Charitable Giving and the Tax Cuts and Jobs Act

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This paper investigates how the Tax Cuts and Jobs Act affects household charitable giving in the United States. We find that the law will reduce charitable giving by $17.2 billion (4.0 percent) in 2018 according to a static model and $16.3 billion assuming a modest boost to growth. Four-fifths of this decline is driven by an increase in the number of taxpayers who claim the standard deduction. We also investigate two policy options that could boost total giving above previous levels: an above-the-line deduction and a tax credit.

For over a century, the US tax code has incentivized charitable giving by allowing individual taxpayers who chose to itemize to deduct their charitable gifts. With the enactment of the Tax Cuts and Jobs Act (TCJA) in 2017, the aggregate federal tax incentive for charitable giving has been reduced. While the TCJA imposes no explicit limitation on the deduction for charitable giving set forth in Section 170 of the Internal Revenue Code, the increase in the standard deduction, coupled with limitations on key itemized deductions, will significantly reduce the number of taxpayers who itemize and are therefore eligible for a tax break for their donations. Additionally, reductions to individual income tax rates will moderately increase the after-tax price of giving for many of those who continue to itemize.

We estimate that the TCJA will reduce individual charitable giving by almost 4.0 percent, or $17.2 billion on a static basis and $16.3 billion on a dynamic basis. We explore two policy reforms that could revitalize individual giving: (1) extending the charitable deduction to non-itemizers and (2) replacing the deduction with a flat-rate credit for charitable contributions.

Charitable Giving and the Tax Code

The deduction for charitable contributions was first added to the tax code as part of the War Revenue Act of 1917. Donations were deductible up to a ceiling of 15 percent of taxable net income. In 1944, Congress liberalized the deduction by changing the ceiling to 15 percent of adjusted gross income (AGI), a broader measure than taxable net income. The limit was increased to 20 percent of AGI in 1952 and to 30 percent of AGI in 1954. In 1964, Congress expanded the charitable giving provision by broadening the types of organizations that can receive tax-deductible donations and, under certain circumstances, by permitting an unlimited deduction.

In 1969 and again in 1976 and 1978, Congress shifted course, tightening the rules and imposing new limitations on the charitable deduction. A significant expansion, albeit temporary, occurred in 1981 when Congress extended the charitable deduction to non-itemizers. Non-itemizers were allowed to deduct a small amount of contributions in 1982 through 1984, half of all contributions in 1985, and all contributions in 1986. Because Congress
allowed the provision to expire at the end of that year, 1986 was the only year in which non-itemizers received a full charitable deduction (Lindsey 2003).

Before the TCJA, the charitable deduction was generally limited to 50 percent of AGI (30 percent in the case of property) and available only to taxpayers who itemize. Deductions that exceeded the limit could be “carried forward” to be deducted in subsequent years.

After rising steadily from 1976 through 1996, the growth rate of charitable giving by individuals increased notably until 2006. Giving dropped considerably during the Great Recession and then increased again after 2011. In 2017, total giving was at a record high, $410 billion, which was 2.1 percent of gross domestic product (GDP) (Giving USA 2018). Figure 1 reports the total amount of charitable giving by donor type for 1977–2017.

Of the $410 billion in charitable contributions in 2017, households contributed nearly three-fourths of the total ($287 billion), with the remainder coming from foundations ($67 billion), bequests ($36 billion), and corporations ($21 billion). Religious institutions received the plurality of donations, collecting 31 percent ($127 billion) of the total in 2016. Educational institutions received 14 percent, followed by human services organizations (12 percent), foundations (11 percent), health institutions (9 percent), and public society benefit charities (7 percent). Other establishments made up the remaining portion (Giving USA 2018).

### Economics of Charitable Giving

Individuals are motivated to make charitable donations for various reasons, in addition to pure altruism. Donors likely derive internal satisfaction (e.g., impure altruism or “warm glow” (Andreoni 1989)). Another motivation may be prestige, as charitable giving allows some donors to signal to the public that they are wealthy or kind (Glazer and Konrad 1996). In addition to statistical evidence of the prestige motivation (e.g., Harbaugh 1998), consider the common practice of naming buildings after donors who have made large contributions.

