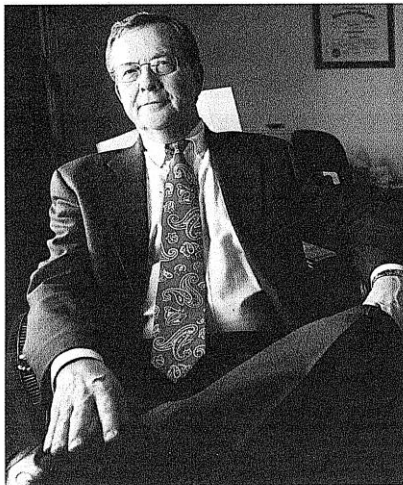


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Economists Try to Calculate the Impact of Tax Changes on Charitable Giving

By: Suzanne Perry



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Emil Kallina, a lawyer who advises very wealthy donors, says lowering the charitable deduction could mean "hundreds of thousands of dollars" less on a major gift.



JIM GRAHAM, FOR THE CHRONICLE
Eileen R. Heisman, of the National Philanthropic Trust, says the poor economy makes predictions about the impact of tax changes especially tricky: "The question is how much worse it will be on top of worse."

Virtually everyone agrees that President Obama's proposal to limit the tax breaks wealthy people can get for charitable contributions would dampen giving. The question is, by how much? And would other parts of the president's budget plan act as a counterweight?

"The evidence suggests that many factors affect charitable contributions, including the desire to help the charity and overall economic conditions," Peter Orszag, the White House budget director, wrote in a blog post defending the tax-deduction plan. He added that the administration's economic-stimulus plan should increase charitable giving because it seeks to "jump-start the economy and raise incomes."

However, the proposal to limit tax breaks for itemized deductions to 28 percent of the expenses for taxpayers earning more than \$250,000 would be paired with another proposal by President Obama to raise taxes for higher-income people. By letting some existing tax cuts expire, that proposal would raise the top tax brackets to 36 percent and 39.6 percent — up from 33 percent and 35 percent now. Both tax proposals would take effect on January 1, 2011.

Calculating the exact impact of those proposals is complicated because some high-income taxpayers who would otherwise be in the upper tax brackets use mortgage payments and other deductions to qualify for the "alternative minimum tax" rate of 28 percent, so they are already used to getting that percentage as a tax break on their charitable gifts.

But researchers who have taken a look at the two proposals estimated that, combined, they could depress annual giving by anywhere from roughly \$4-billion to \$9-billion.

"My best guess is this wouldn't have a huge effect, but because of the economy, it is going to have a worse effect," says Eileen R. Heisman, president of the National Philanthropic Trust, in Jenkintown, Pa. "The question is how much worse it will be on top of worse."

A Variety of Possible Effects

Experts say the impact of the new limits on tax breaks would probably be felt differently by different kinds of nonprofit groups.

Bruce Flessner, a fund-raising consultant in Minneapolis, says the tax-deduction plan would probably have little impact on organizations that rely on large numbers of relatively modest gifts.

But large institutions, particularly colleges and universities and academic medical centers that attract the biggest gifts, could be hit particularly hard if the plan moves forward, he says.

Some giving advisers say the deduction limit could prompt some people to give less. "For the vast majority of my clients, every tax dollar they save is an additional dollar for charity," says Emil Kallina, a lawyer in Baltimore who advises affluent donors, including several billionaires. "Under the president's budget proposal, that could amount to hundreds of thousands of dollars on a multimillion-dollar gift."

Arts and higher-education institutions could be hit harder than other types of groups, says Lester M. Salamon, director of the Center for Civil Society Studies at the Johns Hopkins University, since "upper-income people tend to give more to certain causes than others."

Even so, many such groups are weighing the proposal's potential impact against other steps the White House has taken.

Robert Lynch, president of Americans for the Arts, an advocacy group, says the administration's efforts to shore up the economy, if successful, are more important to the financial health of arts groups than any one tax provision.

Furthermore, he adds, arts groups have benefited from specific moves the Obama administration has made to help them — for example, providing \$50-million to the National Endowment for the Arts in the economic-stimulus package.

Government Income

Some groups would suffer less than others from a drop in private contributions because they rely more on government contracts.

According to a study by Mr. Salamon's center, nonprofit groups as a whole in 2005 (the most recent figures available) received an estimated 13 percent of their revenue from private donations, compared with 40 percent from government contracts and payments and 47 percent in fees for services they provide.

In trying to calculate how much giving is affected by tax incentives, some researchers turn to work done by Jon Bakija, an associate professor of economics at Williams College, and Bradley T. Heim, a U.S. Treasury Department official.

In a July 2008 paper, they examined 550,000 high-income tax returns from the years 1979 through 2005 and came up with a mathematical formula for estimating how changes in tax rates affect giving.

Using that formula, the Tax Policy Center, a joint venture of the Urban Institute and the Brookings Institution, estimates that Mr. Obama's proposals on both charitable deductions and higher tax brackets would amount to a \$9-billion drop in annual giving in 2011.

The center made its calculations as follows:

- The proposals would affect 1.2 percent of taxpayers, those that fall into the two highest tax brackets. Given current trends, they would make an estimated 18.2 percent of the itemized charitable contributions in 2011.
- People who itemize account for two-thirds of total charitable gifts, according to 2006 data. The remaining donations come from people who do not itemize, bequests, foundations, and corporations.
- The proposed limits on itemized deductions would affect roughly 12 percent of total private contributions.

Without Mr. Obama's tax proposals, total giving would grow to an estimated \$413-billion in 2011. Using Mr. Bakija and Mr. Heim's formula, the center estimates that donations would drop 2 percent if those proposals came into effect, or by \$9-billion. The formula considers only the impact of tax incentives, not of other factors like the state of the economy.

The Indiana University Center on Philanthropy used a different approach to estimate that if both of President Obama's tax proposals had been in effect in 2006, giving by the wealthiest households would have fallen by 4.8 percent, or \$3.87-billion.

The center based its calculations on about four million tax returns reporting adjusted gross income of \$200,000 or more. Those returns claimed \$81.26-billion in itemized charitable gift deductions.

To determine how much less those taxpayers would have given in 2006, the center used a formula it has developed to calculate how different factors — like the stock market, personal income, and tax incentives — affect giving, based on historical data since 1948. However, "changes in personal income and wealth, both of which have declined in the past year, have a greater impact on charitable giving than do tax-rate changes," Patrick M. Rooney, the center's interim executive director, said in a written statement.

The center says its research has found, for example, that a 100-point drop in the Standard & Poor's 500-stock index will cause charitable contributions to drop by \$1.85-billion.