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DESCRIPTION OF S. 219

RELATING TO

THE DEDUCTION FOR CHARITABLE CONTRIBUTIONS

SCHEDULED FOR HEARINGS

BEFORE THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT GENERALLY

OF THE

COMMITTEE ON FINANCE

ON JANUARY 30 AND 31, 1980

PREPARED FOR THE USE OF THE

COMMITTEE ON FINANCE

BY THE STAFF OF THE

JOINT COMMITTEE ON TAXATION

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INTRODUCTION

The bill described in this pamphlet, S. 219, has been scheduled for a hearing on January 30 and 31, 1980, by the Subcommittee on Taxation and Debt Management Generally of the Senate Finance Committee. The pamphlet provides a summary of S. 219, followed by a description of present law, discussion of the issues, explanation of the bill's provisions, its effective dates, and its revenue effects. An appendix provides background information and statistics on charitable contributions, itemization of deductions, donors' income levels, and charitable donees.

I. SUMMARY OF S. 219

Senators Moynihan, Packwood and Others [1]

Under present law, a deduction is allowed for certain charitable contributions made by individuals or corporations (sec. 170). For individual taxpayers, charitable contributions are allowed as itemized deductions which are subtracted from adjusted gross income in arriving at taxable income. Thus, in order to benefit from the deduction, the amount of an individual's charitable contributions, together with his or her other itemized deductions, must exceed the amount of his or her "zero bracket amount." [2] In addition, present law treats an individual's deduction for charitable contributions as an item of tax preference (sec. 57) for purposes of the alternative minimum tax (sec. 55) and the maximum tax (sec. 1348).

Under the bill, the deduction for charitable contributions would be allowed as a deduction from gross income in arriving at adjusted gross income. Thus, the deduction would be allowed in addition to a taxpayer's zero bracket amount. In addition, the bill would end the treatment of the charitable contributions deduction as an item of tax preference.

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[1] Cosponsors of S. 219 are Senators DeConcini, Durenberger, Cochran, Lugar, Hayakawa, Mathias, Melcher, Javits, Schmitt, Schweiker, Chafee, Jepsen, Randolph, Durkin, Stone, Helms, Hatch, Leahy, Humphrey, Cranston, Simpson, Thurmond, Tower, Hollings, Heinz, Gravel, Wallop, Armstrong, Stewart, Bradley, Boren, Jackson, Warner and Heflin.

[2] The zero bracket amount is $2,300 for heads of household and unmarried individuals, $3,400 for married individuals filing joint returns, $1,700 for married individuals filing separate returns, and $1,050 for estates and trusts.

II. DESCRIPTION OF S. 219

A. Deduction for Charitable Contributions

Present law

Under present law, a deduction for charitable contributions may be claimed by individual taxpayers as an itemized deduction from adjusted gross income in determining taxable income for the year in which the contributions are made. The amount of the deduction is subject to limitations depending on the nature of the contribution, type of donee, and the value of the contribution in relation to the taxpayer's adjusted gross income (without regard to net operating loss carrybacks).

Issue

The issue is whether the deduction for charitable contributions should be extended to taxpayers who do not itemize their deductions by allowing charitable contributions to be claimed as an above-the-line deduction from gross income.

Explanation of provision

Under the bill, the deduction for charitable contributions would be allowed as a deduction from gross income in arriving at adjusted gross income. Thus, the level of a particular individual's zero bracket amount would not affect the deduction and an individual would be permitted to take a deduction for charitable contributions whether or not he or she itemizes deductions.

The bill also would include several technical amendments designed to preserve the effect of certain present law rules which otherwise would be affected by the bill's substantive changes. For purposes of the limitations on the charitable contributions deduction which are based on a percentage of adjusted gross income, adjusted gross income would continue to be determined without regard to the deduction. For purposes of the floor of three percent of adjusted gross income under the deduction for medical expenses, and the floor of one percent of adjusted gross income under the deduction for medicine and drugs, adjusted gross income would be determined without regard to the charitable contributions deduction. Finally, an employee still would be permitted to take into account the amount of his or her anticipated charitable contributions deduction for the year in determining his or her income tax withholding allowances for the year.

Effective date

These provisions would apply to taxable years beginning after December 31, 1978.

