human capital creatively. No one has shown this better than Bill Gates, who has built today's most valuable corporation with relatively few employees. More important than size is your capacity for finding and empowering those rare individuals who are catalysts for change in areas that have the greatest impact on the largest number of people. The right researcher, teacher, scholar or artist can change the world.

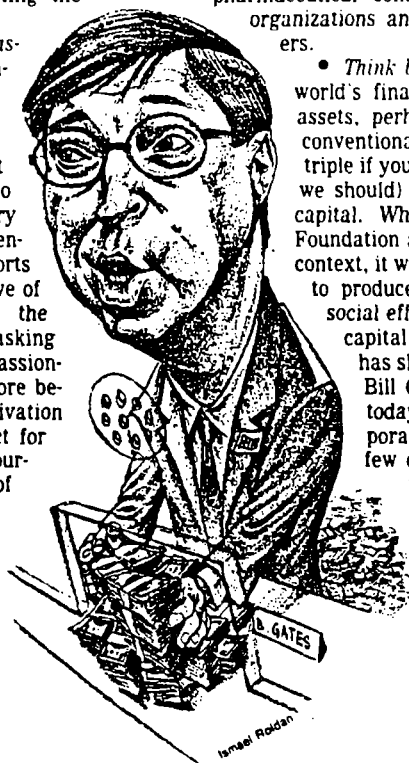
- *Foster teamwork.* Foundations

can play a matchmaking role that's as important as their financial role. For example, we've established a therapy consortium that links representatives from most of the nation's leading cancer-research institutions, thus turning competitors into collaborators. While this alone won't produce an immediate breakthrough treatment or cure, it can accelerate the process. The important thing is to insist that diverse individuals and organizations go beyond merely talking to each other and commit themselves to real partnership.

- *Fight the zero-sum-game mentality.* Foundations don't "spend" money on grants. They invest in society to produce a greater return. For example, according to a present-value calculation by economists Kevin Murphy and Robert Topel at the University of Chicago, eliminating all forms of cancer would have an economic value of \$46.5 trillion. This exceeds the entire financial assets of the U.S. and is more than 15,000 times the \$3 billion that our nation now invests annually in cancer research. Increased strategic investments in this area by charitable foundations will not only produce major economic returns but also—and much more importantly—save millions of lives.

- *Transfer skills, not just money.* The effect of large gifts is magnified when the giver contributes his skills from another field. With his skills in management and technology, Mr. Gates can make lasting contributions in two fields about which he obviously cares deeply—learning and health care—which have barely begun to realize technology's enormous potential. Technology can help deliver access to current knowledge and modern medicine in every corner of the world. The result will be billions of better-educated, healthier people—people who provide the best hope for the resilience of democracy and capitalism in the 21st century.

Mr. Milken is chairman of CaP CURE, the Association for the Cure of Cancer of the Prostate, and co-founder of the Foundations of the Milken Family.



Philanthropist 99: Giving away \$17 billion—and counting— isn't easy.

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Aaaand They're Off! The Justices Go to Work

If you're a baseball fan, the first sign of spring is opening day of the baseball season. If you follow opera, opening night in the fall brings an exhilarating sense of anticipation of arias to come. The First Monday in October inspires similar sentiments among aficionados of the Supreme Court. Today the court commences a new term, hearing arguments for the first time since April. By next July, the work that begins today will have yielded 75 to 90 additions to the law of our land, some of which will al-

Rule of Law

By Theodore B. Olson

most surely affect the direction of our nation or the structure of our government.

The work of the Supreme Court has been obscured recently by attention-getting conduct in the other two branches of government, especially during the more inglorious moments of the Clinton presidency (although Chief Justice William Rehnquist brought much needed dignity to the Senate impeachment trial earlier this year). Some of the spotlight will now return to the court for what promises to be a memorable year.

The court plans to revisit some controversial decisions from previous terms, starting tomorrow with a case on the constitutionality of limits on campaign contributions. Twenty-three years ago, in *Buckley v. Valeo*, the court struck down on First Amendment grounds federal limits on expenditures on behalf of a candidate or by a candidate on his own behalf. In the same decision, however, the court upheld limits of \$1,000 on the amount an individual may contribute to a particular candidate. The curious anomaly of unlimited expenditures for a candidate along with strict limits on contributions to a candidate will be re-ex-

amination limits in *Nixon v. Shrink Missouri Government PAC*.

