LECTURE NO. 9
MODELING TAX DEDUCTIBILITY AS AD VALOREM SUBSIDIES

I. DEFINING TAX EXPENDITURES

By “tax expenditures” economists mean potential tax-revenues that are not collected by government because it granted some taxpayers certain tax-preferences not enjoyed by other taxpayers. Governments may do this to promote specific social goals – e.g., the education of children or the consumption of health care. Governments also do it to pay off favored constituents to which politicians are beholden for one reason or another, most likely campaign contributions. One can view tax preferences as specially-granted deviations from an existing tax system.¹

Tax expenditures can take many forms, but prominent among them are:

1. **Tax exemptions:** Making certain spending by households tax deductible, that is, a reduction from income on which income-taxes are due. Examples are making interest payments on mortgages or voluntary contributions to sundry activities or institutions tax-deductible – contributions we lump together under the generic label “charity” (although, in this connection, see Appendix B).

2. **Tax exclusions:** These also are deductions from taxable income – for example, excluding an employer’s contribution to the premium for an employee’s health insurance from the employee’s taxable compensation, although surely it is a form of compensation. It is tantamount to adding that contribution to the employee’s taxable compensation, but then treating the employer’s contribution as the employee’s tax-deductible expenditure. In other words, tax exclusions are really just another form of tax exemption.

3. **Tax credits:** These are outright deductions not from taxable income, but from taxes due. If they are refundable and someone is entitled to a tax credit of, say $5,000 while his or her taxes on income are only $3,000, then that person will get a check for $2,000. If the tax credit were non-refundable, then the person would owe no taxes but would not get the $2,000 check from the government.

In recent years, tax credits have tended to be around 18% of all tax expenditures and tax exclusions or tax-exemptions about 80%. The *Earned Income Tax Credit* (EITC) paid by

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government to people who work but earn very low wages has been a fast growing component of total tax credits since the 1990s.

According to the Joint Committee on Taxation of the U.S. Congress, total tax expenditures in 2013 amounted to $1.3 trillion. Is that a big deal? Let’s look at some data\textsuperscript{2} for the year 2013 to gain perspective on the matter.

- Total taxes, all types, collected by federal state and local governments $5.4 trillion
- Total taxes, all types, collected by the federal government $2.8 trillion
- Total income taxes collected from individuals by the federal government $1.2 trillion
- Total taxes, all types, collected by state and local governments $2.6 trillion

As you can see, a tax leakage on special tax preferences of $1.3 trillion is not trivial in the sweep of things. By the way, total U.S. gross domestic product (GDP) in 2013 was $16.8 trillion.

Shown below are the largest federal tax expenditures, estimated by the Joint Committee on Taxation of the U. S. Congress.\textsuperscript{3}

<table>
<thead>
<tr>
<th>Revenue Loss From Select Tax Expenditures (billions)</th>
<th>2012</th>
<th>2013</th>
<th>2013-2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer-Provided Health Insurance Exclusion</td>
<td>$117.3</td>
<td>$131.7</td>
<td>$760.4</td>
</tr>
<tr>
<td>Preferential Tax Rates on Dividends and Capital Gains</td>
<td>$108.4</td>
<td>$160.8</td>
<td>$616.2</td>
</tr>
<tr>
<td>Mortgage Interest Deduction</td>
<td>$68.5</td>
<td>$69.7</td>
<td>$379.0</td>
</tr>
<tr>
<td>Earned Income Tax Credit</td>
<td>$59.0</td>
<td>$60.9</td>
<td>$325.9</td>
</tr>
<tr>
<td>Child Tax Credit</td>
<td>$56.8</td>
<td>$57.3</td>
<td>$291.6</td>
</tr>
<tr>
<td>State and Local Deduction</td>
<td>$43.5</td>
<td>$50.3</td>
<td>$277.6</td>
</tr>
<tr>
<td>Deferral of Corporate Foreign-Source Income</td>
<td>$36.8</td>
<td>$42.4</td>
<td>$265.7</td>
</tr>
<tr>
<td>Step-up Basis for Capital Gains at Death</td>
<td>$37.8</td>
<td>$42.8</td>
<td>$258.0</td>
</tr>
<tr>
<td>Charitable Deduction</td>
<td>$28.8</td>
<td>$31.0</td>
<td>$183.0</td>
</tr>
</tbody>
</table>

Source: Joint Committee on Taxation

II. WHY ARE TAX EXPENDITURES CONTROVERSIAL?

Tax expenditures, called “tax loop holes” in the vernacular, are highly controversial, because some people view them as akin to government expenditures and others as tax cuts. To lay people, that comes across as totally different things.