Revenue effect

The bill, as introduced, would reduce calendar year liability and fiscal year receipts as follows:

($-million)

	1979	1980	1981	1982	1983	1984	1985
Calendar	1,979	2,176	2,394	2,634	2,897	3,187	3,505
Fiscal		[1] 2,331	2,212	2,433	2,677	2,945	3,239

[1] Includes the revenue loss for fiscal 1979 already past.

If the bill's effective date were changed to taxable years beginning after December 31, 1979, the bill would reduce calendar year liability and fiscal year receipts as follows:

($-million)

	1980	1981	1982	1983	1984	1985
Calendar	2,176	2,394	2,634	2,897	3,187	3,505
Fiscal	357	2,212	2,433	2,677	2,945	3,239

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B. Tax Preferences:

Alternative Minimum Tax and Maximum Tax

Present law

Alternative minimum tax.—Under present law, the charitable contributions deduction is an item of tax preference subject to the alternative minimum tax (sec. 57). The alternative minimum tax applies at rates up to 25 percent to the total of a noncorporate taxpayer's gross income reduced by deductions allowed for the taxable year and by accumulation distributions from trusts, and increased by two tax preferences (sec. 55). These tax preferences are the capital gains deduction and adjusted itemized deductions. The amount of adjusted itemized deductions is the amount by which certain itemized deductions, including the charitable contributions deduction, exceed 60 percent of the taxpayer's adjusted gross income (sec. 57(b)).

Maximum tax.—Under present law, the maximum marginal tax rate applicable to taxable income from personal services generally is 50 percent. However, the amount of personal service income eligible for the maximum tax is reduced dollar-for-dollar by the amount of an individual's tax preferences for the year. The taxpayer's adjusted itemized deductions, including any charitable contributions deduction, are among the preferences reducing the amount of personal service income entitled to benefit from the maximum tax under section 1348.

Issue

The issue is whether the deduction for charitable contributions should continue to be treated as a tax preference item subject to the alternative minimum tax and continue to reduce the amount of personal service income which is eligible for the rate ceiling of the maximum tax.

Explanation of provision

The bill would provide that the deduction for charitable contributions would not be taken into account in determining the amount of an individual's tax preference items. Thus, the amount of an individual's charitable contributions deduction would not be included in the taxpayer's income for purposes of the alternative minimum tax, nor would it reduce personal service income for purposes of the maximum tax.

Effective date

These provisions would apply to taxable years beginning after December 31, 1978.

Revenue effect

The tax preference changes in S. 219, as introduced, would reduce calendar year liability and fiscal year receipts as follows:

($-million)

	1979	1980	1981	1982	1983	1984	1985
Calendar	30	33	36	40	44	48	53
Fiscal		30	33	36	40	44	48

If the bill's effective date were changed to taxable years beginning after December 31, 1979, the tax preference changes would reduce calendar year liability and fiscal year receipts as follows:

($-million)

	1980	1981	1982	1983	1984	1985
Calendar	33	36	40	44	48	53
Fiscal		33	36	40	44	48

III. APPENDIX:

BACKGROUND AND STATISTICAL DATA

A. Amount and Type of Charitable Contributions

Amount

In 1978, individuals gave approximately $32.8 billion to charitable organizations. Individuals accounted for the largest share, 82.8 percent, of the $39.6 billion in total contributions to these organizations from all private sources, including foundations, corporations, and bequests. During the period 1960–1978, individual giving has remained a constant percentage of disposable personal income, about 2 percent.[1]

Type of recipient

Religious organizations are the largest single category of recipients of private charitable giving. In 1978, they received 46.4 percent of all private contributions, while health and welfare groups received 24.9 percent, educational institutions 13.9 percent, and other groups (including civic and cultural groups) 15.7 percent.

Individuals give about 56 percent of their total contributions to religious organizations, a higher share of individual giving than of all private giving. (This can be inferred from the fact that other categories of private givers—corporations, foundations, and bequests—give very little to religious organizations.) Estimates of the proportion of individual giving to recipient categories other than religious organizations are not available.

Amount of individual giving and type of recipient by income class

Table 1 presents the most recent data on the percent of income which individuals give to charitable organizations, by income class. Although these figures are derived from tax returns and, thus, only from those individuals who itemize deductions on their tax return, they probably are representative of all taxpayers, because few taxpayers are able to itemize deductions solely on account of their charitable contributions.[2] Table 1 indicates that contributions constitute a relatively constant percentage of adjusted gross income for middle-income individuals, but are a relatively high percentage of adjusted gross income for both the lowest and highest income groups.

