



Column: Limit charitable deductions, and the poor will pay

By Brian A. Gallagher

10/25/2011

America has long been defined by an enduring and powerful characteristic — our charitable spirit. This is still widely recognized by countries around the world, particularly how we combine our charitable spirit with ingenuity and innovation to solve social problems.

Sonny Hedgecock, AP



Greg York, left, President of Vann York Auto Group, and Bobby Smith, President of United Way of Greater High Point, carry boxes of food collected by the staff of High Point Regional Health System on Sept. 13 in High Point, N.C.

President Obama publicly supported this notion when he said we are "a nation with responsibilities to ourselves and with responsibilities to one another" during his American Jobs Act speech last month. Unfortunately, as our government is facing historic challenges, the ability of donors to deduct charitable contributions is being threatened.

The congressional "supercommittee" is considering proposals from President Obama and others that would slowly chip away at the charitable tax deduction. Such a change would unfairly burden those at the bottom of the economic spectrum.

More people in need

The Census Bureau recently reported that 46.2 million Americans are living in poverty, this at a time when the unemployment rate hovers around 9%. Decreasing the capacity of charities to provide services is the wrong thing to do. Our nation's most vulnerable families need more help, not less.

Make no mistake — our giving spirit isn't driven purely by tax incentives, but tax incentives are a factor in how much someone donates. There's a prevailing assumption that wealthy donors restrict their gifts to the arts, but human service organizations rely heavily on large donations from upper-income individuals as well.

Americans recognize the value of this deduction. In April, Gallup published a poll that reflected broad support for the charitable deduction, with approximately 70% of respondents opposing its elimination. If the charitable deduction is reduced, we can expect that donors will simply withhold the difference necessary to cover the tax.

Though some might support what is perceived as a way of increasing a tax on the wealthy, tampering with this deduction would do nothing of the sort. It would simply transfer money to the government that would otherwise go to charities.

No personal gain or benefit is conferred to a donor by giving to charity. By allowing donors to deduct their offerings at the same rate as their tax rate, we are simply not penalizing them for giving away income. And every cent of their donation is going back into their community or cause.

Donations would crater

Recent studies indicate that a cap on the deduction could result in loss of charitable giving of \$2.9 billion to \$5.6 billion each year. To put this in perspective, \$5.6 billion equates to eliminating all of the private donations each year to some of the top U.S. charities, such as the Red Cross, Goodwill, the YMCA, Habitat for Humanity, the Boys and Girls Clubs, Catholic Charities and the American Cancer Society combined.

We have an effective and efficient tax system, which in part is due to the historic treatment of charitable donations. The deduction rate simply tracks with the donor's tax rate. These proposed changes would for the first time "de-couple" the deduction from the tax rate. Then, it would become a simple matter of repeatedly returning to the deduction as a source of more revenue until there's little left to resemble a tax policy that reflects our nation's philanthropic heritage.

Over the long term, investments in social services can help our nation recover and prosper. There can be no sustained economic success without human success. We in the non-profit sector are investing in human success. We need to preserve the charitable tax deduction and support the charitable spirit that defines us as Americans.

Brian A. Gallagher is president and CEO of United Way Worldwide, the nation's largest, privately funded non-profit.