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Fury Over Charitable-Deduction Proposal Reveals Nonprofits' Self-Interest

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By Pablo Eisenberg

President Obama's repeated efforts to limit charity tax breaks for wealthy people have triggered fervent, if not frenetic, opposition by large nonprofits and their trade associations.

The most recent flurry came after the president suggested limiting the value of all itemized deductions to pay for his jobs bill, an idea that appears to have died for now. But given the nature of the nation's money woes, odds are a similar measure will be proposed again soon.

That's why Diana Aviv, president of Independent Sector, a coalition of large nonprofits, warned in a July opinion article in *The Chronicle* that "a tsunami is rolling in and about to hit the nonprofit world."

And why last month, a broader coalition—representing mostly large, established nonprofit institutions—wrote Sen. Max Baucus, of Montana, chairman of the Senate Finance Committee, saying that the president's proposal "would have long-lasting negative consequences for the charitable organizations that millions of Americans rely on for vital programs and services."

William C. Daroff, vice president of the Jewish Federations of North America, told lawmakers, "in our view, cutting the deduction is like cutting your nose to spite your face."

Yet in their projection of a philanthropic Armageddon, these nonprofits seem to be ignoring several key considerations, including the inequity of the current tax system. They also fail to acknowledge the relatively minimal effect the change would have on charitable giving and the tiny portion of giving by large donors that goes to small, local organizations and charities that serve the needy.

Most disturbing is the hypocrisy of the nonprofit position. Instead of putting the national interest and common good first, those groups are pursuing their narrow self-interest.

That the current tax code favors wealthy Americans is nowhere more pronounced than when it comes to itemized deductions, including those for charity. Wealthy Americans write off 35 percent of what they spend not just on charitable gifts but also on mortgage interest for their housing, medical expenses, and local taxes.

Meanwhile, Americans in a lower tax bracket receive smaller write-offs, and those taxpayers who do not itemize receive no subsidies at all for their charity donations.

Contrary to the cries of alarmists, the projected adverse impact of the limits on the charitable tax break would be minimal. First, they affect just 1.4 million taxpayers. Second, giving would drop by $3-billion to $6-billion, according to most studies, a small sum compared with the more than $290-billion charities receive from private sources annually.

Most of those losses caused by the deduction limits would affect nonprofits that are already financially healthy.

Groups that are small or local and serve poor people or minorities are not likely to suffer much from whatever decreases occur as a result of a relatively small drop in charitable giving. Neither are advocacy or grass-roots groups.

Surveys by Indiana University's Center on Philanthropy, *The Chronicle of Philanthropy,* and other organizations have found that very wealthy donors give little to antipoverty, local, and social-service groups, directing almost all their large donations instead to universities and colleges, hospitals and medical schools, and museums and other cultural institutions.

Even during the past two years of the recession, money has poured into these large, established nonprofits, leaving them in a solid position to withstand a general cutback in charitable giving.

Charitable deductions, unfortunately, are an important incentive to giving; one wonders just how much affluent people would give without them. But they must be aligned with the needs of the country.

It made sense for the president to suggest that creating jobs was more important than anything else in this country. Wealthy donors and their charities should bear a fair portion of this burden for this task.

When a proposal to limit deductions is next put on the table, odds are it will be to deal with the jobs issue again or any one of the many other challenges facing the United States. It is hard to imagine that the welfare of a few large charities is more important than dealing with America's grave problems.

If the large, wealthy nonprofits and their associations would really like to see an increase in charitable giving, they should get out into the streets and the halls of Congress to push for the estate tax to be kept in place and for an increase in the capital-gains tax. Those taxes are a key incentive to wealthy donors to give big shares of their fortunes to charities.

Just as important, nonprofits should ask Congress to increase the minimum percentage of assets foundations must distribute each year to 6 percent, instead of today's 5 percent.

Each of those changes alone would more than make up for the losses sustained by limiting how much wealthy people can write off.

But the real agenda of big nonprofits should be to support measures that restore the economy and, in the process, bolster the long-term interests and vitality of the nonprofit world.

If a limit on tax deductions for the wealthy does come to pass and big organizations do lose some money as a result, they could substantially cut the compensation packages of their overpaid CEO's and administrators. Come to think of it, that wouldn't be a bad idea, regardless of whether Congress ever limits the charitable deduction.

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