



The 2013 **ANNUAL
CONFERENCE**

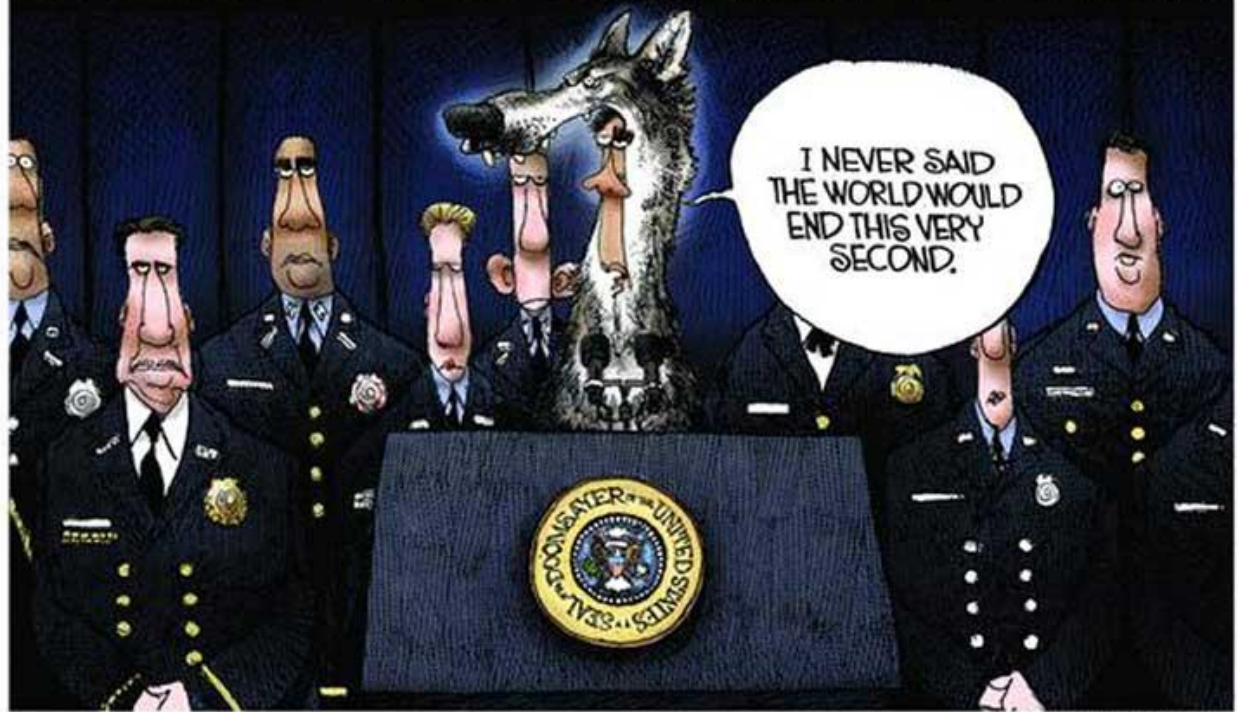
Vision & **ACTION**

**What's Hot, Hot, Hot Inside
the Beltway (and Why You
Are in the Spotlight)**

Sunday April 7, 2013



NO SEQUESTRATION



THE WOLF WHO CRIED WOLF.

www.investors.com/cartoons

A View from Washington Insiders

Matt Dolan, Federal Policy Group
**Rob Leonard, Akin Gump Strauss
Hauer & Feld**

Gallup:

“Americans' approval of Congress is at 15% in February, one percentage point higher than in January and exactly matching the 15% average for all of 2012. More than eight in 10 Americans (81%) disapprove of the way Congress is handling its job.”

February 19, 2013

Compared to Congress, poll respondents prefer:

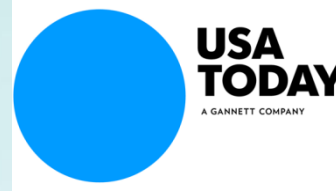
- Head lice, 67% to 19%
- Brussel sprouts, 69% to 23%
- NFL replacement refs, 56% to 29%
- Colonoscopies, 58% to 31%
- Root canals, 56% to 32%
- Traffic jams, 56% to 34%
- FRANCE, 46% to 37%
- Carnies, 39% to 31%
- Genghis Khan, 41% to 37%
- Cockroaches, 45% to 43%.

Source: Public Policy Polling, January 8, 2013

Sequester

THE WALL STREET JOURNAL.

