

The Politics of the Charitable Deduction

With the national debt at staggering levels and a federal government nearly as broke as a recent law school graduate, much of this year's presidential campaign has focused on the economy and budget issues. Lumped in with all the talk of "job creators" and the "folks in the middle class" has been a marginal discussion of the charitable deduction. Although calls for elimination or modification of the charitable deduction are nothing new—President Obama proposed limiting the amount those in the highest tax bracket can claim in itemized deductions for his 2012 Budget Proposal¹—calls for reform have been renewed. Such proposals have struggled to gain traction in the past, due in large part to the efforts of nonprofit organizations.

Obviously, the problem with limiting the amount that the highest earners can claim in itemized deductions, like charitable donations, is that the highest earners are also the biggest contributors to charities. For instance, New York mayor, Michael Bloomberg, contributed \$254 million to charities in 2009². Similarly, President Obama gave \$172,130 to charities in 2011 and \$245,075 in 2010. Mitt Romney gave nearly \$3 million in 2010 and \$4 million in 2012.³

President Obama's 2013 budget plan, which came out back in February, proposes capping the amount that the highest earners can claim in itemized deductions at 28% of total income.⁴ Mitt Romney has also proposed a limit, surprisingly even offering specifics of that proposal. "You could do something, for instance, as an option you could say everybody's going to get up to a \$17,000 deduction, and you can use your charitable deduction, your home

¹ Joseph Cordes, *Reducing The Charitable Deduction Would Hurt Nonprofits' Ability to Deliver Services*, The Chronicle of Philanthropy, Sept. 28, 2011.

² Grant Williams, *Nonprofit Groups try to Block New York Charitable Deduction Limit*, The Chronicle of Philanthropy, June 29, 2010.

³ Suzanne Perry, *Where the 2012 Candidates Stand on Key Nonprofit Issues*, The Chronicle of Philanthropy, Sept. 7, 2012.

⁴ Lisa Chiu, *Obama Budget Plan Includes New Call to Limit Charitable Deduction*, The Chronicle of Philanthropy, Feb. 13, 2012.

mortgage deduction, or others – a healthcare deduction, and you can fill that bucket, if you will, that \$17,000 bucket that way. And higher income people might have a lower number.”⁵

Important to note is that Romney’s proposal is not one that would allow up to \$17,000 for charitable deductions specifically, rather, charitable deductions would have to compete for cap space with other itemized deductions—like the mortgage interest deduction and education loans interest deduction. That \$17,000 is a far cry from what even the highest earners can currently claim.

The extent of the impact of these proposals on nonprofits remains unclear. Although there is evidence that individual giving is related to the out-of-pocket costs, decreased donations and corresponding increases in tax revenues could benefit nonprofits indirectly. More money for the government might mean more possibilities for federal grants and other forms of support.⁶ Nonprofits continue to express concern about the potential loss of contributions, but given the economic issues facing the country, the charitable deduction will likely be part of any budget negotiations.

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November 6, 2012

⁵ Kevin Liptak and Ashley Killough, *Romney Suggests \$17,000 Cap on Tax Deductions*, cnn.com.

⁶ Cordes, *Reducing Charitable Deduction*, *supra*.