Study Predicts 4-Percent Drop In Giving This Year

By Mark Hrywna

Household charitable giving could see a drop of 4 percent in 2018, as a result of the Tax Cuts and Jobs Act (TCJA), primarily because of high-income taxpayers claiming the standard deduction, according to latest projections.

The American Enterprise Institute (AEI) estimates a drop of some $17.2 billion, or $16.3 billion if Gross Domestic Product (GDP) were to grow 1 percent. Other recent studies examining how giving would be impacted by tax policy changes have estimated a decline in giving of anywhere from $12 billion to $20 billion. Last year, charitable giving was estimated to be $410 billion, with about $287 billion from individuals.

About 83 percent of the expected decline is attributed to the increase in the standard deduction, with about $3 billion associated with lower marginal tax rates for high-income earners. For middle- and upper-middle-income tax filers, the increase in the standard deduction is responsible for nearly all the change in giving, according to the AEI study.

The standard deduction almost doubled under the tax reform legislation, from $6,300 to $12,000 for single taxpayers, and from $12,600 to $24,000 for married couples. Marginal tax rates also were reduced, which has the consequence of reducing the tax incentive for giving by taxpayers who itemize. The report did not look at what impact doubling the estate tax exemption or reducing the corporate tax rate would have on giving.

"To the extent that the TCJA yields pro-growth impacts on the economy, the negative impact on charitable giving will be reduced," wrote the study's authors.

The study estimates that 27.3 million taxpayers will switch from itemizing their deductions to claiming the standard deduction in 2018, while 19.9 million will continue to itemize.

The AEI study estimates that individual giving would have increased to $296 billion in 2018 if not for the TCJA, with itemizers making up $221 billion of that total.

The top 5 percent of tax filers – those with Adjusted Gross Income (AGI) of more than $202,000 – are responsible for almost 20 percent of individual donations. The number of households in that category that claim the standard deduction is expected to increase from 550,000 to 3.3 million under the new tax law. The top 20 percent of tax filers, with incomes of $94,000 or more, give 64 percent of the total, or $189 billion.

The Congressional Budget Office (CBO) estimates that the tax reform bill will boost real GDP by 0.3 percent in 2018, and by 1 percent by 2022. A full percentage point increase in GDP by 2022 would offset about $3.2 billion in reduced giving.

What would offset reduced giving even more, the report estimates, is extending the charitable deduction to all taxpayers, or replacing it with a flat-rate 25 percent nonrefundable tax credit. “Both policies encourage giving by reducing the average price of charitable giving,” the report noted.

The report examines four scenarios involving those two options, including a floor of $500 and no floor with each. The impact on charitable giving ranges from $19.1 billion (universal deduction with a $500 single/$1,000 married floor) to $23.3 billion (25 percent tax credit, no floor). In each scenario, the net impact on charitable giving would offset any impact from TCJA, ranging from $1.9 billion to $6.2 billion.

“An above-the-line deduction with a floor would, while modestly more progressive, most closely match the level and distribution of giving under pre-TCJA law,” the report concluded.