FAA to Close 149 Control Towers at Small Airports



General: With cuts, Marine Corps will 'cut into bone'

The Washington Post

HUD to close agency during furlough days

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Sequester

- **\$85 billion sequester**
- **Budget Control Act requires deficit reduction on \$1.2 trillion over 10 years**

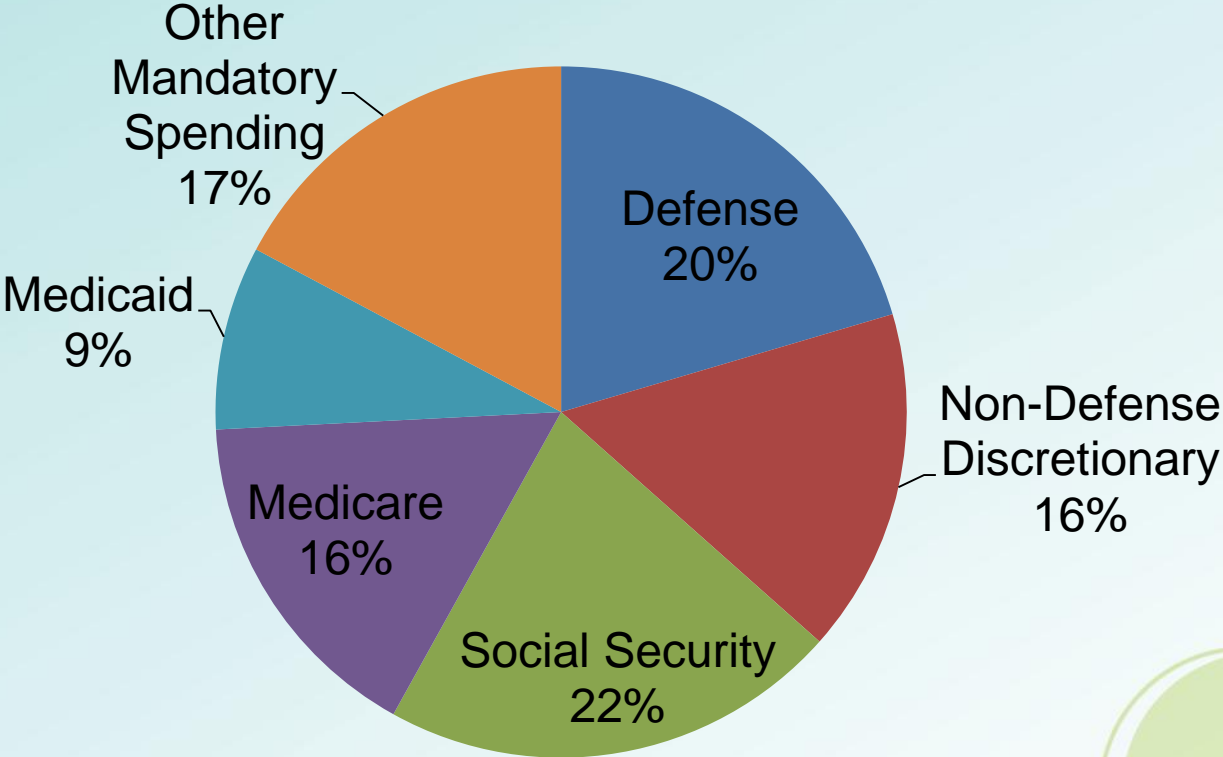
Government Funding Resolution

Debt Ceiling

FY 2014 Budget

Issue	House	Senate
Balanced Budget	In 10 years	Not Specified
Spending Cuts	\$5.7 trillion	\$975 billion
Entitlement Reform	Restructure Medicare as a “premium support” program	No major structural change
Revenue Increases	None	\$975 billion through “closing loopholes and eliminating wasteful spending in the tax code”
Tax Reform	Individuals: 10% and 25% Corporations: 25% Offsets: not specified	Specific targets for tax reform offsets not specified
Sequester	No Change	Replaced

Federal Spending



Rob Leonard



Charitable Deduction

Charitable Deduction: Lessons from Chartres



Matt Dolan

Vision & ACTION



Matt Dolan

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President Obama's Proposal to Limit Deductions

Both parties have put forward proposals that could severely limit the charitable deduction:

- Democrats call going after the charitable deduction a “balanced approach” to deficit reduction.
- Republicans call limitations on the charitable deduction “tax reform”.

