Senate Finance Committee
Tax Reform Working Groups

Written Statement for the Record
United Way Worldwide

April 15, 2015

On behalf of United Way's network of nearly 1,200 United Ways across the United States, I write in strong support of key tax policies that advance the common good: **charitable giving incentives**, the **Earned Income Tax Credit** (EITC), the **Child Tax Credit** (CTC) and the **Volunteer Income Tax Assistance** (VITA) program. As the Senate Finance Committee contemplates tax reform, we urge you to prioritize these provisions that promote strong communities and strengthen opportunities for children and families in reform.

Charitable Giving Incentives: Charitable giving is critically important in enabling local communities to meet local needs. The tradition of charitable giving is as old as America. And the charitable deduction was created nearly simultaneously with the federal income tax, over a century ago, as a recognition of this core value. It is a unique incentive that encourages a selfless act and is consistent with the principle that people who give income away should not be taxed on that income. While United Way has 8.72 million donors nationwide and raises about $4 billion in the U.S. each year, these comments are not specific to one organization - they represent the broader impact to the entire nonprofit sector. Whether Congress proposes a cut, cap, floor, or ceiling on the charitable deduction, giving would be reduced and communities would pay the price.

Specifically, consider the following:

- **Impact of a floor on the Middle Class**: Large numbers of Americans from all income levels itemize their taxes and deduct their gifts to charities. In fact, the single largest group of federal tax itemizers are taxpayers in the $50,000 to $100,000 income range. Nearly 17 million individuals and families 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 faith-based charity 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. For United Way, as an example, $2.61 billion of our charitable donations come from 8.69 million small donors at an average donation of $352 per year. We estimate that more than 3 million of these small donors itemize; it is these donors who would be impacted by a floor. But this is not about United Way - the impact of a floor will be felt across the nonprofit sector as millions of donors reduce their gifts to religious, basic needs and veterans' charities that are favored by the middle class. The price will be paid by the families who rely on the services that charities provide with those donations.

- **Impact of a cap:** While people give because it is the right thing to do and because the charitable spirit is at the core of American society, charitable giving incentives impact *how much* people are able to give. Each year, United Way receives a half billion dollars from 26,000 individuals who give $10,000 or more. In a recent study United Way conducted, 23% of high net-worth individuals indicated that receiving tax benefits for their charitable contributions was a "major" motivation for giving. The most conservative estimates we have on the impact of a 28% cap on the charitable deduction indicate that donations to United Ways would be reduced by more than $100 million per year. Again, it is the people at the bottom of the economic spectrum who would feel the impacts of a cap when core education, health and human service programs are diminished because of reduced giving.

- <u>**The solution**</u>: Congress should protect the full value and scope of the charitable deduction and expand incentives to give by making the charitable deduction available to all taxpayers, including those who take the standard deduction. In fact, if Congress opted to dramatically increase the standard deduction to simplify tax filing, failure to move the charitable deduction above-the-line would devastate the sector.

  Congress 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 and negative impacts it would have on local communities nationwide. At a time when government programs are being reduced, everything possible should be done to incentivize private solutions through charitable giving.

Refundable Tax Credits for Lower-Income Workers: Individuals and families have greater incentives to work and increased financial stability thanks to the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC). The EITC and CTC help low- and moderate-income working families make ends meet, together lifting 9.4 million Americans out of poverty in 2013, including 5 million children. The credits also generate significant economic activity in communities.

- **Earned Income Tax Credit (EITC):** Enacted by Congress in 1975 and significantly expanded in the late 1980s and early 1990s, the EITC was created to reduce the tax burden on lower-income workers, supplement their wages, and encourage greater participation in the workforce. It has become the nation's largest and most effective anti-poverty program, significantly increasing the number of single parents leaving welfare for employment. Research suggests that the EITC positively impacts children and families far beyond the limited timeframe during which families can claim the credit. In fact, studies show that the EITC encourages work, reduces poverty, and also improves child health and academic achievement, increasing the likelihood of college attendance and improving prospects for higher earnings when children become adults. Recent EITC improvements that help provide marriage penalty relief as well as modestly higher support for families with three or more children should be made permanent.

