

**INCENTIVES FOR NONITEMIZERS  
TO GIVE MORE:  
AN ANALYSIS**

*prepared  
for*

**INDEPENDENT SECTOR**

January 2001

# TABLE OF CONTENTS

	<u>Page</u>
<b>A. Background</b>	
Purpose.....	1
Economic rationale and methodology.....	1
<b>B. Results</b>	
Overview .....	3
Bush proposal.....	3
State perspective .....	4
<b>Table 1 Amount Given, Number of Givers.....</b>	<b>5</b>
<b>and Number of Itemizers</b>	
<b>Table 2 Amount Given and Number of Givers, by AGI.....</b>	<b>6</b>
<b>Table 3 Percent Change in Amount Given and .....</b>	<b>7</b>
<b>Number of Givers, by AGI</b>	
<b>Table 4 Additional Amount Given, by State .....</b>	<b>8</b>

# INCENTIVES FOR NONITEMIZERS TO GIVE MORE: AN ANALYSIS

## A. Background

### *Purpose*

This report is prepared for INDEPENDENT SECTOR by the National Economic Consulting practice of PricewaterhouseCoopers LLP.

The report concerns a proposal for allowing individuals who do not itemize deductions (“nonitemizers”) in computing federal income tax to deduct 100 percent of their charitable contributions, up to the amount of the standard deduction applicable to the taxpayer’s filing status. The proposal is referred to as the “Bush proposal” because it was included by then-Governor George W. Bush in *A Tax Cut with a Purpose*, published in December 1999.

The objectives of the report are to—

- Estimate the amount of additional charitable giving that the Bush proposal would stimulate, nationwide and in each State, and
- Estimate the amount of additional giving nationwide according to the income of the donor.

### *Economic rationale and methodology*

**Rationale.**—The proposal would encourage philanthropy by reducing the after-tax price of giving to a donor. Under present law, the after-tax price for a nonitemizer is \$100 per \$100 contributed because he or she is not allowed to deduct charitable contributions in computing taxable income. In contrast, the after-tax price for an individual in the 28-percent tax bracket who itemizes deductions is \$72 per \$100 donated because the donation generates a \$28 tax reduction. The economic rationale for the Bush proposal is to confer the same tax reduction on nonitemizers as itemizers now enjoy.

Research that has been conducted in universities, think tanks, and the federal government preponderantly supports the economic proposition that people tend to give more when the price of giving is lower for them. There is, however, a variance of results in this research about how strongly price affects the amounts given.

**Methodology.**—We use PricewaterhouseCoopers’ computerized model of charitable giving by individuals for the analysis in this report. The model was developed for a prior project for the Council on Foundations and INDEPENDENT SECTOR and is described in detail in the associated report, *Impact of Tax Restructuring on Tax-Exempt Organizations*.

The model is based on data from the 1994 Public Use Tax File that is issued by the Internal Revenue Service. This file contains information on over 96,000 actual tax returns. We impute information on giving by nonitemizers. This information did not appear on 1994 tax returns because it was not necessary for income tax purposes then. Rather, the imputation is based on characteristics of nonitemizers as disclosed on tax returns in 1986, the last year that they could fully deduct charitable contributions under prior law.

The model uses a two-step regression procedure to determine charitable giving. The first step determines an individual’s probability of making any charitable contribution at all. The second step estimates an individual’s level of giving, after he or she has been determined to be a giver. The two-step statistical procedure makes the model unique in the sophistication of its approach to the analysis of charitable contributions.

We apportion additional amounts given among the 50 States by equally weighting two factors—the percentage of nonitemizers nationwide who reside in a jurisdiction and the percentage of charitable contributions deducted nationwide that is currently originating in the jurisdiction. This information is available from IRS tabulations. We then apply the apportionment factors to an estimate of increased nationwide giving over 2000-04. We derive this 5-year total by growing our nationwide estimate for 2000 over 2001-2004 at the same growth rates as the Congressional Budget Office projected for the Gross Domestic Product in its July 2000 economic forecast.

The computations were done in 2000, as if the Bush proposal were fully effective then. Obviously the computations are one year “off” in their *fineness* if the question is about implementing the proposal today. However, the *essential character* of the results in this report is certainly applicable to the current discussion of incentives for nonitemizers to give more.

## B. Results

### *Overview*

The results are organized in the following four tables.

*Table 1* shows estimates of the amounts given, number of givers, and number of itemizers under current law and the Bush proposal.

*Table 2* shows estimates of the amounts given under current law and the proposal, according to the income level of the donor. It also has estimates of the number of givers under current law and the Bush proposal at various levels of income.

*Table 3* shows estimates of percentage increases in amounts given under the proposal for individuals at various income levels. It also has estimates of the percentage increase in the number of givers at various income levels under the Bush proposal.