President Obama's Proposal to Limit Deductions

The Obama Administration's FY 2013 budget again proposes to limit the value of itemized deductions, including charitable contributions, to 28 percent for married taxpayers filing a joint return with income above \$250,000 and to single taxpayers above \$200,000. Those thresholds would be adjusted for inflation.

The Joint Committee on Taxation estimated that the President's proposal "Limit the Rate at Which Itemized Deductions Can Reduce Tax Liability to a Maximum of 28%" would raise an additional \$520 billion over the period 2012-2022. (The proposal to cap itemized deductions is not broken out separately.)

The President's proposal would reduce the tax value of charitable donations by 29.2% for donors in the top income tax bracket of 39.6%.

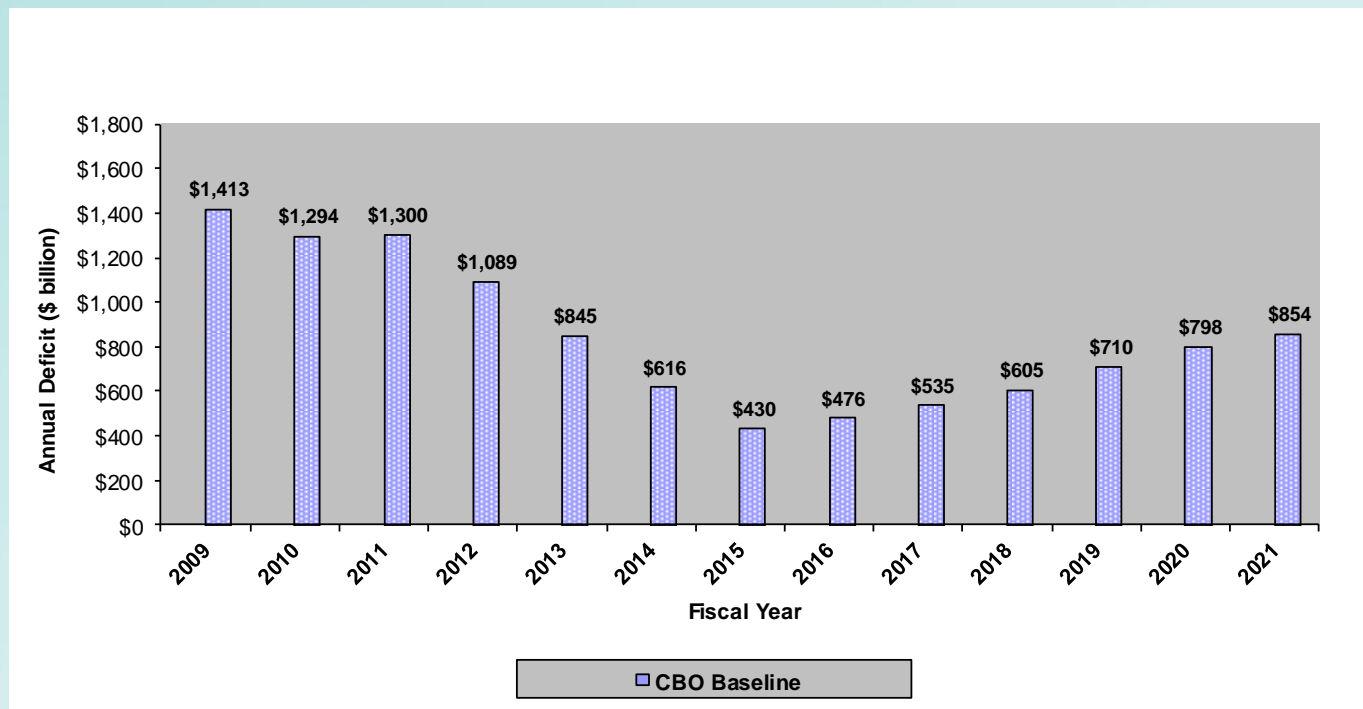
Matt Dolan

Republicans Proposal to Limit Deductions

- Governor Romney proposed capping the dollar amount of itemized deductions for upper-income taxpayers.
- No specific cap was proposed, though Governor Romney mentioned caps set at different levels, from \$17,000 to \$50,000.
- A dollar cap on itemized deductions potentially could eliminate any tax benefits for charitable donations.
- The House Republican Budget does not propose deduction dollar caps. However, it does call for a “fundamental tax reform plan that actually *lowered* income tax” on a revenue-neutral basis by broadening the tax base, in part by limiting tax “deductions and preferences [for] higher-income individuals”.