Regardless of motives, reducing the price of giving—whether through a tax subsidy or another mechanism—increases charitable giving. The mechanics of the tax code's effect on the price of charitable giving are relatively simple. For a taxpayer who itemizes his or her deductions and faces a marginal tax rate of $\tau$, the after-tax price of giving $\$1$ is $(1 - \tau)$. As $\tau$ rises, the price of giving falls. For taxpayers who itemize and are in the

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1 Foundations both make charitable grants and receive charitable contributions, although no tax benefit accrues from grants. Giving USA estimates are carefully constructed to minimize or avoid the risk of double counting charitable giving when fundspass through multiple entities.

2 In some cases, an additional motivation for charitable contributions may be to obtain a particular good or service from a charity such as a meal, admission to an event, or other gift. Generally, the value of this gift must be subtracted from the contribution to determine the allowed tax deduction. However, the IRS permits the value associated with admission to a religious ceremony to be ignored for this purpose, as well as small value (token) gifts (IRS 2016).
top 37 percent marginal tax bracket in 2018, the price of giving $1 is $0.63. Conversely, for taxpayers who do not itemize, the price of giving $1 is $1.

Economists have long tried to estimate the responsiveness of charitable donations to changes in both the cost of charitable giving and one’s AGI (that is, estimate an elasticity of charitable giving with respect to price and income, respectively). Clotfelter (1997) states that most estimates for the price elasticity range between −0.5 and −1.75, while income elasticities range from 0.4 to 0.8. He notes that then-recent papers had estimated smaller (in absolute values) price elasticities and larger income elasticities. As an example, Randolph (1995) uses a high-quality panel of tax returns from 1979 to 1989 and estimates a permanent price elasticity much smaller than previous studies had estimated; he estimates a value between −0.08 and −0.51. He estimates a large permanent income elasticity, ranging from 1.14 to 1.3. In a meta-analysis on this topic, Peloza and Steel (2005) find that, with outliers removed, the average price elasticity is −1.1. In our analysis, we assume price and income elasticities of −1.0 and 1.0, respectively. These values are roughly in the middle of the distribution of historical estimates and consistent with assumptions typical in policy analysis in this area.

Estimating the Impact of the TCJA

In this section, we use the Open Source Policy Center’s (OSPC)3 Tax-Calculator, which can model tax filer behavioral responses based on changes to the tax code to analyze the TCJA’s impact on charitable giving by individuals. The OSPC Tax-Calculator relies on the 2011 IRS Public Use Tax File, which contains 163,790 anonymized tax records, to simulate the effects of various fiscal policies on individual income taxes.

The TCJA included only one direct change to Section 170: raising the ceiling on cash donations from 50 percent of AGI to 60 percent of AGI—a small but simple change to analyze. Other TCJA changes have important effects on charitable giving as well. Here, we highlight two, but in our analytical work we incorporate all relevant changes to individual income tax provisions.

First, the standard deduction was nearly doubled from $6,300 (single) and $12,600 (married) in 2017 to $12,000 (single) and $24,000 (married) in 2018. As a result, many taxpayers who otherwise would have deducted their charitable donations as itemizers will now claim the standard deduction and not receive a tax incentive for charitable giving.

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Second, marginal tax rates were generally reduced, which, all else equal, reduces the tax incentive for giving for taxpayers who itemize. For example, the reduction in the top bracket from 39.6 to 37 percent would increase the price of giving by 4 percent for an itemizer in that bracket (from 0.604 to 0.63).

Changes to the personal exemption, child tax credit, and state and local tax deduction, among others, could have minor, ancillary effects by, for example, reducing the number of taxpayers with positive tax liability. Other tax changes, including doubling the estate tax exemption and reducing the corporate tax rate, would likely also affect charitable giving but are beyond the scope of this report.

We estimate that, because of the TCJA, 27.3 million tax filers will switch from itemizing their deductions to claiming the standard deduction in 2018. These taxpayers will now face a price of charitable giving of $1 rather than ($1 − t). For nearly all the 19.9 million tax filers who will continue to itemize their deductions, the price of charitable giving will increase slightly because their marginal tax rate will decline. Conversely, the increase on the limit for charitable cash donations to 60 percent of AGI reduces the tax price of giving for tax filers who donate a large portion of their income to charity.

