Not So Charitable Tax Cuts

By Reg P. Wydeven
April 4, 2009

One of my favorite episodes of 'The Simpsons' was the one where Homer goes back to his alma mater, Springfield University, to finish his undergraduate degree. With the help of his three nerdy roommates, Homer finally graduated. With his diploma, Homer was finally able to attend the alumni social ball.

Much to Homer's chagrin, Springfield U's Dean Peterson locks the doors to the ballroom once everyone is inside. He explains that a 7-5 football seasons doesn't come cheap, so his goons then shake down all of the alums for donations. They force the attendees to empty their wallets, give up their watches and jewelry and they even turn Homer upside down and shake him, jarring loose his spare change.

Unfortunately, many philanthropy experts believe that if President Obama's tax proposal passes, many charities and non-profits may have to resort to such strong-arm tactics to raise funds.

According to Obama's plans for the 2010 budget, the value of the tax break for itemized deductions, including donations to charity, would be capped at 28 percent for families making more than $250,000. In other words, for each dollar donated to a charity, taxpayers would save 28 cents on their federal income taxes.

The limitation would reduce tax breaks for the wealthy by as much as 20 percent. Presently, taxpayers in the 33 or 35 percent tax brackets use that same rate to claim deductions. President Obama projects to generate $318 billion over ten years with the new proposal for itemized deductions, which would also apply to claims such as mortgage interest. These funds would be applied to a $630 billion reserve fund designed to help make health care more affordable and available.

In addition to the decrease in tax deductions for charitable donations, the President has included other measures in the budget proposal to generate revenue for the reserve fund, including reducing Medicare overpayments, cutting drug prices, and improving post-hospitalization care as a way to reduce readmissions.

According to the plan, the new measures are intended to "rebalance the tax code so that the wealthiest pay more."

The experts, however, feel the proposal will discourage wealthy taxpayers, who are typically the most generous donors, from contributing to charities during a recession that has already hit non-profits hard. Not only are gifts down, but many endowments have shrunk when the markets plunged.

Many charitable organizations have already lined up to oppose the new measures, including the United Jewish Communities, Independent Sector, a coalition of charities and foundations, and the Council on Foundations.

Some who oppose the proposal go so far as to claim the tax decrease will widen the gap between the wealthy and the impoverished. Without the tax incentive to donate, they speculate the wealthy won't contribute to charities, many of which were created to help those in need.

Supporters of the new provisions, however, claim the primary motivation for wealthy taxpayers to donate is because they believe in a charity's cause, not because of the tax benefit.

So if your charitable organization sees its donations dwindle, hopefully you won't have to employ Professor Rocko and Chancellor Knuckles, the most persuasive members of Springfield U's faculty.