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Allow Charitable Contribution Deductions for Non-Itemizers

~~12/20/99~~

Key facts:

- Currently 70 percent of taxpayers do not itemize and cannot get a tax credit for their charitable giving; two and a half times more taxpayers are nonitemizers (84 million) than itemizers (34 million).
- About 80 percent of families with incomes between $10,000 and $30,000 are nonitemizers. Over two-thirds of these families give to charity. Independent Sector estimates are on average nonitemizers give $465 annually, and the average household income for nonitemizers who give is $33,775.
- A demonstration put in place by the 1981 Economic Recovery Tax Act found allowing nonitemizers to take charitable deductions increased their giving: from 1985-1986, the average nonitemizing donor's gift jumped 27 percent, from $376 to $477, and for the highest income class, the average nonitemizer's gift rose two-and-a-half-times, from $742 in 1985 to $1,973 in 1986.
- Low income households tend to give more of their donations to religious charities and social welfare organizations, and this proposal has the support of over 300 groups, including Catholic Charities, Salvation Army, American Red Cross, March of Dimes, Environmental Defense Fund, the American Cancer Society and the National Organization of Women Foundation.
- Governor Bush has made this proposal a key part of both his faith based and tax relief package, arguing it will generate billions of dollars annually in additional contributions.
- This proposal has strong bipartisan support in Congress. "The Charitable Giving Tax Relief Act", (H.R. 1310) sponsored by Reps. Crane (R-IL) and Coyne (D-PA), currently has 106 bipartisan cosponsors, including a majority of the House Ways and Means Committee.

Likely Criticisms of the proposal include:

The standard deduction theoretically includes an allowance for charitable giving. Therefore, non-itemizers should not be allowed to claim both the standard deduction and an above-the-line deduction.

- **Response** – There is no estimate as to what amount is built into the standard deduction to compensate for charitable giving. We can address any potential problem by providing a tax deduction for nonitemizers above a set floor (about $500, the amount the average nonitemizer now gives).

Extending the charitable contribution deduction to nonitemizers is likely to cost Treasury more than the added actual giving to charities – that is, a dollar of tax deductions produced less than a dollar of additional giving.

- **Response** – There is no conclusive evidence to suggest that this is true. As a matter of fact, we know that giving is highly price elastic – implying that the deduction stimulates more in giving than it costs Treasury in terms of tax revenue. Price Waterhouse has estimated nonitemizers would give $3 billion more annually if they could deduction contributions.

It is too expensive.

- **Response** – There are a number of ways to control the cost of such a proposal, such as: 1) placing a ceiling on the amount of the deduction; 2) allowing only a percentage (i.e., 50%) of the amount over the floor to be deducted; and/or 3) raising the floor.

Effectiveness of the Nonitemizer Charitable Tax Deduction:
What Does the Demonstration from the 1980s Tell Us?
12/20/99

In order to stimulate charitable giving by nonitemizers, the 1981 Economic Recovery Tax Act (ERTA) contained a provision phasing in a tax deduction for charitable contributions by nonitemizers over the five-year period from 1982-1986.

Findings of the Demonstration

Using data from this demonstration, a study published in the June 1999 National Tax Journal concluded that:

- Both itemizers and nonitemizers give more if provided a tax incentive to do so.
- At all income levels, nonitemizers contributed more, on average, in 1986, when nonitemizer giving was 100 percent deductible, than in 1985 when these taxpayers could deduct only 50 cents for each dollar in contribution.
- From 1985-1986, the average nonitemizing donor's gift jumped 27 percent, from $376 to $477. For the highest income class, the average nonitemizer's gift rose two-and-a-half-times, from $742 in 1985 to $1,973 in 1986.
- While the study found that both itemizers and nonitemizers give more if provided a tax incentive to do so, it found itemizers are more price sensitive than nonitemizers.

  This implies that increasing incentives for itemizers would stimulate more giving per dollar of lost revenue than incentives aimed at nonitemizers. However, if our policy goal is to encourage more Americans to participate fully in philanthropic activities, as well as to increase contributions to the types of social welfare and faith-based groups that nonitemizers favor, it makes sense to extend a tax deduction to nonitemizers who are currently receive none and who comprise 70 percent of taxpayers.

Background on the Demonstration

The 1981 Economic Recovery Tax Act (ERTA) phased in charitable deductions as follows:

- In 1982 and 1983, nonitemizers were permitted to deduct 25 cents on the dollar only for the first $100 of giving. In 1984, the ceiling was raised to $300.
- The ceilings were removed in 1985 and nonitemizers were allowed to deduct 50 cents for every dollar in contribution.
- In 1986, the deduction was fully phased in and nonitemizer giving was 100 percent deductible.

This deduction was an experiment and expired as scheduled at the end of 1986.