The scenic campus of Colgate University in upstate New York is enjoying more than a fresh coat of paint these days. New buildings include the Robert H.N. Ho Science Center and the Trudy Fitness Center. The Case Library was refurbished and renamed, and includes the new Geyer Center for Information Technology. There's also $142 million in the coffers for financial aid — all the fruits of a recent $480 million fundraising campaign.

Colgate cast a wide net. But like most big fundraising campaigns, particularly in higher education, the lion's share came from wealthy benefactors rewarded in return with a combination of altruistic satisfaction, naming rights — and a big tax deduction.

Now that tax deduction may be in jeopardy, and some in higher education are worried.

Democrats want more tax revenue and Republicans are fighting increased in tax rates. That means capping deductions for such things as mortgage interest and possibly charitable contributions will likely be part of any compromise.

Such an outcome would shed light on a question economists have longed debated: How big a factor is that tax deduction in the decision to give to charity generally, and in the globally unrivalled fundraising success of American colleges, which collected $30 billion in donations last year?

Colleges have particular reason for concern. Compared to charities such as religious or social service organizations, education gets a hugely disproportionate share of contributions from the well-off. It's wealthier taxpayers who itemize and benefit most from deductions — the higher your marginal tax rate, the bigger the "discount" you get on your taxes for giving to charity. So incentives for the wealthy to donate less could particularly affect education.

"We're deeply concerned they'll do something very quickly before the end of the year that they don't really understand the consequences for giving," said Steven Bloom, director of federal relations at the American Council on Education, which has written to the White House and Congressional leaders on behalf of 16 higher education groups opposing caps. If colleges raise less from private donations, they might have to raise more from tuition, he said.

But others are less worried about possible long-term effects — among them, Colgate's chief fundraiser, Murray Decock.

"Our alumni and our parents don't give solely for tax reasons," said Decock, the vice president for institutional advancement. "It's probably the third or fourth reason. They're primarily giving to make an impact."

In fact, it's not yet clear yet that a fiscal cliff deal would hurt charities. If the charitable deduction stays, or is capped at a high amount, but marginal tax rates, inheritance taxes and capital gains taxes rise, charitable contributions could become more economically appealing to the wealthy, not less.

Colleges generally don't advertise how top-heavy their contributions are, so as not to discourage modest donations from a broader base. They do appreciate those smaller annual checks, but they solicit them mainly to increase the likelihood an alum who strikes it rich is already in the habit of giving. Make no mistake: Higher education philanthropy is about marlin, not minnows.

In Colgate's recent campaign, nearly 35,000 people contributed something. But the campaign blew past its $400 million target on the backs of a much smaller group: about 1,000 donations of $25,000 or more, 91 of at least $1 million, and two of more than $25 million. Decock called it a "90-10 campaign" — 90 percent of the funds coming from 10 percent of donors, which is common for schools like Colgate.

But in fund drives at larger institutions, he said, the ratio is usually more like 97-3. Overall, at the largest universities, the
three largest gifts alone account for about a quarter of all giving on average, and at smaller colleges they’re about half, according to the Council for Aid to Education.

Wealthy families are more interested in supporting education, relative to other charities and income groups. More than 90 percent of household donations to education come from those earning $200,000 or more, according to Indiana University’s Center on Philanthropy’s most recent survey data, from 2005. For religious causes, less than one-third of household support came from those high earners. Eighty-three percent of millionaire households made donations averaging nearly $80,000 to education, compared to 11 percent of households earning under $100,000 who contributed on average $243 to education (the lower earners’ contributions to religion, however, averaged $1,423).

The charitable deduction, which dates to 1917, would cost the government about $250 billion over the next five years, and proposals for reform vary. President Barack Obama has suggested limiting all deductions to a rate of 28 percent, which the Tax Policy Center has estimated would reduce overall giving about 2 percent, or $9 billion.

Others want a hard cap on all deductions — say $25,000 or $50,000, but possibly excluding charitable contributions. The Bowles-Simpson deficit commission has proposed almost the opposite approach: a floor, where the tax benefits kick in only after a certain amount of giving. That could do less to discourage philanthropy from the well-off.

In the Indiana survey of wealthy families, half said they would maintain their giving even if the deduction disappeared, while about 40 percent said it would decline and 10 percent said it would decline substantially. Economic models, meanwhile, have made varying predictions for how the different proposals might affect giving.

Duke University economist Charles Clotfelter is among those whose research leads him to conclude curtailing the deduction would have a substantial effect, and says colleges are right to be worried. Tax breaks aren’t the main reason people donate, but he said seemingly small changes on the margins could have a big effect.

"The people that are giving the big gifts to universities are very sophisticated,” he said. "They’re having talks with their accountants and tax lawyers. They know what the effect is going to be.”

Others, however, prefer to emphasize evidence that tax breaks are well down the list of philanthropic motives. One study found people already donate about twice as much as they can deduct (many wealthy families already hit deduction caps through the Alternative Minimum Tax). There are also countless billions given in charity — remittances abroad, gifts in kind, cash contributions — that aren’t even eligible for deduction. That suggests taxes are a relatively small part of the equation.

There’s also history. Tax law changes, like the 1986 reforms, clearly affected giving temporarily. But the generally upward trend has usually returned. Paul Schervish, director of the Center on Wealth and Philanthropy Boston College, notes top marginal tax rates have mostly fallen over recent decades, from 90 percent to the current 35 percent. That would seem to predict decreased giving, as the wealthy were allowed to keep more of their money without having to choose between Uncle Sam and alma mater. But philanthropy has grown, and when it was interrupted, the cause was the recession, not tax incentives.

"The best thing for charity is economic growth,” Schervish said.

"There will be giving without this deduction,” he added. "It will be less. But when there’s a sufficient need communicated, people will give.”

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