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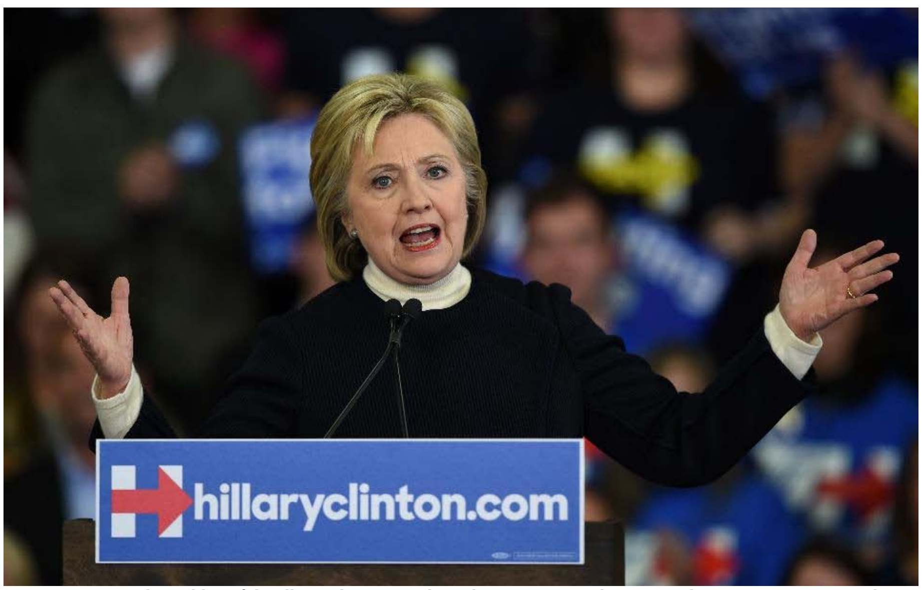
President Hillary Won't Cut Tax Deductions To Charities Like Clinton Foundation

If elected, President Hillary Clinton has promised to make many deductions less valuable for the well to do, but she would sidestep impacting their gifts to charity. Mrs. Clinton has some aggressive tax plans, albeit not as agressive as those of her fellow Democrat Sen. Bernie Sanders. Mrs. Clinton would ask the wealthiest to pay more. She would be most aggressive with tax reform in dealing with investments and deductions.

For deductions, she would cap the value of all itemized deductions at 28%. That would mean that wealthier individuals would not reap the benefit of deductions currently worth up to 39.6%. On big dollars, that is a big hit. Add to that, Mrs. Clinton would borrow from her friend Warren Buffett, whose "Buffett Rule" would establish a 30% minimum tax on taxpayers with an adjusted gross incomes in excess of $1 million.



Democratic presidential hopeful Hillary Clinton speaks at her primary night party February 9, 2016 at Southern New Hampshire University in Hooksett, New Hampshire. Clinton, who suffered a deflating if expected defeat to Bernie Sanders, put a brave face on the loss and admitted she had some work to do as the campaign moves south. (Photo credit: DON EMMERT/AFP/Getty Images)

But when it comes to gifts to charity, she eased up, after originally including them in her tax increase plans. Mrs. Clinton then relented, indicating that the 28% cap on deductions would not apply to charitable contributions. The Charitable Giving Coalition asked Hillary Clinton to reconsider the cap, which she had proposed for certain taxpayers as a means of funding her college tuition plan. When Mrs. Clinton agreed, the Association of Fundraising Professionals released a statement in support of the action.

> ‘ *The deduction is a powerful symbol of the American tradition and system of philanthropy. It represents an acknowledgement of the effectiveness of nonprofit and community action and a commitment to donors and their generosity. It is extremely encouraging that Mrs. Clinton appreciates the value of the nonprofit sector and the charitable contributions that fund their altruistic endeavors. On behalf of the more than 33,000 charities and fundraisers raising $115 billion annually that AFP represents, we thank Mrs. Clinton for explicitly exempting the charitable deduction from her proposed limitation on itemized deductions.*

Warren Buffett seems unlikely to disagree. He is famous for big donations, and for donating in a tax-efficient way. That generally means donating appreciated stock. By donating the stock, the donor avoids paying tax on the gain. The donee organization can hold or sell the stock. But since it is a tax-qualified charity, if it sells the stock it pays no tax regardless of how big the gain.

Mr. Buffett may have said that he thinks his own tax rate should be higher. But he has also proven to be careful to plan transactions efficiently so he pays less. Like a long term investment that pays off, perhaps there’s something satisfying in arranging a deal that is tax-efficient and that benefits charity. Even for those of use who will never be at Warren Buffett’s level, properly planned charitable contributions can be tax efficient and do good works too.

Donations go on Schedule A to Form 1040, so you must itemize. You can only take a deduction for up to 50% of your adjusted gross income for most charitable contributions (30% in some cases). Observe other basic rules too. If your donations entitle you to merchandise, goods or services, you can only deduct the amount *exceeding* the fair market value of the benefits you received. If you pay $500 for a charity dinner ticket but receive a dinner worth $100, you can deduct $400, not the full $500.

Of course, make sure the donee organization is qualified. You cannot deduct contributions to individuals, political organizations or candidates. The IRS maintains a list of all charities. To check whether particular organizations are on the IRS list, click here.

As for proposed cutbacks on charitable contributions, it is easy to lose track of all the times that President Obama has attempted to reduce charitable tax deductions. And after his fifth try, a year later, Mr. Obama again called for reducing charitable contribution tax breaks. Mrs. Clinton may have reached that decision sooner.

For alerts to future tax articles, email me at Wood@WoodLLP.com. This discussion is not legal advice.