TAX POLICY CENTER
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# USING STATE-LEVEL DATA TO UNDERSTAND HOW THE TAX CUTS AND JOBS ACT AFFECTED CHARITABLE CONTRIBUTIONS

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The 2017 Tax Cuts and Jobs Act (TCJA) changed tax incentives for charitable contributions. Several provisions—most importantly, an increase in the standard deduction and limits on itemized deductions—led to a large reduction in the number of taxpayers who itemize deductions on their federal tax returns. For example, published federal tax data show a 23 percent decline in reported contributions from 2017 to 2018. However, much of this apparent decline occurred only because of federal taxpayers who stopped itemizing. In this brief, we demonstrate how to use data from states (Colorado, Minnesota, and New York) that allow for charitable contribution deductions, even for taxpayers who do not itemize on federal returns. These combined data show that charitable contributions fell by much less than federal deductions alone suggest. This information can help analysts better understand how charitable contributions respond to tax incentives, and how this behavior may yet change again if Congress allows the standard deduction to revert to its previous level in 2026 as scheduled under the TCJA.

## BACKGROUND ON THE CHARITABLE DEDUCTION

The federal tax deduction for charitable contributions, enacted in the War Income Tax Revenue Act of 1917, allows individual income taxpayers to deduct qualified contributions from their taxable income. This gives them an incentive to increase their contributions. If a taxpayer faced a tax rate of $t$, the cost of contributing $1.00 is only $1 - t$ dollars.

Although only a small number of very high-income households paid the individual income tax after it was first authorized by the 16th amendment to the US Constitution in 1913, the Revenue Act of 1942 dramatically increased that number to help pay for the Second World War. To help relieve the subsequent paperwork burden of filing taxes, the Individual Income Tax Act of 1944 made numerous simplifications to the tax code. This included the introduction of the standard deduction that could be used in lieu of itemized deductions like the charitable deduction.

Initially set at 10 percent of income or $500, whichever was less, the standard deduction has changed many times since 1944. By 2017, it had increased to $6,350 for single taxpayers and $12,700 for married taxpayers filing jointly. Taxpayers who take the standard deduction lose the tax incentive to make charitable contributions. This does not necessarily mean that taxpayers will reduce their contributions: taxpayers who use the standard deduction almost invariably use it because it results in a lower tax liability than if they itemized their deductions. Some of that increased tax saving could be used to make more charitable gifts.

## CHARITABLE CONTRIBUTIONS AND THE TAX CUTS AND JOBS ACT

Because of the TCJA, in 2018, the standard deduction increased significantly to $12,000 for single taxpayers and $24,000 for married taxpayers filing jointly. TCJA also limited the deduction for state and local taxes to $10,000, further reducing the incentive to itemize deductions. Additionally, it lowered tax rates for most taxpayers, slightly reducing the subsidy for charitable contributions.

On the other hand, after-tax incomes increased for most taxpayers, and some of that additional income could have been used for charitable contributions. Overall, the Tax Policy Center (TPC) estimated that after-tax income would increase by 2.2 percent for all taxpayers, while those with incomes in the top income quintile would see increases of 2.9 percent.[1] The extent to which that compensated for the loss of incentives depends in part on how many taxpayers switched to the standard deduction and how many continued to itemize.

