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S. 4691 (117th Congress) – Volunteer Driver Tax Parity Act of 2022

MST Students BUS 223A Spring 2023

Tax Policy Analysis

S. 4691 (117th Congress) – Volunteer Driver Tax Parity Act of 2022

By: Students of the Spring 2023 Tax Research Class

Introduction

S. 4691 (117th Congress) proposes to increase the standard mileage rate for charitable driving to be equal to the rate for business miles for 2022 and 2023. Thereafter, the charitable rate would be 24 cents per mile, adjusted annually for inflation (rather than the current 14 cents per mile specified at IRC section 170(i)).

This section analyzes S. 4691 using the twelve principles of good tax policy set out in the AICPA's Guiding Principles of Good Tax Policy: A Framework for Evaluating Proposals.[1]

Criteria	Does the proposal satisfy the criteria? (explain)	Result
Equity and Fairness – Are similarly situated taxpayers taxed similarly? Consider the tax effect as a percentage of the taxpayer's income for different income levels of taxpayers.	Horizontal equity: Among all individuals who drive for charitable work and who have similar income, the benefit is the same. While those who drive more miles get a larger deduction, they are also incurring greater costs of driving. The proposal improves equity for volunteers who get to deduct the actual costs of items used for charity to allow drivers to come closer to being able to deduct the actual costs of driving by increasing the deduction from 14 cents per mile to 24 cents per mile (adjusted for inflation after 2023). If similarly situated taxpayers are individuals with similar income, this bill provides a potentially greater benefit to individuals who drive for charity relative to other individuals. However, because only about 11% of individuals itemize deductions today,[2] most individuals will receive no tax benefit from this proposal. Vertical equity: Higher income individuals who itemize their deductions will get a greater benefit from this change	+/-

1 American Institute of Certified Public Accountants (AICPA) Tax Division. Tax Policy Concept Statement 1 - Guiding Principles of Good Tax Policy: A Framework for Evaluating Tax Proposals; available ta https://us.aicpa.org/content/dam/aicpa/advocacy/tax/downloadabledocuments/tax-policy-concept-statement-no-1-global.pdf.
2 IRS, Tax Stats-at-a-Glance, FY2019; https://www.irs.gov/statistics/soi-tax-stats-tax-stats-at-a-glance.

	because they already itemize, and they are in a high tax bracket, so the tax savings are greater.	
Certainty – Does the rule clearly specify when the tax is owed and how the amount is determined? Are taxpayers likely to have confidence that they have applied the rule correctly?	Mere changing of a number does not change the related calculations. The law is clear on the 24 cents per mile figure for charitable driving.	+
Convenience of payment – Does the rule result in tax being paid at a time that is convenient for the payor?	No change to when tax is due.	n/a
Effective Tax Administration – Are the costs to administer and comply with this rule at minimum level for both the government and taxpayers?	This will not require any new regulations. Just a change in the Form 1040 instructions to change from 14 cents per mile to 24 cents per mile. The inflation adjustment will not be a burden to the IRS as there are other figures they also adjust annually for inflation. However, other mileage rates are not adjusted annually for inflation, but for changes in the cost of driving (see Rev. Proc. 2019-46). It likely would be simpler for the IRS to adjust all mileage rates in the same manner rather than have one tied to the CPI index.	+/-
Information Security – Will taxpayer information be protected from both unintended and improper disclosure?	The proposal does not require reporting or use of any confidential information.	n/a
Simplicity - Can taxpayers understand the rule and comply with it correctly and in a cost-efficient manner?	Mere change from 14 cents to 24 cents is simple to understand. There are no changes in definitions, or any special rules added.	n/a

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Neutrality – Is the rule unlikely to change taxpayer behavior?	The proposed change is minimal and unlikely to change behavior. Also, individuals who claim the standard deduction may realize that this increased deduction is unlikely to cause their itemized deductions to exceed their standard deduction. For taxpayers who already itemize deductions, this might encourage them to drive more miles for charity.	+/-
Economic growth and efficiency – Will the rule not unduly impede or reduce the productive capacity of the economy?	This change is unlikely to cause more people to volunteer to drive for charitable work, so it is unlikely to result in any increase in gasoline or car sales and unlikely to lead anyone to reduce their paid work hours to do more charitable driving.	+
Transparency and Visibility – Will taxpayers know that the tax exists and how and when it is imposed upon them and others?	This bill is unlikely to cause more taxpayers to know that there is a mileage deduction for certain charitable driving. However, charities that require volunteers to do a lot of driving are likely to inform volunteers of this change. However, many individuals will not realize that they do not get any benefit of this change unless they itemized their deductions.	-
Minimum tax gap – Is the likelihood of intentional and unintentional non-compliance likely to be low?	Because 90% of individuals claim the standard deduction, most taxpayers won't know of this deduction and also would not have an awareness or opportunity to improperly claim it.	n/a
Accountability to taxpayers – Will taxpayers know the purpose of the rule, why needed and whether alternatives were considered? Can lawmakers support a rationale for the rule?	The text of the bill states: "To amend the Internal Revenue Code of 1986 to equalize the charitable mileage rate with the business travel rate." However, when this bill was introduced in August 2022, the standard mileage rate was 62.5 cents per mile which includes 26 cents per mile for depreciation, which suggests the non-business mileage rate would be 46.2 cents per mile should be the rate rather than 24 cents per mile. It is not clear why the bill allows a high mileage rate for 2022 and 2023 but then drops it to 24 cents per mile, adjusted for inflation, after 2023. Taxpayers are likely to understand the reason to increase the mileage reimbursement rate due to the increased costs of driving and the 14 cents per mile rate has been set at	+/-

	that amount since 1998 (by the Taxpayer Relief Act of 1997, P.L. 105-34).	
Appropriate government revenues – Will the government be able to determine how much tax revenue will likely be collected and when?	The government has information to easily calculate the cost of increasing the mileage rate under §170(i) from 14 cents per mile to 24 cents per mile using data about charitable work. Also, for most individuals, this increase will not be large enough to move them from claiming the standard deduction to itemizing deductions so for many drivers, there will be no tax change.	+

Conclusion

This proposal does not meet most of the principles of good tax policy. The stated intent at the start of the bill - to equalize the charitable mileage and business mileage rates, seems to have been missed because most individuals do not itemize which is necessary to claim a mileage deduction for charitable work. To provide a benefit or cost reimbursement to individuals driving for charitable organizations, a direct approach, such as a voucher or gasoline gift card, seems simpler and more direct than offering a higher tax deduction if the person itemizes their deductions (rather than claim the standard deduction).

The proposal is a reminder that the mileage rate for charitable work is set by statute (IRC section 170(i) at 14 cents per mile) so cannot be annually adjusted for changes in the cost of driving as is done for the mileage rates for business, medical and moving. Consideration should be given to modifying IRC section 170(i) to give the authority to set and periodically adjust the mileage rate similar as to what the IRS is allowed to do for the mileage rates for business, moving and medical travel.

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