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Treatment of Non-Itemizers. The IRS Public Use File allows us to only observe the charitable contributions of itemizers, so to model the effects of income changes on aggregate giving, we must make assumptions about donations by the non-itemizers in our data. To start, we estimate total charitable giving in 2018 under pre-TCJA law. Giving USA reports that households gave $287 billion in 2017 and that giving has grown at a nominal rate of approximately 3.2 percent over the past five years. Extrapolating at this rate, we predict 2018 individual giving would have totaled $296 billion if the TCJA had not been adopted. The OSPC Tax-Calculator predicts that itemizers would have made $221 billion in charitable donations in 2018; we therefore assume that taxpayers claiming the standard deduction would have contributed the remaining $75 billion. (This baseline attributes one-fourth of individual charitable donations to non-itemizers, which is slightly higher than the one-fifth share Giving USA reported.)

Our next step is to estimate average charitable giving relative to income by AGI group and filing status. Previous research has suggested that giving as a fraction of income follows a nonlinear pattern as incomes rise. Low- and high-income tax filers tend to give a larger fraction of their incomes to charity than middle-income tax filers do. We separate itemizers by income range and report each group’s mean charitable giving as a share of after-tax income. We confirm this U-shaped pattern in our data.4

Our last step is to calculate assumed charitable giving by each non-itemizer. We allocate the $75 billion in assumed donations across non-itemizer income groups, following the same distribution of charity-to-income ratios as outlined below. Even when adjusting for relative incomes, the fraction of total income donated by non-itemizers is lower than that of itemizers (Table 1). This persistent gap is documented in numerous data sources (Indiana University Lilly Family School of Philanthropy 2017).

<table>
<thead>
<tr>
<th>AGI</th>
<th>Charity as a Share of After-Tax Income</th>
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<tbody>
<tr>
<td>$0–$50,000</td>
<td>4.7%</td>
</tr>
<tr>
<td>$50,001–$100,000</td>
<td>4.0%</td>
</tr>
<tr>
<td>$100,001–$200,000</td>
<td>3.1%</td>
</tr>
<tr>
<td>$200,001+</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on the Tax-Calculator release 0.20.1.

Baseline. Before we model the TCJA’s effects, we report the distribution of charitable giving under pre-TCJA law for 2018. Figure 2 reports total individual donations by AGI decile (splitting the top decile into two 5 percent groups). We include donations by itemizers and estimated non-itemizer giving. The bulk of charitable giving is driven by high-income individuals: The top 5 percent of tax filers (those with AGIs greater than $202,000) give $111 billion, nearly two-fifths of total individual donations; the top 20 percent of tax filers (those with incomes greater than $64,000) give $189 billion, 64 percent of the total. Proportional changes in giving by high-income filers therefore substantially affect total charitable donations. Figure 2 also shows that the itemizers’ share of donations rises with income, reflecting that higher-income individuals are more likely to itemize.

The TCJA’s Impact on Charitable Giving. Before estimating the TCJA’s impact on individual charitable giving, we present an overview of the bill’s impact on the average price of giving by AGI. Figure 3 presents the weighted average after-tax price of giving $1 by AGI ventile (5 percentage point increment) under pre-TCJA law and post-TCJA for 2018. Each line reflects both the share of taxpayers who claim the standard deduction (price equals $1) and the average price ($1 – v) for those who itemize. The TCJA virtually does not affect the price of giving

4Studies have proposed numerous explanations for this pattern. List (2011) cites religious giving as a potential answer, as poor households tend to give a greater portion of their income to religious causes. The large portion of giving by high-income filers can be explained by a small population of high-wealth individuals donating from their stock of assets rather than their incomes (James III and Sharpe 2007).
for taxpayers with AGI below the median but raises
the average price of giving significantly for taxpayers in the top two deciles.

