

Larry's Tax Law

President Obama Publishes His Administration's 2016 Budget Proposal—Are Charities Among the Biggest Losers?

By Larry Brant on 2.4.15 | Posted in Charitable Contribution Deductions, Legislation, Tax Laws

On February 2, 2015, President Obama published his 2016 budget proposal. It proclaims that “[a] simpler, fairer, and more efficient tax system is critical to achieving many of the President’s fiscal and economic goals.” While some tax practitioners may debate the claim that the tax provisions embedded in the President’s budget proposal make the tax system simpler, it is a certainty that a significant number of tax practitioners will question the fairness of these provisions.

Charitable Deductions

As in the past, the President’s budget proposes that “wealthy millionaires” pay no less than 30% of their income in federal income taxes. To facilitate accomplishing that goal, President Obama suggests these taxpayers be prevented from making charitable contributions to reduce their tax liability. He states: “...this proposal will act as a backstop to prevent high-income households from using tax preferences to reduce their total tax bills to less than what many middle class families pay.”

This provision of the budget proposal will definitely not receive broad support from the charitable organization community. Taking away the tax deduction resulting from charitable contributions certainly does not motivate taxpayers to transfer their wealth to charities.

Whether a charitable contribution deduction is a tax preference item is open to debate. A charitable contribution certainly does not seem to be “a tax preference” item. All taxpayers generally benefit in the same manner by this deduction. Shouldn’t taxpayers receive a tax deduction for wealth transfers to charities? Don’t we want to incentivize taxpayers to fund charitable needs through contributions? Eliminating this deduction for certain taxpayers may generate billions of dollars of tax revenues, but it will definitely impair charitable organizations from obtaining much needed funding. For this reason alone, hopefully lawmakers will resist removing the charitable contribution deduction from the tax code.

Contributions To College Athletic Programs

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College sports fans—whether you are wealthy or not—buried in the President's budget proposal is a provision that eliminates the deductibility of the charitable contribution you are required to make as a pre-requisite to purchasing tickets for college sporting events. Most colleges will not be pleased with this proposal! While President Obama has talked about this type of tax reform in the past, this is the first time we have seen it in one of his budget proposals. The provision, if enacted into law, is estimated to generate over \$2.546 billion in tax revenues during the period of 2016-2025. Like the elimination of the charitable deduction for “wealthy” taxpayers, this provision will result in charities being the biggest losers.

Stay tuned! Time will tell whether lawmakers will adopt these proposals.

Tags: Charitable Contribution Deductions, legislation, President Obama, Tax Laws