Tax Expenditures for Charitable Giving

NBER Pre-conference on "Incentive and Distributional Consequences of Tax Expenditures," July 25, 2007

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Charity in the personal income tax

- Itemized deduction for charitable donations.
- No taxation of capital gains on donations of appreciated assets.

Table 1
Charitable giving by individuals
in the U.S., 2004

	Billions of dollars	% of individual giving	% of personal income
Itemizers	165.6	82.5	
Non-itemizers	35.2	17.5	
Total	200.8	100.0	2.1

Source: Giving USA 2007, based on data from IRS individual income tax returns and the PSID.

Table 2
Recipients of charitable donations
in the U.S.

Percent of donations received by:	All giving, 2006 (Giving USA)	Individual giving, 2002 (PSID)
Religion	33	60
Education	14	5
Human services / "help the needy"	10	11
Health	7	5
Other	36	19

Source: Giving USA 2007 and Center for Philanthropy at Indiana University (2006).

Table 3
Percentage of itemized deductions for charity accounted for by each income class, 2004

< $75,000	30.2
$75,000 - $100,000	12.5
$100,000 - $200,000	20.7
$200,000 and up	36.7

Source: Giving USA 2007, based on IRS individual income tax return data.

Table 4
Tax expenditure revenue loss estimates, fiscal year 2008

	Treasury	JCT
Billions of $	56.0	44.8
% of personal income tax revenue	4.3	3.9

Source: Office of Management and Budget (2007), Joint Committee on Taxation (2006).

Table 5
Average dollar benefit from charitable deduction per tax unit (including non-filers), by income class, 2005

Under $50,000	15
$50,000 - $75,000	134
$75,000 - $100,000	253
$100,000 - $200,000	631
$200,000 and over	4,223

Source: author's calculations based on Joint Committee on Taxation (2006).

How should the tax code treat charity?

- Horizontal equity
- Vertical equity
- Efficiency
  - Positive externalities
  - Individual may get more utility from donation than from tax payment
  - Public good favored by minority
  - Public good government can't support (e.g., religion)
- Compliance

Charity in an optimal tax framework
(Saez 2006)

- Optimal tax rate on charity:
    - Pigovian subsidy plus optimal commodity tax rate.
    - Adjustments for distributional effects and crowding out.
- Other things equal, optimal subsidy rate is *higher* when:
    - Charitable giving is more price-elastic.
    - Charitable giving has larger positive externalities.
    - Charitable giving has desirable distributional effects.
    - Government provision of public goods crowds out private provision.

Commonly proposed reforms to income tax treatment of charity

- Non-itemizer deduction or credit
- Floor (dollar or percent of income)
- Cap
- Flat-rate credit
- Eliminate the deduction

Table 6
Some revenue estimates
for charity reforms

	Change in revenues, 2007-2018, billions of $
2% AGI floor	+249.8
Non-itemizer deduction with $100 / $200 cap	-7.9
Non-itemizer deduction with $250 / $500 floor	-38.7

Source: Congressional Budget Office (2007).

