NOW that Congress has actually managed to enact tax legislation, it may be time to consider some bigger issues. I hope that broad-based tax reform will be high on the list of both major parties.

Any meaningful reform will face intense lobbying from those who stand to lose. The tax deduction for charitable giving is a case in point. Although changes will be fought both by the givers and the receivers of tax-deductible donations, there is good reason to disregard their pleas.

First, some basics. If there is one thing that most economists agree about in the realm of tax policy, it is that it’s best to broaden the base of any tax, all else being equal. That means minimizing the number of deductions and exclusions from taxable income in order to lower marginal rates and reduce distortions. N. Gregory Mankiw made this case powerfully in this space recently, and President Obama and the Bowles-Simpson fiscal commission have taken up the cause as well.

In light of our prolonged economic doldrums, a decision to cut taxes for now is both popular and justifiable. But, eventually, Congress will have to face up to the fact that to deal with the long-run deficit problem we have to raise tax revenue as well as cut spending. Many Republicans know this deep in their hearts but can’t bring themselves to actually say it, for fear of excommunication.

Broadening the base can solve this quandary because, by reducing deductions, lawmakers can cut tax rates but increase revenue. This is one type of voodoo economics that actually works.

Two deductions are likely to be central in any debate on tax reform: those for mortgage interest and for donations to charity. With the housing market still suffering, it is hard to persuade anyone to consider changing the mortgage deduction right now, so I will concentrate on charitable giving.

Consider this scenario: Having decided that charitable giving is a worthy cause, the government subsidizes charitable gifts from certain households, and for those chosen to be part of the plan, every dollar donated to a charity is increased by a specified percentage. To qualify, taxpayers must have a substantial home mortgage; the subsidy rate increases with taxable income. Low-income taxpayers receive no subsidy, but donations from qualified high-income taxpayers are subsidized by as much as 40 percent — or more.
At this point, you may be wondering why I’d even mention something so preposterous. After all, why should a family’s eligibility for a donation subsidy depend on whether it has a large mortgage? And why should the government subsidize donations by the rich more than donations by the poor? The idea seems a nonstarter. And it would be, if not for one important detail: it is (approximately) the current law.

Admittedly, the current tax treatment of charitable donations is not phrased as a subsidy, but that is just semantics. If someone in the 36 percent tax bracket gives $1,000 to charity and deducts it from his income tax, the donation costs him only $640. The government picks up the rest. That’s a subsidy.

It would be reasonable to ask why the government should subsidize charitable contributions at all. But for now, let’s discuss this simpler and more politically relevant question: If we are going to continue subsidizing these donations, what is the best way to do it?

First, I should clarify a simplification I’ve made. In the current system, strictly speaking, your eligibility to deduct a charitable contribution doesn’t depend on whether you have a big mortgage. But it might as well. You can deduct charitable contributions only if you itemize rather than take the standard deduction, and the most common way a household collects enough deductions to make itemizing worthwhile is to have a big mortgage. (Living in a high-tax city like New York can also help a taxpayer cross that threshold, because state and local taxes are deductible, at least for now.)

But I challenge anyone to justify a system in which we essentially subsidize contributions made by people with big mortgages. For one thing, this set-up magnifies the already large distortion created by the mortgage interest subsidy, since having a mortgage qualifies taxpayers for other subsidies as well.

It is equally hard to justify subsidizing the gifts of rich people more than those of poor people. We do so because our tax system treats donations and mortgage interest as “deductions” from income. That is, we subtract these from income and pay taxes on the rest. This is logical when it comes to business expenses. Someone who owns a business should pay taxes only on profits, not on revenue. But that logic does not follow for charitable deductions, which are not a cost of doing business.

What would be better? I suggest three principles to help guide the debate:

• **The tax subsidy rate should be the same for everyone.** This means that rather than being a deduction from income, the subsidy should take the form of a tax credit, so that if you contribute $1,000 and the subsidy rate is 15 percent, your taxes would be reduced by $150. (Ideally this credit should be “refundable,” so it is payable even if your tax bill is zero or negative.)

• **In the interest of tax simplification, the tax credit should apply only to donations above a certain minimum.** The minimum could be, say, 2 percent of adjusted gross income. That way, only large contributors need to bother keeping records.
• *The tax credit rate should be kept low enough to prevent large distortions.* If political considerations require that we maintain this subsidy, it might make sense to peg it to the capital gains tax rate, which is now 15 percent.

IN considering these principles, please understand that I’m not proposing anything that would alter the current rules that allow people to give their money to charity to avoid paying estate taxes. If a billionaire wants to give his money away rather than bequeath it to his heirs that’s fine — great, in fact. Think of the logic this way: A charitable gift does not reduce income, so it should not be deducted from a tax on income, but it does reduce a bequest and the estate tax should apply to bequests.

In the overall debate, we should be consistent above all else. If we think that high marginal tax rates are bad because they distort incentives, the same is then true for tax subsidies. If people want to give money to a worthy organization, applaud them. But let them do it on their own dime. I don’t think it says anywhere in the Bible that tithing should be calculated on a before-tax basis.

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