The court may shed new light on how it views commercial speech in a case involving a Los Angeles ordinance that forbids the commercial exploitation of publicly available arrest records. In recent years, the court has struck down laws that prohibit the commercial publication of truthful information such as casino advertising and prices for alcoholic beverages. *Los Angeles Police Department v. United Reporting Publishing Corp.* involves the privacy interests of crime victims, a complication not present in the earlier cases.

Another recurring First Amendment theme will come before the court in *Board of Regents v. Southworth*. A University of Wisconsin student objected to a mandatory fee used by the university to fund groups such as the International Socialist Organization, the National Organization for Women and the Lesbian, Gay, Bisexual Campus Center. Like previous cases involving the political use of union dues and bar association fees, this case will test how far the First Amendment goes in protecting individuals from being forced to finance viewpoints with which they disagree (a theme playing out in another context in the controversy between New York Mayor Rudy Giuliani and the taxpayer-financed Brooklyn Museum of Arts).

The court will return yet again—one is forced to wonder why—to the divisive and hardly sublime subject of nude dancing in *Erie, Pa. v. Pap's A.M.*, and the equally provocative, but more important, subject of controlling sexually explicit programming on cable television in *U.S. v. Playboy Entertainment Group*.

In a case of particular interest to business, the court will consider when and to what extent federal laws preempt competing regulation—and lawsuits—under state laws. *Grier v. American Honda Motor Co.* involves a personal-injury suit against an au-

tomobile manufacturer for failing to install airbags at a time when they were not required under federal law. The manufacturer argues that it makes no sense for a car to be considered defective in one state when it complies with federal safety standards, and that unless federal law controls, car makers will have to build automobiles to conform to a confusing and conflicting array of state and federal laws—a virtual impossibility.

Another preemption case involves the hot-button issue of whether the federal em-

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an unusually
noteworthy term for
the Supreme Court.*

ployee benefit and pension law (Erisa) precludes private suits for medical malpractice damages against HMOs. Congress is also struggling with this issue, which has aroused intense public interest and whetted the appetites of America's trial lawyers.

The most important component of the court's docket this term focuses on federalism, or the constitutional allocation of power between the states and the federal government. Most observers agree that the leading contribution of the Rehnquist court to constitutional jurisprudence has been a series of decisions reining in federal intrusion on state authority.

The court has restricted congressional use of its power over interstate commerce by requiring Congress to show that interstate commerce is actually involved when it regulates subjects such as guns in the vicinity of schools. It has given meaning to the 10th Amendment's reservation to the states of powers not expressly delegated by the Constitution to Congress—thus preventing Congress from commandeering the

legislative or law-enforcement arms of the states to implement federal policies. And it has breathed life into the 11th Amendment that restricts citizen suits against states to force them conform to federal regulations.

The court will continue to address these subjects next term. It has taken two cases involving the 11th Amendment, *Kimel v. Florida Board of Regents* and *Vermont Agency of Natural Resources v. U.S.* It has one important 10th Amendment case, *Reno v. Condon*, testing whether Congress can prohibit the public dissemination of information collected by state motor-vehicle departments.

And, in *U.S. v. Morrison*, added to the docket just last week, the court will determine whether the Violence Against Women Act is constitutional. That law gives women who are victims of violence a federal right to bring suits for damages. An appeals court struck it down as an unwarranted extension of congressional authority over interstate commerce.

Other fascinating cases on the court's docket involve the Federal Racketeering Influenced Corrupt Organizations Act (RICO), the extent to which states can provide aid to parochial schools, visitation rights of grandparents, restrictions on abortion protesters, and the use of expert witnesses in civil cases.

In short, this promises to be an unusually noteworthy term. And one that will be closely watched for reasons beyond the import of particular cases. Many of these cases may be decided by 5-4 margins. Two or more of the justices may retire in the next few years. Since justices often serve 20 years or more, the president elected in the year 2000 may be given the opportunity to influence the direction of the court for the next generation.

Mr. Olson, an attorney in Washington, D.C., will argue two cases before the Supreme Court this term.