



Testimony to United States Senate Committee on Finance  
Daniel Cardinali, President and CEO, Independent Sector  
March 17, 2022

*Examining Charitable Giving and Trends in the Nonprofit Sector*

Chairman Wyden, Ranking Member Crapo, and members of the Committee, thank you for the opportunity to share a perspective from the nonprofit and charitable sector at today's hearing. I serve as President and CEO of Independent Sector, a national membership organization founded in 1980 made up of nonprofits, foundations, and corporate giving programs nationwide. Working together, our approximately 500 member organizations and their networks reach every state and district and touch the life of every American in one or many ways. They range from some of the largest charities in the world to all-volunteer organizations, and from major philanthropic institutions to small foundations, academic centers, community-based organizations, and more. Independent Sector's core aim is to support these organizations and all civil society, working toward a healthy and equitable nonprofit sector to ensure all people living in the United States thrive.

It is an honor to represent Independent Sector's members and the broader nonprofit sector along with my fellow witnesses today. Our sector's strength – like our nation – lies in its diversity. With that in mind, I also strongly urge you to draw upon the vast wealth of knowledge and community-based context in comments submitted for the record by several of our member organizations and other leaders in the nonprofit sector, including the Girl Scouts of the USA, Council on Foundations, Association of Art Museum Directors, League of American Orchestras, Jewish Federations of North America, YMCA of the USA, United Way Worldwide, Opera America, Dance/USA, American Alliance of Museums, National Council of Nonprofits, National Health Council, Goodwill Industries International, Association of Fundraising Professionals, and Faith & Giving.

**Importance of the Nonprofit Sector**

Before considering the nonprofit sector's impact on the people it reaches, I ask you to consider its importance to something even more fundamental: representative democracy itself. In the course of their daily commitment to

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Campion Foundation

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Philanthropy Southeast

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YMCA

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The Philadelphia Foundation

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Equity Research Institute,  
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**Dr. Eboo Patel**  
Interfaith Youth Core

**Stacey D. Stewart**  
March of Dimes

**Rev. Adam Russell Taylor**  
Sojourners

**David Williams**  
Deloitte LLP

The Honorable  
**John W. Gardner (1912-2002)**  
Founding Chair

**Brian O'Connell (1930-2011)**  
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promoting the common good, the organizations that form our civil society nurture a marketplace of ideas analogous to the way that for-profit organizations sustain a marketplace of goods. Without either of these marketplaces, American democracy would be in grave peril. The fragility of democracy is on clear display around the globe, and nonprofit organizations play a critical role – within America’s borders and beyond them.

#### Advancing Human Flourishing and Solving Problems Together

Over our more than 250-year history as a nation, civil society has been the place where young people are educated to realize their potential and contribute to society, cultural institutions enrich our lives and unleash our creativity, and religious institutions provide meaning and build community rooted in values. Without these essential institutions and community members leading and volunteering in them, our citizenry would be greatly diminished.

The nonprofit sector is the place where people have been coming together to solve problems for as long as there has been a community to serve. Whether they are providing housing, health care, nutrition, workforce development, education, disaster relief, cultural inspiration, spiritual guidance, environmental conservation, or any number of other essential services, nonprofit organizations are run by community-based boards of directors. This means they have a keen and powerful sense of what holds a community together, what it needs, what it most values, and what might be pulling it apart. They offer an unmatched look at the fabric of community life in America.

The COVID-19 pandemic has challenged Americans like nothing else in our lifetime. As with any monumental challenge, the nonprofit sector has confronted this pandemic heroically and in innumerable ways. As just one example, the Bethlehem Inn in Bend, Oregon provides safe and inclusive shelter for men, women, and children across Central Oregon who are working their way out of homelessness. Each year, the Inn has the capacity to compassionately serve 1,100 adults with shelter, nutritious meals, clothing, hygiene essentials, and opportunities for addiction counseling, life-skills training, and housing and employment applications. Throughout the pandemic and economic crisis, charitable support from the community helped keep the Bethlehem Inn’s doors open. Not only did they continue providing services while taking precautions to successfully prevent a COVID-19 outbreak, but they also responded to profound community need by opening a second location that will continue providing opportunity for people who have fallen on hard times.