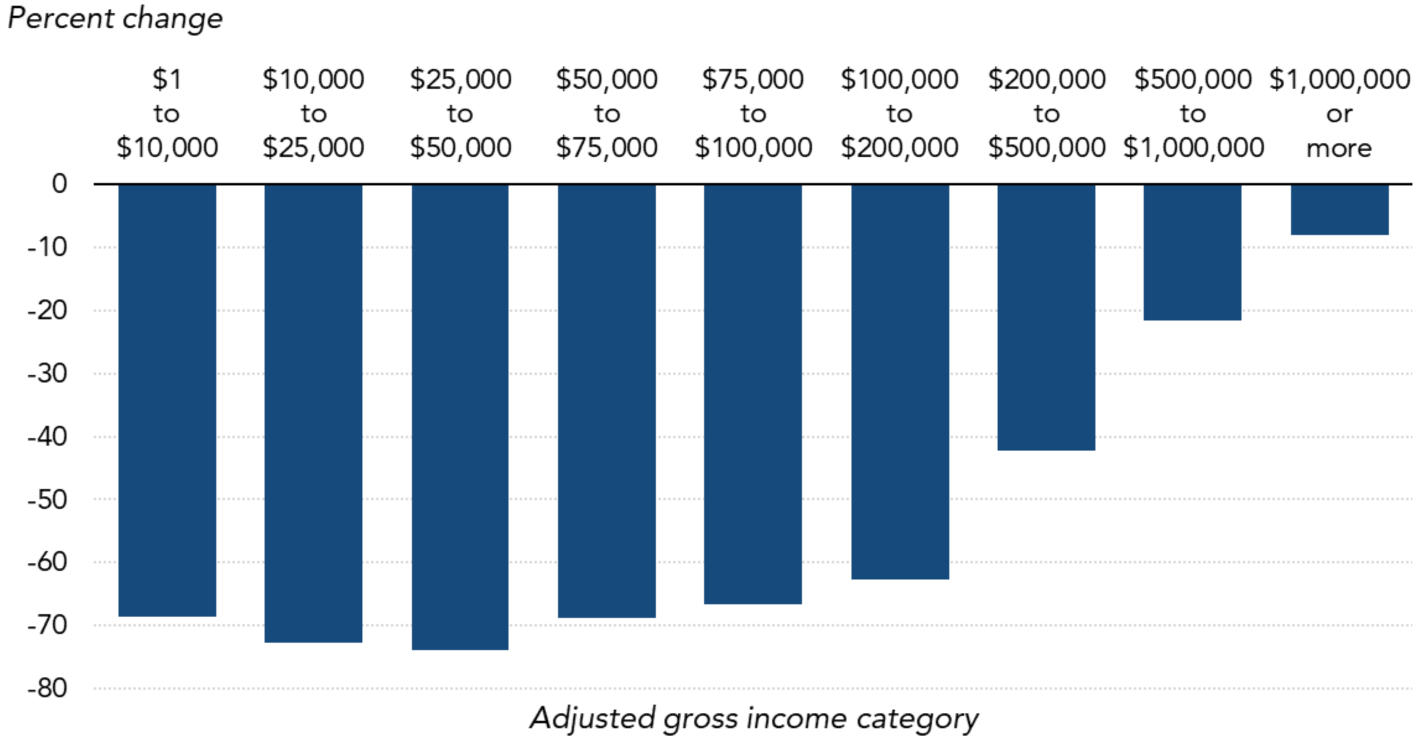
Those who newly took the higher standard deduction are not required to report their charitable expenditures, so we cannot tell from federal tax data how much less from year to year even those formerly itemizing changed their giving. But we do know that the share of taxpayers itemizing fell from 31 percent in 2017 to 12 percent in 2018.[2] That represents an overall decline in itemizing of 63 percent (figure 1). The decline was about 75 percent for those with AGIs between $25,000 and $50,000 and progressively smaller for higher-income groups. For those with AGIs greater than $1 million, the decline was about 8 percent. The rate of decline falls with income because those with higher incomes tended to have deductions that exceeded the higher standard deduction, so most continued to itemize even after the standard deduction increased.

[1] "Distributional Analysis of the Conference Agreement for the Tax Cuts and Jobs Act," Table 1, TPC Staff, December 18, 2017, https://www.taxpolicycenter.org/publications/distributional-analysis-conference-agreement-tax-cuts-and-jobs-act/full.

[2] Calculations based on "Individual Income Tax Returns 2018, Publication 1304 (Rev. 09-2020)," Section 2, Figure C, Internal Revenue Service, 2018, https://www.irs.gov/pub/irs-prior/p1304--2020.pdf#page=24.

