

**STATEMENT OF DONALD C. ALEXANDER
BEFORE THE UNITED STATES SENATE
COMMITTEE ON FINANCE
MARCH 14, 2001**

First, I should point out that I am appearing here today purely in my personal capacity as a former tax collector and a longtime tax practitioner.

Among President Bush's proposals is one "to encourage an outpouring of giving" by permitting individuals who do not itemize deductions to claim the Federal charitable contribution deduction. The new allowance would apparently be phased in ratably over five years and individuals would be permitted to claim the new deduction up to an amount equal to their standard deduction. Many in the nonprofit community strongly support this proposal.

We have tried this before (1981 through 1985), and I don't think it is a good idea from the standpoint of either tax policy or tax administration.

First, the argument that this change is needed as a matter of fairness between itemizers and nonitemizers must depend, at least in part, upon the supposition that the standard deduction does not include a reasonable component for charitable contributions. When he was Assistant Secretary of the Treasury, Ronald Pearlman responded to this:

In the [Reagan] Administration's view, ... the zero bracket amount [the standard deduction equivalent] adequately serves as an allowance for a certain level of personal expenses, including charitable contributions. *Repeal of Charitable Contributions for Nonitemizers Explained*, 28 Tax Notes 1140 (1985).

Therefore, the proposal would introduce a new element of unfairness: doubling up on the part of those claiming both the new charitable contribution deduction and the standard deduction that includes a charitable contribution component. Since the proposal contains no floor amount, the first contributed dollar would be deductible even though taken into account already in the standard deduction. At the least, why shouldn't Congress reduce the revenue loss and

duplication of deductions by restricting the additional deduction to an amount in excess of a base of at least several hundred dollars?

Would the proposal produce an “outpouring of giving”? Let’s think about nonitemizers. Most individuals, of course, claim the standard deduction, which now stands at \$7,350.00 (years beginning in 2000) for joint return filers. Such individuals give largely to their places of worship and to local units of broad-based charities such as the Red Cross. While it is surely reasonable to believe that they would at least maintain, and might increase, their level of giving if this tax initiative were enacted, would they increase giving substantially enough to offset its cost? Suppose, for example, an additional \$100.00 contribution would then cost an individual only \$90.00 or even \$75.00—while some individuals would take this tax saving into account in their decisions to give more in the future than the past, how many would respond and how much more would they contribute? I understand that the evidence is mixed as to the presumably adverse effect of eliminating the charitable deduction for nonitemizers that was in the law in the mid-1980s. Also, I am growing increasingly skeptical of the advocacy pieces produced by large accounting firms to provide economic support for their clients’ proposals. Accordingly, I think it highly doubtful that enactment of this proposal would result in additional giving to charity in an amount larger than its revenue cost.

Moreover, this proposal would clearly produce additional complexity for millions of individuals and for the Internal Revenue Service. Taxpayers who now file 1040EZ and 1040A returns would have to cope with additional lines and computations necessary to implement the proposal, and the Internal Revenue Service would not only have an additional duty for its taxpayer service component but would have substantial increased burdens in processing the simple returns now filed by more than two-thirds of individual taxpayers. Also, the Service’s

examination resources—far inadequate now to give any reasonable assurance to compliant taxpayers that others will be called to account—would have to make some effort to keep certain unethical preparers and certain unethical taxpayers from using the proposal to double up standard deductions. The Service is simply not equipped to administer this provision. As the Treasury stated in 1985:

In addition, the allowance of a charitable contribution deduction for nonitemizers is administratively burdensome for the Internal Revenue Service and complicated for taxpayers. In particular, it is extremely difficult for the Internal Revenue Service to monitor deductions claimed for countless small donations to eligible charities; the expense of verification is out of proportion to the amounts of tax involved. Dishonest taxpayers are thus encouraged to believe that they can misrepresent their charitable contributions with impunity. Moreover, taxpayers who claim charitable contribution deductions are required to maintain records substantiating those contributions. In the case of smaller gifts, the effort required to comply with the necessary substantiation requirements may be out of proportion to the amounts involved. *Treasury Department Statement on Tax Reform Proposal II, Chapter 3* (May 30, 1985).

Accordingly, I recommend that the Committee should not accept this proposition.

I will be glad to try to answer any questions that Committee Members may have.