The world has watched the crisis in Ukraine unfold in real time, but the nonprofit sector has not merely watched; it has sprung into action. Aided by the generosity of donors from around the world, nonprofits have provided emergency medical and humanitarian assistance within Ukraine, supported essential journalism, and offered nutrition, health, counseling, shelter, and more to an ever-growing number of Ukrainian refugees in bordering countries. The speed and effectiveness of the nonprofit sector’s response could never be duplicated by government programs or well-meaning businesses.

#### Trusted Doer and Partner

Nonprofit organizations are woven into and reflect the communities they serve, and they work every day to improve lives and build a brighter future. No sector is closer to the realities or the people on the ground or has as deep an understanding of the problems communities face. With this understanding and proximity comes the trust to drive innovation and collaboration to get things done.

As a result, the nonprofit sector is an essential partner for government leaders with big goals. From healthcare to housing, education to environmental protection, government at every level relies on nonprofits to generate innovative new solutions and provide critical services throughout the country. This collaboration does not always properly recognize the expertise, capabilities, and needs of nonprofit organizations, and could be improved with additional structures and policies.

### Economic Driver and Job Creator

While the organizations and people that serve in the nonprofit sector are driven primarily by their charitable missions, they drive an essential part of the nation's economy. Over 10 percent of the private workforce in the United States is employed by a nonprofit organization, and with more than 12 million paid workers, the nonprofit sector employs more people than the finance and real estate sectors combined, outpacing manufacturing at the national level and in 27 states. Further, these organizations pay \$670 billion annually in wages, supporting families in communities across America.<sup>1</sup> Despite its "tax-exempt" moniker, the sector pays a significant amount of taxes; in 2010, 501(c)(3) organizations paid \$35.2 billion in payroll taxes.<sup>2</sup>

## **Health of the Nonprofit Sector**

Last fall, Independent Sector published our second annual "Health of the U.S. Nonprofit Sector"<sup>3</sup> report – an evolving resource that collects the most current data on the health of the U.S. nonprofit sector across multiple dimensions in a single, accessible format. While there are many ways to assess the health of a system as large and complex as the nonprofit sector, the report focuses on health indicators in four categories: Financial Resources, Human Capital, Governance and Trust, and Public Policy and Advocacy. These are the lenses through which Independent Sector considers trends in the nonprofit sector.

### Financial Resources

Much like for-profit counterparts, the pandemic deeply disrupted the finances of many nonprofit organizations as fee-for-service and other earned revenue evaporated and COVID-19 precautions increased the cost of operations. Organizations that historically relied on in-person fundraising events faced particularly acute challenges. Unlike for-profit businesses however, nonprofits saw a huge surge in demand for assistance as their communities confronted immense health and economic challenges.

If nonprofit costs have increased as a result of the pandemic while earned revenue has decreased, revenue from charitable donations has been more difficult to assess, in part because it is distributed unevenly across the nonprofit sector. According to Giving USA, total charitable giving increased in 2020, although donations from individuals would have dropped without the broad and robust giving of one particular donor. According to the Fundraising Effectiveness Project, charitable giving through the third quarter of 2021 largely kept pace with 2020 levels, with a small decrease in the number of donors and a small increase in the total amount in donations. Another

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<sup>1</sup> Lester M. Salamon and Chelsea L. Newhouse, "The 2020 Nonprofit Employment Report," Nonprofit Economic Data Bulletin no. 48. (Baltimore: Johns Hopkins Center for Civil Society Studies, June 2020).

<sup>2</sup> National Center for Charitable Statistics (NCCS), the Urban Institute, the Nonprofit Almanac 2012.

<sup>3</sup> Grayson et al, "Health of the U.S. Nonprofit Sector". Independent Sector, October 2021

recent study from researchers at American University and George Mason University found no significant increase in giving to organizations led by or serving communities of color in 2020 or 2021, despite increased attention on their missions.

While the trends in dollars donated over the past two years may be somewhat varied, the longer-term trajectory of the number of Americans donating is clear and alarming. Twenty million fewer American households gave to charity from 2000-2016, a decline of 13%.<sup>4</sup>

### Human Capital and Workforce

The nonprofit sector is powered by people, including nearly 12 million employees as well as approximately 70 million volunteers who step up to serve their communities in various ways. During the worst of the recent economic crisis, nonprofit organizations lost over 1.6 million jobs and the sector was still missing approximately 459,000 jobs as of December 2021<sup>5</sup>, the most recent estimate available. While the economy as a whole has recovered more than 90% of lost jobs, the nonprofit sector lags at merely 72% and is not likely to break even until the end of 2022. These lost and missing jobs have particular ramifications for women, who make up approximately 2/3 of the nonprofit sector's workforce.

