Proposal to Reduce Value of Charitable Deductions Resurfaces in Obama Budget.

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The proposal, included in the budget blueprint the administration released March 4, would reduce the value of itemized deductions to 28 percent for taxpayers in the 33 percent, 35 percent, or 39.6 percent tax brackets. The cap, which has never gone far in Congress, has been proposed by the administration for six straight years.

As they have in the past, groups representing charities expressed unhappiness at the proposal's return, saying it could cause charitable giving to drop. "Capping the charitable deduction at 28 percent could cost the nonprofit sector up to $9 billion a year, dealing a big blow to our charities and our economy," Sandra Swirski, executive director of the Alliance for Charitable Reform, said in a statement . "The charitable deduction is a lifeline, not a loophole, and we strongly urge the President to reevaluate his stance on cutting the deduction," Swirski said.

The Council on Foundations (COF) also voiced its displeasure. "Since 2009, President Obama has proposed a 28 percent cap on itemized deductions, including the charitable deduction," COF President and CEO Vikki Spruill said in a statement. "Both the Council and nonprofit sector have repeatedly expressed disappointment with this approach because the charitable deduction is a proven way to strengthen communities. Capping it would have a cascading impact on nonprofits and philanthropic organizations across the country. If donors have less incentive to give, donations will decline by billions of dollars — cutting a lifeline for millions of Americans."

The budget plan also would establish a "Fair Share Tax" — also known as the "Buffett rule" — on upper-income taxpayers. Although the tax would allow for a charitable deduction, Swirski noted, the tax break also would be capped at 28 percent.

"While the so-called Buffett Rule does recognize the unique nature of the charitable deduction, it still caps that deduction, which will ultimately result in decreased charitable giving," Swirski said.

The 28 percent cap is the second major proposal to limit the charitable deduction to be made in the past week. The tax reform package introduced February 26 by House Ways and Means Committee Chair Dave Camp, R-Mich., includes a 2 percent adjusted gross income floor on charitable giving. Tim Delaney, president and CEO of the National Council of Nonprofits, said that idea "could have devastating real-world consequences by diminishing charitable resources for communities."

Another provision that has been proposed before would replace the two rates of tax on the investment income of private foundations with a single rate of 1.35 percent. Swirski said that her organization supports a single rate but that a flat 1 percent rate, as Camp has proposed in his tax reform plan, would be better than 1.35 percent. Spruill also expressed support for a flat 1 percent rate.

The American opportunity tax credit, which is designed to help families afford college, would become permanent under the budget proposal. The provision also appeared in last year's budget plan. Other provisions in the plan that have come up before would prohibit charitable deductions for contributions of conservation easements on golf courses and curb excessive deductions for contributions of historic preservation easements. There also is a provision to make permanent incentives for donating conservation easements.

Spruill said that proposed new penalties for failure to file IRS information returns electronically could disadvantage small nonprofits and that COF "will assess how this will impact the foundation community."

by Fred Stokeld