FIGURE 1

## Percent Change in Number of Itemizers, Federal Individual Income Tax

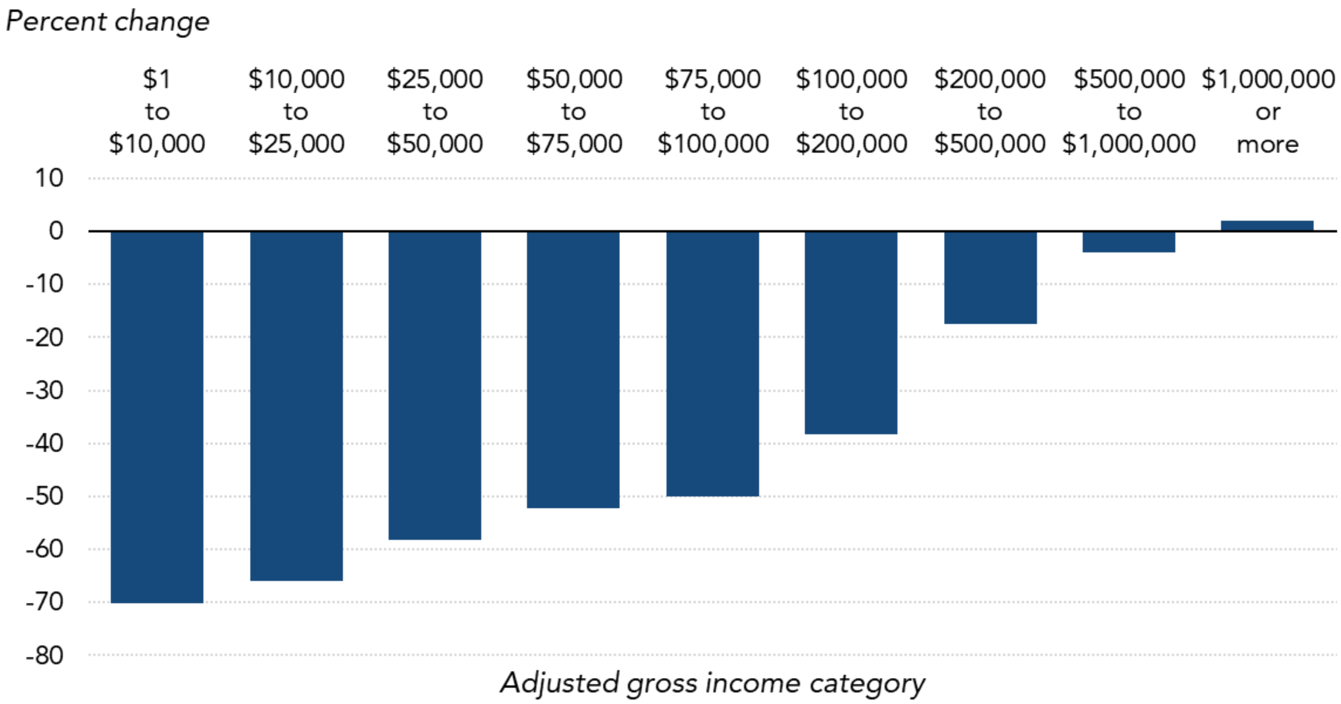



**Source**: IRS SOI Historic Table 2, years 2017 and 2018: https://www.irs.gov/statistics/soi-tax-stats-historic-table-2.

Similarly, the number of taxpayers deducting contributions fell by 61 percent and contributions claimed at the federal level fell by 23 percent. The change in contributions varied by income: those in the lowest income group reduced contributions by nearly 70 percent (figure 2), while those in the highest income group actually increased their contributions by about 2 percent. This increase may have been caused by the fact that most of those taxpayers continued to itemize and the TCJA decreased their taxes. Further, the number of taxpayers in these groups increased (e.g., those with an AGI of more than $1 million increased by about 10 percent, from 495,000 to 541,000 taxpayers because of inflation or real income growth). The total income reported in those brackets also increased, so even at a reduced rate of giving, they could give more.

FIGURE 2

## Percent Change in Charitable Deductions, Federal Individual Income Tax




**Source**: IRS SOI Historic Table 2, years 2017 and 2018: https://www.irs.gov/statistics/soi-tax-stats-historic-table-2.

States also varied in how many taxpayers stopped itemizing on their federal taxes and how much they reduced their itemized contributions (figure 3). As might be expected, the decline in itemization rates correlates highly with the decline in reported contributions in those states. For example, California saw the smallest decline in contributions, about 9 percent, and nearly the smallest decline in itemizing taxpayers, 50 percent. West Virginia, on the other hand, saw the largest decline in contributions, 43 percent and nearly the largest decline in itemization, 75 percent. States such as New York and Colorado had relatively low declines in both rates; the decline in the number of contributions claimed fell by 64 percent and 59 percent, respectively, and the decline in the amount of contributions fell by 15 percent and 16 percent, respectively. Minnesota had larger declines; 68 percent in the number of contributions and 33 percent in the amount of contributions.

