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## The Charitable Tax Deduction and Civic Engagement

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# THE CHARITABLE TAX DEDUCTION AND CIVIC ENGAGEMENT

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## **Abstract**

In an era characterized by inequalities of income and influence, political polarization, and the segregation of social spaces, the income tax deduction for charitable contributions would appear to abet some of our worst social ills because it allows wealthy individuals to steer public funds to their preferred charities. But we argue that now is the time to expand and refocus—not abolish—the tax subsidy for charitable giving. Previous assessments of the charitable deduction have focused on how it helps charities but ignored an essential benefit of giving: its effect on the donor. We show that the charitable deduction increases volunteerism along with financial giving, and we report new evidence that volunteerism is associated with broader civic and political engagement, including engagement with people of different cultures, races, and ethnicities. Since people tend to undervalue the social and relational goods that flow from civic participation, the charitable deduction is a helpful corrective. We also report evidence that civic engagement is unequally distributed and propose a new refundable tax credit that turns low- and middle-income households from clients of charities to donors, which can both empower them and help remedy inequalities in civic and political participation.

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## INTRODUCTION

“Before I ran, I had never been involved in a campaign in my life, but I had been involved in community and civic organizations... That’s where you first learn to be in touch with people, to listen to them and to work with them on things they care about.”<sup>1</sup>

- County Commissioner Diana Irely

The fate of the federal income tax deduction for charitable contributions is precarious. Presidents Obama, Trump, and Biden have all proposed limiting the charitable deduction,<sup>2</sup> and it’s not hard to see why. We live in an

<sup>1</sup>Cindi Lash, *Stop, Look and Listen Before You Decide to Run*, Pittsburgh-Post Gazette, Jan. 17, 1999, at A1.

<sup>2</sup> Tom Anderson, *Tax reform could reduce charitable giving by up to \$13 billion per year*, CNBC (May 22, 2017) <https://www.cnbc.com/2017/05/22/tax-reform-could-reduce->

era in which the most pressing political issues have to do with inequalities in income and influence, the dramatic polarization of our politics, and the geographic segregation of the country by race and class. In that context, a \$40 billion tax expenditure that allows the wealthiest among us to steer public dollars towards their preferred charities seems discordant and perhaps destined for a well-earned demise.

But that is not all. According to some observers, civil society is on life support, too. We interact with each other primarily through depersonalized markets and social media or coercive actions of the state. Although charitable contributions have increased virtually every year since 1977,<sup>3</sup> the intermediating institutions—unions, churches, neighborhood organizations, charities, and so on—that counterbalance the power of the marketplace and the state are in decline.<sup>4</sup> The symptoms of this decline, these scholars say, are all around us, manifested in deep distrust between citizens and a heightened sense of isolation and alienation.<sup>5</sup>

So, what should be done about a tax law that favors the wealthy and their preferred charities but simultaneously appears unable to halt the decline of voluntary associations? We think that the tax incentives for charitable giving are misdirected but can be fixed. Tax incentives for giving to charities and civic organizations can do more than support the provision of goods and services that the state or market cannot provide: they can engage broad swaths of the community in that work of provision by creating a gateway to volunteerism and civic participation more broadly. In this article, we reconsider the federal income tax deduction for charitable contributions in light of its effect on civic engagement. Scholarly appraisals of the charitable contribution deduction have been constrained by traditional tax policy criteria, asking questions such as: Is the deduction necessary to measure income correctly? What are the efficiency effects of the deduction? Who benefits from the deduction, and are the distributional effects desirable? What administrative challenges does the deduction raise, and are the benefits of the

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[charitable-giving-by-up-to-13-billion-per-year.html](#).

<sup>3</sup> Charity Navigator, *Giving Statistics*,  
<https://www.charitynavigator.org/index.cfm?bay=content.view&cpid=42>.

<sup>4</sup> ROBERT D. PUTNAM, *BOWLING ALONE: THE COLLAPSE AND REVIVAL OF AMERICAN COMMUNITY* (2000) (describing decline in social capital and decline in trust); PATRICK J. DENEEN, *WHY LIBERALISM FAILED* (2019).