Some questions where better empirical evidence would be helpful

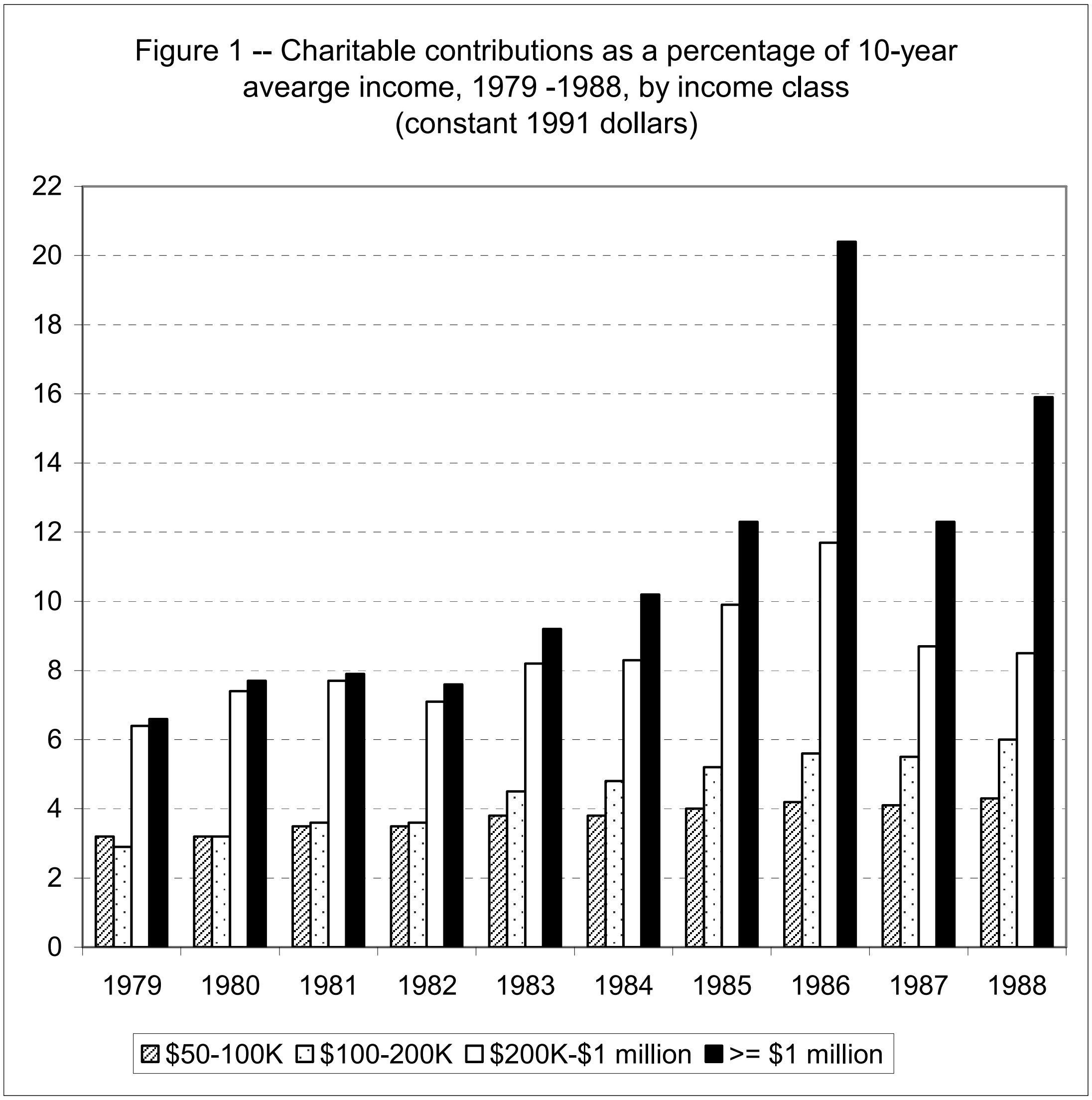
- What is the elasticity of giving with respect to a persistent change in price?

- How willing are people to change the timing of giving in response to anticipated differences in price across time?

    - Implications for revenue and behavioral impacts of floors.

- How do these elasticities differ across income groups, itemizers vs. non-itemizers, etc.

    - Implications for flat-rate credit vs. deduction, non-itemizer deduction.



Source: Auten, Cilke, and Randolph (1992)

Proposed original empirical work for NBER volume: CEX analysis

- Estimate transitory and permanent price elasticities of giving using 1980 – 2005 Consumer Expenditure Surveys.

- Advantage: useful for learning about responsiveness of non-itemizers and low-moderate income people.

- Pseudo-panel approach. Control for dummies for state, percentile of expenditure distribution.

- Some sources of identification:

  - Changes in federal rates.

  - 1982-86 non-itemizer deduction.

  - Changes in standard deductions.

  - State tax changes.

Proposed CEX analysis, continued

- Use expenditure and currently announced future tax law to construct instrument for expected future tax price.
- Evidence on timing from response to:
  - Pre-announced changes in tax law
  - Difference between current tax rate and tax rate predicted based on expenditure.

A separate paper feeding into microsimulation analysis in this paper:

- Joint work with Brad Heim at Treasury
  - Panel data on individual income tax returns 1979-1996, 1987-1996, and 1999-2003.
  - My own federal-state income tax calculator.
  - Special attention to:
    - Anticipated changes in tax law.
    - Heterogeneity in elasticities.

Microsimulation?

- Revenue and distributional estimates for reform proposals.
- Contribution:
    - Based on new empirical evidence on elasticities.
    - Allow for both persistent and timing behavioral responses.
    - Allow for heterogeneous elasticities.
- Where Dan Feenberg may be able to help:
    - SOI public-use individual tax file merged with imputed contributions for non-itemizers (from PSID or CEX).
    - Could be used with my tax calculator or with Taxsim to perform simulations.

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