Next, we estimate how the TCJA affects individual charitable giving and disaggregate that into two parts: the effect of the increase of the standard deduction and all other changes. These estimates, reported in Table 2, are for tax year 2018 and reflect both the change in the after-tax price of giving and the change in after-tax income because of the TCJA.

We find that the TCJA reduces charitable giving by $17.2 billion. The majority of this effect (83 percent) stems from the increase in the standard deduction. The remainder ($3.0 billion) is primarily associated with lower marginal tax rates for high-income taxpayers, the doubling of the standard deduction is responsible for nearly all the change in giving.

Even among the highest-income taxpayers—those in the 95th percentile of AGI and above, where relatively few taxpayers will switch from itemizing to the standard deduction—roughly 60 percent of the estimated decline in giving is attributable to the increase in the standard deduction. This result is driven by the large share of high-income taxpayers expected to switch from itemizing deductions to the standard deduction. Specifically, among the 8.6 million taxpayers with an AGI greater than $202,000, the number who claim the standard deduction is expected to increase from approximately 550,000 to 3.3 million. These switchers, with an AGI average of about $363,000, will face a steep increase in their price of giving.

These estimates are calculated under a static or fixed-GDP framework—an assumption that the TCJA will not result in a change in the level of GDP relative to the pre-TCJA baseline. To the extent that the TCJA yields pro-growth impacts on the US economy, the negative impact on charitable giving will be reduced.
Table 2. The TCJA’s Impact on Individual Charitable Giving in 2018 (Dollars in Billions)

<table>
<thead>
<tr>
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<th>Overall</th>
<th>Disaggregated</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Increased Standard Deduction</td>
</tr>
<tr>
<td>Change in Charitable Giving</td>
<td>−$17.2</td>
<td>−$14.2</td>
</tr>
<tr>
<td>Change as a Share of Total Giving</td>
<td>−4.0%</td>
<td>−3.3%</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on the TaxCalculator release 0.20.1.

In fact, positive growth effects from the TCJA are expected. The Congressional Budget Office (2018) estimates that the TCJA will boost real GDP by 0.3 percent in 2018 and that the level of real GDP will be 1 percentage point higher by 2022. The OSPC model allows for the application of dynamic growth effects; we find that a 0.3 percentage point increase in income growth reduces the decline in charitable giving in 2018 by $815 million. The result is a smaller drop in charitable giving of $16.3 billion. A full 1 percentage point boost in GDP in 2022 would offset approximately $3.2 billion in reduced giving.

Options to Increase Charitable Giving

While the TCJA made only one explicit change to the tax treatment of charitable giving, its net effect discourages charitable donations by individuals. To the extent that previous levels of giving reflected policymakers’ preferences regarding aggregate individual charitable giving, we now consider tax policy options that would restore charitable giving to near the pre-TCJA level while preserving other elements of the TCJA. The Congressional Budget Office (CBO 2011) outlined various reform options to the charitable giving deduction, and, more recently, numerous legislative proposals have been introduced. The Universal Charitable Giving Act that Rep. Mark Walker (R-NC) and Sen. James Lankford (R-OK) introduced would extend the charitable deduction to non-itemizers but would limit non-itemizers’ maximum allowable deduction to one-third of the standard deduction. The Charitable Giving Tax Deduction Act that Rep. Chris Smith (R-NJ) introduced would also establish an above-the-line deduction for charitable giving without the limit the Universal Charitable Giving Act imposes.

Figure 4. Total Change in Charity by AGI Deciles

Source: Authors’ calculations based on the TaxCalculator release 0.20.1.

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In this section, we examine (1) the impact of an above-the-line deduction that is available regardless of whether a taxpayer itemizes and (2) a replacement of the charitable deduction with a flat-rate 25 percent nonrefundable tax credit, which is an option the CBO previously analyzed.

Both policies encourage giving by reducing the average price of charitable giving. For an above-the-line deduction, non-itemizers’ price of giving would fall to 1 – t, and itemizers would be unaffected. Under the 25 percent credit, the tax price of giving would be 0.75 for everyone who pays individual income tax. Compared to the above-the-line deduction, the tax price of giving would rise for taxpayers in tax brackets above 25 percent and fall for those in tax brackets below 25 percent.