Also, note that in every state, the itemization rate on federal forms fell more than reported contributions. This happened because most contributions are made by higher-income taxpayers who give larger amounts and who continued to itemize.

A decline in deducted contributions does not mean that actual contributions fell by that amount. Many of those who switched to the standard deduction continued to make contributions. Nevertheless, these taxpayers faced an increase in the tax price of contributions from 1 - $t$ to 1. Thus, as fewer people itemized but taxes fell, total contributions may have decreased or increased. Unfortunately, we cannot tell from federal tax data alone how much charitable contributions actually changed.

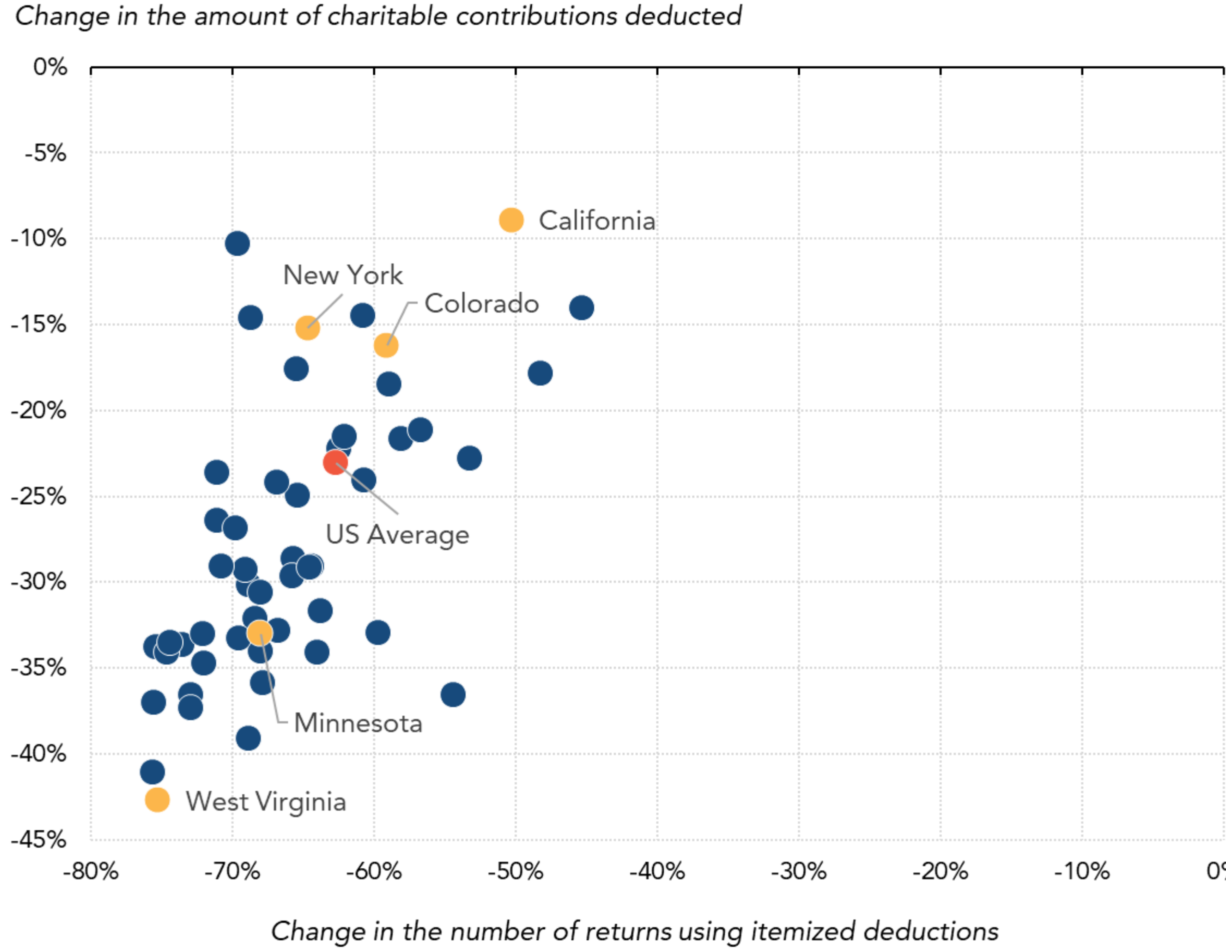
## SEPARATE ACCOUNTING FOR DEDUCTIBLE CONTRIBUTIONS IN SELECTED STATES

Fortunately, some gaps in federal tax data can be filled using state-level data. States with income taxes may determine itemization based, wholly or in part, on federal law.[3] In this brief we use data from several states that allow taxpayers to deduct contributions on their state income tax forms, even if they are not deducted on federal forms.[4] Specifically, we examine data from Colorado, Minnesota, and New York. Each state allowed contributions to be deducted in a slightly different way in 2017 and 2018 as they each responded differently to the TCJA, although their tax rates, like all state tax rates, are substantially lower than federal rates.

In Colorado in 2017 and 2018, contributions in excess of $500 could be deducted from income subject to state income tax but only if the taxpayers did not itemize on their federal form. We would expect, then, that contributions deducted on state forms would rise

FIGURE 3

### Percent Change in Charitable Deductions and Federal Individual Income Tax, by State




**Source**: IRS SOI Historic Table 2, years 2017 and 2018: https://www.irs.gov/statistics/soi-tax-stats-historic-table-2.

as contributions deducted on federal forms fell. The change in the sum of state and federal charitable deductions, after adjusting for the $500 floor, would be a more accurate estimate of the change in total contributions—in this case, for all taxpayers owing state tax and with $500 or more in contributions.

Similarly, Minnesota allowed contributions to be deducted from taxable income in Minnesota if taxpayers did not itemize on their federal forms. As in Colorado, only contributions in excess of $500 were deductible. However, in Minnesota, unlike Colorado, only

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[3] See Weiner (2020) for more on federal and state itemization, and the interaction between the two.

[4] Although there is a large overlap between residents and taxpayers, some taxpayers in a state earned income there but are not residents.

