U.S. House of Representatives Committee on Ways and Means
Hearing on Tax Reform and Charitable Contributions
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Testimony of Mark W. Huddleston
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Good morning, Chairman Camp, Ranking Member Levin, and members of the Ways and Means Committee. My name is Mark W. Huddleston and I am the president of the University of New Hampshire (UNH). In addition to representing UNH, I am here on behalf of a number of higher education associations including the American Council on Education, American Association of Collegiate Registrars and Admissions Officers, American Association of Community Colleges, American Association of State Colleges and Universities, American Indian Higher Education Consortium, Association of American Universities, Association of Community College Trustees, Association of Jesuit Colleges and Universities, Association of Public and Land-grant Universities, National Association of Independent Colleges and Universities, and the National Association of Student Financial Aid Administrators. Together, these associations represent approximately 4,300 two- and four-year public and private colleges and universities.

I appreciate the opportunity to provide testimony today concerning the itemized deduction for charitable giving, which received significant attention before the passage of "fiscal cliff" legislation and generally as part of discussions concerning tax reform. I believe that I can share with you a broad perspective on the importance of charitable giving to higher education based on my current post at UNH, a public research university, and from my prior service as president of Ohio Wesleyan University, a private non-profit institution.

We recognize the pressing need for major, long-term deficit-reduction, and we are mindful that this likely will result in sacrifice shared broadly across the country. We understand that reforming the tax code will be a critical element of shoring up our nation's finances and promoting economic growth. We urge you to proceed cautiously when considering potential changes to the current charitable deduction, which is vital to generating private support for colleges and universities to help achieve their educational missions of teaching, research, and public service.

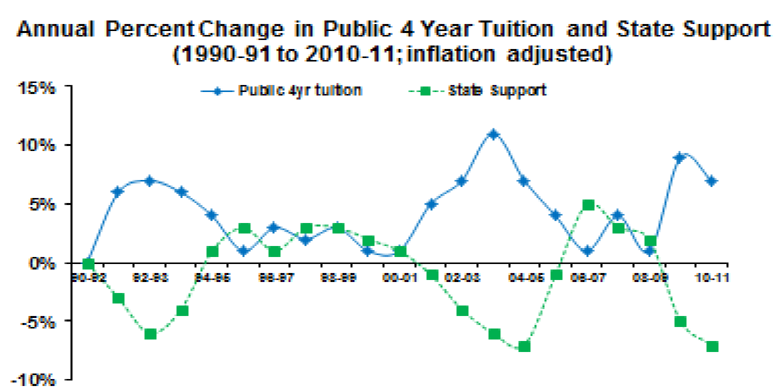
Enacted in 1917, the charitable contribution deduction is a long-standing feature of the federal income tax code. The deduction was created in recognition that funds voluntarily donated to support a charitable or educational purpose were no longer available to the donor for their personal consumption or, for that matter, to pay taxes to the Treasury. As a result, the charitable deduction is unique in recognizing that this income has been foregone, transferred to support public purposes and advance the common good.

The deduction has long served as an important and effective incentive for charitable giving, which benefits both higher education as well as society in general. While private donors make gifts for many reasons, it is well established that the charitable tax deduction helps generate and sustain donations. The benefit to society of a charitable donation far exceeds the financial benefit received by a donor. For every dollar a typical donor receives in tax relief for his or her gift, the public gains approximately three dollars of benefit.[1]

The teaching, research, and public service missions of colleges and universities rely on charitable giving. According to the Council for Aid to Education, colleges and universities in 2011 received $30.3 billion in charitable gifts. Private charitable donations work in concert with federal and state investments to ensure access to higher education through student financial aid. They also support teaching, groundbreaking research and technological innovation, and the public service activities of colleges and universities.

At the University of New Hampshire, more than two-thirds of the donors who have created endowments have done so to support financial aid and scholarships. Ten percent of the funds we raise in any given year underwrite research and teaching initiatives. While they are fewer in number, some of our donors do recognize that better facilities can be essential to better teaching—a fortunate perception given the challenges associated with state bonding and the resulting backlog in major maintenance. In short, our partnership with private donors has delivered enormous economic benefits to our society, but unfortunately, it is a partnership undergoing severe stress.

Colleges and universities are facing great financial challenges, escalating the importance of private giving to help restrain tuition increases and sustain these anchor institutions. For public institutions, which enroll 80 percent of all students in the nation, the single largest factor in driving up tuition prices is declining state support. Unfortunately, as a result of the recession, state support for public higher education is at a 20-year low, triggering increased tuition at public institutions to offset reduced state appropriations. Indeed, there is a direct and inverse relationship between the level of state appropriations and the level of tuition increases, as illustrated in the chart below.



[1] Stephanie Strom, *Big Gifts, Tax Breaks and a Debate on Charity*, New York Times, September 6, 2007.