Context for Deduction Debate: Projected Deficits

CBO Deficit Projections (after enactment of Fiscal Cliff deal)



Source: CBO Baseline Budget Outlook, February 2013

Context for Deduction Debate: Projected Revenues and Spending

- CBO projects that, under current law (that is, taking into account the Fiscal Cliff legislation), tax revenues will rise sharply as a percentage of GDP to above the 40-year average of 17.9 percent.
- CBO also projects that spending will continue at historically high levels, above the 40-year average of 21.0 percent of GDP (after factoring in spending reductions relating to the sequester).

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue as % of GDP	16.9	18.0	19.1	19.1	18.9	18.8	18.7	18.7	18.9	19.0	19.1
Spending as % of GDP	22.2	21.7	21.6	21.6	21.5	21.7	22.0	22.2	22.4	22.9	22.9

Deductions and “Loopholes”

- President Obama calls for “cut[ting] tax loopholes for millionaires and billionaires”.
- The Senate Democratic Budget proposes “\$480 billion in new revenue raised by closing loopholes and ending wasteful deductions that benefit the wealthiest Americans and biggest corporations”.
- The House Republican Budget states that “The tax code is patently unfair: Many of the deductions and preferences in the system—which serve to narrow the tax base—were lobbied for and are mainly used by a relatively small group of mostly higher-income individuals....These special tax breaks and preferences now add up to more than \$1 trillion per year.”

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Deductions and Tax Expenditures

- Despite rhetoric from both parties, deductions are not “loopholes”.
- “Loopholes” are tax code provisions that may be exploited in unforeseen ways that confer a tax benefit Congress did not intend.
- Deductions are “tax expenditures”—provisions of the tax code that very much are intended to confer specific benefits as a consequence of activity Congress seeks to promote.
- Tax expenditures are much more difficult to address politically than loopholes, but only tax expenditures provide meaningful revenue.

Targeting Tax Expenditures

Simpson-Bowles Deficit Reduction Commission
Tax Reform Proposal:

“Sharply reduce rates, broaden the base, simplify the tax code, and reduce the deficit by reducing the many “tax expenditures”—another name for spending through the tax code.”

Targeting Tax Expenditures

The Charitable Deduction is among the largest tax expenditures.

Selected Tax Expenditures

Tax Revenue Cost (2013 – 2017)

Health Care Benefits Exclusion	\$ 760 billion
Reduced Rates on Investment Income	\$ 616 billion
State and Local Tax Deductions	\$ 431 billion
Home Mortgage Deduction	\$ 379 billion
Earned Income Tax Credit	\$ 326 billion
Child Tax Credit	\$ 292 billion
Charitable Deduction	\$ 242 billion

Source: Joint Committee on Taxation “Estimates of Federal Tax Expenditures for Fiscal Years 2012-2017,” February 1, 2013

Targeting Tax Expenditures

The Charitable Deduction also is disproportionately claimed by upper-income taxpayers.

According to a 2013 Joint Committee on Taxation analysis of the most recent available IRS data:

- 85.6 percent of charitable deductions were claimed by taxpayers with incomes over \$100,000
- 57.4 percent of charitable deductions were claimed by taxpayers with incomes over \$200,000

Source: Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2012-2017*, February 1, 2013

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Targeting Tax Expenditures

Yet the tax code already is highly progressive...

Year	Income Class	% of Total AGI	% of Total Income Tax Paid
2010	Top 1%	18.9%	37.4%
	Bottom 50%	11.7%	2.4%
2007	Top 1%	22.86%	39.81%
	Bottom 50%	12.19%	3.36%
2000	Top 1%	20.81%	37.42%
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1990	Top 1%	14%	25.13%
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1980	Top 1%	8.46%	19.05%
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Source: The Tax Foundation, "Summary of Latest Federal Income Tax Data", November 29, 2012

*Handout: Joint Committee on Taxation "Overview of the Federal Tax System", February 24, 2012

Targeting Tax Expenditures

And becoming more so...

The White House projects wealthier taxpayers will pay an additional \$27 billion in taxes in calendar year 2013 because of the Fiscal Cliff deal. The White House further estimates that high-income taxpayers will pay an additional \$88 billion per year by FY2023.