half of the contributions in excess of $500 could be deducted. Nevertheless, after appropriate adjustments, the change in the sum of state and federal deductions should provide a more accurate estimate of the change in total contributions in the state.

In contrast, in New York before the TCJA, taxpayers using the standard deduction on their federal form were required to take the standard deduction on their state form. No charitable deduction existed for state nonitemizers. Before TCJA, this was not burdensome to the taxpayer because the standard deduction for New York state was higher than for federal returns: $8,000 for single filers and $16,050 for married taxpayers filing jointly. In addition, state, local, and property taxes are deductible from income on federal tax forms but not on state tax forms. This meant that generally, if a taxpayer took the standard deduction on the federal form, they would have wanted, even if not required, to take the standard deduction on their state forms as well.[5]

The TCJA, however, raised the federal standard deduction amounts above New York's, which remained unchanged from 2017. This meant New York's policy requiring users of the federal standard deduction to use the state-level deduction could raise their state taxes.

In response, New York uncoupled federal and state itemization statuses so that taxpayers could itemize on their state forms regardless of federal itemization status. However, unlike Colorado and Minnesota, it didn't allow non-itemizers with deductions below the state's standard deduction amount to separately deduct contributions.

In Colorado and Minnesota, the potential extra benefit of the state nonitemizer deduction could have created a modest group of federal "switchers"—those who abandoned the federal itemization status because of state law (over and beyond those who switch simply because of the change in federal incentives). This would occur when the value of the state charitable deduction plus the federal and state standard deductions became more valuable than itemizing at both levels.

In New York, however, no additional incentive exists to switch from federal itemization simply because of the new state option. For example, a single taxpayer in New York with $11,000 in federal deductions each year might itemize on their federal returns in 2017 but switch to the standard deduction in 2018, as the standard deduction increased from $6,350 in 2017 to $12,000 in 2018. But those with more $8,000 in New York state deductions each year would continue to itemize on their New York forms. In fact, although some taxpayers with similar deductions in both years would stop itemizing on their federal forms, no benefit would come from switching at the state level, either from the standard deduction to itemizing their deductions or from itemizing their deductions to the standard deduction.

