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Angela M. Eikenberry

University of Nebraska at Omaha, aeikenberry@unomaha.edu

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Obama's budget offers smart shift

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Author: ANGELA M. EIKENBERRY

Beginning in 2011, President Barack Obama's proposed budget plan would reduce the value of charitable tax deductions for wealthy Americans (families with more than \$250,000 in income, 1.2 percent of households) to 28 cents on the dollar.

At the same time, the president's budget also would increase taxes for this group (from 33 percent and 35 percent to 36 percent and 39.6 percent of their income) to help pay for reshaping the nation's health care system. The tax deduction changes would not affect foundations or Americans making less than \$250,000 a year.

Some in the philanthropic community argue that this change would decrease the charitable giving of wealthy donors. However, the data are unclear as to whether the changes really would have a net negative effect.

The Center on Philanthropy at Indiana University estimates that giving by high-income households might decrease by 4.8 percent (\$3.9 billion). Alternatively, the Tax Policy Center estimates a \$9 billion reduction in annual giving. Yet the Center on Budget Policies and Priorities finds that the proposal might reduce charitable contributions by only 1.3 percent (\$1 billion).

Other areas of the president's plan would encourage charitable giving. The estate tax, due to expire in 2010, provides an incentive for wealthy people to give to charity as a way of lowering tax liability on their estates after they die.

A 2004 Congressional Budget Office study estimated that repeal of the estate tax would reduce contributions by between \$13 billion and \$25 billion in year 2000 dollars. Obama's budget would retain the estate tax, which would likely boost contributions.

Most wealthy donors say they do not give because of the tax deduction, anyway. According to a Bank of America study, nearly 52 percent of wealthy donors said their giving would remain the same if they no longer received any income tax deduction for their donations. Another 37 percent said their contributions would "somewhat decrease," and 10 percent said their gifts would "dramatically decrease."

The president is not suggesting we eliminate the tax deduction, just lower it by a few cents.

Based on the evidence, it is hard to tell if proposed tax changes would impact giving. The bottom-line effect might be a side issue to what the budget plan represents: a shift in how we address community and collective problems in this country.

In the past few decades, cuts and changes to government funding have put a strain on nonprofits. Charitable giving has not been able to make up for the difference.

Data from the Urban Institute for 2000 to 2005 show that there was virtually no change in level of giving if measured in constant (inflation-adjusted) dollars, although the U.S. economy expanded by more than 12 percent and personal income increased by more than 7 percent. Today, only 12.3 percent of all revenue of nonprofits comes from private giving.

Philanthropy has done great things for our society, but it is also fragmented and particularistic. It does not tend to fund social welfare needs.

For example, a recent study sponsored by Google and conducted by IU's Center on Philanthropy reported that "less than one-third of the money individuals gave to nonprofits in 2005 was focused on the needs of the economically disadvantaged. Of the \$250 billion in donations, less than \$78 billion explicitly targeted those in need."

Data also suggest that nonprofit organizations which rely heavily on charitable donations are less likely to serve the poor.

Johns Hopkins University professor Lester Salamon found in a 1992 study of human service organizations that the majority did not provide services or advocacy for the poor; only 27 percent indicated that most of their clients were poor. Among those that did serve the poor, the bulk of their funding was from government sources.

If more Americans could afford health care and could be more proactive in addressing health care concerns, the demand (and costs) for many health and human services provided by nonprofits would go down. People could spend more on other things such as, for instance, giving to charity.

Nonprofits also might benefit if health care were available to their own employees as they, like other employers, struggle with the rising costs of health care.

The potential pros of Obama's proposed budget seem to outweigh the cons for nonprofit organizations.

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