Sources: Joint Committee on Taxation, *Estimates Of Federal Tax Expenditures For Fiscal Years 2012-2017*, February 1, 2013; White House Office of Management and Budget, January 8, 2013

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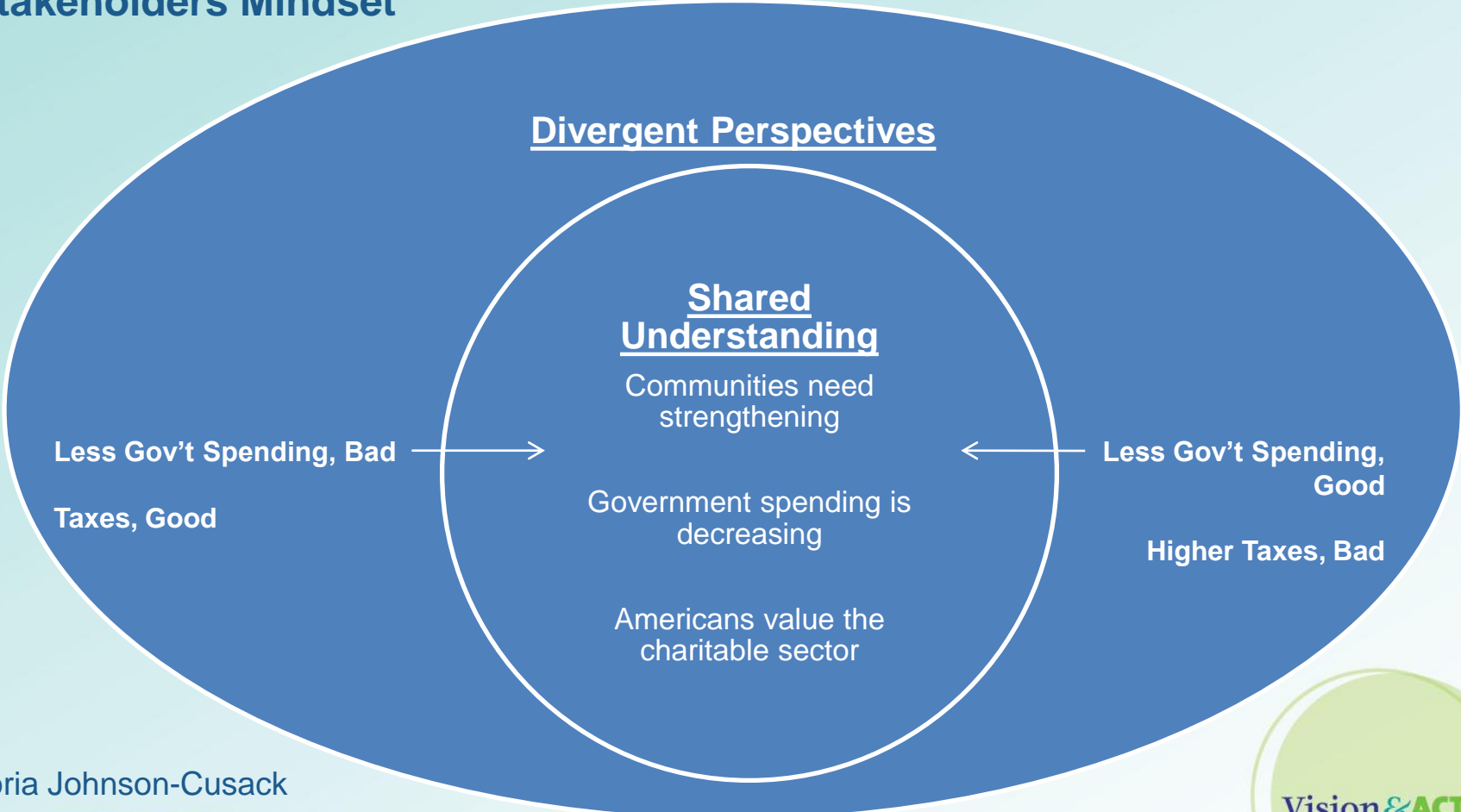
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The Charitable Deduction