Importantly, these job loss numbers are the work of nonprofit researchers and reflect highly informed estimates based on 2017 data. The Bureau of Labor Statistics publishes quarterly data about a wide range of sectors and subsectors, but the nonprofit sector only receives such data every five years unless charitable resources are diverted to purchase the data from the Bureau. Although this issue is beyond the Finance Committee's jurisdiction, the lack of regular government data about the third-largest workforce in America is deeply unfair and constrains the ability of policymakers to respond to changing needs.

While trends in America's non-stipend volunteer force (as opposed to AmeriCorps participants, for example) are somewhat more difficult to measure, it too plays a vital role in helping the nonprofit sector serve those in need. One recent report found that 66% of volunteers had decreased the amount of time they volunteer or stopped entirely due to the pandemic.<sup>6</sup>

### Governance and Trust

Public trust is the currency upon which nonprofits conduct their work. The extent to which the public believes nonprofits lead ethically and transparently impacts whether individuals will invest in or utilize services from nonprofits. While trust in a wide range of institutions hovers near historic lows, it is encouraging to see that 84% of recent survey respondents said they were confident in the ability of nonprofits to strengthen American society. The greater role nonprofit organizations play in people's lives, the more trusted they become.

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<sup>4</sup> Chelsea Jacqueline Clark, Xiao Han, and Una O. Osili, *Changes to the Giving Landscape* (Indianapolis, IN: Indiana University Lilly Family School of Philanthropy at IUPUI, 2019).

<sup>5</sup> COVID-19 December Jobs Update, Johns Hopkins University Center for Civil Society Studies, January 2022.

<sup>6</sup> The Role of Volunteering in Philanthropy, Fidelity Charitable, 2020.

While trust is a key currency for any individual nonprofit organization, it is also important to the health of the nonprofit sector as a whole. It is for this reason that Independent Sector strongly supports appropriate oversight of the nonprofit sector and condemns those who would abuse our sector for private gain. In addition to appropriate legal requirements and enforcement, Independent Sector is committed to a robust practice of self-regulation within the nonprofit sector. We were proud to work with this committee in the mid-2000s to establish the Panel on the Nonprofit Sector, the work of which lives on in *The Principles for Good Governance and Ethical Practice* – 33 principles of sound practice for charitable organizations and foundations related to legal compliance and public disclosure, effective governance, financial oversight, and responsible fundraising.

### Policy and Advocacy

Nonprofits are a critical conduit of information between policymakers and the communities they serve, and Independent Sector believes deeply that policy education and appropriate advocacy is critical to a healthy nonprofit sector. The health of our sector's advocacy efforts can be partially demonstrated by concrete – if incomplete – victories in federal policy in recent years, including access to Paycheck Protection Program loans, payroll tax credits for COVID-19-related sick leave and employee retention, and the creation of a nonitemizer charitable deduction for the first time in decades. However, our understanding of how many nonprofits do this work and the barriers they experience is badly outdated. Independent Sector is commissioning a comprehensive survey of nonprofits this year to answer these questions, the first of its kind in 22 years.

### **Urgent Policy Needs**

To ensure that the nonprofit sector can continue to foster individual and collective flourishing and provide essential services to communities in need, Independent Sector respectfully asks for consideration of the following legislative proposals under the Committee's jurisdiction:

#### Restore the Nonitemizer Deduction and Significantly Increase or Eliminate the Cap

The tax code reflects our nation's values, and has provided a tax deduction for charitable contributions for over 100 years. In 2020, the nonitemizer deduction – created in the CARES Act and subsequently extended through 2021 – provided a charitable deduction for taxpayers who do not itemize up to \$300 for single filers and eventually expanded to \$600 for joint filers. This new incentive was a powerful statement that every American has a role to play in lifting up our communities. While the charitable impulse comes from the heart, tax incentives clearly make a difference. On December 31, 2020, donations of exactly \$300 – then the cap for both individuals and households – increased by 28%.<sup>7</sup> The charitable sector was deeply disappointed that congressional inaction allowed the nonitemizer deduction to expire at the end of last year.

Rather than being just for the wealthy, charitable giving should be an activity that brings a community together, strengthening social bonds and a sense of belonging, even in our differences. For example, the Idaho Nonprofit Center coordinates an annual initiative – Idaho Gives – that generates nearly \$4 million in donations to roughly 600

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<sup>7</sup> Fundraising Effectiveness Project, 2020 Fourth Quarter Report.