<sup>5</sup> Lee Rainie & Andrew Perrin, *Key findings about Americans' declining trust in government and each other*, PEW RESEARCH CENTER (Jul. 22, 2019) <https://www.pewresearch.org/fact-tank/2019/07/22/key-findings-about-americans-declining-trust-in-government-and-each-other/>.

deduction worth these costs?

But if financial giving leads to greater political and civic participation—and we argue that it does—then the stakes for the charitable contribution deduction are much greater than the fairness and efficiency of the federal income tax. The tax incentives for charitable giving may influence the representativeness of our politics, the balance of power between the state, the market, and the institutions of civil society, the opportunities for relationships among individuals of different races and classes, and the spirit of cooperation and public mindedness that is necessary for the flourishing of the republic.

All of this is a lot to expect of the charitable contribution deduction. We do not argue that charitable giving is a panacea to the politics of division and the decline of social trust. Neither do we dismiss the traditional concerns with the charitable contribution deduction, particularly its distributional effects. But we propose reorienting the federal tax treatment of charitable gifts to give greater priority to the impact of those gifts on the *donors*, including their civic and political engagement. Empirical evidence indicates that charitable giving is related to increased volunteerism, and we report new evidence on the relationship between volunteerism and other forms of civic and political engagement. We argue that increasing this engagement is an appropriate goal for federal income tax law, but achieving it requires revamping the income tax incentives for charitable giving.

Traditionally, justifications for the charitable contribution deduction have focused on the recipients of the donations and whether they benefit society.<sup>6</sup> Instead, we consider the positive benefits to both the donors and their communities. Toward this end, we propose the Community Contribution Credit, a refundable tax credit aimed at low- and middle-income households. By putting the power to donate in the hands of these households, the credit turns them from clients of nonprofits to donors. This empowers them to exert influence over the nonprofit sector's priorities, to bring valuable expertise to the sector, and to be afforded the respect that donors typically receive. Moreover, because financial giving leads to volunteering, which—as we show in this paper with new evidence—is associated with broader civic and political engagement, the new donor status of low- and middle-income households may help mobilize their shared interests and create a more democratic politics.<sup>7</sup> And finally, because the relational goods that are

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<sup>6</sup> See discussion *infra* Part II.B.

<sup>7</sup> In focusing on the role of tax policy in pursuing democratic goals, we follow in the work of Philip Hackney, who has argued for the deductibility of labor union dues as a way

associated with community involvement tend to be undervalued, nudging people toward greater engagement with a tax subsidy is likely to be in their own interest too.

In Part I, we diagnose the ill: the decline of civic institutions over time and declining involvement by individuals in community life. We explain why this engagement matters. In Part II, we lay out our argument for how the charitable contribution deduction can increase civic engagement. The argument relies on two links in a causal chain. First, the charitable contribution deduction increases financial giving and volunteerism. Second, increased volunteerism increases civic engagement. The existing social science literature establishes the first link. In Part III, we provide new evidence consistent with a connection between volunteerism and civic and political engagement, more generally. We consider how this justification for the charitable deduction influences the traditional tax policy analysis. The historical decline in civic engagement tracks an increase in income and wealth inequality, and we also report evidence on civic engagement across the income distribution, focusing on the lower end where the benefits of our proposal could be the greatest.<sup>8</sup> In Part IV, we describe how a revamped income tax approach to charitable contributions can help realize the best of its civic engagement benefits while also managing some of the problems by focusing on donors at low- and middle-income levels. Specifically, we propose a Community Contribution Credit designed to help incorporate into tax policy the civic benefits of increased charitable giving.

## I. THE STATE OF CIVIC ENGAGEMENT

Alan Wolfe, one of the leading contemporary scholars of civil society, defines civil society as “those forms of communal and associational life which are organized neither by the self-interest of the market nor by the

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of increasing the political influence of laborers and eliminating the tax exemption for trade associations. Philip T. Hackney, Prop up the Heavenly Chorus: Labor Unions, Tax Policy, and Political Voice Equality, 91 ST. JOHN'S L. REV. 315 (2017), Philip T. Hackney, Taxing the Unheavenly Chorus: Why Section 501(c)(6) Trade Associations are Undeserving of Tax Exemption, 92 DENV. U. L. REV. 265 (2015). C.f. Philip Hackney, Political Justice and Tax Policy: The Social Welfare Organization Case, 8 TEX. A&M L. REV. 271 (2021). Brian Galle has argued against the use of tax law to subsidize political activity and in defense of limits on the political activities of charities. Brian Galle, Charities in Politics: A Reappraisal, 54 WM. & MARY L. REV. 1561 (2013).

