Statement of

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United States Senate Finance Committee

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I am Mary Sue Coleman, President of the University of Iowa. I would like to thank the Committee for your interest in charitable giving incentives and, in particular, the proposal to make it easier for individuals to donate funds from their Individual Retirement Accounts to charities. I would like to give special thanks to Senator Grassley for your history of support for higher education and health issues and for inviting me to provide public testimony to this committee.

As you know, the President would as part of his overall tax plan allow tax-free charitable gifts from Individual Retirement Accounts to “encourage an outpouring of giving.” This proposal is embodied in the IRA Charitable Rollover Incentive Act, S. 205, which was recently reintroduced by Senator Kay Bailey Hutchison of Texas.

Passage of this legislation is widely supported in the nonprofit sector. Human service and religious groups, museums and arts groups, colleges and universities, private and community foundations, and other charitable organizations from across the country have all endorsed this important proposal. Let me also take this opportunity to express my appreciation to this Committee for adopting a slightly modified version of this proposal twice in the last Congress.

Today I am honored to represent the University of Iowa, as well as the American Council on Education and the Association of American Universities, while at the same time expressing the support of the nonprofit sector, whose programs and services would be strengthened by this proposal. The University of Iowa is a comprehensive public research university providing higher education to 28,000 students from freshmen to advanced residents and postdoctoral fellows. As part of our mission, we conduct advanced research to discover new knowledge at the cutting edge of the arts, sciences, humanities and engineering.

We are proud of our public mission as a resource for Iowa and the nation. The University of Iowa was the first public university to accept men and women on an equal basis and the first in the nation to accept creative work in lieu of a thesis for graduate work in the arts. The University's 11 colleges graduate 50% of Iowa's physicians, 80% of its dentists, 60% of its pharmacists, 50% of its baccalaureate trained nurses, K-12 teachers for all of its school districts as well as a high percentage of the state’s leadership in business and other critical areas. In addition, we provide a broad range of services, including over 700,000 patient visits per year to our academic health center and community-based clinics.

State support is the foundation upon which all this is built, but I must tell you that it provides only 21% of the University's budget. A crucial part of the remainder comes through donations from loyal friends and alumni. These funds provide support for facilities, equipment, student aid, the recruitment and retention of outstanding professionals and for centers and programs that would not be possible otherwise.

Today, the University of Iowa Foundation, a private 501(c)(3) organization is in the midst of the most ambitious comprehensive fundraising campaign it its history to enable the University to move forward as a leading educational and cultural resource in the 21st Century. Major gifts lead the way and are well recognized. Less well known are thousands of other gifts providing a much broader base of support for the University. IRA funds represent a new resource that could significantly enhance this kind of support.

Over the past few years, our foundation has received an increasing number of questions concerning the tax treatment of IRAs. Prospective donors who have sufficiently provided for the financial security of their families ask us about the possibility of donating from their IRAs to become a part of the University's future. They tell us they would like to "give something back" as a symbol of their gratitude for what they were given. For many, IRA funds would provide a means to do this.

Our advice is always to seek their own financial counsel appropriate to their own situations. We know that tax implications are not the only motivations people have for private giving, but we also know that the tax code may influence the timing and amounts of giving. Based on the fact that many inquire about giving IRA funds, but few make the gifts, the tax code does present barriers that inhibit this form of giving. A change in current law could remove these barriers while enhancing the incentives to give.

According to the Employer Benefit Research Institute (EBRI), there are 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 $41 trillion dollars in wealth may be transferred among generations over the next 55 years. One result of this large generational transfer is that, for many individuals, IRA funds accumulated under favorable market conditions will be only one part of their overall retirement assets and, at least in part, available for charitable giving.

Under current law, withdrawals from regular IRAs are fully taxable as ordinary income to the individual in the years they occur. A donor who withdraws regular IRA funds and uses those funds to support a charity is subject to tax on the entire amount, offset to varying extents by the charitable deduction. The charitable deduction is, however, limited by several current-law restrictions, such as the percentage of Adjusted Gross Income (AGI) limitation on the charitable deduction, and the 3% floor on all itemized deductions. If an individual does not itemize on his or her income tax return, no charitable deduction can be taken.

At the same time, the tax laws encourage individuals to liquidate their IRAs during their lifetime since their estates will face confiscatory tax rates of up to 80% if their IRA funds are left to a dependent or family member (other than their spouse). Currently, any amounts left in an IRA when an individual dies may be taxed as income to the beneficiary, and are also considered assets for the purposes of calculating that individual's estate tax liability.

Although charitable organizations frequently receive inquiries from potential donors about giving regular IRA funds during their lifetimes, when donors realize that they may have to pay a significant amount of tax to make the contribution, these types of gifts rarely get made.

Two individual donors to the University provide illustrative examples of the dilemma many potential donors face. Both individuals are professionals who are longstanding friends of the University. Both have given substantial gifts to the University over many years. Both are interested in giving a final substantial gift to University programs of special value to them. Both have indicated that they have provided for their families and will not need their IRAs for retirement purposes. However, the IRAs are the only asset left to them to make a gift of the magnitude that they would like. Both have indicated that they do not wish to make this contribution unless current law is changed.

In contrast, given passage of the IRA Charitable Rollover Incentive Act (S. 205), if IRA funds were rolled over to charity as an outright gift, they would be excluded from the donor's calculation of taxable income. In addition, if IRA funds were rolled over to create a life-income gift, the annual income payments from the gift would 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.

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. To the extent that donors transfer IRA funds into life-income gifts after age 59½, rather than waiting until the required distributions at age 70½, this proposal may accelerate the collection of tax revenues, partially offsetting revenue losses.

Although IRA funds 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 may only be partially needed for retirement income, to use those assets not for their personal benefit, but to support charities that better the lives of others. Moreover, in the case of life-income gifts, a portion of the IRA funds 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 S. 205 as a tax break for the wealthy. Although upper-bracket taxpayers can best afford, and are most likely to make, this type of wealth transfer to charity, again, 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 funds. Many retirement plans have multiplied well beyond anticipated needs and expectations as a result of favorable investment markets and moderate inflation. These donors want a tax disincentive removed, not a tax break, in order to complete their charitable objectives.

Moreover, if this proposal were passed into law, although the government would theoretically give up a tax worth 39.6% of the value of the asset, the donor would give up 100% of the asset. However, 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 may otherwise be called upon to provide. It is good public policy to create incentives that encourage individuals, particularly upper-bracket taxpayers who can best afford to make charitable donations, to support philanthropy through gifts of IRA funds.

The future of the charitable sector and of the public services it provides depends upon securing the financial resources to meet the nation's pressing social needs. This proposal would allow individuals, who have assets in excess of requirements for their retirement, to make penalty-free donations of IRA funds to support the charitable sector and its public-service mission. I urge you to approve once again this critical policy initiative.

I would be pleased to answer any questions that you may have. Thank you for the opportunity to appear before you today.