In 2010, state and local support for general higher education operations fell to a 25-year low in inflation-adjusted terms, while full time equivalent enrollment increased by 61 percent over the same period. From 1998–99 to 2008–09, state appropriations as a share of institutional revenues per student dropped from 49 percent to 34 percent at public research institutions, 56 percent to 43 percent at state colleges, and 64 percent to 57 percent at community colleges. As a result of declining state support, the share of total institutional revenue from tuition rose from 25 percent to 32 percent at public research institutions, 33 percent to 43 percent at state colleges and 22 percent to 27 percent at community colleges. The increases were insufficient to offset declining state support. Between 2007–08 and 2010–11, state appropriations for higher education per student declined by 18 percent in real terms, the largest three-year decline in 30 years.

UNH has the unfortunate distinction of being last in the nation in per capita public support. The State of New Hampshire currently provides only 6 percent of our operating budget, after the largest percentage cut in appropriation in the nation's history: 49 percent, in 2011. In fact, if the state doubled its support, we would still be last. The state's subsidy to each public college and university student in the state has fallen by $5,000 in real terms over the past decade; it now amounts to less than $600 per year. We were already cost-effective—our cost per credit hour is 30 percent lower than our competitors in the Northeast—and we succeeded in absorbing almost 80 percent of the most recent loss in funding.

Under these circumstances, private philanthropy is especially critical to our mission. To uphold our commitment to keep UNH affordable and to ensure a high-quality academic program, UNH must rely increasingly on private donors. While donors give to causes they believe in, more than for a tax break, we certainly would not want to create disincentives for successful individuals to give back to the institutions that create opportunities for their fellow Americans.

Private colleges and universities face a different set of circumstances. They have always relied upon charitable gifts to achieve their educational missions. In fact, many private institutions owe their very existence to generous charitable gifts. Few independent institutions receive significant amounts of state support for their operating budgets. Some states provide financial aid that helps students attend these institutions. When state financial aid is reduced as a result of budget cuts, private colleges must use even more of their own funds to fill the gap. At private institutions, college and university grants, scholarships, and fellowships for students have been increasing in recent years.[2] This institutionally-provided aid is funded in significant part from charitable donations. At Ohio Wesleyan, for example, in a total annual budget of $101 million this year, $39 million is from private sources, which is devoted to student financial aid.

Private and public institutions experienced historic declines in the value of their endowments during the height of the recession from which they have not completely recovered. Last fiscal year, the average rate of endowment return was -0.3 percent, and over the last five years it has been 1.1 percent.[3]

The University of New Hampshire endowment is managed in part by the university system and in part by our own foundation. Last year, they achieved returns of 1.5 percent and 0.8

[2] NACUBO Tuition Discounting Survey 2000 to 2010.
[3] 2012 NACUBO-Commonfund Study of Endowments.

percent, respectively. Over the past five years, the return has been 2.8 percent. At a payout rate of 4 percent, our endowments yielded a little over $8.6 million for our use this year, or about $560 per student.

Today's struggling economy has reinforced the importance of obtaining a college education. During this time of slow economic growth, the employment divide between college-educated and non-college-educated workers has widened. At the same time, many families are under financial stress, creating greater demand for student financial aid. While increased Pell grants and institutional financial aid have softened the blow from the economic downturn for many students, particularly low-income students, we recognize that federal funding for financial aid is under tremendous pressure. Charitable gifts colleges and universities receive help to minimize tuition increases and support student financial aid programs, advancing the important goal of providing access to higher education regardless of income.

Our nation's long-term economic growth depends upon a larger well-educated and trained workforce and innovations from scientific research. Diminished support for student financial aid undermines access to higher education and ultimately, the country's ability to produce enough well trained workers essential to our economy. Workforce projections show that by 2018, there will be jobs for as many as 22 million new workers with college degrees. But on our current trajectory, we will not make that goal—in fact, we will miss it by 3 million workers.[4] As a result, we need to expand access to education. Similarly, long-term economic growth depends upon sustained and strong investments in scientific research. Indeed, economists generally attribute more than half of all economic growth in the United States since the end of World War II to technological innovations and advancements. Many of these innovations and advancements trace their origins to federal investments in scientific research, including the laser, GPS, and the Internet. While there is no replacing the investments made by federal government in student financial aid and scientific research, private charitable giving plays an increasingly important role in supplementing federal investments. We should continue as a nation to encourage strong charitable giving to support student financial aid, research, and other academic programs. The current charitable deduction does just that.

For all of these reasons, we urge you to preserve strong federal tax incentives for charitable giving and avoid measures that could significantly affect charitable giving and thereby harm students, as well as the colleges and universities that serve them and our nation. As efforts to reform the tax code move forward, we stand ready to work with you.

I thank the committee for this opportunity to testify and for considering our views.

[4] Anthony P. Carnevale, Nicole Smith, and Jeff Strohl, *Help Wanted: Projections of Jobs and Education Requirements Through 2018*, Center on Education and the Workforce, Georgetown University, 18 (June 2010).