\textsuperscript{2} \url{http://www.usgovernmentrevenue.com/fed_revenue_2013US}

\textsuperscript{3} The Committee for a Responsible Federal Budget, \textit{op cit.}
A. Argument: Tax expenditures are like real government expenditures

Most economists look askance at tax expenditures, for a number of reasons.

First, and most importantly, economists look at tax expenditures as the equivalent of direct expenditures by government, except that tax expenditures do not flow through the official government budgets and thus excuse government from having openly to account for them. They are hidden from public view and scrutiny.

To arrive at this conclusion, economists reason thus: Suppose to finance all the expenditures government is asked to make (for external and internal defense, the environment, the infrastructure, health care, pensions, welfare, education, etc.), it needs $X in tax revenue. Suppose next that the government budget should be balanced, that is, that tax revenues should equal the proposed spending by government, leaving a 0 deficit. Then, if the government grants various constituents $E in tax preferences (taxes no longer collected from these constituents), other tax payers must make up the difference by paying $E in higher taxes.

As far as these hapless taxpayers are concerned, government actually raised their taxes to help finance the added spending that the tax-preferred tax payers can make with the tax-savings they got granted by government. This is really like raising some peoples’ taxes to write the tax-preferred tax payers a welfare check – to fund an added government expenditure.

Economists believe it would be healthier for a democracy to let these “welfare payments” to favored constituents flow through the official government tax-and-expenditure budget.

Second, economists argue that tax codes should be simple and easy to understand, which facilitates tax compliance and also reduces the real-resource cost of administering a tax system. Riddling a tax code with thousands of special tax preferences runs counter to that objective. If politicians want to support specific social goals or favor particular constituents, let them do so openly and honestly through the government budget.

B. Counter Argument: Tax Expenditures are like tax cuts.

Others disagree with economists. They view tax expenditures simply as tax cuts and welcome them as such. So what economists call “closing tax loop holes” (i.e., reducing tax

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expenditures) these other people decry as tax increases. Whenever tax reform is being debated, you can hear these people loud and clear.

Eduardo Porter of The New York Times wrote a fascinating column on tax expenditures in 2012 featuring this graphic.

In that article, Porter shows benefits paid by government, directly out of official government budgets (left side of the graphic), and tax expenditures (right side of the graphic). The benefit payments accrue heavily to low income people. By contrast, the tax expenditures accrue heavily to upper-income people.

### III. MODELING TAX EXEMPTIONS AND TAX CREDITS

Suppose government has made spending on widgets tax deductible. It means that if a buyer spends $P_0 \cdot Q$ on widgets, then the buyer can deduct $P_0 \cdot Q$ from his or her taxable income. If that buyer’s marginal tax rate is $m$ (e.g., 35%) then the buyer’s taxes are

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reduced by \( m \cdot P_0 \cdot Q \). The buyers net outlay on the widgets, \( P_1 \), net of the tax savings of \( m \cdot P_0 \cdot Q \), therefore is

\[
P_1 = (1 - m) \cdot P_0 \cdot Q
\]

where \( P_0 \) would be the market price in the absence of the tax preference. We recall that then \( P_0 \) would be equal to the price \( X_0 \) the seller gets. Thus we can rewrite equation [1] as

\[
P_1 = (1 - m) \cdot X_0 \cdot Q
\]

Bingo! We conclude that tax-deductibility actually is the equivalent of granting the tax-preferred taxpayer an \textit{ad-valorem subsidy} at a subsidy rate equal to the buyer’s marginal tax rate. It follows that the higher the taxpayer’s income and thus the higher is the marginal tax rate \( m \) under our progressive\(^7\) tax system, the larger will be the ad valorem subsidy rate granted that taxpayer for spending on the tax-preferred commodity.

