

28% Cap on Charitable Deduction Would Cost Charities \$9.4 Billion, Study Says

By Alex Daniels

President Obama's plan to cap the value of the charitable tax deduction would cost charities \$9.4 billion and hit colleges, arts groups, and other secular institutions the hardest, while leaving giving to churches and synagogues largely unchanged, according to a study released last week.

Arthur Brooks, president of the American Enterprise Institute, a conservative Washington think tank, estimated that charitable giving would drop \$9.4 billion, or 4.4%, in the first year of a 28% cap, a larger estimate than found in previous studies. Throughout his presidency, President Obama has proposed limiting the tax savings that high earners can get for their itemized deductions, including those for charitable gifts, to 28% – down from the current maximum of 39.6%.

President Obama argues that the current tax system is unfair because wealthier people get a bigger tax break for giving than lower-income people do and that revenue is needed to temper spending cuts to programs that nonprofits care about.

Donations from the nation's wealthiest taxpayers would drop most significantly if deductions faced new limits, Mr. Brooks says. He projects that the top 1% of earners would reduce their charitable gifts by 24%. The result, he says, is that "elite" nonprofits that disproportionately receive funds from wealthy donors, including universities, think tanks, symphony orchestras, and some hospitals and environmental groups would be hit hardest.

He projects that giving to churches and religious congregations would drop less than 1%, while giving to secular causes would dip 7%.

"You put those things together, and you'll see a big bite out of the philanthropic economy," says Mr. Brooks.

The American Enterprise Institute estimate is larger than in previous studies, largely because the group examined different versions of President Obama's idea. For example, a 2011 Tax Policy Center analysis estimated that gifts would fall by \$1.7 billion to \$3.2 billion a year under Obama's proposal, while a study by Indiana University's Center on Philanthropy that year said giving would have fallen by \$3.2 billion over 2010 and 2011 combined if the 28% limit had been in effect.

In each case, the findings represent a small slice of total donations; living Americans contributed \$229 billion to charity last year, according to Giving USA, an annual tally of donations produced by the Indiana center.