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Chairman Smith, Vice Chair Schuring, Ranking Member Driehaus, Members of the House Finance Committee, thank you for allowing me the opportunity to testify today in support of including a tax credit for gifts to endowments at community foundations in the budget bill.

My name is Suzanne T. Allen and I am president & CEO at Philanthropy Ohio, a statewide membership association that provides the network, tools and knowledge to help people engaged in philanthropy become more effective, powerful change agents in their communities. Philanthropy Ohio has over 220 member organizations, whose assets total nearly \$11 billion and who contribute more than \$700 million annually to thousands of nonprofits in Ohio.

I am here today on behalf of the nearly 70 community foundations that operate in 78 counties in Ohio. With me are representatives from some of these community foundations: Brian Frederick from the Community Foundation of Lorain County; Keith Burwell from the Toledo Community Foundation; Marlene Cassini from the Delaware County Foundation; and Megan Wanczyk from the Foundation for Appalachian Ohio.

These representatives are part of Ohio's strong philanthropic tradition; indeed, the first community foundation in the world was established over a hundred years ago in Cleveland and community foundations are still being established today. Our community foundations support local nonprofits that address a wide array of critical needs; in 2012, they gave more than \$340 million to fund initiatives in areas including education, health, human services, the arts and community development.

Community foundations in your districts and across the state are able to make these significant investments because of generous Ohioans who create endowments at community foundations. An endowment is a fund that invests donated dollars and uses only the interest generated from that

investment to make grants. Because it uses only the interest and doesn't touch the principal, these funds are sustainable sources of revenue in perpetuity. Endowment funds can be created to fund a specific nonprofit organization, a particular cause that is dear to the donor's heart or any number of the programmatic areas I mentioned earlier.

This provision was passed last year by the House, with broad bipartisan support evidenced by the 84 – 9 vote on HB 408 (currently introduced as HB 128). Specifically, this idea would enable any Ohio taxpayer to receive a non-refundable tax credit for his/her charitable gift to a permanent endowment fund at an eligible community foundation. The credit limit would be set at 10,000 dollars per year for a single filer and 20,000 dollars per year for joint filers. Individuals making a contribution of less than \$1000 would receive a 50% tax credit and those making larger gifts would receive a 20% credit. The entire tax credit would be capped at 20 million dollars per year and would sunset in 2019. It would hold harmless the impacts to the local government and libraries funds.

To demonstrate the potential power of this credit, consider this scenario: With a 20% credit and a tax credit pool of 20 million dollars, endowment growth could reach 100 million dollars in its first year, with 5% of this -- \$5 million -- issued in grants. With a typical return of \$8 for every \$1 given in grants, this would result in a one-year investment of \$40 million in Ohio communities. In one generation -- in 20 years -- this credit could result in \$800 million in grants, grants that will help young people go to college, that will retrain workers, that will help preschoolers get ready for kindergarten. This is a modest investment of state dollars with a big impact that will build and retain wealth for the prosperity and vibrancy of Ohio communities long after everyone in this room is gone.

You might ask: why a credit? As the tax policy center, a project of Brookings and the Urban Institute, explains:

Because deductions cannot reduce taxable income below zero, their value is limited to the filer's tax liability before applying the deduction. In contrast, tax credits directly reduce a person's tax liability and hence have the same value for all taxpayers with tax liability at least equal to the credit.

So, tax credits are stronger incentives to give than are deductions. Research also shows that tax credits like this one have been instrumental in reaching new donors and increasing giving. One study about this kind of tax credit states:

The available evidence indicates that state tax credits. . .stimulate greater additional contributions than they cost the state in the form of lost revenue.

Additionally, nonprofits have marketed the tax credit to garner gifts to their endowments held at community foundations.

You also might ask why now? You are no doubt familiar with studies and recent census data that show Ohio, like many Midwestern states, is experiencing outmigration as retired people move to sunnier climates and as a younger generation leaves the state to pursue opportunity in other parts of the country. It is vitally important that we do something to stem this tide, and offering this incentive for charitable gifts can help retain wealth in our state. Over the next 50 years, Ohio will see an estimated \$1.07 trillion transfer of wealth, as one generation of Ohioans passes on its assets to the next. This bill will help communities capture this wealth. The beauty of limiting the credit to endowments is that these are permanent funds that will spin off dollars in perpetuity: investing the principal results in growth and potential for future gifts to address needs well into the future, needs that we can't begin to imagine. And, the endowments may be set up for any kind of cause or nonprofit organization at qualified community foundations, assuring the donor's passion and choice persist.

The incentive will also increase charitable giving in Ohio. One-quarter of Ohioans in a typical year report their charitable donations to the IRS on their itemized returns. We know that in 2012 these 1.3 million Ohioans gave just over \$6 billion to charity; and this isn't the full picture – think of all us who drop

dollars into red kettles or firefighter boots, who buy Girl Scout cookies or Cub Scout popcorn, who donate when the school athletic team or civic association knocks on our doors. Ohioans are generous. Yet, we rank 37th in the country in average charitable contributions: we can do better, and this tax incentive helps us do so.

For these reasons, we believe this bill is timely and will address urgent needs in the State of Ohio. We hope you will vote to include this as an amendment as you deliberate on the budget bill. Thank you for the opportunity to testify and I would be happy to answer any questions.