Now, for analytic purposes, a tax credit that is deductible not from taxable income but from taxes due acts similarly. Suppose the tax credit took the form that everyone, regardless of his or her own marginal tax rate, got to deduct a percentage \( c \) (say, \( c = 30\% \)) of tax-favored spending from income taxes. Then all you have to do is to replace the \( m \) in equation [1] by \( c \), to get the net price \( P_1 \) the buyer actually pays for a widget.

\section*{A. The Demand-Supply Model}

Start with a price competitive widget market not favored by a tax preference, so that in equilibrium \( P_0 \), the price buyers pay, is equal to the price \( X_0 \) sellers get.

Assume next that through log rolling a senator from the home state of Widget, Inc. persuades other senators and Congressmen and –women that the widget industry is of strategic importance to the U.S. and should not be let emigrate to China or Vietnam. To help the industry along, it is proposed to make spending on widgets by buyer tax exempt to them.\(^8\)

With the tax preference, the net, after tax price \( P \) that buyers pay is no longer equal to the price sellers \( X \) that get. We have to choose in terms of which price variable we want to operate our model. Let us use \( X \), the price sellers get, although, as we have learned that is arbitrary. We could also operate the model in \( P \), if we wished.

With \( X \) as the chosen price variable, we now have this demand-supply model:

\(^7\) Under a progressive tax system, tax rates for successive tranches of income rise successively with income.

\(^8\)
[3] **Demand:** \[ P = a - bQ \]

\[ X(1-m) = a - bQ \]

\[ X = \frac{a - bQ}{1-m} \]

\[ X = \frac{a}{1-m} - \frac{b}{1-m} \cdot Q \]

[4] **Supply:** \[ X = c + dQ \]

The supply curve was already expressed in \( X \), so we did not have to change it. But we see that the demand curve, with the price variable expressed as \( X \), now has an intercept \( \frac{1}{1-m} \) that is larger when \( m \) gets larger. Also, the **slope** of the demand curve, namely \( \frac{b}{1-m} \), **gets steeper as \( m \) rises**. In other words, as \( m \), the **ad valorem subsidy-rate** implicit in tax-deductibility rises, the demand curve pivots upward. This is shown in the graph below.
B. INCIDENCE ANALYSIS

Look at what a happy world tax-deductibility begets for the sellers and buyers of the tax-favored commodity, and why both might lobby politicians hard to get this tax preference.

If the purchase of the tax favored commodity (in this case widgets) were not tax deductible, then Q₀ widgets would be bought and sold in the market, at a price \( P₀ = X₀ \).

Once spending on widgets is tax deductible, the buyers of widgets pay less on an after-tax basis, because \( P₁ = X₁(1-m) < P₀ \), while the sellers get more, because \( X₁ > X₀ \).

The total subsidy per widget grated by the government in the form of foregone tax revenue at the new quantity \( Q₁ \) is equal to \( X₁ - P₁ = X₁ - X₁(1 - m) = mX₁ \). As you can see, the size of that subsidy varies directly with \( m \), the buyer’s marginal tax rate.

How sellers and buyers split that subsidy \( mX₁ \) between them depends, of course, on the relative price elasticity of the supply- of and demand for widgets. We had learned that in the previous lecture.

So you can imagine how making things tax deductible pleases a politician’s constituents, which is why tax exemptions are so popular. And, as noted, what makes them even more popular is that they are hidden from all other voters: they don’t show up in the government’s budget.

C. ECONOMIC WELFARE ANALYSIS

We conclude that politicians, buyers sellers in the tax favored widget market all are happier under the tax preference. Who loses? If the government budget is to be kept in balance, then other taxpayers not favored by the tax preference have to make up in higher taxes the tax revenue government gave up with the tax preferences granted favored causes or constituents.

For the sake of convenience, I reproduce the graph shown earlier on the next page. In that graph, the sum of areas C,D,E,F,G,H represents the total extra taxes the government must make up.

In that graph, too, we see that the tax preference triggers a deadweight loss of area E. We can get at it two ways.