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[1] *Giving U.S.A.*, 1979 Annual Report, American Association of Fund Raising Counsel.

[2] See e.g., Michael J. Boskin and Martin S. Feldstein, "Effects of the Charitable Deduction on Contributions by Low-Income and Middle Income Households: Evidence from the National Survey of Philanthropy," Harvard Institute of Economic Research, Discussion Paper 427, July 1975.

Table 1.—Charitable Contributions by Income Class 1978: Taxable Returns With Itemized Deductions

Adjusted gross income (thousands)	Amount of contributions (thousands)	Percent of adjusted gross income
Below $10	$459, 209	4. 9
$10 to $20	3, 411, 012	3. 0
$20 to $30	5, 058, 087	2. 3
$30 to $50	4, 694, 809	2. 3
$50 to $100	2, 409, 021	2. 7
$100 to $200	1, 247, 829	3. 5
$200 and over	1, 711, 628	6. 8
Total	18, 992, 494	2. 7

Contributions received by charitable donees vary markedly by their contributors' income class, as shown in Table 2. The percentage of income given to religious organizations declines as income rises, while the percentage of income contributed to welfare, educational, and other organizations generally rises with income, particularly when income rises above $25,000. Thus, religious contributions are a greater proportion of total contributions for individuals at the lowest income levels than for individuals at the highest income levels.

TABLE 2.—INDIVIDUAL CONTRIBUTIONS TO ORGANIZATIONS BY TYPE OF RECIPIENT AND INCOME CLASS, 1972–1973

Income class (thousands)	Average contribution (percent of income in parentheses)			
	Welfare organizations	Religious organizations	Other	Total
Below $3	$12.59(0.7)	$39.36(2.3)	$3.38(0.2)	$55.33(3.2)
$3 to $4	7.73(.2)	63.78(1.8)	1.78(.1)	73.28(2.1)
$4 to $5	9.57(.2)	62.80(1.4)	3.51(.1)	75.89(1.7)
$5 to $6	11.32(.2)	79.55(1.5)	2.11(.04)	92.98(1.7)
$6 to $7	15.33(.2)	90.52(1.4)	3.88(.1)	109.73(1.7)
$7 to $8	14.14(.2)	90.44(1.2)	1.64(.02)	106.22(1.4)
$8 to $9	21.46(.2)	110.44(1.2)	3.66(.04)	135.57(1.5)
$10 to $12	28.87(.2)	128.81(1.2)	5.10(.05)	162.79(1.5)
$12 to $15	39.07(.3)	160.09(1.2)	5.46(.04)	204.62(1.5)
$15 to $20	53.08(.3)	203.09(1.2)	8.04(.05)	264.21(1.5)
$20 to $25	87.69(.4)	266.25(1.2)	16.05(.07)	369.99(1.7)
$25 and over	215.67(.6)	434.34(1.2)	81.88(.2)	731.88(1.9)
Total	43.29(.4)	147.22(1.2)	10.56(.1)	201.07(1.7)

Source: Bureau of Labor Statistics, *Consumer Expenditure Survey: Interview Survey, 1972–73*. Bulletin 1997, Vol. 1, 1978.

B. Trends in Itemization of Deductions

Table 3 shows that the percentage of taxpayers who itemize their deductions has fluctuated considerably. As recently as 1970, 57.4 percent of all taxable returns contained itemized deductions. By 1979, however, taxable returns with itemized deductions had fallen to approximately 39.2 percent. This decrease in itemizers occurred largely because of increases in the zero bracket amount (standard deduction) during the 1970's. These increases in the zero bracket amount generally caused greater numbers of lower income taxpayers to switch from itemizing. Therefore, the proportion of total adjusted gross income received by taxpayers who itemize has not fallen as rapidly. In 1970, 72.6 percent of adjusted gross income received by all taxpayers was accounted for by those who itemized; in 1979, this percentage was estimated to be 58.1 percent.

