United Way Worldwide

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April 15, 2013

The Honorable Dave Reichert
United States House of Representatives
1027 Longworth House Office Building
Washington, DC 20515

The Honorable John Lewis
United States House of Representatives
343 Cannon House Office Building
Washington, DC 20515

RE: Ways and Means Committee Charitable and Exempt Working Group

Dear Representatives Reichert and Lewis:

On behalf of United Way, I write in strong support of the charitable giving incentives in the federal tax code. Since the inception of the federal income tax, Congress has protected charitable giving from taxation. From the beginning, Congress recognized that if donations to charity were taxed, it would negatively impact charitable giving. The current charitable deduction effectively exempts income that is donated to charity from taxation. This treatment is consistent with a core American value of helping each other and giving back to our communities and it is consistent with the principle that people who give income away should not be taxed on that income.

While United Way appreciates the pressure on Congress to raise revenue for a variety of purposes, reducing the value of the charitable deduction by limiting the deduction for some taxpayers, or attempting to parse the charitable sector so some charities will no longer be eligible for deductible donations, is the worst possible way to raise federal tax revenue. For the past four years, there have been a number of proposals floated to limit the charitable deduction. In each and every case, whether a cap, credit, or floor, the purpose of the proposal has been to raise federal tax revenue. None of the proposals have had a goal of increasing charitable giving. While a few of the proposals have purported to raise revenue and also increase charitable giving, upon closer scrutiny, every single proposal would reduce charitable giving by some group of taxpayers.

The working group should reject all proposals to limit the charitable deduction because of the harm it would cause to people at the bottom of the economic spectrum who rely on charities and the harm it would do to local communities nationwide. At a time when government programs are being cut and when more Americans than ever need help, Congress should be doing everything possible to incentivize charitable giving.

Rather than using charitable giving incentives to raise revenue, Congress should be working to expand charitable giving. Ideally, Congress would exclude charitable gifts from income altogether. This would expand charitable giving and help provide charities with the capacity to assist those in need and improve our communities. At the least, Congress should consider creating a non-itemizer deduction to encourage

giving by the two-thirds of taxpayers who do not itemize their taxes. Additionally, the Ways and Means Committee should consider acting immediately to consider and pass H.R. 1479, a bipartisan bill introduced by Congressmen Sensenbrenner and Matheson to carve the charitable deduction from the Pease surtax, which was reinstated as part of the fiscal cliff deal.

The charitable deduction is not the only reason people give back to their communities; it is often only a secondary reason. People give because it is the right thing to do and because the charitable spirit is at the core of American society. In fact, many people who give to charity don't itemize their taxes. But whatever their income level, the charitable deduction enables people who do itemize to give more. This is how the charitable deduction provides a tax incentive. When an individual is making the decision about how much to give . . . often a decision which involves calculating how much they need to keep so their family can merely make ends meet . . . they know their donation won't be subject to tax because of the charitable deduction.

With specific regard to a possible **cap** on the charitable deduction, United Way has established an extensive record in opposition to a cap, most recently during the Ways and Means Committee's February 14, 2013 hearing. We hope the Working Group will consider the extensive United Way testimony on the negative impact of a cap and incorporate the testimony into the Working Group's product.

Since the hearing, some discussion has turned towards the idea of a "floor," or a threshold contribution amount that would be necessary before a taxpayer could qualify for a deduction. Such a floor could come in the form of a hard-dollar amount or a percentage-of-income threshold. United Way strongly opposes a floor in any form.

Millions of Americans of all income levels contribute to charities and make personal sacrifices in order to give back to their communities. Often they are only able to make small donations, but do so knowing that every little bit helps. Indeed millions of small contributions add up to billions of dollars in charitable giving every year. These donations directly benefit families and individuals at the bottom of the economic spectrum who rely on the help of charities.

Large numbers of Americans from all income levels itemize their taxes and deduct their gifts to charities, not just high-income taxpayers. In fact, the single largest group of federal tax itemizers are taxpayers in the $50,000 to $100,000 income range. More than 17 million people in this income range itemize their taxes. These are average middle class working Americans who own modest homes and who give whatever they can to their church or synagogue or their local United Way or Red Cross chapter.

A floor will exclude many of these middle class taxpayers from the benefit of the deduction. It will change their financial calculation and many of them will have no choice but to reduce their donation. The impact of a floor will be felt across the nonprofit sector as millions of donors will reduce their gift. The price will be paid by the families who rely on services charities provide with those donations.

Relatively few high-income taxpayers would be impacted by a floor. The effects will be

disproportionately felt by middle class taxpayers. Though their donations may be smaller, their relative sacrifices in giving to charity are often greater. A floor sends a message to these donors that their sacrifices are somehow less valuable.

According to a March 21, 2013 CRS report (R43012), 91.3% of itemizers had Adjusted Gross Income (AGI) below $200k and 65.8% had an AGI of less than $100k. In 2010 17,258,142 itemizers had income between $50k - $100k. On average, taxpayers in that group deducted $19,540. This group would likely be most impacted by a floor.

United Way has 9.44 million donors nationwide. We raise about $4 billion each year. About $500 million comes from a small group of high income donors, many of whom would be subject to a cap. Another $784 million comes from corporations. But the remaining nearly $2.65 billion comes from 9.14 million small donors – these are donors from all income levels and tax brackets. Our average donation is $319 per year. These are donations by teachers and factory workers and employees of all sorts of businesses. We estimate that over 3 million of these small donors itemize; it is these donors who would be impacted by a floor.

For United Way, these are the people who are likely donating through a weekly or bi-weekly donation . . . $10 or $20 per pay check. When they make their annual pledge to give, if notified that their donation is not deductible if under a threshold amount, many of them would feel they have no choice but to reduce their donation. A few who are right at the threshold may give a little more to qualify for the deduction. But no matter where you set the floor threshold, there will be many donors who would simply not be able to increase their girt to the meet the floor, so they'd be compelled to reduce their gift instead.

The impact of reduced donations would be that there would be less private dollars to help people at the bottom of the economic spectrum. If private charities have less capacity to help, people in need will have no place else to turn.

We urge the working group to reject any proposal to limit the value of the deduction for any donors and refrain from using portions of the federal tax code related to the charitable sector as a potential source of revenue.

Thank you for your consideration.

Sincerely,

Steve Taylor
Senior Vice President and Counsel for Policy
United Way Worldwide