*Table 4* shows estimates of additional giving in each State under the Bush proposal, for the 5-year period 2000-04.

### *Bush proposal*

The Bush proposal would stimulate additional giving of \$14.6 billion in 2000, an increase of 11.19 percent. The largest responses in percentage terms about 25 percent in some income brackets would occur among individuals whose incomes are under \$70,000 (Table 3). In the \$20,000-\$30,000 income bracket, where the percentage response is greatest, the average contribution over all (giving and nongiving) tax-filing units would increase from approximately \$611 to \$767.

Increased contributions would come from three segments of the population:

New givers. The proposal would encourage 11.7 million tax-filing units to become new givers, an increase of 16.6 percent in the number of givers. The greatest percentage increase in new givers would come in the lower income brackets (Table 3). Indeed, about three-quarters of the new givers would have incomes under \$40,000. One might expect this outcome because the proposal is structured to benefit nonitemizers and most individuals with incomes under \$40,000 (about 88 percent) do not itemize deductions under present law. By contrast, only 14 percent of tax-filing units with incomes above \$70,000 do not itemize at present.

Current givers who don't itemize. Some additional giving would come from individuals who are giving at present and are not itemizing deductions under present law. Unfortunately, we cannot estimate their number with this analysis.

Switchers. There would be about 3.9 million “switchers” under the proposal. A switcher itemizes deductions under present law but would not itemize under the proposal. The profile of a switcher is a taxpayer whose itemized deductions consist mainly of charitable contributions. A switcher would be able to deduct more under the proposal by combining the standard deduction with an above-the-line charitable deduction than by using the itemized deductions of present law.

The technical property of the Bush proposal that generates large estimated increases in charitable contributions and particularly draws out new givers is its “first-dollar” coverage. That is, an individual would receive a tax benefit by giving just one more dollar, whatever the amount of his or her current giving. This feature differs from some other proposals that would allow no deduction for a threshold amount of giving—sometimes put at \$500 to \$2,000. With a \$2,000 threshold there is no *tax* incentive to give anything more or anything at all unless one intends to give more than \$2,000, and then the total benefit on \$2,001 of giving is just 15 cents for an individual in the 15-percent tax bracket. Lower thresholds provide greater incentives to give and give more, and no threshold provides the greatest incentive of all.

### *State perspective*

Under the Bush proposal the greatest increases in charitable contributions and about half of the national increase would arise in California, New York, Texas, Florida, Illinois, Pennsylvania, New Jersey, Ohio, and Michigan (Table 4). These are States that account for relatively large percentages of deducted charitable contributions and nonitemizing individuals under present law, the two factors used to apportion the nationwide change to the States.

Consistent with our analysis of increased giving nationwide, an additional factor that ideally would be used to apportion changes to the States is the residence of switchers. However, this information is neither available in nor readily inferred from IRS data that are ordinarily offered to the public. Thus, while the estimates shown in Table 4 should be useful indicators, further research into identifying the residence of prospective switchers would be desirable to see whether it would materially change the apportioned amounts.

**Table 1**  
**AMOUNT GIVEN, NUMBER OF GIVERS**  
**AND NUMBER OF ITEMIZERS**  
**(2000)**

	<b>Amount given (\$ billions)</b>	<b>Number of givers (millions)</b>	<b>Number of itemizers (millions)</b>
<b>Present law</b>	130.3	70.7	39.5
<b>Bush proposal</b>	144.9	82.4	35.6

Source: PricewaterhouseCoopers LLP Individual Tax Model simulations.

**Table 2**  
**AMOUNT GIVEN AND NUMBER OF GIVERS, BY AGI**  
**(2000)**

AGI Class	Amount of Giving (\$millions)		Number of Givers (Thousands)	
	Present Law	Bush Proposal	Present Law	Bush Proposal
<b>Less than 0</b>	199	199	171	171
<b>0 - 5,000</b>	726	907	1,435	1,955
<b>5,000 - 10,000</b>	2,546	2,950	3,548	4,708
<b>10,000 - 15,000</b>	3,981	4,818	4,825	6,334
<b>15,000 - 20,000</b>	4,935	6,181	5,451	7,144
<b>20,000 - 30,000</b>	11,515	14,455	10,514	12,994
<b>30,000 - 40,000</b>	10,456	12,872	8,598	10,239
<b>40,000 - 50,000</b>	9,878	11,706	7,283	8,263
<b>50,000 - 60,000</b>	10,026	11,271	6,618	7,214
<b>60,000 - 70,000</b>	10,284	11,595	5,539	5,940
<b>70,000 - 80,000</b>	7,490	8,213	4,058	4,342
<b>80,000 - 90,000</b>	7,158	7,560	3,048	3,166
<b>90,000 -100,000</b>	5,024	5,315	2,218	2,304
<b>100,000 -200,000</b>	20,205	20,743	5,733	5,912
<b>200,000 -500,000</b>	10,333	10,480	1,326	1,373
<b>500,000-1,000,000</b>	4,234	4,275	203	215
<b>1,000,000 or More</b>	11,319	11,347	96	101
<b>TOTAL</b>	130,310	144,887	70,664	82,375

Source: PricewaterhouseCoopers LLP Individual Tax Model simulations.