Idaho charities. The event has an average donation of \$250 and the Idaho Foodbank notes that each charitable dollar provides enough food for five meals to those in need.

I urge you – in the strongest possible terms – to restore the nonitemizer charitable deduction quickly, and to significantly increase or eliminate the cap in order to strengthen our social bonds and to help generate the scale of giving America needs at this moment. Independent Sector is grateful to the sponsors and cosponsors of the Universal Charitable Giving Pandemic Response and Recovery Act (S. 618, H.R. 1704), including members of this committee – Senators Lankford, Cortez Masto, Tim Scott, Stabenow, and Hassan. We have been proud to work for the enactment of this critical – if temporary – response to the myriad challenges faced by our nation.

On a more permanent basis, there are a number of different ways to create a powerful incentive for every American to give to charity. Independent Sector commissioned research – in partnership with Dr. Osili and some of her colleagues at the Indiana University Lilly Family School of Philanthropy – about what those options could mean in terms of dollars given to charity as well as the number of donors.<sup>8</sup> The number of donors is sometimes overlooked, but it means a great deal in policy design for at least three reasons:

- It is hugely important for the health of our civil society that nonprofits are funded by the broadest possible segment of the population.<sup>9</sup> A charitable sector that is funded only by the wealthy will look very different and will serve America very differently, with ramifications for governance, trust, and the types of organizations and activities that receive funding.
- Charitable giving is a lifelong habit, and today's small-dollar donors may one day become major philanthropic partners. If the charitable deduction is only available for a tiny subset of taxpayers, we will fail to build the next generation of givers.
- Increasing the number of donors could have a profound impact on the nonprofit sector by bolstering the volunteer force. Households that made a donation to any charity during the course of a year were at least three times more likely to volunteer at a nonprofit in their community.<sup>10</sup>

It is also important to keep in mind the unique nature of the charitable deduction. Unlike incentives to save for retirement or purchase a home, for example, the charitable deduction encourages behavior for which a taxpayer receives no direct tangible benefit. The charitable deduction does not subsidize personal consumption or underwrite the accumulation of personal wealth. It simply and effectively encourages taxpayers to give away a portion of their income to benefit others.

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<sup>8</sup> Charitable giving and tax incentives: Estimating changes in charitable dollars and number of donors for five policy proposals, Indiana University Lilly Family School of Philanthropy, 2019.

<sup>9</sup> Ashely, Shena. "Why the Decline in Individual Donors Should Matter to Institutional Philanthropy – and What to Do about It." *Nonprofit Quarterly*. December 3, 2019.

<sup>10</sup> Bergdoll, Jonathan, Indiana University Lilly Family School of Philanthropy. Unpublished analysis of 2019 data from the Panel Study of Income Dynamics, public use dataset. Produced and distributed by the Institute for Social Research, University of Michigan, Ann Arbor, MI 2021.

Dietz, Nathan, University of Maryland Do Good Institute. Unpublished analysis of U.S. Census Current Population Survey Volunteer Supplement, September 2015.

Finally, restoring and expanding the nonitemizer deduction is extremely popular. In December, Independent Sector released polling showing that 88% of American voters want to see a permanent nonitemizer deduction, while 74% support raising the cap to the level envisioned in S. 618, with greater than 70% support across every income level and all political identifications.<sup>11</sup>

#### Targeted Action to Further Boost Charitable Giving

In addition to a broad-based nonitemizer deduction, there are further policy levers that this committee can use to unlock additional charitable giving. Independent Sector was proud to work with Congress and our members for over a decade in support of the IRA charitable rollover provision, which was eventually made permanent in the PATH Act as part of Public Law 114-113.

A recent bipartisan proposal, The Legacy IRA Act (S. 243), would broaden access to this giving vehicle by enabling seniors to make tax-free contributions from their individual retirement accounts (IRA) to charities through life-income plans. With many Americans unable to afford to give away their retirement income during their lifetimes, this would give prospective donors one more critical way to invest in the common good in a way that works for them. Independent Sector was pleased to support a modified version of the Legacy IRA Act that was included in the Securing a Strong Retirement Act (H.R. 2954), and we urge the Committee to include S. 243 in any retirement legislation that you consider.

