

Key Elements of the U.S. Tax System

How large are individual income tax incentives for charitable giving?

TAXES AND CHARITABLE GIVING

Q. How large are individual income tax incentives for charitable giving?

A. The individual income tax deduction for charitable giving provides a substantial incentive to give by reducing the economic cost of making a donation. In 2018, charitable giving by individuals is estimated to reach \$299 billion at an annual revenue loss of around \$44 billion.

CHARITABLE GIVING BY ITEMIZERS AND NONITEMIZERS

An income tax deduction for charitable giving is available only to taxpayers who itemize their deductions. Estimates from the Urban-Brookings Tax Policy Center (TPC) suggest that for 2020, charitable giving by individuals could reach \$324 billion. TPC estimates that the 90 percent of households that do not itemize their deductions will contribute about 40 percent of total charitable giving, while the 10 percent of households who itemize will provide about 60 percent (table 1).

TABLE 1

Estimated Charitable Giving by Itemizers and Nonitemizers
2020, under current law



Current law baseline	Itemizers	Nonitemizers
Number of tax units (thousands)	19,031	166,769
Percentage of total tax units	10%	90%
Total giving (\$ billions)	200	124
Percentage of total giving	62%	38%

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-2).

GIVING BY INCOME GROUP

Charitable giving patterns differ by income. The charitable deduction provides higher-income taxpayers with a larger tax subsidy per dollar donated, because such taxpayers are more likely to itemize deductions and because they generally face higher tax rates. Some research indicates that higher-income taxpayers are more responsive or sensitive to each dollar of tax subsidy—that is, each dollar of government cost generates more charitable contributions—perhaps because a subsidy is more salient to those more likely to use tax advisers,

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or simply because they tend to consume a smaller share of their income and therefore have a larger share of income out of which they can give.

Tax proposals that affect incentives for higher-income individuals to give, however, will have a disproportionate effect on the charities to which these individuals are more likely to donate, such as higher education and museums.

Table 2 shows the amount of charitable contributions for taxpayers claiming an itemized deduction for those contributions in the last year before the number of itemizers was substantially reduced. It does not include giving by nonitemizers. A few things to note: First, most low- and moderate-income taxpayers do not claim a deduction for charitable contributions, largely because most do not itemize. Second, at high-income levels, about 90 percent or more taxpayers claim charitable deductions (before TCJA). And third, the pattern of deductible charitable giving as a percentage of income is U-shaped—average giving is very high for the small percentage of low-income taxpayers who claim a deduction, as well as for the large percentage of very high income taxpayers. The pattern of giving for atypical low-income taxpayers who itemize, however, may not be indicative of giving—or, for that matter, of unrealized income that doesn't show up in adjusted gross income—by all low-income households.

TABLE 2

Returns Claiming Charitable Deduction: Number of Returns with and Amount of Charitable Deduction by Adjusted Gross Income
Tax year 2016 (filing year 2017)



AGI category	Percent Claiming Charitable Deduction	Total Charitable Deductions	Average Charitable Deduction for those Claiming Deduction	Charitable Deduction as a Percentage of AGI ^a
Under \$50,000	7.5	17,836,225	2,588	8.4
\$50,000 under \$100,000	35.0	38,417,634	3,305	4.5
\$100,000 under \$500,000	70.6	88,440,900	5,124	2.9
\$500,000 under \$2,000,000	88.0	26,142,094	25,510	3.1
\$2,000,000 under \$10,000,000	89.1	20,219,824	164,814	4.4
\$10,000,000 or more	94.6	42,810,648	2,813,343	9.3
All returns	24.6	233,867,324	6,332	4.3

Source: Internal Revenue Service, Statistics of Income Division, August 2018.

Notes: AGI = adjusted gross income. Table only captures charitable donations reported to the Internal Revenue Service.

(a) Charitable deduction as a percentage of AGI is calculated as the average charitable deduction for returns claiming the deduction divided by the average AGI for all returns with any itemized deductions.

AVERAGE TAX INCENTIVE FOR GIVING

The after-tax cost of giving is the value of the gift minus any tax benefits received. If an itemizing taxpayer with a marginal tax rate of 24 percent (that is, the tax rate on the last dollars of income) gives \$100 to a local college, for instance, the gift reduces the income tax bill for that person by \$24, so the deductible charitable gift has a net cost of only \$76. The \$24 is the amount of the federal subsidy for giving. If the taxpayer had a 40 percent tax rate, the donation becomes even less costly to the taxpayer, at only \$60. In other words, as