One is to observe that \( (Q₁ - Q₀) \) additional widgets are now produced and bought. The area under the supply curve (the marginal cost curve) for those extra widgets is the sum of areas L,H and E. It is the total added cost of the extra batch \( (Q₁ - Q₀) \) of widgets, abstracting from
fixed costs which, by definition do not vary with Q. But the total extra value buyers input to this extra batch of widgets is the sum of areas L and H only. Thus the added cost of the extra batch of widgets exceeds the added benefits by area E, which is the deadweight loss. So reason economists.

The second approach is the full-fledged welfare accounting shown below.

Here is our familiar welfare accounting grid to identify winners and losers.

### AN ACCOUNTING FRAMEWORK FOR WELFARE ANALYSIS

<table>
<thead>
<tr>
<th>AFFECTED GROUP</th>
<th>SURPLUS BEFORE POLICY</th>
<th>SURPLUS WITH POLICY</th>
<th>NET CHANGE IN SURPLUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUYERS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SELLERS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OTHER TAX PAYERS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL (SOCIETY)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Very few defenders of tax preferences, which politicians tend to hand out to their friends like folks hand out candies to kids at Halloween, are willing to admit that giving some constituents tax preferences implicitly represents a tax-financed gift to some constituents at the expense of other tax payers. Therein, in the eyes of economists, lies a certain dishonesty in public finance.

But you must make up your own mind on what you think of tax preferences as responsible fiscal policy. Perhaps you will side with people who argue that allowing some people to pay less in taxes than other similarly situated taxpayers have to pay is just a tax cut and to be welcomed as such.

IV. THE REGRESSIVITY OF TAX-DEDUCTIBILITY

One more issue is worth noting in connection with tax deductibility. The incidence of such tax preferences tends to be regressive, which means, they benefits high-income families more than they do low-income families. It is so because $m$, the marginal income tax rate, rises with taxable income, as you can see in the table below.

2014 Federal Income Tax Brackets Tax Year 2013

<table>
<thead>
<tr>
<th>Tax Bracket (Single)</th>
<th>Tax Bracket (Married)</th>
<th>Tax Bracket (Head of Household)</th>
<th>Marginal Tax Rate (our $m$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0+$</td>
<td>$0+$</td>
<td>$0+$</td>
<td>10%</td>
</tr>
<tr>
<td>$8,925+</td>
<td>$17,850+</td>
<td>$12,750+</td>
<td>15%</td>
</tr>
<tr>
<td>$36,250+</td>
<td>$72,500+</td>
<td>$48,600+</td>
<td>25%</td>
</tr>
<tr>
<td>$87,850+</td>
<td>$146,400+</td>
<td>$125,450+</td>
<td>28%</td>
</tr>
<tr>
<td>$183,250+</td>
<td>$223,050+</td>
<td>$203,150+</td>
<td>33%</td>
</tr>
<tr>
<td>$398,350+</td>
<td>$398,350+</td>
<td>$398,350+</td>
<td>35%</td>
</tr>
<tr>
<td>$400,000+</td>
<td>$450,000+</td>
<td>$425,000+</td>
<td>39.6%</td>
</tr>
</tbody>
</table>

If you make a tax-deductible expenditure of $1,000 on something, your after-tax expenditure will be $1,000(1-$m$). The larger your marginal tax rate $m$ is, the lower will be your after-tax out-of-pocket spending. This is what is meant by regressivity.
Whether regressivity in government-paid benefits or taxes is good or bad is a political call. Economists have nothing to say about that, although sometimes they try.

But if you wanted to get rid of regressivity, your could instead tax-deductibility have a non-refundable tax credit equal to, say, 25% or 28% of any tax-favored expenditures.

V. SOME APPLICATIONS OF THESE IDEAS

For your further education, I append two pieces related to this story:

1. A New York Times column on so-called tax-preferred Flexible Spending Accounts (FSAs) that once ruined my Xmas and led to inflated NATIONAL health spending in America.

2. A New York Times column on “How Private is Private Charity?”

They show how economists apply the concepts we have covered here in commentary on public policy.
The Trouble with (In)flexible Spending Accounts

By UWE E. REINHARDT

On a wintry Dec. 23 some years ago, I found myself tasked by my wife to set the table for a large Christmas dinner she had planned for our children, home from wherever, and a few good friends.

My deep thoughts on whether knives are placed with the blade facing toward or away from the plate were interrupted by my wife’s curt remark that I need not put down a place setting for myself.