As a result, in all three states, the state tax information provides a more complete picture of the change in contributions, at least for those taxpayers with more than $500 of contributions in Colorado and Minnesota, and for those with more than $8,000 of deductions in New York. To be clear, contributions may still decline at the state level. Many taxpayers, in choosing to use the standard deduction at the federal level, lost that federal incentive. If they reduce their contributions as a consequence, that would show up at the state, not just federal, level even if they continued to deduct contributions on their state tax forms.

Although much more accurate than the federal information, this approach is still not perfect. For example, we do not know how contributions changed for those who did not report in both years. Many taxpayers had a change in their economic circumstances that led them to increase or decrease their deductions, which could have led them to start or stop itemizing.

## RESULTS

We examined data from all three states, with a focus on taxpayers who are residents of each state. This aligns with federal data, which is residence based, and reduces the opportunity for results to be skewed by non-residents. As described below, this was not always possible with Minnesota. In Colorado and Minnesota, we compared changes in giving deducted on federal forms with

[5] A small number of additions exist to the New York itemized deductions that are not allowed on federal forms. In 2017, these totaled about $200 million, while federal deductions reported on state forms equaled $97 billion.

changes in giving deducted from both federal and state forms. In New York, we compared changes in giving deducted on federal forms with changes in giving on state forms.

### *Colorado*

In Colorado, contributions deducted on federal forms fell by 16 percent between 2017 and 2018 (table 1). The largest fall in contributions occurred for residents with AGIs between $10,000 and $25,000 (65.5 percent) with smaller declines for progressively higher-income groups. Total contributions increased among the top two groups: those with AGI between $500,000 and $1 million, and those with AGIs greater than $1 million. This is primarily due to two factors: more residents found themselves in these two groups (each category grew by about 15 percent), and in the top group, the average contribution per return increased by about 5 percent. That increase is likely due to a combination of increased after-tax incomes and the large share of those who continued to itemize.

TABLE 1

Charitable Contributions, Full-Year Colorado Residents

Percent change in reported contribution amounts, 2017–2018

| Federal AGI Level | Federal Itemizer | State Nonitemizer | Total |
|---|---|---|---|
| $10,000 to $24,999 | -65.5% | 45.2% | -20.2% |
| $25,000 to $49,999 | -60.9% | 67.2% | -22.8% |
| $50,000 to $74,999 | -55.2% | 124.0% | -19.3% |
| $75,000 to $99,999 | -52.9% | 202.7% | -17.5% |
| $100,000 to $199,999 | -38.0% | 458.5% | -12.1% |
| $200,000 to $499,999 | -13.5% | 2,034.0% | -1.0% |
| $500,000 to $999,999 | 0.7% | 1,612.7% | 5.1% |
| $1,000,000 or more | 21.5% | 425.0% | 21.9% |
| ***Total*** | ***-16.2%*** | ***207.9%*** | ***-1.1%*** |
| ***Total, less than $1,000,000*** | ***-32.3%*** | ***207.1%*** | ***-9.9%*** |
| ***Total, less than $500,000*** | ***-36.3%*** | ***203.0%*** | ***-11.6%*** |

**Source:** Colorado Individual SOI Table 25, 2017 and 2018, https://cdor.colorado.gov/data-and-reports/statistics-of-income-reports and IRS SOI Historic Table 2, https://www.irs.gov/statistics/soi-tax-stats-historic-table-2.
**Notes:** AGI = adjusted gross income.

Excluding the top income group, federal contributions fell by about 32 percent, while excluding the top two income groups, contributions fell by about 36 percent. Dropping these categories emphasizes changes caused by those switching to the standard deduction—because residents in these categories were much less likely to continue itemizing. Further, unlike the top two categories, the total number of returns with AGIs less than $500,000 grew by less than 2 percent.

Charitable contributions deducted on state forms by residents increased substantially as taxpayers switched from itemizing on their federal forms to the special separate charitable itemization option on their state forms. After adjusting for the $500 floor by adding $500 for each tax form with a deduction, total contributions more than doubled. Contributions increased in every AGI group, peaking with a 2,000 percent increase for those in the $200,000 to $500,000 category. Dropping the top income category or the top two categories leads to about the same total percentage change in contributions for income groups combined.