Past proposals have set a minimum threshold on donations eligible for preferential tax treatment. (See Ackerman and Auten (2006) for a discussion.) This type of modification has two implications. First, it limits the tax subsidization of charity to those who donate modest amounts; tax filers whose total donations do not reach this floor do not receive any tax benefits for their giving. Second, it reduces the amount of tax revenue required to incentivize charitable giving among tax filers who are eligible for the tax break. Instead of subsidizing every dollar donated, the tax code subsidizes only charitable donations in excess of the floor. In our analysis, we model the above-the-line deduction and the tax credit with and without a floor of $500 for single filers and $1,000 for married filers.

For all four reform options, we estimate the increase in charitable giving and associated revenue impact for 2018 (Table 3). These four scenarios yield an increase in giving ranging from $19.1 billion to $23.3 billion, more than offsetting the reduction that is expected to occur in 2018 because of the TCJA. However, the revenue loss varies significantly across the options. The costliest of the four options is a 25 percent tax credit with no floor ($31.1 billion), followed by an above-the-line deduction with no floor ($25.8 billion). The above-the-line deduction with a floor has the smallest revenue cost at $14.6 billion.

Despite the similar aggregate impact and revenue loss of both the above-the-line deduction with a floor and the tax credit with a floor, the distributional impacts differ significantly. Figure 5 reports the TCJA’s impact and these two reform options relative to a pre-TCJA baseline. In particular, the 25 percent credit would boost giving for most taxpayers and would have a greater positive impact than the above-the-line deduction on giving for taxpayers in the lower 90 percent of the income distribution. However, the tax credit would decrease charitable giving among the highest-income taxpayers relative to the TCJA baseline. These results should be expected because filers facing marginal tax rates below 25 percent would face a lower price of giving under the 25 percent credit ($0.75), while high-income filers facing marginal tax rates above 25 percent would face a higher price of giving.

## Conclusion

For over 100 years, the tax code has, to varying degrees, reduced the cost of giving to charity for some taxpayers, although the share of taxpayers who receive a subsidy for giving and the degree of that subsidy have changed repeatedly. To simplify the tax code and provide tax relief to the middle class, the TCJA significantly increased the number

### Table 3. 2018 Change in Charitable Giving, Reform Options (Dollars in Billions)

<table>
<thead>
<tr>
<th></th>
<th>Above-the-Line Deduction</th>
<th>25 Percent Tax Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No Floor</td>
<td>$500/$1,000 Floor</td>
</tr>
<tr>
<td>Impact on Charitable Giving</td>
<td>$21.5</td>
<td>$19.1</td>
</tr>
<tr>
<td>Revenue Change</td>
<td>$-25.8</td>
<td>$-14.6</td>
</tr>
<tr>
<td>Net Impact, Including Impact from the TCJA</td>
<td>$4.3</td>
<td>$1.9</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on the TaxCalculator release 0.20.1.
of taxpayers claiming the standard deduction, thereby eliminating the tax incentive for giving for many middle-class households. The TCJA also reduced the subsidy rate for other taxpayers by cutting tax rates across the board. We estimate a 4.0 percent decline in total charitable giving in 2018, a $17.2 billion decline from a static (fixed-GDP) model, and a

$16.3 billion decline from a dynamic model, which assumes modest, near-term growth from the TCJA.

Without repealing any of the recent reforms, additional tax policy changes could reverse the impact of the TCJA on charitable giving. Two options—an above-the-line deduction and a flat-rate, nonrefundable 25 percent credit—have similar revenue losses and similar aggregate effects on giving, which more than make up for the reduction the TCJA induces. However, the 25 percent tax credit would further raise the price of giving for high-income filers. An above-the-line deduction with a floor ($500 for single and $1,000 for married) would, while modestly more progressive, most closely match the level and distribution of giving under pre-TCJA law.

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Alex Brill is a resident fellow at the American Enterprise Institute (AEI). Previously, Brill served as the policy director and chief economist of the House Committee on Ways and Means and served on the staff of the White House Council of Economic Advisers. Derrick Choe is a research assistant at AEI. Before joining AEI, he was a research assistant at Pomona College.

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