“Why, pray tell?” I asked.

She had booked me for a colonoscopy the next morning, which required fasting the day before.

And what could have possessed her to do such a thing?

We had balance in a Flexible Spending Account, or F.S.A., that we needed to use up.

The F.S.A. comes from a mischievous portion of Section 125 of the Internal Revenue Code that seems designed to be (1) inequitable, (2) administratively cumbersome, (3) inflationary and (4) vexatious to millions of Americans.

Here’s how these accounts work. Employed Americans may deposit (and only deposit) into such an account, out of their pretax compensation, amounts equal to their own best estimate of their out-of-pocket spending for health care in the coming year, up to a limit specified by their employer.

The intent of this provision is to reduce the employee’s after-tax cost of a medical service bought with this account by $(m \cdot X)$, where $X$ is what health-care providers charge for the service, and $m$ is the employee’s marginal tax rate.

Because the marginal tax rate $m$ rises with the employee’s income, the tax benefit $(m \cdot X)$ thus bestowed on employees rises with the employee’s income. Another way to put it is that this tax preference makes the after-tax cost of a colonoscopy (or of any other medical service or product financed out of the Flexible Spending Account) cheaper for high income people than it is for low-income people. It would be a challenge to find the ethical foundation for such a regressive public subsidy in some religious scripture.

Whether or not employees have access to an F.S.A., and how much money they can tax-shelter in it, depends on whether their employer chooses to offer it and, if so, the maximum allowable contribution specified by the employer. In 2006, for example, only 26 percent of employers with 10 or more employees chose to sponsor an F.S.A., and 35 percent of employees took advantage of it.

In other words, Section 125 of the tax code empowers employers to act in loco parentis, so to speak, for their employees. That hardly can be called horizontally equitable across all employed Americans. Furthermore, it is a vexatious affront to voting citizens who may regard themselves as mature adults who should not be dependent on their employer’s decision to receive a tax benefit.

To add to the vexation, the I.R.S. had to write detailed rules on whether a particular expenditure an
employee wishes to cover out of the account — for example, an over-the-counter drug or vitamins or a private hospital room — qualifies for the tax preference.

This requirement has given birth to entrepreneurial companies that contract with employers to administer the accounts under I.R.S. rules. Their revenues are counted as part of the gross domestic product, although one may wonder how much that piece of G.D.P. adds to America’s overall standard of living. Thus arises my second complaint: the cumbersome administrative hassle of dealing and haggling with these contractors — strangers who are prying into my life.

But the pièce de résistance is that any unspent money left over in the accounts at year’s end reverts to the employer, who is free to spend it on anything other than returning it to the employee.

How much more vexatious (and ridiculous) can legislation get? Until 2005, “year’s end” meant Dec. 31. Since then, it has meant the middle of March of the following year.

This feature annually unleashes the year-end scramble by Americans to spend down the balances in their accounts, most commonly on eyeglasses and marginal medical supplies, or on sundry elective medical procedures. This scramble explains my third and fourth complaints about these accounts: They drive up health care spending and, at the same time, annoy the citizenry.

I count myself among that annoyed citizenry, considering that Christmas Eve surprise my wife arranged several years ago.

Incidentally, only my wife’s promise to book a colonoscopy for herself on that day, for the sake of solidarity, calmed down my primeval screams at the idea that her much-anticipated Christmas repast would be replaced by the truly hideous fluid that gastroenterologists make their patients drink before a colonoscopy (a fluid that probably contravenes the Geneva Convention).

Not surprisingly, she was indeed able to book a free slot for herself on Dec. 24, because only someone hounded by an unspent F.S.A. balance would be insane enough to “consume” that kind of elective procedure on that kind of holiday.

And thus it was that, on that Christmas Eve, my wife and I found ourselves at the hospital, each on a gurney, side by side, with sundry tubes stuck into our arms, waiting for that wondrous medical procedure, as mellow Christmas music drifted down from the ceiling. As romance goes, surely these moments will be among my more memorable ones.

May President Obama soon free us from this truly naughty Congressional mischief as part of his health reform. Ideally he would simply abolish that tax preference and use the added tax revenue to help really poor people afford health care. A second-best solution would be to grant all Americans a, say, 30-cent tax credit for every dollar they put into an F.S.A., and allow unspent balances to be carried forward.
How Private Is ‘Private Charity’?