Combined federal and state data suggest that contributions fell by a much smaller amount than the federal decline. Overall, combined contributions fell by only 1 percent. In large part, this small overall decline was a result of the large increase in giving by those with more than $1 million and the approximately stable giving by those with incomes between $500,000 and $1 million. Omitting those income groups, combined contributions fell by less than 12 percent, much less than the 36 percent decline in contributions deducted from federal forms.

As a share of AGI, contributions fell from 2.1 percent to 1.6 percent using federal data alone. But, examining the combined state and federal deductions, contributions only fell from 2.2 percent to 2.1 percent.

### *Minnesota*

In Minnesota, contributions deducted from federal forms followed the same pattern as Colorado: the largest decline was found in the lowest-income group and successively higher-income groups had smaller declines, adjusting for both for the $500 floor and the fact that only half of contributions may be deducted. Because Minnesota does not publish aggregate statistics using the same income groups as the federal government, we created a smaller number of aggregate categories that could accommodate both groups. Minnesota further does not separate residents and nonresidents in their income-group-level data.[6] Nonresidents tend to have much higher incomes than residents, so those returns are concentrated in the top income group. Combined contributions across all income groups, however, are published both for all returns and just for residents.

TABLE 2

Charitable Contributions, Minnesota Residents

Percent change in reported contribution amounts, 2017–2018

| Federal AGI Level | Federal Itemizer | State Nonitemizer | Total |
|---|---|---|---|
| $0 to $9,999 | -73.4 | -56.1 | -59.6 |
| $10,000 to $49,999 | -67.2 | 21.9 | -32.2 |
| $50,000 to $99,999 | -59.8 | 81.3 | -30.9 |
| $100,000 to $499,999 | -37.7 | 566.1 | -19.6 |
| $500,000 or more | -4.5 | 8765.4 | 16.3 |
| ***All residents*** | ***-33.0*** | ***131.5*** | ***-17.9*** |
| ***All returns*** | - | ***174.9*** | ***-12.9*** |
| ***All returns less than $500,000*** | ***-45.7*** | ***113.2*** | ***-24.7*** |

**Source:** Minnesota Individual Income Tax Statistics, https://www.revenue.state.mn.us/individual-income-tax-statistics and IRS SOI Historic Table 2 https://www.irs.gov/statistics/soi-tax-stats-historic-table-2.

**Notes:** AGI = adjusted gross income.

The federal data reports only residents while the state data generally reports both residents and nonresidents.

Contributions deducted on state forms increased for most income groups but fell in the lowest-income group. As in Colorado, contribution increases were larger among higher-income groups. Contributions deducted from federal forms fell by 33 percent, while contributions deducted on state forms by residents increased by more than 130 percent. Combined, contributions reported on tax returns only fell by about 18 percent.

Similarly, combined contributions by residents and nonresidents increased by almost 175 percent. But, when combined with federal contributions, contributions only fell by about 13 percent. Omitting taxpayers with AGIs greater than $500,000, federal contributions fell by almost half, while combined state and federal contributions (including by nonresidents) fell by nearly a quarter.

We are unsure of the reasons for the large disparity between Colorado and Minnesota. State officials may know additional information about reporting incentives in those two years. One clue may come from the change in contributions as a share of AGI. On federal forms, that share fell from 2.0 percent to 1.3 percent, a larger decline than Colorado's decline from 2.1 to 1.6. When combining state and federal data, Colorado's deducted contributions fell from 2.2 to 2.1 percent of AGI, while Minnesota's still fell from 2.2 percent to 1.8 percent.

[6] Minnesota has reciprocity agreements with North Dakota and Michigan so that residents of those two states do not owe taxes in Minnesota. Thus, data from residents of those two states may not be included.

