

TCJA Projected to Lower 2018 Charity Giving by \$22 Billion

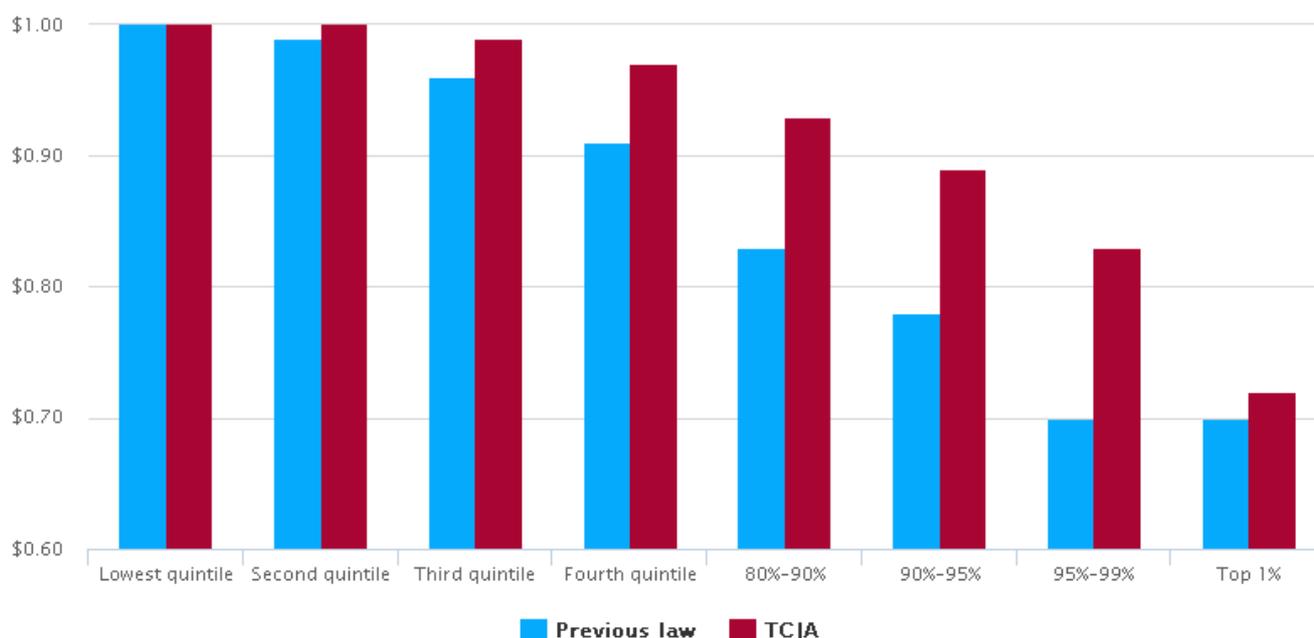
By John Ricco

The Tax Cuts and Jobs Act (TCJA) overhauled many elements of the US federal tax code, some of which will serve to reduce the tax incentive to make charitable contributions.

The tax system encourages charitable contributions by allowing itemizers to reduce their taxable income by the amount of their contributions to public charities recognized by the Internal Revenue Service. For example, consider a tax filer in the 32% tax bracket who itemizes. Donating \$1 to charity will reduce his or her tax liability by \$1 *times* 32%, or \$0.32. Hence, this tax itemizer's true *after-tax price* of charitable contributions is just \$0.78 per \$1 of contributions.

The Tax Cuts and Jobs Act (TCJA) reduced the incentive to make charitable contributions in two ways. First, the TCJA reduced the number of taxpayers who will elect to itemize their deductions, by limiting (or eliminating) certain itemized deductions and by expanding the size of the standard deduction. So, these households will no longer receive tax subsidies for giving to charities. Second, for those taxpayers who continue to itemize, the TCJA lowered statutory marginal tax rates, thereby increasing their after-tax price of charitable contributions.

