

# Charities fight changes on tax deductions

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WASHINGTON (RNS) Most Americans who file income tax returns won't be affected by proposed changes in how charitable contributions are deducted because they don't itemize their deductions, federal income tax records show.

But that hasn't stopped charity officials and others from lobbying Congress to fight any change in deductions as part of the "fiscal cliff" negotiations. That's because they draw billions of dollars from donors who itemize, and a huge chunk of those donations come from taxpayers who earn more than \$500,000.

That has placed advocates for the needy in the position of lobbying for the nation's most advantaged. Last week, a coalition of charity officials and recipients lobbied Congress for two days as part of what they called "Protect Giving – D.C. Days."

"If taxpayers get no benefit for deductible expenses above a certain amount, say \$50,000, then there is no tax incentive to have expenses once the cap is reached," said Roger Colinvax, an associate professor at the Columbus School of Law at Catholic University.

Tax records show that any change in deduction status will fall disproportionately on the nation's wealthier taxpayers, because:

- In 2010, only 32 percent of American taxpayers itemized their deductions, according to the most recent figures from the Internal Revenue Service.
- Of those that itemized, 82 percent (38.3 million taxpayers) claimed a charitable deduction.
- Of those who made more than \$500,000, 93 percent claimed a charitable deduction.

- Those that itemized deducted a total of \$170 billion in charitable contributions in 2010.

Anything that affects large donors could ripple through charities, said Steve Taylor, senior vice president and counsel for public policy for the United Way. Taylor's group, which works to help low-income people to financial stability through education and a healthy lifestyle, relies on high-income donors, as do many large charities, he said.

Last year, President Barack Obama proposed lowering the maximum value of the tax benefits for charitable donations from 35 percent to 28 percent for individuals making more than \$200,000 a year and couples who earn more than \$250,000. So where taxpayers in the top bracket currently pay 35 cents less in taxes for every dollar given to charity, that would be reduced to 28 cents per dollar donated, according to a new report from the National Economic Council.

Republican presidential nominee Mitt Romney floated several different caps to deductions as a part of his tax plan – limitations that would have likely caused a much larger dent in the charitable community's coffers.

The White House Fiscal Commission's 2010 report proposed a 12 percent nonrefundable tax credit for all taxpayers for charitable deductions, including those in the top 2 percent.

Eliminating the charitable deduction completely is not realistic, Obama said in a recent interview with Bloomberg News.

"If you eliminated charitable deductions, that means every hospital and university and not-for-profit agency across the country would suddenly find themselves on the verge of collapse," Obama said. "So that's not a realistic option."

Charities are still alarmed by what has been proposed so far, Taylor said. "Americans are generous. They won't just stop giving, but they'll give less."

Fewer than 1 percent of those who donate to the United Way – or about 26,000 people – give \$10,000 or more per year. Their dollars make up 15 percent of the charities' \$4 billion budget, Taylor said.

Some charitable deductions need changing, Colinviaux said, particularly the "in kind" donation of goods such as clothing, which is often overvalued.

Gene Sperling, director of the National Economic Council, said during a panel hosted by FixtheDebt.org that by implementing caps on deductions, policymakers would face widespread backlash from charities. By keeping the current rules intact, the government would continue to lose billions in potential revenue.

"It is hard to design a better way to unite the most-well off Americans and those representing the poorest Americans, non-profits, churches, universities and hospitals, against a single idea than proposing to completely eliminate the charitable deduction," he said. "If you then decide to make an exception for charitable deductions, your savings go down to anywhere from \$350 billion to \$450 billion."

Nonprofit organizations should expect some pain from the ongoing budget talks, said Patrick Rooney, executive director of the Center on Philanthropy at Indiana University.

"I don't think this will effect religious giving very much if at all," Rooney said. "If you've committed to give 1 percent or 10 percent to your Mass, mosque, synagogue, you're not likely to change that because it's a religious commitment. You're not going to change that because of a change in tax policy."

(USA Today staff writers Gregory Korte, Susan Davis and David Jackson contributed to this report).