Additionally, I urge Congress to restore two other disaster relief provisions that expired at the end of 2021: the ability for individuals who itemize on their taxes to deduct up to 100% of their adjusted gross income for charitable contributions, and the ability of corporations to deduct up to 25% of taxable income. With continued widespread economic disruption, some potential donors with highly variable income could be hamstrung by the lower limits now in effect and reduce their giving accordingly.

#### Restore the Employee Retention Tax Credit and Adapt it to Better Suit Nonprofit Organizations

Congress created an Employee Retention Tax Credit (ERTC) in the CARES Act to respond to the pandemic, subsequently expanding and extending it through 2021. In a long overdue recognition of nonprofit employers, the ERTC functions as a credit against payroll tax liability – unlike some prior disaster relief income tax credits that offered our sector no benefit. Independent Sector is deeply grateful to this committee for that recognition. As a result, the ERTC has been a critical lifeline, allowing nonprofit organizations to continue serving their community in the face of immense financial challenges throughout the pandemic. Its early and retroactive termination in the middle of the fourth quarter of 2021 was extremely disruptive to charitable missions and operations throughout our sector, given that organizations had planned for the expiration of the credit at the end of 2021. While the lost jobs caused by its early termination reflect families that lost a paycheck, they also point to an issue of even greater urgency – unmet community needs.

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<sup>11</sup> Selected Nonprofit Policy Issues: Public Polling, Independent Sector, December 2021.

That unmet need is particularly urgent as nonprofit organizations struggle to recruit and retain staff. Alarming, 42% of nonprofit organizations responding to a recent survey had job opening rates of higher than 20%, as they grapple with challenges including salary competition and inability to find child care.<sup>12</sup> I urge you to restore the Employee Retention Tax Credit, to adjust the “gross receipts” test to more accurately reflect the resources available to sustain nonprofit operations, and to expand eligible payroll expenses to include child care and tuition assistance.

#### Bolster the Volunteer Force by Increasing the Charitable Mileage Rate

Independent Sector strongly supported the investment of an additional \$1 billion last year in national service through AmeriCorps, but it is concerning that no similar attention has been paid to the non-stipend volunteer force. In addition to data indicating that volunteering has lagged in the past two years, recent press reports have highlighted recent volunteer shortages at food banks, affordable housing organizations, meal delivery operations, and other key charitable service providers. Congress cannot compel Americans to volunteer, but it can encourage this vital practice in one instance by treating volunteer drivers more fairly. I urge you to increase the Charitable Mileage Rate for nonprofit volunteer drivers from its painfully low statutory rate of 14 cents per mile to the same rate for businesses (58.5 cents per mile) for 2022, and to eliminate the tax on mileage reimbursements up to the business rate.

#### Provide a Seat at the Table for the Nonprofit Sector

While the other solutions I have called for today fall squarely within this committee’s focus on tax issues, there is a further set of policy solutions that are needed to strengthen the partnership between the nonprofit sector and the federal government as a whole. These solutions – which we refer to as the *Seat at the Table* Initiative – would create mechanisms that leverage the mission, knowledge, and impact of nonprofits to help government and the nonprofit sector work together more effectively in pursuit of shared goals.

Specifically, we call for the creation of a White House Office on Nonprofit Sector Partnership, as well as an Interagency Council, two structures that will allow policymakers access to data, reporting, and frontline, community-specific expertise from nonprofits so they can better assist constituents. These bodies, along with a proposed federal Advisory Board made up of nonprofit leaders, would also ensure nonprofits nationwide are equipped to produce better policies and better results for the American people. Additionally, the initiative contains other policy measures that would support the partnership between government and the nonprofit sector, including: releasing quarterly nonprofit economic data, reducing paperwork for nonprofits to register and fundraise in multiple states, increasing access to national service, as well as assessing grant and contracting processes.

### **Conclusion**

Once again, thank you for convening this hearing and for the honor of representing Independent Sector’s members before the Committee. These are trying and tumultuous times for legislators, the nonprofit sector, and the nation. May they serve as a reminder that our sector’s work is never over and always deeply urgent. Congress – much like its partners in the nonprofit sector – has responded to national crises over the past few years in unique ways. Now is

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<sup>12</sup> The Scope and Impact of Nonprofit Workforce Shortages, National Council of Nonprofits, December 2021.



not the time to walk away from that work, but to build upon it. Expanding the charitable deduction so that it is available to every American – along with other targeted investments in the nonprofit sector – will broaden participation in civil society and unleash the power of nonprofit organizations to ensure that all people living in the United States thrive.