Nonprofits oppose change in charitable deductions

by Annalisa Musarra in the March 21, 2012 issue

For the fourth year in a row, President Obama is proposing lower tax deductions for the wealthy on donations to churches and other nonprofit organizations. And for the fourth year in a row, nonprofit groups say the change would lead to a dramatic drop in charitable giving.

Under the Obama proposal, the tax break for charitable donations would fall from 35 percent to 28 percent for the top 2 percent of taxpayers, those earning more than $250,000.

In real terms, that would mean a wealthy taxpayer who donates $10,000 to a charity would be able to claim only a $2,800 deduction on his taxes, rather than the current $3,500.

The reduction, included in Obama's 2013 budget proposal, rankled the Union of Orthodox Jewish Congregations of America. "We were hoping this would not come up again this year. We asked that they not renew it, but unfortunately the request was not taken," said Nathan Diament, the group's Washington director. "It's a real concern."

When it analyzed a similar proposal in Obama's 2012 budget, the Center on Philanthropy at Indiana University said it would boost federal revenue by billions of dollars and have a "modest negative effect" on charitable giving.

Obama has argued in the past that it is not fair that the wealthy receive a larger tax break for their donations to charity when a middle-class taxpayer can only claim a deduction of 15 percent. He has also said charities would "do just fine" under the change.

On February 16, the White House said the change wouldn't affect the 80 percent of overall contributions that come from individuals and foundations and is "unlikely to have a substantial impact on donations."

The last time the charitable deduction rules were changed, in 2002-2003 under President George W. Bush, the top rate was lowered from 38.6 percent to 35 percent.

"At that time, the level of individual charitable giving rose, suggesting that other factors are much more

important to the process," Jonathan Greenblatt, director of the White House's Office of Social Innovation, wrote on the White House blog.

But charitable groups insist that it remains a bad idea. "At a time when charities are still struggling, this proposal is a bad idea," said Rick Dunham, president and CEO of Texas-based Dunham+Company, an international consulting firm for charitable organizations.

The proposal was called "very counterproductive" by Galen Carey, the Washington director for the National Association of Evangelicals. "We fully support the need to reduce the budget deficit," Carey said, "but it doesn't make any sense why this keeps coming up."

On the basis of 2009 data, 74 percent of Americans' charitable donations went to churches and religious organizations, said Sylvia Ronsvalle, executive vice president of the Illinois-based Empty Tomb research organization, which tracks charitable giving. —RNS