Gloria Johnson-Cusack,
Leadership 18

**Joanne Florino, The Philanthropy
Collaborative**

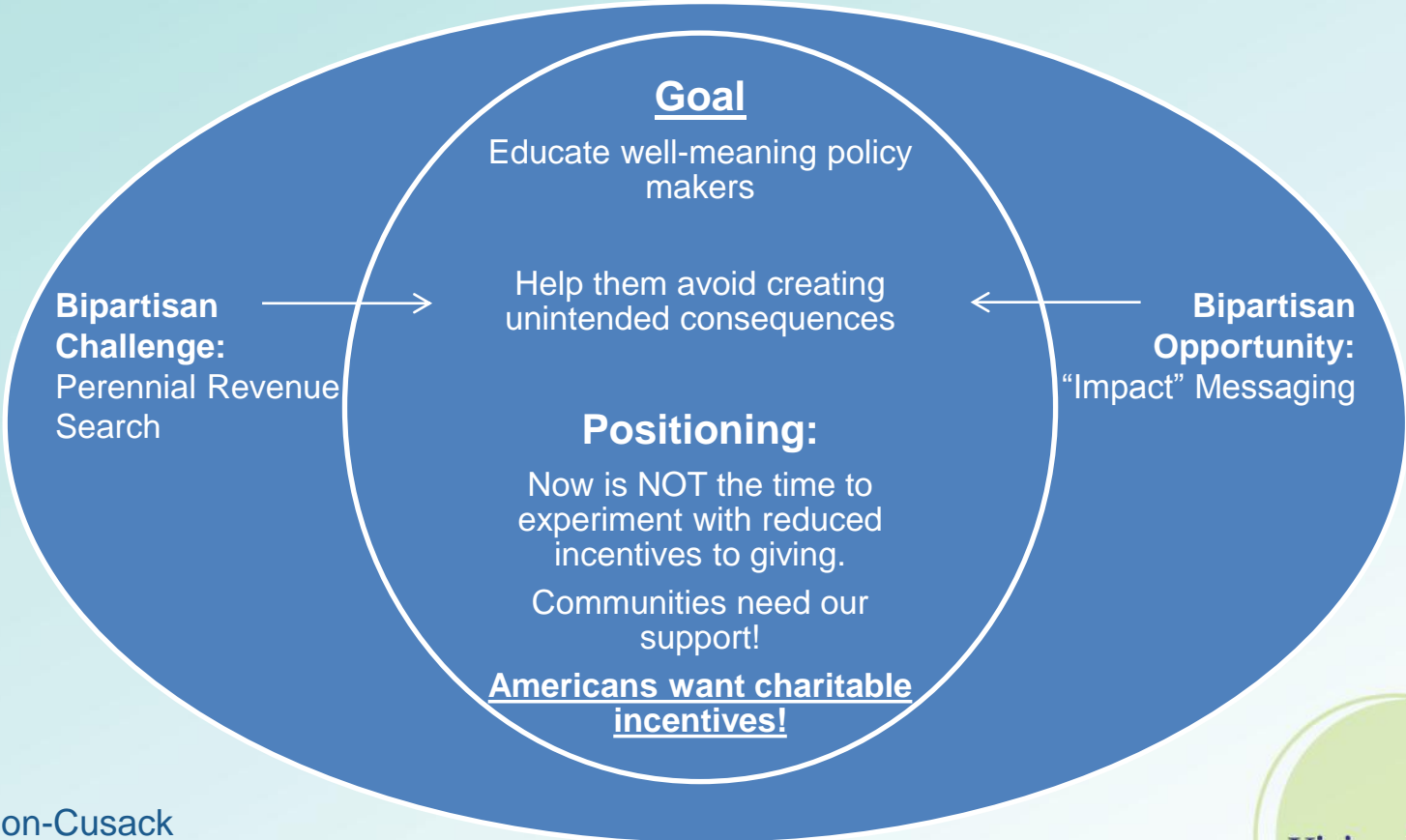
Stakeholders Mindset



Gloria Johnson-Cusack



Strategic Positioning for the Sector



Gloria Johnson-Cusack

Lessons Learned

Planned Strategically

- **United around one issue**
- **Made diversity our strength**
- **Assessed the legislative/political situation accurately**
- **Used tested messaging**
- **Tapped credible messengers early**

Executed in Unison

- **Showed out with the media**
- **Showed up on the Hill**
- **Empowered team leaders**
- **Equipped our networks**
- **Set the right expectation**

The Charitable Deduction

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The Philanthropic Collaborative

ECONOMIC IMPACTS OF 2010 FOUNDATION GRANTMAKING ON THE U.S. ECONOMY



This report, sponsored by The Philanthropic Collaborative, assesses the economic impacts of 2010 Foundation Grantmaking on the domestic economy. The study was conducted by Steven Peterson, Clinical Assistant Professor of Economics, University of Idaho and Benjamin Fujii, Research Assistant, University of Idaho and completed in November 2012.