By UWE E. REINHARDT

Total "charitable giving" by Americans in 2009 was $303.75 billion, or 2.1 percent of gross domestic product, according to data compiled by Giving USA.

As a percentage of G.D.P, that is much higher than comparable figures for nations that prefer to finance charitable and public-interest activities with tax revenues, rather than through voluntary donations.

As the following chart shows, four-fifths of these charitable donations in the United States were made by individuals, including bequests. Only 4.6 percent was donated by corporations.

Is this private giving properly called charitable? The word charity evokes images of the better-off in society showing generosity toward the poor and helpless.

As the chart below suggests, a good part of private donations in the United States would be more accurately described as voluntary private financing of civic institutions that benefit all members of society. Museums, educational and religious institutions, public parks and monuments and so on come to mind.
Is supporting such institutions really providing charity?

Even the word private in “private charitable giving” is not completely accurate. A more accurate term would be “private donations coupled with involuntary, tax-financed public subsidies.”

This point was brought home clearly by Prof. Richard Thaler of the University of Chicago in a recent commentary. He questioned the merits of making charitable donations tax-deductible. It is this tax-deductibility of charitable donations that creates the tax-financed public subsidy.

Professor Thaler’s argument struck a responsive chord in me, because for decades I have invited my students at Princeton to think about this very issue. (The most recent version of my lecture notes on this subject can be found here.)

Suppose that you wished to add $10,000 of purchasing power to the budget of your favorite charity. You would send that charity a check for $10,000.

If charitable giving were not tax-deductible, you would have to sacrifice $10,000 to finance that increase in the charity’s budget.

But if charitable donations were tax-deductible, as they are in the United States, and if you faced a marginal combined rate of, say, 45 percent for federal, state and local income taxes, you would need to sacrifice only $5,500 to enhance the charity’s budget by $10,000.

The other $4,500 would come from fellow taxpayers who might not even know your favorite charity or, if they did, might not much like it. (For more on this, I recommend N. Gregory Mankiw’s recent commentary in The New York Times on “tax expenditures,” as economists call tax preferences such as tax-deductibility of particular forms of spending.)

It follows, then, that your $10,000 charitable donation cannot properly be called private charity, even though it is so reported in official statistics on charitable giving in the United States. Rather, it is a mixture of private sacrifice and tax-financed public subsidies. What is reported as private charitable giving significantly overstates the actual private sacrifice.
And the extent to which other taxpayers must step up to the cashier’s window varies directly with your marginal tax rate faced by the private donor, as the following charts show.

In the first chart, we assume that $10,000 is to be added to the budget of your favorite charity. How much of this donation is tax-financed (in blue) varies with alternative assumed marginal tax rates.

![Diagram of Private/Public Contributions to $10,000 "Private" Charitable Giving]

The next chart shows the leverage that different donors, with different marginal tax rates, have in funneling money to their favorite charity. We assume that the donor is willing to bear a net, after-tax sacrifice of $10,000, and the chart shows how other taxpayers are forced to top off the donor’s sacrifice with the public subsidy.

As you can see, very low-income people paying only payroll taxes get hardly any leverage for their donations. Very high-income people in states with high income-tax rates – such as New Jersey and New York – can through the tax code virtually double the money funneled to a charity per dollar of their own sacrifice.
Is that fair? As Professor Thaler said: “Why value the donations of rich people more than those of the poor?”

So two major points are clear:

1. In an era of ever-tighter fiscal pressures, it is reasonable to put the tax-deductibility of private donations to charities or to other civic organizations on the table for debate. This tax preference represents a sizable, hidden, tax-financed public subsidy over whose magnitude and incidence our legislative representatives have no control.

2. If there is to be a tax preference to encourage these private donations, a fairer way would be to replace the current tax deductibility with a tax credit of some percentage of the donation, which would be the same for every donor. Professor Thaler proposes a flat 15 percent, pegging it to the capital-gains tax rate. While so-called private charity would still retain its nonvoluntary public component, this approach would at least grant the same leverage to every private donor.

So, let the debate begin.