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To boost charity, revise U.S. tax code

The season of giving is a reminder of the importance of private charitable efforts; government should encourage them

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Christmas Day is a perfect time to reflect on giving. Clearly, family and friends come to mind, but many of us also express generosity through gifts to others — especially those less fortunate. As a whole, Americans are a generous people. The federal government should reward that generosity and encourage more with better policies.

According to the National Philanthropic Trust, 88 percent of households give to charity: \$298 billion in 2011. The majority of charitable dollars went to religious, education, human services and grant-making foundations.

The United States is the most charitable nation, giving a world-leading 1.85 percent of GDP, followed by Israel at 1.34 percent and Canada at 1.17 percent.

Although altruism is what drives donations, tax incentives help. Top earners can get back 40 percent of what they give in the form of tax deductions.

Those making more than \$100,000 a year take 81 percent of the deductions for charitable gifts, despite only accounting for 13.5 percent of all tax returns.

But those deductions, particularly for the wealthy, are a perpetual target of those who want a larger share for the federal government.

The fiscal cliff deal of 2012 limited the amount of itemized deductions the wealthy could take. While its too early to know what, if any, impact that's had on charitable giving, it stands to reason that the more the government takes, the less is available to give to charities.

Daniel Mitchell, a Cato Institute expert on fiscal policy issues, says that while tax rates have fluctuated over the years, the rate of charitable giving remains about the same.

Mitchell argues that rather than focusing on deductions, charities would benefit from a fairer, simpler tax system that left more income in individual pockets.

"Charitable giving is overwhelmingly a function of disposable income and net wealth," he says.

There's a cautionary tale for the United States in looking at worldwide giving. In the cradle-to-grave welfare states such as France and Germany, for example, private giving lags well behind (they rank 21st and 32nd respectively), because of the belief that the government is handling those responsibilities.

Americans, Mitchell says, still have a strong sense of responsibility toward their neighbors, and have continued giving even as government social welfare programs have expanded.

"There's the general perception that big government doesn't help the poor," Mitchell says.

In a country that's \$17 trillion in debt (and counting), that's a good instinct, and government policy should encourage private donors to be the first line of defense against poverty, homelessness and other suffering.

Americans have always given, and will continue to do so. The government should exploit that instinct with policies that incentivize donations and encourage private charities to handle the bulk of the charitable work.