- **Child Tax Credit (CTC):** Enacted in 1997 and expanded with bipartisan support since 2001, the CTC helps working families offset the cost of raising children. The CTC is worth up to $1,000 per eligible child and there is a refundable element to the CTC, the Additional Child Tax Credit. Currently, working families can receive a refund equal to 15 percent of their earnings above $3,000, up to the credit's full $1,000-per-child value. The 2009 Congressional improvement that enabled those to begin accessing the CTC when earnings hit $3,000 as opposed to $14,700 has made a world of difference. It has proven a powerful work incentive, both encouraging those at the bottom of the economic spectrum to look for and take even very low-paying jobs and to secure more hours of work. This CTC improvement must be made permanent or else the consequences will be severe. A single mother working a full time minimum wage job and raising two children will lose the entire CTC of $1,725 in 2018 unless Congress takes action to make the improvement permanent.

- **Volunteer Income Tax Assistance (VITA) program:** More than 380 United Ways across the United States help individuals and families access the credits through Volunteer Income Tax Assistance (VITA) and other programs. Through VITA, volunteers become certified tax preparers and provide qualifying individuals and families with free, reliable assistance in filing federal tax returns. Most taxpayers utilizing VITA earn an annual household income of less than $40,000 and come from traditionally hard-to-reach and underserved communities, including people with disabilities, the elderly, and Native Americans. VITA helps hardworking Americans meet their tax obligations while claiming the full amount of any refunds for which they are eligible. During the 2014 filing season, tens of thousands of volunteers prepared more than 3.2 million tax returns nationwide. Returns filed through free tax preparation resulted in nearly $4 billion returning to local communities in 2014– dollars spent to cover child expenses, pay bills, purchase household necessities and to save for the future. Congress has been supporting VITA through a small demonstration matching grant program since 2008. Congress should solidify this successful public-private partnership and formally authorize the VITA grant program through tax reform.

- **Building on What Works**: The EITC and CTC advance the common good and should be protected and expanded. The recent EITC improvements that help provide marriage penalty relief as well as modestly higher support for families with three or more children should be made permanent. Additionally, the EITC should be expanded for childless workers and the age of eligibility should be lowered so that younger workers who are just entering the workforce can receive the credit.

  Recent improvements to the CTC mean that lower-income families can begin to access the credit when earnings surpass $3,000, as opposed to $13,400 under prior law. This improvement should be made permanent.

If the recent improvements in the EITC & CTC are not made permanent, more than 16 million people in working families would fall into – or deeper into – poverty in 2018.

While error rates for these two credits are admittedly too high, “error rates” and “fraud and abuse” should not be conflated. The solution to fraud is aggressive prosecution of bad actors engaged in intentional and material wrong-doing. Error rates involving honest mistakes, resulting in either underpayment or overpayment, should be addressed in a deliberate fashion designed to improve accuracy while preserving the intent of the credits. The fix should not incidentally create obstacles for those who are qualified for the credits.

Finally, Congress should also formally authorize the VITA grant program. While the matching program is receiving annual appropriations funding, formal authorization will help ensure this effective program continues to deliver a strong return on investment.

There are clear components of the tax code that work. The charitable deduction incentivizes individuals to invest in local solutions that improve lives. With proven success in encouraging work and lasting impacts on health, education and family economic self-sufficiency, the EITC and CTC are smart investments in both the current stability of individuals and families and the future of our children. VITA is a powerful public-private partnership that enables millions of Americans to confidently fulfill their civic duty, accurately filing their taxes with the support of certified volunteers.

The charitable deduction, EITC, CTC and VITA should be protected and strengthened in any comprehensive tax reform efforts.

Please do not hesitate to call upon United Way if we can be of help in generating further understanding of these essential elements of the tax code that advance the common good.

Sincerely,

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