

Black Charity Without Subsidy

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Abstract

The charitable sector plays a critical role in the governance of the United States. Because nonprofits provide some services that the government could provide, nonprofits allow the government to both free up resources for other endeavors and privatize the provision of some benefits. The charitable sector is largely funded by individual, voluntary contributions. Since 1917, the government has subsidized some of these contributions by allowing qualifying donors to deduct their charitable gifts. Donors who take the deduction do not bear the full cost of their donations; rather, by voluntarily declining to collect a portion of the taxes due, the federal government reduces the cost to donors by bearing the economic incidence of a portion of the donation. A number of scholars have pointed to this ability by taxpayers to direct a portion of federal spending as a nod toward pluralism. While the majoritarian government determines the majority of its spending, individuals can directly control where a portion of their tax dollars go.

This pluralistic story turns out to be incorrect both historically and contemporarily, however. Historically, the charitable deduction was enacted, not to allow popular direction of charitable dollars or even to encourage charitable giving, but to permit wealthy philanthropists to continue their philanthropy even in the face of an income tax. And today the charitable deduction continues to benefit primarily the upper-middle-class and the wealthy. As an itemized deduction, only a small fraction of taxpayers can take the deduction.

While the IRS does not collect information about taxpayer race, Professor Dorothy Brown has convincingly argued that Black taxpayers are less likely to itemize their deductions than white taxpayers. Black taxpayers are therefore less likely to be able to deduct their charitable contributions than white taxpayers. The consequences of this inability to take the charitable deduction means that donating to charity is more expensive for Black taxpayers than for white taxpayers. And while that alone violates the horizontal equity that tax policy favors, it has effects that reverberate much further than individual cost. Charities that rely on donations must, therefore, appeal to white donors' sensibilities, even if they focus on aiding the Black community and even if white donors' preferences do not match Black donors' preferences.

And, in fact, Black donor preferences are almost certainly underrepresented in the charitable sector. Black people are underrepresented on the staff of nonprofits and are even more underrepresented in leadership roles. Even nonprofits that serve the Black community are overwhelmingly directed and funded by white individuals. As a result, Black taxpayers may miss out both on the services that the government has delegated to private charities and on the opportunity to direct a portion of their tax dollars to endeavors they prefer.

To both strengthen Black charitable institutions and to allow Black donors to enjoy the same charitable tax benefits white donors do, we need to rethink the way we subsidize charity. One route that Congress should seriously consider is replacing the charitable deduction with a 32-percent tax credit.