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The State Of Taxes, Philanthropy And The Public Good

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After the recent Notre Dame tragedy, when its famed spire collapsed to ash, philanthropists around the world quickly pledged almost a billion dollars to help rebuild and restore the historic structure. While many cheered these donations, some responded to these voluntarily given gifts with criticisms of charitable giving itself.

Opponents of charitable tax incentives wrongly argue that such giving is an exercise in power by the wealthy that starves the state of tax dollars and that the government should dispense among projects and causes it deems worthy.

But should the government alone decide which charities should be supported? The federal government already funds programs that large numbers of taxpayers believe to be wasteful. Above all, the reasons and motivations behind why people choose to give are as varied as the vast number of causes out there.

In 1917, four years after Congress created the federal income tax, lawmakers approved the first tax deduction for charitable giving as part of the War Revenue Act. The 1917 law raised the income tax from 1% to 2% and imposed new taxes on estates and business profits as a way to finance U.S. participation in World War I. Elected officials worried that without appropriate tax incentives, the increase in income tax would cause wealthy givers to stop making charitable contributions.

New Hampshire Senator Henry Hollis, one of the law's sponsors, worried that "when war comes … that will be the first place where wealthy men will be tempted to economize, namely in donations to charity."

The flaw in the argument that the wealthy benefit most from tax-deductible giving becomes apparent when you consider that, under our progressive tax system, the wealthy only receive higher deductions for their philanthropy because they are taxed at higher rates to begin with. A better argument is to focus less on specific tax issues and instead on GDP growth. When GDP grows, so does giving. When it shrinks, real giving does, too.

Still, something more fundamental is at work here. The charitable deduction is philosophically different from other deductions. It recognizes that our contributions to the "public good" return to us no tangible benefit.

Think of it this way. Income taxes are what we pay to the public good through compulsory edict. Charity is what we pay to the public good directly, freely and voluntarily. Money you donate is not part of your income. It is also not a government subsidy. And it's certainly not theirs to claim -- it never was.

From the Declaration of Independence to the Supreme Court decision in Dartmouth College v. Woodward to the IRS definition of a 501(c)3 public charity, our Republic was created with the expectation that our citizens would use time, talent and money to affect change. The primary role of the government is to secure, not dispense, its citizens' inherent rights. The government should never stop our fellow citizens from finding creative ways to contribute to our shared civil society.

Today, tax-incentivized philanthropy supports many of our historical sites. Mount Vernon, Monticello, Montpelier, Washington National Cathedral, The Cathedral Church of St. John the Divine, Williamsburg, Jamestown, Plymouth Plantation and many Civil War and Revolutionary War battlefields are among those protected and operated entirely by private philanthropy.

Saint Jude's Children's Hospital, the Ronald McDonald House, Fisher House and hundreds of other institutions of care around the country are all financed by tax-incentivized contributions. Symphony orchestras receive 95% of their income privately, according to *The Almanac of American Philanthropy*published by The Philanthropy Roundtable. And approximately two-thirds of funding for public radio and TV stations comes from tax-deductible contributions because Congress won't (and can't) pay for it all.

Remove tax-incentivized philanthropy, and our lives become duller, darker, unhealthier and silent.

Despite the headlines, social media excesses and just plain enmity, American civic virtue is not dead. In all this noise, it is worth remembering that in 2018, Americans contributed more than $400 billion to charities. Naysayers claimed doom and gloom for charities because of the tax overhaul law. Instead, it was a record year for giving.

Are there legitimate concerns about the impact and effectiveness of some areas of philanthropy? Of course. But efforts to redefine such assets as public money should make us shiver. Denigrating one donor's cause to elevate another's is dangerous.

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