"AGI" is adjusted gross income for federal income tax purposes.

**Table 3**  
**PERCENT CHANGE IN AMOUNT GIVEN**  
**AND NUMBER OF GIVERS, BY AGI**

(2000)

<b>AGI Class</b>	<b>Percent Chage in Amount Given</b>	<b>Percent Change in Givers</b>
	<b>Bush Proposal</b>	<b>Bush Proposal</b>
<b>Less than 0</b>	0.00%	0.00%
<b>0 - 5,000</b>	24.93%	36.18%
<b>5,000 - 10,000</b>	15.87%	32.71%
<b>10,000 - 15,000</b>	21.02%	31.26%
<b>15,000 - 20,000</b>	25.25%	31.07%
<b>20,000 - 30,000</b>	25.53%	23.59%
<b>30,000 - 40,000</b>	23.11%	19.09%
<b>40,000 - 50,000</b>	18.51%	13.45%
<b>50,000 - 60,000</b>	12.42%	9.01%
<b>60,000 - 70,000</b>	12.75%	7.25%
<b>70,000 - 80,000</b>	9.65%	6.99%
<b>80,000 - 90,000</b>	5.62%	3.87%
<b>90,000 -100,000</b>	5.79%	3.85%
<b>100,000 -200,000</b>	2.66%	3.12%
<b>200,000 -500,000</b>	1.42%	3.54%
<b>500,000-1,000,000</b>	0.97%	6.01%
<b>1,000,000 or More</b>	0.25%	5.97%
<b>TOTAL</b>	11.19%	16.57%

Source: PricewaterhouseCoopers LLP Individual Tax Model simulations.

"AGI" is adjusted gross income for federal income tax purposes.

**Table 4**  
**ADDITIONAL AMOUNT GIVEN, BY STATE**  
**(2000-2004 total, in millions of dollars)**

<b>State</b>	<b>Bush Proposal</b>
<b>UNITED STATES</b>	80,637
<b>Alabama</b>	1,266.66
<b>Alaska</b>	186.01
<b>Arizona</b>	1,250.75
<b>Arkansas</b>	712.94
<b>California</b>	9,451.96
<b>Colorado</b>	1,245.31
<b>Connecticut</b>	1,110.12
<b>Delaware</b>	238.02
<b>Florida</b>	4,640.57
<b>Georgia</b>	2,429.75
<b>Hawaii</b>	312.03
<b>Idaho</b>	335.73
<b>Illinois</b>	3,600.85
<b>Indiana</b>	1,667.72
<b>Iowa</b>	780.06
<b>Kansas</b>	766.95
<b>Kentucky</b>	983.21
<b>Louisiana</b>	1,093.47
<b>Maine</b>	306.62
<b>Maryland</b>	1,731.75
<b>Massachusetts</b>	1,889.79
<b>Michigan</b>	2,836.97
<b>Minnesota</b>	1,480.95
<b>Mississippi</b>	727.02
<b>Missouri</b>	1,525.91
<b>Montana</b>	223.09
<b>Nebraska</b>	522.35
<b>Nevada</b>	565.26

<b>New Hampshire</b>	330.54
<b>New Jersey</b>	2,554.79
<b>New Mexico</b>	425.94
<b>New York</b>	6,103.47
<b>North Carolina</b>	2,329.17
<b>North Dakota</b>	166.62
<b>Ohio</b>	3,114.36
<b>Oklahoma</b>	928.20
<b>Oregon</b>	912.02
<b>Pennsylvania</b>	3,393.20
<b>Rhode Island</b>	259.09
<b>South Carolina</b>	1,153.50
<b>South Dakota</b>	206.55
<b>Tennessee</b>	1,654.39
<b>Texas</b>	5,591.82
<b>Utah</b>	866.95
<b>Vermont</b>	157.13
<b>Virginia</b>	2,081.97
<b>Washington</b>	1,695.14
<b>West Virginia</b>	394.95
<b>Wisconsin</b>	1,480.60
<b>Wyoming</b>	172.59

---

Source: PricewaterhouseCoopers LLP Individual Tax Model simulations.

The total for the United States includes the District of Columbia (\$242 million) and other jurisdictions (\$540 million) not shown separately.

The national total is apportioned to a State according to the percentages of nationwide nonitemizers in the State and nationwide charitable contributions deducted by residents of the State.