Figure 1: Change in After-Tax Price of Charitable Contributions, Previous Law vs. TCJA



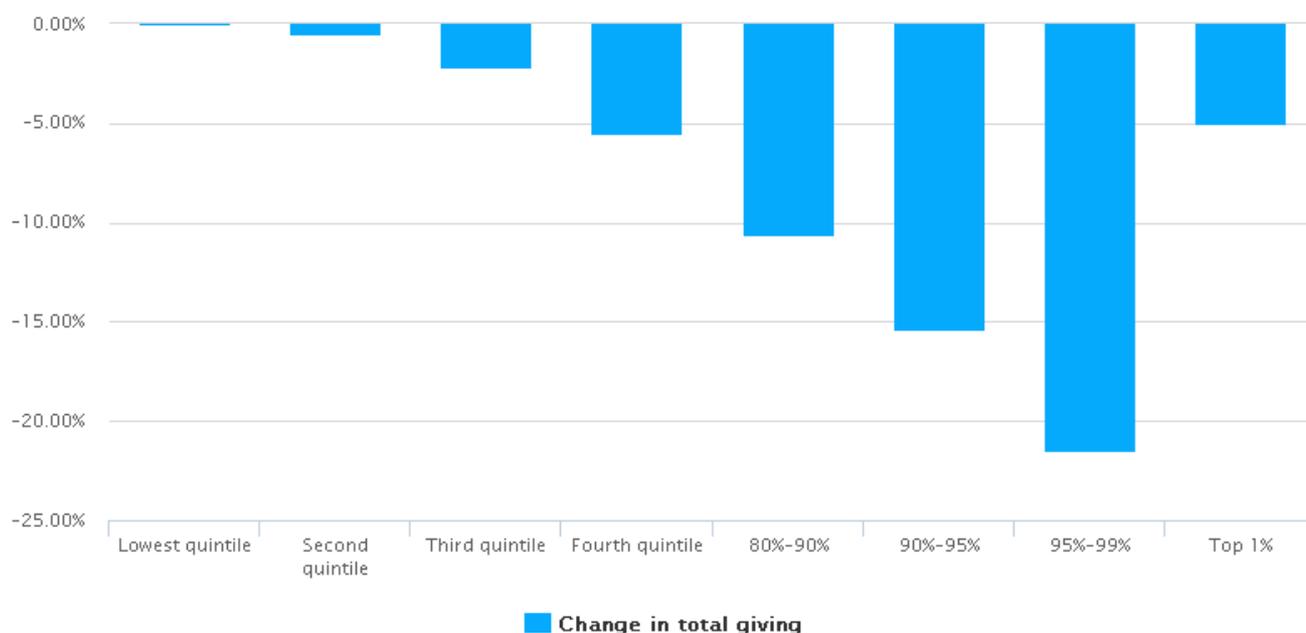
Source: PWBM tax microsimulation model. Income groups are calculated using percentiles of AGI for the universe of tax units that file. Averages are dollar-weighted.

Figure 1 reports the average after-tax price for filers by income group under previous law and the TCJA, using PWBM's tax microsimulation model. The TCJA increased the average after-tax price of charitable contributions for all income groups, with filers in the top quintile seeing the largest increase in relative terms. Higher-

income taxpayers are more likely to be filers and face the full effect of a reduction in statutory tax rates. However, the increase for the top 1% of filers in particular was more modest in part because the TCJA repealed the Pease limitation on itemized deductions that limited the tax benefits of giving for certain very high-income filers under previous law.

How will households likely respond to these changing incentives? Research has shown that households are sensitive to the after-tax price of charitable giving: all else equal, people give more to charity when they receive a larger tax benefit. Using income-specific after-tax price elasticities from Bakija and Heim (2011)¹, we estimate percent changes in charitable giving by income group, as reported in Figure 2.

Figure 2: Percent Change in Charitable Contributions as a Result of TCJA, 2018



Aggregating these results across all income levels, we estimate that the TCJA will cause total charitable contributions to fall by about \$22 billion in 2018. This reduction represents a 5.1% reduction in total charitable giving², and a 9.6% reduction in charitable giving reported on individual tax returns. This estimate does not account for the “income elasticity” of charitable giving, which recognizes that some tax filers might give more to charity because they feel richer after the tax cut. This effect is much smaller. Moreover, our aggregate estimate is consistent and confirms [recent estimates](#) of other recent researchers.

1. Bakija, Jon, and Bradley T. Heim, 2011. “How Does Charitable Giving Respond to Incentives and Income? New Estimates from Panel Data.” *National Tax Journal* 64 (2), 615-650. ↩

2. PWBm’s pre-TCJA projection of total charitable giving is \$432 billion in 2018. ↩