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Incentivizing giving: Policymakers and researchers study ways to boost non-itemizer giving

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The Lilly Family School of Philanthropy recently published a report, commissioned by Independent Sector, that examined the potential impacts of five policy options that extend incentives for charitable giving to non-itemizers, or those who decide to take the flat-dollar standard deduction on their taxes.


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In 2018, individuals in the United States donated $292 billion to charity, a decline of 3.4 percent from 2017 adjusted for inflation (a decline of 1.1 percent in current dollars). This decline occurred after four years of increasing donations from individuals, and also comes on the heels of concern among nonprofits about the declining number of donors in the U.S. Between 2000 and 2014, the percentage of households who donated to charity fell from 66.8 percent to 55.5 percent, according to the school's Philanthropy Panel Study. Moreover, in line with previous studies, the research estimated that over the term (2018-2025) of the *Tax Cuts and Jobs Act* (TCJA), up to 2.6 million fewer households could donate each year and charitable giving could be up to $19.1 billion less each year than had TCJA not become law.

In light of these trends, there has been significant interest in tax policies that have the potential to not only increase charitable giving, but to grow the percentage and number of households that donate. In particular, nonprofit leaders, advocates, policymakers, and researchers are interested in understanding incentives that target low- and middle-income donors. However, proponents of a more fair and equitable tax code are unclear on which tax incentives could best achieve their goals.

The school's research aimed to provide empirical evidence that can be used by nonprofits, policymakers, and advocates to better understand the various policy options. To this end, the research examined the effects of five policy options:

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1. A non-itemizer charitable deduction (based on the *Charitable Giving Tax Deduction Act* introduced by Representative Smith);
2. A non-itemizer charitable deduction with a cap for non-itemizers of $4,000 for single filers and $8,000 for married couples filing jointly (based on the *Universal Charitable Giving Act* introduced by Representative Walker);
3. A non-itemizer charitable deduction with a modified 1 percent floor that allows non-itemizers to deduct 50 percent of the value of their charitable gifts under 1 percent of adjusted gross income (AGI) and a normal deduction for gifts over 1 percent of AGI;
4. A non-refundable 25 percent charitable giving tax credit; and
5. An enhanced non-itemizer charitable deduction, which provides a higher value deduction for low- and middle-income households (adapted from recommendations by the Filer Commission):
   - Single filers earning under $20,000 can deduct 200 percent of the value of their charitable donations, single filers earning between $20,000 and $40,000 can deduct 150 percent of their charitable donations, and single filers earning over $40,000 can deduct 100 percent of their charitable donations; and
   - Married couples filing jointly earning below $40,000 can deduct 200 percent of the value of their charitable donations, married couples filing jointly earning between $40,000 and $80,000 can deduct 150 percent of their charitable donations, and married couples filing jointly earning over $80,000 can deduct 100 percent of their charitable donations.

For each policy option, the school calculated the potential impact on charitable dollars, the number of households that donate, and the cost to the Treasury (results presented in Table 1).

Table 1. Summary of effects of five policy options on charitable giving and number of donors, 2021

	Charitable Dollars[1]	Donors[2]	Treasury Revenue[1,3]
Baseline	$341.9	88.6	
Pre-TCJA Counterfactual[1]	$360.3	91.0	
	Change from 2021 Baseline		
Non-itemizer deduction (UCD*)	$26.2 (7.7%)	7.3 (8.2%)	-$21.6 (-0.6%)
UCD with $4,000/$8000 cap	$17.4 (5.1%)	7.0 (7.9%)	-$19.9 (-0.5%)
UCD with modified 1% floor	$24.9 (7.3%)	4.6 (5.2%)	-$17.9 (-0.5%)
25% Credit	$36.9 (10.8%)	10.6 (12.0%)	-$33.0 (-0.9%)
Enhanced UCD	$29.2 (8.5%)	8.4 (9.5%)	-$24.3 (-0.7%)

[1]Billions of dollars
[2]Millions of tax units
[3]Fiscal year
*Universal charitable deduction

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Notably, providing a non-refundable 25 percent charitable giving tax credit to non-itemizers could have the largest positive impact on both the amount of charitable giving dollars and the number of donor households of the five policy options analyzed. However, it is also the most "expensive" proposal for Treasury revenue. In contrast, the non-itemizer deduction with a modified 1 percent floor could cause the least loss in revenue for the Treasury, making it the least "expensive" of the five proposals.

Four of the five policy proposals are projected to bring in more charitable dollars than are lost in treasury revenue and four of the five policy proposals projected to bring in more charitable dollars than were projected to be lost as a result of TCJA. The non-itemizer deduction with a $4,000/$8,000 cap is the only proposal that is projected to bring in fewer additional charitable dollars than is lost in Treasury revenue and is projected to be lost as a result of TCJA. All five proposals are projected to bring in more donor households than were projected to be lost as a result of TCJA.

Because there is no clear advantage of one policy over the others, nonprofit leaders and policymakers may be interested in the relative gains (or losses) of the policies. The non-itemizer deduction with a modified 1 percent floor is also estimated to have the largest net impact on charitable giving dollars compared to the cost to the Treasury; it could bring in up to $7 billion more in charitable giving than is lost in Treasury revenue. However, it could bring in the fewest donor households. The non-itemizer deduction with a $4,000/$8,000 cap could have the largest impact on the number of donors per dollar cost to the Treasury. This policy could bring in up to 352 new donor households per $1 million lost in Treasury revenue.

While this research provides important empirical data about these five policy options, it is vital that research continues on these and other policies being discussed now and in the future. Our hope is that this study highlights the importance of research on policies aimed at incentivizing charitable giving through the tax code and informs future conversations within the sector.

Sasha Zarins is pursuing her doctoral degree in philanthropic studies at the Lilly Family School of Philanthropy. In September 2014, she joined the school as a research associate, and has been with the research department as a project coordinator since February 2017.