New Federal Initiatives Project

Proposed Reduction in Charitable Tax Credit

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President Obama's 2010 budget outline proposes a 20 percent reduction in the amount that upper-income taxpayers can deduct for itemized deductions, including charitable donations. The Administration would use the money raised from the limits on itemized deductions to fund health care reform.[2]

Many fundraisers and nonprofit experts have raised concerns that this proposed cut will diminish charitable giving at a time when charitable organizations are already hurting from the recession. Others assert that any effect would be modest. The Administration asserts that the cap on charitable tax deductions for the wealthy would not hurt nonprofits during the recession because the plan would not take effect until 2011, by which time it expects the economy to be recovering. Furthermore, if charitable contributions are affected by tax considerations, the Administration states that its proposal to retain an estate tax will stimulate giving, arguably offsetting any loss caused by the reduction in charitable tax credits.

Under the current tax code, the percentage of tax savings for itemized deductions is the same as a filer's tax bracket, so while someone making $50,000 receives a $150 tax break from a $1000 donation, someone in the top 5 percent (over $250,000 income) receives a tax break of $330 to $350. The Administration argues that by capping the deduction at 28 percent (compared with 33 to 35 percent now), the tax code would become more fair. In effect, this change – coupled with a proposed increase in the tax rate for upper-income taxpayers from 36 to 39.6 percent – would increase the cost of giving to charity for wealthy donors.

Critics of the plan have pointed to the deeper philosophical question of the role of government, asking whether the government or private donors should decide which charities receive taxpayers' money and whether charities should pay for the cost of a government health care system, even indirectly. The Family Research Council has argued, "[The move would hurt traditional-values charities most, since the government is already funding the far Left's agenda on abortion, environmentalism, welfare, the arts, and 'family planning' with billions of tax dollars every year. If the provision passes, the White House would be well on its way to replacing the work of churches, nonprofits, and social service agencies with more government programs, which studies have proven to be a poor and ineffective substitute."

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[1] Rebecca R. Dummermuth served as Associate Director for Legal Affairs in the White House Office of Faith-Based and Community Initiatives from 2003 - 2005. Prior to that, Mrs. Dummermuth worked as Legal Counsel at The Becket Fund for Religious Liberty, a public interest law firm in Washington, D.C., and served in the Bush Administration's Department of Labor as Special Assistant to the Solicitor. A graduate of Washington and Lee University School of Law, Mrs. Dummermuth clerked for the Honorable Rhesa Hawkins Barksdale on the U.S. Court of Appeals for the Fifth Circuit. Since leaving the White House, Mrs. Dummermuth has focused her energies on being a wife, mom, and homemaker. She and her husband Matt live in Iowa with their two children.

[2] The Obama Administration's proposal states:

> **Reducing Itemized Deduction Rate for Families With Incomes Over $250,000**. Lowering health care costs and expanding health insurance coverage will require additional revenue. In the health reform policy discussions that have taken place over the

past few years, a wide range of revenue options have been discussed—and these options are all worthy of serious discussion as the Administration works with the Congress to enact health care reform. The Administration's Budget includes a proposal to limit the tax rate at which high-income taxpayers can take itemized deductions to 28 percent—and the initial reserve fund would be funded in part through this provision. This provision would raise $318 billion over 10 years.