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The Charity Revolt

Liberals oppose a tax hike on rich donors.

Among those shocked by President Obama's 2010 budget, the most surprising are the true-blue liberals who run most of America's nonprofits, universities and charities. How dare he limit tax deductions for charitable giving! They're afraid they'll get fewer donations, but they should be more concerned that Mr. Obama's policies will shove them aside in favor of the New Charity State.

What did these nonprofit liberals expect, anyway? Mr. Obama is proposing a vast expansion of the entitlement state, and he has to find some way to pay for it. So logically enough, one of his ideas for funding public welfare is to reduce the tax benefit for private charity. His budget proposes to raise the top personal income tax rate to 39.6% in 2011 from 35%, and the 33% rate to 36% while reducing the tax benefit from itemized deductions for the top two brackets to 28% from 35% and 33%, respectively. The White House estimates the deduction reduction will yield \$318 billion in revenue over 10 years.

From the Ivy League to the United Jewish Appeal, petitions and manifestos are in the works. The Independent Sector, otherwise eager to praise the Obama budget, worries the tax change "could be a disincentive to some donors." According to the Center on Philanthropy at Indiana University, total itemized contributions from the highest income households would have dropped 4.8% -- or \$3.87 billion -- in 2006 if the Obama policy had been in place. That year, Americans gave \$186.6 billion to charity, more than 40% from those in the highest tax bracket. A back of the envelope calculation by the Tax Policy Center, a left-of-center think tank, estimates the Obama plan will reduce annual giving by 2%, or some \$9 billion.

In defense, White House budget chief Peter Orszag wrote on his blog: "If you're a teacher making \$50,000 a year and decide to donate \$1,000 to the Red Cross or United Way, you enjoy a tax break of \$150. If you are Warren Buffet or Bill Gates and you make that same donation, you get a \$350 deduction -- more than twice the break as the teacher." This Administration wants to turn even philanthropy into a class issue.

Mr. Orszag revealed the real agenda at work when he pointed out that the money taken from the "rich" would be used to fund such Obama state-run charities as universal health care. The argument is that any potential declines in private gifts, whether to universities or foundations, will be balanced by increases in government grants paid with higher taxes -- redistribution by another means. This is how Europe's welfare state works: Taxes are so high that private citizens have come to believe it is only the state's duty to support cultural institutions and public welfare. The ambit for private giving shrinks.

America has always operated on a different philosophy, going back to Tocqueville's discovery of thousands of private

associations that sustained communities without a commanding state. We doubt that a tax benefit is what drives most giving even today. The exception may be the confiscatory death tax that drives many of the superrich to form foundations to avoid the tax. But we suspect that without the death tax the wealthy would give even more of their income away.

Americans of all income levels have long given generously, notably in the 1980s as income tax rates fell and the economy boomed. Over the last five decades, American giving overall has hardly deviated from 2% of personal income, according to the Tax Foundation. In an ideal world, the U.S. would eliminate most tax deductions, including the one for charity, in return for a simpler, flatter tax that would help create more wealth to give away. With his many new income-limited tax credits and deduction phase-outs, however, Mr. Obama is sprinting in the opposite direction.

Meanwhile, the White House may have underestimated the power of the liberal nonprofit lobby. The charity deduction cut is the only one of the President's many tax increases that Democrats on Capitol Hill have publicly criticized. Politics hath no fury like a rich liberal scorned.

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