
House Ways and Means committee holds hearing on tax reform and charitable contributions

February 18, 2013

In brief

A number of legislative proposals to limit the deduction for charitable contributions have appeared in recent years. These proposals have included: limiting the tax rate against which contributions may be deducted; a dollar cap on total itemized deductions; a floor below which contributions may not be deducted; and the replacement of the deduction with a tax credit available regardless of whether the taxpayer itemizes. Different types of limitations could have varying impacts on charitable giving.

The House Committee on Ways and Means held a hearing on tax reform and charitable contributions on February 14. The hearing examined the itemized deduction for charitable contributions as part of the Committee's ongoing work on comprehensive tax reform and received testimony on proposals to modify the charitable contribution deduction. The hearing featured more than forty witness testimonies from prominent nonprofit organizations as well as leading academics.

In detail

The House Committee on Ways and Means on February 14 held a more than 7 hour hearing on tax reform and charitable contributions that included 42 witness testimonies from prominent nonprofit organizations as well as leading academics in the area. Nonprofit organization and foundation representatives generally testified that limits on charitable donations and other changes in tax policy could potentially have a negative impact on charitable giving and need to be weighed carefully.

Ways and Means Chairman Dave Camp (R-MI) and other Committee members expressed support for the work performed by charitable organizations while also calling for suggestions on how tax reform legislation might provide a more effective incentive for giving.

Several witnesses expressed their opposition to enacting a limit on the value of itemized deductions as proposed by President Barack Obama or a dollar cap on itemized deductions as proposed by Mitt Romney during the 2012 presidential campaign. Some testified that such limitations are effectively a transfer of

money from charities to the federal government and takes away taxpayers' discretion to direct money toward causes they find personally important. Dr. Eugene Temple, Dean of the Indiana University School of Philanthropy, observed that "charitable giving has been a cornerstone of American society since before our nation was founded." Throughout the hearing, many others reiterated that sentiment through similar statements, citing the important role charitable giving plays in services provided by non-profit organizations in local communities across the United States.

Eugene Steuerle, of The Urban Institute testified that the deduction for charitable contributions should be regularly examined for effectiveness and reformed when needed. Mr. Steuerle suggested imposing a "floor" on the deduction, by limiting taxpayers' contributions to the amount that exceeds one or two percent of AGI. In combination with the floor, he suggested the deduction could be re-classified from itemized, as it is presently, to a non-itemized deduction, broadening the base. He cited statistics showing that currently about 65% of taxpayers make charitable contributions during the year, while only about one-third of taxpayers itemize deductions on their tax returns. By allowing non-itemizing taxpayers to take a deduction for their contributions, the number of taxpayers receiving a benefit would be increased significantly. He also noted that an alternative option would be to replace the current deduction with a tax credit which can be taken by all taxpayers, including non-itemizers in the lower-income tax brackets.

Mr. Steuerle also suggested in his testimony that Congress should consider taking action to reduce, simplify, or completely eliminate the excise tax on foundations. According to his testimony, the tax generates significantly greater income than was intended or is needed for its purpose, which is to pay the IRS for the administrative costs associated with monitoring non-profit filers.

Mark W. Huddleston, president of the University of New Hampshire, urged Committee members to preserve strong federal tax incentives for charitable giving and avoiding measures that could negatively affect students, as well as colleges and universities. He argued that private charitable giving plays an increasingly important role in supplementing federal student aid, and accordingly private donors should be encouraged to give to support financial aid, research and other academic programs.

The takeaway

Proposed changes affecting the deductibility of charitable contributions are likely to be considered as part of any comprehensive tax reform. Such proposals should carefully evaluated for potential impact on charitable giving.

Click [here](#) for the hearing announcement and [here](#) for the list of witnesses and their testimonies.

For a deeper discussion of how this issue might affect your business, please contact:

Exempt Organizations Tax Services Practice:

Marci Krause
(202) 414-1012
marcia.k.krause@us.pwc.com

Laura Parello
(646) 471-2472
laura.j.parello@us.pwc.com

Eric McNeil
(267) 330-6415
eric.m.mcneil@us.pwc.com

Rob Friz
(267) 330-6248
robert.w.friz@us.pwc.com

Ron Schultz
(202) 346-5096
ronald.j.schultz@us.pwc.com

Erin Couture
(617) 530-6179
erin.couture@us.pwc.com

Travis Patton
(202) 414-1042
travis.patton@us.pwc.com

Caroline Burnicki
(617) 530-5767
caroline.n.burnicki@us.pwc.com

Anthony Russo
(267) 330-1356
antonio.c.russo@us.pwc.com

Gwen Spencer
(617) 530-4120
gwen.spencer@us.pwc.com

Michelle Michalowski
(202) 414-1615
michelle.g.michalowski@us.pwc.com

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

SOLICITATION

© 2013 PricewaterhouseCoopers LLP. All rights reserved. In this document, PwC refers to PricewaterhouseCoopers (a Delaware limited liability partnership), which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.