

cent hearing in the House of Representatives, the chief lobbyist of Catholic Charities stated that, in the view of her organization, the best charity activity was voter registration!

Barwick does propose a ban on the use of tax-subsidized charity funds for policy advocacy. But this ban is an illusion and has no chance of survival in the long term. Whenever similar charity tax bills have been introduced in Washington, the entire philanthropic industry has been mobilized to remove any ban on advocacy. As a result, most bills like this one deliberately include policy research and advocacy as a "service to the poor" worthy of subsidy.

A ban on commingling private and public funds is similarly nonenforceable. In reality, this proposal would lead to philanthropies using tax-subsidized private funds to aggressively promote expansion of government programs of which they were beneficiaries.

Most of the liberal agenda, from civil rights to environmentalism, is already packaged as service to the poor. Under the tax-credit proposal, those seeking to raise taxes to expand the food-stamp program get a potent tax cut while supporters of a balanced budget do not. Advocates of expanded welfare, Head Start, and a hike in the minimum wage get a tax break not available to advocates of Star Wars and the flat tax. Backers of affirmative action to help disadvantaged groups get a subsidy but opponents of affirmative action do not. Virtually every liberal cause gets a subsidy while conservative ones do not, unless they twist their message severely in order to accommodate a left-leaning ideological litmus test.

The charity tax credit is a liberal fundraiser's dream: a potent tax break available primarily to those who have and advance liberal ideas. It will lead to a tax code that subsidizes liberal speech at

the expense of conservative speech.

If conservatives want to commit suicide, there are surely more direct means available. Why not just create an extra 20 seats in the United States Senate and assign them permanently to the ACLU,

**The charity tax credit is a liberal fundraiser's dream:  
a potent tax break primarily for those who  
advocate liberal values.**

the NAACP, and the Children's Defense Fund? Enacting Barwick's plan would have the same practical effect.

Barwick says he wants to create a marketplace for charity permitting individuals to choose where their monies go. In fact, he does neither. His proposal is narrow and corrupt because he mimics the core premises of the War on Poverty. His idea of "charity" bows in obeisance to the liberal icons of guilt, victim worship, envy, and indulgence. It is divorced from true benevolence. To mention one example among a thousand: he would subsidize hospice care for the indigent terminally ill, but not donations for medical research to cure diseases. This is a very bad idea.

If we wish to strengthen civil society, reduce government, and combat moral deconstruction, we should consider enhanced tax relief for *all* philanthropic giving, not merely the narrow leftish aid to the "poor" envisioned by Barwick. Such an alternative would foster true benevolence, rather than a stale repeat of the War on Poverty. To the extent speech and advocacy were funded, all ideas would be treated equally and public discourse would not be biased toward the Left.

*Robert Rector is the senior policy analyst for welfare and family issues at The Heritage Foundation.*

## Grace-Marie Arnett

### *Granting credits for charitable gifts will make a complex tax code worse*

**W**ho can argue that a tax credit for charitable contributions isn't worthwhile? Of the thousands of twists and turns in federal and state tax codes, one that promotes charitable giving to encourage civil society should be at the top of the list. But there are costs and trade-offs, and it is important that they be visible during the debate.

The advocates of hundreds if not thousands of worthwhile causes can and do make passionate and convincing cases for special tax favors to benefit their constituents. But whenever a social cause is steered through the maze of the tax code, the

donor, the recipient, and the beneficiary are subject to government intrusion to assure compliance. Further, any tax deduction or credit must be assessed with an eye toward its impact on the overall tax rate.

Just looking at the criteria that Peter Barwick has listed for eligibility for a charity tax credit suggests the complexity of the proposal: Under his plan, charities must prove that 75 percent of their budgets go to direct assistance for low-income individuals and that no more than 5 percent of the charities' budget is spent on political activities.

Government bureaucrats would have to write detailed regulations to define what "direct assis-

tance” means, charities would be required to provide volumes of paperwork to assure they are in compliance, and government agents would be free to scrutinize records detailing how the staff and volunteers of the charity spend their time and money.

Next, government could demand the lists of beneficiaries and ask for their income statements to determine if they meet the criteria of “low-income individuals” eligible for the “direct assistance.” Then, taxpayers, as always, would need to keep records to provide documentation of their donations.

Furthermore, tax deductions and partial tax credits like the Pennsylvania proposal are much more likely to be used by those with higher incomes. It only makes sense: Those with higher incomes have more money left over, after providing for their housing, food, transportation, and clothing, to give discretionary income to charity. They can afford to spend money to save money on taxes.

People at the lower end of the income-tax scale, on the other hand, are often least able to take advantage of tax preferences. A much higher percentage of their income—sometimes all of it—is consumed just to meet living expenses. They are limited in their ability to spend money on something that government encourages in order to save money in taxes.

Those who can afford to spend money on the tax credit can lower their effective tax rate; those who can’t are stuck. These loopholes create the perception that the rich are able to game the tax code, thus engendering resentment between the rich and the poor and hatred of the tax code.

The National Commission on Economic Growth and Tax Reform said in its 1996 report that there are important social and economic consequences to certain tax breaks such as the deduction for charitable contributions but that they should be considered “with an eye to their impact on the tax rate and the costs to the Treasury.”

The best way to encourage charitable contributions may be to lower tax rates across the board and trust in the generosity of the American people—as we have throughout our country’s history. The greater economic growth and wealth generated by a lower tax burden and a simpler tax system

would provide people with the resources to give even more.

Taxes are too high and take too much of a family’s income, and they have increased decisively over the last four years: In 1994, federal tax receipts consumed an estimated 19.8 percent of GDP. And state and local taxes have risen to an estimated 11.1 percent of GDP. According to *Forbes*, that means the total tax take (30.9 percent) exceeds the previous high in 1981 of 30.2 percent (before the Reagan tax cuts). Even in 1944, at the height of World War II, taxes consumed only 25.4 percent of GDP.

In spite of this, the American Association of Fund-Raising Counsel reports that annual charitable giving by individuals in America has risen 9 percent after adjusting for inflation, or \$10.7 billion, since 1991. People don’t make contributions of \$10, or \$100, or \$1,000 to cut their taxes by \$3, or \$30, or \$300. They give because they believe in a cause or an organization. A thriving economy provides the best incentive for charitable giving.

Direct giving by individuals, without the government looking over everyone’s shoulder, means that charities would truly be able to channel their

**The best way to encourage charitable contributions to groups that fight poverty may be to reduce tax rates across the board.**

resources toward building a better society, not complying with suffocating government rules and regulations. Professor Dale Jorgenson of Harvard University told the Tax Reform Commission that the income level in the United States could be 15 to 20 percent higher today if our anti-work, anti-saving, and anti-growth tax system were replaced. This translates to \$4,000 to \$6,000 per year for typical middle-income families. Imagine how much more charitable giving would be possible in such a world!

*Grace-Marie Arnett, formerly the executive director of the National Commission on Economic Growth and Tax Reform, is the president of the Galen Institute, a not-for-profit tax and health policy research organization based in Alexandria, Virginia.*

## Stanley W. Carlson-Thies

*There is no substitute for government’s special role in fighting poverty*

**T**he charity tax credit is an innovative way for government to encourage greater involvement by citizens and social institutions in helping the poor. But the credit is no magic replacement for gov-

ernment’s own anti-poverty role.

Families in deep crisis need more than dollars and bureaucratic services, to be sure; they need assistance that is, in Marvin Olasky’s words, “challenging, personal, and spiritual.” A government that wants an effective welfare effort must find