What is TPC?

- Found in 2008, TPC is a nonpartisan organization of charities, foundations and leaders in philanthropy
- TPC's mission is to highlight the economic significance of foundation grantmaking
- TPC is strategically located at the intersection of research, lawmaking and philanthropy
- TPC has produced six reports to educate lawmakers on the economic value of philanthropy



Why Analyze Foundation Grantmaking?

- Previously, we only had anecdotal evidence of the economic impact of grantmaking
- With fiscal pressures and budgetary constraints, the government is looking to raise revenue
- This puts our sector at risk
- There is an unfulfilled need to understand and educate others on our economic value



Groundbreaking Study:

Economic Impacts

- The report builds on TPC's groundbreaking 2008 study by Robert Shapiro on the Return On Investment (ROI) of foundation grantmaking, which is about 8:1
- TPC's newest study uses IMPLAN modeling, a standard for the government and private sector to evaluate economic impact
- This type of economic modeling is common in other industries, but has never before been applied to domestic foundation grantmaking



What is IMPLAN Modeling?

- IMPLAN modeling is a highly accurate input-output analysis, based on federal economic statistics
- It is specialized by region and can be used to measure the effect on a regional or local community of a given economic activity
- It is regularly applied to other industries to make long-term projections that produce an assessment of economic benefits over time
- Outputs include: job creation, wages, GDP and tax revenues.



The Analysis

- TPC's economist took all foundation grants in 2010 (\$38.75 billion) and broke them into different "buckets"
- These buckets were mapped to longer-term ROI identified in the 2008 Shapiro study, and ran those findings through the IMPLAN model
- TPC also analyzed eight unique case studies from across the country for local impact



The Results: Short Term

- ROI measures what a dollar spent today does in 6 months, 1 year, and a generation from now
- 2010 foundation dollars, once spent, add an **immediate 500,000 jobs** to the economy
- Within one year, that number grows to **nearly 1 million jobs** when downstream and backward linkages are included
- For example, a grant to a preschool supplies immediate jobs to teachers, administration and construction workers



The Results: Intermediate to Long-Term

- Long term, a dollar spent on early childhood education leads to higher lifetime earnings, lower incidences of incarceration, higher economic output and a better quality of life
- The average measure of these long-term benefits are termed 'Return on Investment' or ROI
- The 2008 Shapiro study found that, on average, **foundation grantmaking has a 8:1 ROI**



The Results: Generational

- It is harder to measure the longer-term impact and employment benefit for society
- Over a generation, when you incorporate the long-term ROI and economic multipliers, foundation contributes to **8.8 million jobs** in the U.S. economy
- For example, a workforce training program could be a small upfront investment that leads to higher lifetime earnings for many workers, a higher standard of living and greater local and state tax revenue
- This number is consistent with previous research



Additional Data Points

- **TODAY**, foundation grantmaking is producing:
 - \$22 billion in wages
 - \$24 billion in GDP
 - \$120 million in federal, state and local taxes
 - \$38 billion in transactions (sales)
- **Over a generation**, foundation grantmaking will contribute:
 - \$398 billion in wages
 - \$571 billion in GDP
 - \$31 billion in federal, state and local taxes
 - \$970 billion in transactions (sales)



Case Studies

- To expand on the national analysis, we looked at eight case studies of foundation grantees and their impact on local communities, including:
 - Casper College Early Childhood Learning Center – Casper, WY
 - Cherokee 2020 – Cherokee County, SC
 - DePaul Industries – Portland, OR
 - Educare – Lincoln, NE
 - Georgia Aquarium – Atlanta, GA
 - Mesilla Valley Community of Hope – Las Cruces, NM
 - Mississippi HOPE Credit Union – Utica, MS
 - RiverCity Company – Chattanooga, TN



Case Studies: Examples

- DePaul Industries in Portland, Oregon provides individuals with disabilities the opportunity to enter the workforce and earn incomes previously out of reach for this demographic
 - They have trained or employed over 15,000 people and are responsible for \$195 million in annual GDP
- RiverCity Company, a public private partnership largely funded with foundation dollars, has transformed downtown Chattanooga, attracting \$3 billion in construction since 1992 and contributing at least 2,000 jobs to the local economy