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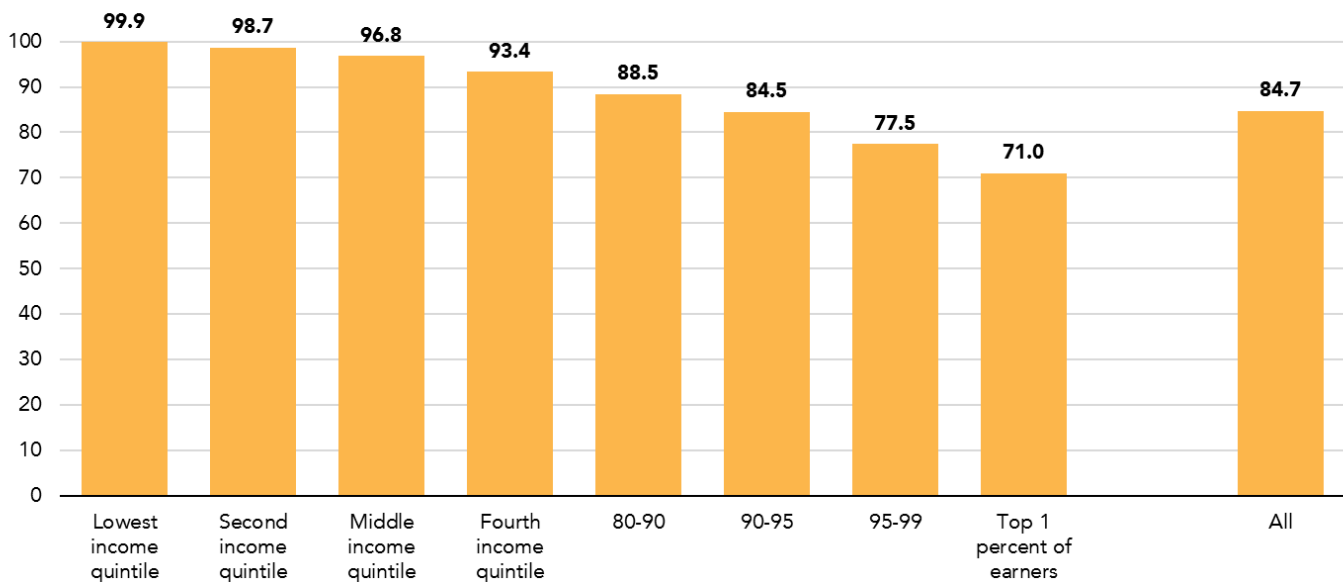
tax rates increase, the after-tax “price” of charitable giving decreases.

Figure 1 shows a summary of the average after-tax price of charitable giving for taxpayers at different income levels in 2020. For the entire population, it is about 85 percent; that is, on average the after-tax federal subsidy is 15 percent. This represents a drop of about 6 percentage points from the average federal subsidy rate of around 21 percent before the passage of the 2017 Tax Cuts and Jobs Act. Note that taxpayers in the top 1 percent have the lowest after-tax price of charitable giving both because they face higher tax rates and because they are more likely to itemize.

FIGURE 1

Estimated Average After-Tax Price of Charitable Giving, 2020

By expanded cash income percentile, under current law



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-2).

Note: Graph depicts the average marginal after-tax price of a \$100 donation.

ESTIMATED REVENUE LOSS FROM THE CHARITABLE DEDUCTION

The individual charitable deduction is estimated to cost approximately \$44 billion in 2020 and \$230 billion over five years (2019–23) (table 3). The relationship between the revenue loss and the amount of additional giving created by the tax incentive has significant policy implications. For example, if the loss in federal revenue from allowing the charitable deduction is greater than the increase in charitable giving caused by the deduction, then a portion of the federal subsidy is going to donors rather than to the ultimate beneficiaries of charitable gifts. To the extent that Congress views charitable and government efforts as direct substitutes, it might be more efficient to eliminate the deduction and provide charities with direct federal support.

This sometimes leads to proposals, such as allowing a deduction only for giving that exceeds a dollar floor, to concentrate a greater share of the tax incentive on the last rather than first dollars of giving by any

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taxpayer getting the incentive. Research suggests that first dollars of giving are much less responsive to tax incentives. Studies on the impact of the tax incentive, however, do not deal with and therefore may underestimate the extent to which the presence of a tax incentive helps create a culture of giving.

TABLE 3

Estimated Tax Expenditures by Charitable Deductions Fiscal years 2019–23 (\$ billions)



Charitable deductions	2019	2020	2021	2022	2023
Educational institutions	\$6.6	\$6.8	\$7.0	\$7.3	\$7.5
Health organizations	\$3.6	\$3.7	\$3.9	\$4.0	\$4.1
Other	\$32.9	\$33.9	\$35.0	\$36.1	\$37.2
Total	\$43.1	\$44.4	\$45.9	\$47.4	\$48.8

Source: Joint Committee on Taxation (2019, 55–19).

LIMITS ON THE CHARITABLE DEDUCTION

Congress has placed many limits on the availability of a charitable deduction. Among them are the following:

- The charitable deduction is only available for a subset of qualifying tax-exempt organizations that are charitable in nature, as defined in section 501(c)(3) of the tax code.
- Contributions for individuals are generally allowed up to 60 percent of adjusted gross income, but there is a 30 percent limit for contributions to a foundation and certain other organizations and a 30 percent limit for contributions of capital gain property. Deductible contributions for corporations are limited to 10 percent of corporate income.
- Contributions to many tax-exempt organizations, such as unions and chambers of commerce, are not deductible, though income earned on assets within those organizations is generally excluded from taxation.

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Data Sources

Internal Revenue Service. Statistics of Income Tax Stats: Individual Income Tax Returns Publication 1304 (Complete Report). Table 2. [“Individual Income Tax Returns with Itemized Deductions: Sources of Income, Adjustments, Itemized Deductions by Type, Exemptions, and Tax Items,”](#) classified by size of adjusted gross income, tax year 2017.

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Further Reading

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