Implications of the TCJA for Charitable Giving

Jon Bakija
Williams College
jbakija@williams.edu

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Note: these price calculations only reflect effects of federal income tax, and ignore effects of state taxes and additional tax savings from avoiding tax on capital gains on donated assets. The breaks between income categories are (in 2017 dollars): 20% $25,000; 40% $48,600; 60% $86,100; 80% $149,400; 90% $216,800; 95% $307,900; 99% $732,800.
Percentage of all individual donations made by each income group, predicted baseline before TCJA, 2018

<table>
<thead>
<tr>
<th>Income Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 1 Percent</td>
<td>26.2</td>
</tr>
<tr>
<td>95-99</td>
<td>12.7</td>
</tr>
<tr>
<td>90-95</td>
<td>9.5</td>
</tr>
<tr>
<td>80-90</td>
<td>14.6</td>
</tr>
<tr>
<td>Fourth Quintile</td>
<td>21.2</td>
</tr>
<tr>
<td>Third Quintile</td>
<td>11.1</td>
</tr>
<tr>
<td>Second Quintile</td>
<td>3.8</td>
</tr>
<tr>
<td>Lowest Quintile</td>
<td>0.9</td>
</tr>
</tbody>
</table>


Note: these price calculations only reflect effects of federal income tax, and ignore effects of state taxes and additional tax savings from avoiding tax on capital gains on donated assets. The breaks between income categories are (in 2017 dollars): 20% $25,000; 40% $48,600; 60% $86,100; 80% $149,400; 90% $216,800; 95% $307,900; 99% $732,800.
Estimated impact of the TCJA individual tax provisions on aggregate individual charitable donations in 2018, if the price elasticity of charitable donations is -1

- $21 billion decline in donations
- 7% decline in individual donations

Source: author’s calculations based on estimates of the change in price and distribution of donations from Urban-Brookings Tax Policy Center (2017). Note: price calculations only reflect effects of federal income tax, and ignore effects of state taxes and additional tax savings from avoiding tax on capital gains on donated assets.
Some caveats

• Estimates above ignore the effects of state income taxes

• Income effects

• We know less about the impact of switching from itemizing to non-itemizing than we do about effects of changes in marginal tax rates for itemizers

• Will people bunch donations into alternate years?
The price of charitable donations increased for high-income people relative to others, 1970-2007

Income class of taxpayers, in thousands of constant year 2007 dollars:
- 75 - 125
- 125 - 200
- 200 - 500
- over 500

Note: price = 1 - tax saving from giving $1 more to charity.

Source: Bakija (2013). Includes effects of both federal and state income taxes.
Charitable donations as a percentage of disposable income declined more for high-income people relative to others, 1970-2007

Source: Bakija (2013), based on IRS public use individual income tax return micro data files. Sample is restricted to exogenous itemizers (those who would have itemized even if charitable donations were zero). Disposable income is defined as AGI plus excluded realized capital gains less federal and state income tax liability.
Source: Bakija (2013), based on IRS public use individual income tax return micro data files. Sample is restricted to exogenous itemizers (those who would have itemized even if charitable donations were zero). Disposable income is defined as AGI plus excluded realized capital gains less federal and state income tax liability.
Comparison of percentage change in price and percentage change in charitable donations as a share of disposable income for each income class, from 1970-79 to 1988-2007

Source: Bakija (2013), based on IRS public use individual income tax return micro data files. Sample is restricted to exogenous itemizers (those who would have itemized even if charitable donations were zero). Disposable income is defined as AGI plus excluded realized capital gains less federal and state income tax liability.
Source: Bakija (2013), based on published IRS individual income tax tables by state. Dependent variable is log charitable donation per itemizing return; on average 96 percent of returns in this income group itemize in these states. Control variables include log of after-tax income, log of share of returns with income above $200,000 that itemize in each state, and shares of state population that were adherents to each of six religions. The 95% confidence interval around the price elasticity estimate ranges from -0.6 to -2.6. States that do not have an income tax are excluded because of large shares of non-itemizers; including them changes the price elasticity estimate to -2.0.
Estimates of the price elasticity of charitable donations identified by difference-in-differences variation in tax incentives across states, from Bakija and Heim (2011)

<table>
<thead>
<tr>
<th>After-tax income in constant year 2007 dollars</th>
<th>Estimated price elasticity</th>
<th>Standard error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $100,000</td>
<td>-0.86</td>
<td>0.23</td>
</tr>
<tr>
<td>$100,000 - $200,000</td>
<td>-1.04</td>
<td>0.23</td>
</tr>
<tr>
<td>$200,000 - $500,000</td>
<td>-1.25</td>
<td>0.18</td>
</tr>
<tr>
<td>$500,000 - $1 million</td>
<td>-1.21</td>
<td>0.18</td>
</tr>
<tr>
<td>Over $1 million</td>
<td>-1.58</td>
<td>0.26</td>
</tr>
</tbody>
</table>

Source: Bakija and Heim (2011, Table 4, column 4)
References

