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EDITORIAL

Giving and Taxes

Evidently, the rich still carry influence in Washington. President Obama's plan to cap itemized deductions for high-income taxpayers at a 28 percent rate flew like a lead balloon in Congress, reportedly sending the White House in search for other sources of revenue.

It would be a pity if the administration were to forgo that money — some $320 billion over the next 10 years to finance a good share of its proposed health care reform. The money is needed. And the complaints that capping deductions would kill charity, decimate small business and put yet another nail in the coffin of the housing industry are wrong.

It is true that under the proposed changes, many affluent families would not be able to deduct as much for their mortgages, charitable contributions and the like, but that would not amount to very many people.

The Tax Policy Center, a nonpartisan research group, estimated that in 2011, when the changes would be due to take effect, only 1.8 million taxpayers — 1.2 percent of the total — would have their deductions reduced. Just 1.9 percent of taxpayers with income from a small business earn enough to be affected by the limits.

The effect on housing would be small, too. According to the I.R.S., households earning more than $200,000 account for less than 8 percent of all taxpayers who claim a deduction on mortgage interest. Capping the mortgage interest deduction at 28 percent might nudge a high-income family to buy a cheaper home than it otherwise would. It is unlikely they would forgo a home.

And philanthropy is not facing extinction. A study by the Center on Philanthropy at Indiana University concluded that the combined effect of raising the marginal income tax rate, as the president proposed, and capping the deduction for charitable contributions would trim donations by about $4 billion in their first year — 1.3 percent of the $306 billion donated in 2007.

Several studies point out that a large share of charitable donations is not deducted from taxes, and donors in lower tax brackets account for more than half of all contributions that are deducted. Fifty-two percent of respondents to a Bank of America poll of wealthy donors said their philanthropic donations would not change even if they could not write any of them off of their taxes.

For too long, American fiscal policy has been too afraid of taxation, too scared of Big Government and too prone to pursue policy objectives through gimmicky tax givebacks that tend to heavily benefit affluent taxpayers. In 2005, the panel on tax reform convened and ignored by former President George W. Bush suggested slashing the tax deduction on mortgage interest to recoup revenue and restore some equity to the tax system.

Philanthropy is a good thing, but it is driven by the donors' tastes. It cannot replace the socially necessary investments that government needs to make. According to a study by the Center on Philanthropy, institutions of higher education took 29 percent of all donations of $1 million or more between 2000 and 20007. All other levels of education took 2 percent, about a third of the amount that was channeled to the arts.

Mr. Obama is proposing a government that provides more security for Americans and invests in their long-term prosperity. That requires more money. Capping deductions for the 1.2 percent of Americans that are the most well-off is one good way to raise it.