TABLE 3.—NUMBER AND INCOME OF TAXPAYERS WITH ITEMIZED DEDUCTIONS AS A PERCENTAGE OF AMOUNTS FOR ALL TAXABLE RETURNS, 1964–79

Year	Number of taxable returns (thousands)			Adjusted gross income ($ billions)		
	All returns	Itemizing returns	Percent itemizing	Amount on all returns	Amount on itemizing returns	Percent on itemizing returns
1964	51,306	25,009	48.7	$376	$238	63.3
1965	53,701	25,957	48.3	409	261	63.8
1966	56,709	26,792	47.2	450	285	63.3
1967	58,673	28,122	47.9	487	317	65.1
1968	61,289	30,370	49.6	538	363	67.5
1969	63,721	33,201	52.1	588	411	69.9
1970	59,317	34,036	57.4	610	443	72.6
1971	59,916	29,285	48.9	651	432	66.4
1972	60,869	25,709	42.2	717	429	59.8
1973	64,267	26,868	41.8	800	479	59.9
1974	67,335	28,340	42.1	880	537	61.0
1975	61,491	24,522	39.9	898	521	58.0
1976	64,421	24,594	38.2	1,004	571	56.9
1977	64,350	21,855	34.0	1,094	583	53.3
1978	68,806	24,650	35.8	1,242	698	56.2
1979 (est.)	70,792	27,750	39.2	1,390	808	58.1

Table 4 presents estimates of the percentage of taxpayers in various income classes who itemize for 1979. Virtually all of those in the lowest income group take the zero bracket amount (standard deduction). In the highest income group, almost all taxpayers itemize.

TABLE 4.—ITEMIZING RETURNS AS A PERCENTAGE OF ALL TAXABLE RETURNS, BY INCOME CLASS, 1979 (ESTIMATED)

Expanded income [1] (thousands)	Taxable returns (thousands)	Itemizing returns (thousands)	Percent of returns which itemize
Below $5	4,596	95	2.1
$5 to $10	14,257	1,138	8.0
$10 to $15	14,193	3,219	22.7
$15 to $20	11,798	5,061	42.9
$20 to $30	15,693	9,497	60.5
$30 to $50	8,001	6,505	81.3
$50 to $100	1,999	1,820	91.0
$100 to $200	346	326	94.2
$200 and over	91	88	96.7
Total	70,974	27,751	39.1

[1] Expanded income means adjusted gross income plus minimum tax preferences (largely excluded capital gains) less investment interest expense to the extent of investment income.

C. Types of Taxpayers Affected by S. 219

By allowing charitable contributions to be deducted from gross income, S. 219 would provide taxpayers who do not itemize their deductions with a tax saving for such contributions by reducing their Federal income tax liability by 14 to 70 cents for each dollar of contributions, depending on their marginal tax bracket. This group of taxpayers would account for most of the revenue loss associated with this bill.

Taxpayers who may itemize their deductions under present law would account for 25 percent of the revenue loss. This occurs for two reasons. First, some taxpayers who now itemize only because of the availability of the charitable deduction would switch to the standard deduction, while continuing to deduct charitable contributions. Second, because the charitable deduction could be claimed "above-the-line," and would reduce adjusted gross income, the benefit of some tax provisions, such as the earned income credit, the amount of which depends on adjusted gross income, would increase. The distribution of the estimated revenue loss of S. 219 by income class and present law itemizing status is shown in Table 5.

TABLE 5.—ESTIMATED REVENUE LOSS OF S. 219, BY INCOME CLASS AND CURRENT LAW ITEMIZING STATUS, 1979 INCOME LEVEL

Expanded income [1] (thousands)	Nonitemizers (millions)	Itemizers (millions)	Total (millions)	Percent of Total	Cumulative Percent of Total
Below $5	$44	$1	$45	2.3	2.3
$5 to $10	259	24	283	14.3	16.6
$10 to $15	260	57	317	16.0	32.6
$15 to $20	287	78	365	18.4	51.0
$20 to $30	432	140	572	28.9	79.9
$30 to $50	159	89	248	12.5	92.4
$50 to $100	37	29	66	3.4	95.8
$100 to $200	4	24	28	1.4	97.2
$200 and over	1	54	55	2.8	100.0
Total	1,483	496	1,979	100.0	

[1] Expanded income means adjusted gross income plus minimum tax preferences (largely excluded capital gains) less investment interest expense to the extent of investment income.

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