The Obama administration's proposed limits on the tax deductibility of charitable contributions represent a bad idea whose time — it is slated to go into effect in 2011 — should not come. Economists, including Martin Feldstein, president emeritus of the National Bureau of Economic Research, estimate that total charitable giving under the new tax rule would take a $7 billion hit two years from now.

Feldstein, now a professor of economics at Harvard University, notes that the proposal would "effectively transfer" that amount from charitable institutions to the federal government, making a bad situation in the world of philanthropy due to sharply reduced endowments truly dire.

"Lifeline" social service organizations providing basic services could be the hardest hit; nearly a third ended 2008 with a deficit, according to a recent Nonprofit Finance Fund survey. The early 2009 poll of 1,000 nonprofit leaders reported that just 16 percent expect to be able to pay their expenses this year and next, with 49 percent bracing for a drop in individual contributions.

Intentional or not, the new tax proposal in effect amounts to a tax on charity. Standing by the plan, President Obama said in a March 24 media conference: "There's very little evidence that has a significant impact on charitable giving."

Other studies, however, prove otherwise. A report from the Center on Budget and Policy Priorities has projected a resulting 1.3 percent drop in charitable contributions, while the Center on Philanthropy at Indiana University calculated the potential loss at about 2.1 percent.

While few major donors give solely to gain a tax deduction, the evidence that their giving can be linked directly to tax revenue is well documented. In 2007, for example, the Congressional Joint Committee on Taxation estimated that charitable deductions of couples with incomes of more than $250,000 per year (and individuals earning more than $200,000 per annum) reduced government revenue by some $23 billion. Under current law, such couples can deduct 50 percent of the value of charitable gifts from their current income; the Obama administration proposal would limit such deductions to 28 percent of total gifts. If the proposed tax law had been in effect in 2007, using the joint committee's estimates, charitable giving would have been reduced by about $6.5 billion.

How would this affect our region's colleges and universities in practice? If, for example, an alumnus gave $10,000 to my institution under current tax laws at 35 percent deductibility, his tax bill would be reduced by $3,500. By contrast, if an alumnus gave the same $10,000 to Bethany College in 2011, under the new law in effect, her tax savings would be limited to 28 percent of $10,000 or $2,800. And suppose the 10 percent increase in the cost of giving caused the alumnus to reduce her gift by 10 percent to $9,000, her tax savings would be 28 percent of that amount, or $2,520. Under that scenario, the government's revenue loss would be reduced by $980 (from $3,500 to $2,520), but the alumnus to the College would be reduced by $1,000, almost the same amount.

Multiply this loss by a hundred or so like gifts in the same fiscal year — while coupling it with an average 20 percent decline in endowment as a result of the fall in stock prices and tuition discounting necessitated by lowered family assets — and you can understand the fallacy of this proposal.

Perhaps worse, the real losers in such a scenario would be the university or other intended beneficiary of the gift, not the donor herself, under the 28 percent deductibility limitation. The hypothetical alumnus would actually pay $980 more in taxes, but spend $1,000 less — ending up with an extra $20 for personal consumption.

The law of unintended consequences has surely come into play here. As Feldstein concludes, high-income taxpayers affected by the rule change are likely to cut their charitable giving by as much as the increase in their tax bills — ironically, leaving their remaining income and personal consumption unchanged. Rather, our hospitals, museums, arts organizations, colleges and universities would be the true victims. It is difficult to imagine that this was the intent of administration officials who drafted this misguided proposal.

We should "just say no" to its enactment.

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