### *New York*

In New York, federal contributions fell by about 15 percent between 2017 and 2018, and state contributions fell by 20 percent. However, the sharp drop in state deductions is from a very large amount of contributions claimed on state tax forms in 2017 by residents with more than $10 million in AGI. Averaged across 2015 and 2016, taxpayers in that income group deducted a total of $6 billion in contributions each year. In 2017, that amount jumped to $9.3 billion before dropping back to $6.2 billion in 2018. Replacing the 2017 deductions for those with AGIs greater than $10 million with the 2015 to 2016 average shows that contributions fell by about 4 percent.

TABLE 3

Charitable Contributions, Full-Year New York Residents

Percent change in reported contribution amounts, 2017–2018

| Federal AGI Level | Federal Itemizer | State Itemizer |
|---|---|---|
| $10,000 to $24,999 | -65.72 | -28.49 |
| $25,000 to $49,999 | -65.14 | -30.07 |
| $50,000 to $74,999 | -57.65 | -24.39 |
| $75,000 to $99,999 | -50.01 | -17.51 |
| $100,000 to $199,999 | -42.09 | -10.67 |
| $200,000 to $499,999 | -23.96 | -6.45 |
| $500,000 to $999,999 | -6.49 | -2.75 |
| $1,000,000 or more | 5.39 | -24.95 |
| ***All returns*** | ***-15.20*** | ***-20.41*** |
| ***All returns**** | - | ***-3.73*** |
| ***All returns less than $1,000,000*** | ***-37.98*** | ***-11.97*** |
| ***All returns less than $500,000*** | ***-42.39*** | ***-13.63*** |

**Source:** New York State Personal Income Tax Filers, Summary Dataset 3, https://data.ny.gov/Government-Finance/Personal-Income-Tax-Filers-Summary-Dataset-3-State/rt8x-r6c8/data and IRS SOI Historic Table 2, https://www.irs.gov/statistics/soi-tax-stats-historic-table-2.

**Note:** AGI = adjusted gross income.

(*) For those with AGI > $10 million, the percent change measures the difference between 2018 and the average of 2015 and 2016.

## CONCLUSION

By using state tax data from Colorado, Minnesota, and New York, we demonstrate that contributions fell by much less than indicated on federal forms. In Colorado, a 16 percent decline measured at the federal level was in fact a 1 percent decline when contributions on state forms are included. In Minnesota, a 33 percent decline at the federal level was actually an 18 percent decline using combined federal and state data, and in New York, a 15 percent decline at the federal level was more likely a 4 percent decline. However, given 5.6 percent growth in AGI, the decline represents an even higher reduction in the rate of giving. Regardless, residents of these states retained some tax incentive to donate even as they switch from itemizing to not itemizing on their federal forms.

Similarities between declines observed in New York at the federal level (15 percent, compared to 16 percent in Colorado) and the declines after adjusting for state information (4 percent in New York and 1 percent in Colorado) suggest that our approach is correct because the two states have different approaches to deductible contributions and to the TCJA. Similarities also exist when comparing changes in giving among with less than $1 million and less than $500,000 in AGI.

In New York, contributions for taxpayers with AGIs below $1 million fell by 38 percent on federal forms but only 12 percent on state forms, while for the same group in Colorado, federal contributions fell by 32 percent but only ten percent when state contributions are included. For those with incomes below $500,000, federal deductions declined by 42 percent, while state deductions declined by only 14 percent in New York; in Colorado, federal deductions fell by 36 percent but only 12 percent when state contributions are included. Similarly, New York contributions fell from 1.9 percent of AGI to 1.7 percent, and only fell from 2.2 percent to 2.1 percent in Colorado.

This study serves to tee up the opportunity for additional research on changes in charitable giving by examining different levels of state incentives. Future work could include regression analyses using state data, as well as extending these results to the two other states (California and North Carolina) with state-level charitable contribution deductions not strictly tied to federal returns. Additional complications kept us from reporting results for those two states.

Another avenue of approach would be to compare survey data, such as on total gifts in excess of $500, with tax data in Colorado and Minnesota. Such efforts could help improve estimates made in Giving USA, which largely depends on survey data to fill out information for donors who do not itemize. Given the large decrease in itemizers observed at the federal level since TCJA, that comparison has become much more important than ever.

This avenue of research further allows investigating reasons for the wide variation in reactions to the TCJA in the various states – and how charitable contributions may change if Congress allows the standard deduction to revert to its previous level in 2026 as scheduled under current law.

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