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Tax Policy and Charitable Giving Results  
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### Executive Summary

This study used the Philanthropy Panel Study (PPS), which is the only panel study of philanthropy in America, and data from the Panel Study of Income Dynamics (PSID), which is the largest and longest running panel study in the world. The PSID has a rich array of data for over 9,000 households, including income, wealth, marital status, existence and number of children, etc. We know from prior research that these variables play an important role in explaining and predicting giving patterns, and they are not all available in other datasets used for this type of research. Using this data, Indiana University's estimates suggest that it is important to consider where tax payers are responsive to changes in charitable giving incentives. However, because there is still significant debate with regards to the responsiveness of charitable giving to changes in tax policy (see pages 11-15 for a discussion on tax-price elasticity of charitable giving), analyses of each proposal were also conducted using the commonly used elasticities: less responsive, -0.5 & moderately responsive, -1.0.

This study examined the effects of proposed policy changes on charitable contributions and government tax revenue. The policy scenarios included in this study examined various combinations of three major policy changes: (1) increasing the value of the standard deduction to \$11,000 for individuals and \$22,000 for married couples, (2) extending the charitable tax deduction to non-itemizers, and (3) decreasing the highest marginal tax rate to 35 percent. Key findings include:

1. The current proposals, which include an increase in the standard deduction and a decrease in the top marginal tax rate, would have a negative effect on charitable giving with giving decreasing between \$4.9 and \$13.1 billion (-1.7 percent to -4.6 percent).
2. Expanding the charitable deduction to non-itemizers, as a stand-alone provision, increases total giving by between 1.3 percent and 4.3 percent and has a negligible effect on total tax revenue (decrease by 0.41 percent to 0.47 percent).
3. Combined with current tax reform proposals, expanding the charitable deduction to nonitemizers more than offsets the charitable giving lost by other tax reform proposals and increases giving by 0.4 percent to 1.7 percent. Increasing the standard deduction has a negative effect on charitable giving for both religious congregations and other charities but a larger negative effect on giving to congregations than on giving to other charities.
4. All policies proposed have a negative effect on federal tax revenue: expanding the charitable deduction to non-itemizers alone has the smallest effect on tax revenue decreasing revenue by .4 percent to .5 percent and all three proposals combined have the largest effect on tax revenue decreasing revenue by an estimated 3.8 percent.

It is important to note that studies examining proposed policy changes must make important assumptions regarding tax-price elasticity, or the responsiveness of charitable giving to changes in tax policy. Previous research on expanding the charitable deduction to non-itemizers has found slightly lower increases in charitable giving with slightly smaller decreases in tax revenue than those found for itemizers. This difference is primarily due to the use of less responsive elasticities. Using the Urban-Brookings Tax Policy

Center Microsimulation Model, Rosenberg, Steuerle, O'Valle, and Stallworth (2016) estimated that expanding the charitable deduction to all tax payers would increase charitable contributions by \$5.0 billion (elasticity = -0.5) to \$10.2 billion (elasticity = -1.0) while simultaneously decreasing tax revenue by \$9.2 billion in 2017. This study extends the findings of Rosenberg et al. (2016) by using income dependent elasticities. Using the Open Source Policy Center's (OSPC) tax-calculator microsimulation, this study found that charitable contributions would be expected to increase by approximately \$12.2 billion with a simultaneous decrease in tax revenue of \$13.1 billion when highly responsive elasticities were used. In addition, when the standard elasticities (-0.5 and -1.0) are used in conjunction with the OSPC's tax-calculator microsimulations, this study found that charitable contributions would be expected to increase by \$3.8 billion (elasticity = -0.5) to \$7.5 billion (elasticity = -1.0) while simultaneously decreasing tax revenue by \$11.6 billion (elasticity = -0.5) to \$12.4 billion (elasticity = -1.0).

This study further expands upon the study conducted by Rosenberg et al. (2016) by examining the expansion of the charitable deduction to non-itemizers as an addition to the current proposals (increase in the standard deduction and decrease in the top marginal tax rate). Regardless of which elasticity is used, adding a non-itemizer charitable deduction to the current tax reform proposals would more than offset the amount of charitable giving that would otherwise be lost under the current proposals resulting in a \$1.1 billion to \$4.8 billion increase in total giving overall.

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