

## THE CHARITABLE DEDUCTION:

### Is It Worth Defending?

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A well-accepted axiom in the world of organized philanthropy is that the federal tax code's charitable deduction is both a valuable motivator and an appropriate acknowledgment of charitable giving in America.

Not surprisingly, whenever the idea is floated to change or abolish this current IRS provision, many philanthropic leaders quickly engage to block such a move.

And why not? Those of us running foundations, as well as those from the grantee organizations we and our many donors support, look upon this deduction as a classic multiple-win. It's viewed as a key element of public policy undergirding the tradition of charitable giving in America, which totals an astonishing \$300 billion per year.

It's also strongly defended as an unusual, if not unique, tax benefit, by virtue of the value extended to a strikingly wide range of worthy organizations in communities across the country, including clinics and churches, schools and symphonies, food pantries and opera halls.

Unfortunately, the rush to protect the status quo generally overlooks a worrisome inequality: the charitable deduction is of primary individual financial benefit to the wealthiest in our society, while minimizing the generosity of millions of others.

Two-thirds of U.S. tax filers do not itemize deductions. This means that the vast majority of individuals in America who engage in charitable giving are not entitled to this robust tax subsidy. And yet if charitable intentions are measured by proportion of income, they are giving just as generously as the top-third.

If, as philanthropic leaders, we honestly believe that the charitable deduction is an effective stimulator of giving, then why turn a blind eye to this inequality? If it is appropriate public policy that select individual giving be subsidized and endorsed, then why be silent as this benefit is denied to the majority of taxpayers?

We shouldn't be.

Fortunately, there are a number of good and eminently workable ideas on the table for correcting this imbalance, to the benefit of all.

In a December 16, 2013 white paper, the *Committee for a Responsible Federal Budget* took a fair look at the pro's and con's of the arguments on this issue. Of particular note is their conclusion that there are "a number of ways to make the deduction cheaper, more progressive and more efficient, including some that could actually increase charitable giving."

For example, the most straightforward suggestion is to have charitable giving be an ‘above-the-line’ adjustment to taxable income for all taxpayers, regardless of whether they itemize. Different routes to a similar goal: establish equity and increase giving.

The leaders of organized philanthropy deserve great credit for their stalwart efforts to urge the continuation of the charitable deduction in the face of calls for its restriction or repeal. The challenge, though, is to adapt to the changing times.

New elements of strategy may well be needed as the political pendulum swings in this precarious period of America’s “age of inequity.”

One-off poignant stories of the good works supported by charity are necessary. But in the rough and tumble of federal budgeting sure to come in the days ahead, such accounts of the work of angels may fall far short of being sufficient.

Philanthropy’s traditional defense of the charitable deduction focuses emphatically on its societal value. And to many, it is a strong case indeed. But to others, particularly those searching for the necessary increase in federal revenues, there are strong counter arguments.

Inside the Washington D.C. beltway, congressional tax-writers categorize the charitable deduction as a cost, a ‘tax expenditure’ in the parlance.

What we in philanthropy categorize as ‘gifts,’ others categorize differently, and somewhat menacingly, as ‘lost revenue.’

And a whopping total it is. Current estimates by the *Joint Committee on Taxation* put the ‘cost’ to the U.S. treasury at a half-trillion dollars over the next 10 years. Even in Washington D.C., \$500 billion is a number that catches the eye.

In addition, those seeking to build a challenge to current policy can easily strengthen their case by striking a solidly populist posture. They point to the fact that the vast preponderance of this individual tax benefit is accrued by the very wealthiest of all taxpayers.

The perverse fact, of course, is that a benefit of this nature, i.e., wealthier taxpayers reaping disproportionate benefit, is commonplace in the U.S. tax code.

But there is danger in being drawn, even inadvertently, to its defense. For philanthropic leaders, there is real awkwardness in being seen as representative of just one more trade group with passionate arguments in favor of a pet deduction.

Warning signs are clearly on the horizon. Challengers to the current form of the charitable deduction are coming from different directions. Already there are persistent calls to limit the deduction only for causes that pass a certain litmus test of “social worthiness.” Food, yes; music, no.

Though such proposals are profoundly unwise and unworkable, nevertheless they can gain traction.

Other challengers come from a different starting point, adding the deduction’s uneven tax benefit to a list of grievances about the “one percent.” This is particularly unfortunate given that this cohort of top

taxpayers includes enormously generous individuals and families who, in fact, account for the lion's share of personal charitable giving, as measured by total dollars.

The country can ill afford to discourage the giving of wonderfully charitable families whose financial support of a wide range of social, cultural and environmental causes is more critically necessary today than ever before.

But the strategy for defending the charitable deduction could be buttressed by a basic political fact, if there were the will to pursue it.

Medicare and Social Security have a 'third-rail' quality in American politics. Why? In no small measure it's because a huge proportion of Americans (aka, voters) derive a direct benefit from both programs, a fact quite central to political vitality.

Instead of guarding the barricades of the status quo, those looking to preserve the deduction could consider this tactic: spread the benefit, strengthen the defense.

One can be drawn to the new lines of defense by the strategies of political warfare, by the principles of equity and fairness, or, dare it be suggested, by both.

But the picture is clear. If the answer to the question "Is it worth defending?" is affirmative, then the time is now for a fresh approach to be fashioned. After all, the bumper stickers are already being printed: *"Charitable Deduction: Fix It or Ditch It!"*

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