Conclusions

- Private grantmaking creates immediate, tangible returns in the economy: job creation, additional GDP, employee compensation and government revenue
- Long-term foundation giving creates substantial economic impacts, achieving a high ROI and leveraging private resources for the public good
- It is important lawmakers understand these benefits as they evaluate reforms that could impact our sector



For More Information:

Full Study:

<http://www.philanthropycollaborative.org/economicimpact>

TPC Website:

<http://philanthropycollaborative.org/default.asp>

Contacts:

Michael McHugh (Director, Federal Affairs)

mmchugh@philanthropycollaborative.org



Tax Reform

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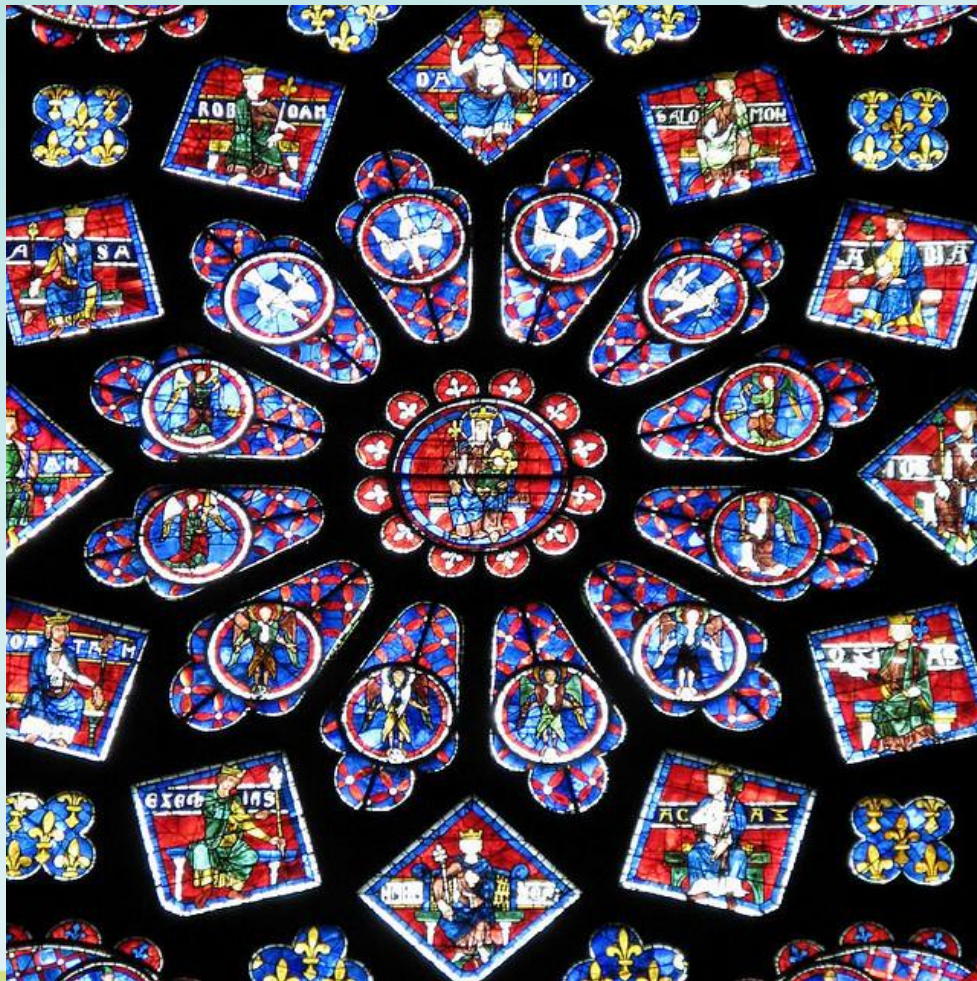
What's Next? Tax Reform

House

- Ways and Means Chairman Dave Camp (R-MI) has committed to producing tax reform legislation in 2013
- House Speaker John Boehner (R-OH) has reserved the designation H.R. 1, typically given to the majority party's top legislative priority, for tax reform
- Will the House GOP risk being "BTUed"?

Senate

- The Senate Finance Committee is holding regular meetings to discuss tax reform, but the Democratic leadership is ambivalent.



A circular inset image showing the Chicago skyline at night, with the Willis Tower prominently featured on the left. The city lights are reflected in the water in the foreground.

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COUNCIL *on* FOUNDATIONS