<sup>8</sup> Juliana Menasce Horowitz, et al., *Trends in income and wealth inequality*, PEW RESEARCH CENTER, <https://www.pewresearch.org/social-trends/2020/01/09/trends-in-income-and-wealth-inequality/>.

coercive potential of the state.”<sup>9</sup> Instead, these are realms characterized by cooperation, altruism, trust, and intimacy.<sup>10</sup> The most familiar forms of civil society are groups such as neighborhood associations, churches, unions, charities, voluntary organizations, and families.

It is a recurring worry in American life that civil society is collapsing and that reinvigorating voluntary associations is necessary to resurrect a healthy balance between the individual, the market, and the state.<sup>11</sup> That worry is now cresting for both political progressives and conservatives.<sup>12</sup> For some contemporary critics, the cause of the decline of civil society in the United States is located in a liberal political and economic order which, they argue, creates a fluid society of individuals who move in and out of physical and social spaces without forming deep or meaningful connections to other people, places or cultures.<sup>13</sup> Some scholars conclude that the old institutions of civil society simply cannot persist in large contemporary societies with high levels of immigration and outmigration, and indeed social science evidence shows that civic engagement tends to decline as communities become more diverse.<sup>14</sup>

But civic engagement has not declined everywhere for everyone and the demographic factors that correlate with civic participation paint a picture of who is most involved with voluntary associations in their communities. For example, engagement tends to be greater for people with higher educational

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<sup>9</sup> Alan Wolfe, *Is Civil Society Obsolete?: Revisiting Predictions of the Decline of Civil Society in Whose Keeper?*, BROOKINGS INSTITUTION, <https://www.brookings.edu/articles/is-civil-society-obsolete-revisiting-predictions-of-the-decline-of-civil-society-in-whose-keeper/>.

<sup>10</sup> *Id.*

<sup>11</sup> See, e.g., Putnam, *supra* note 2; Deneen, *supra* note 2; Miriam Galston, *Civic Renewal and the Regulation of Nonprofits*, 13 CORNELL J. L. & PUB. POL’Y 289 (2003) (“If, however, you were to ask about the importance of participation in voluntary associations for producing, maintaining, or strengthening the quality of civic life, you would discover a substantial consensus that, for civic life to be strong, individuals need to take an active role in governance, and that participation in voluntary associations is one of the principal methods for assuring an active citizenry of this kind.”)

<sup>12</sup> Yuval Levin, *The American Context of Civil Society*, Stanford Social Innovation Review (Jun. 14, 2018), [https://ssir.org/articles/entry/the\\_american\\_context\\_of\\_civil\\_society](https://ssir.org/articles/entry/the_american_context_of_civil_society).

<sup>13</sup> See, e.g., Deneen, *supra* note 2.

<sup>14</sup> Dora L. Costa & Matthew E. Kahn, *Civic Engagement and Community Heterogeneity: An Economist’s Perspective*, 1 PERSPECTIVES ON POL. 103 (2003) (“In more-diverse communities, people participate less as measured by how they allocate their time, their money, their voting, and their willingness to take risks to help others.”)

attainment, those who are employed, and those who regularly attend religious services.<sup>15</sup> Civic engagement is positively correlated with homeownership,<sup>16</sup> how long the person has lived in her home,<sup>17</sup> and with social status.<sup>18</sup> Having children or having grown up with parents that were volunteers are also associated with greater volunteerism.<sup>19</sup> And, if someone is involved in nonpolitical civic activities, they are also more likely to be involved politically too.<sup>20</sup> But these factors are also not fixed over time. For example, people become more or less engaged as they move through different phases in life.

Laments about the decline of civil society are often tinged with nostalgia about the sites of communal life that were common in the past. Of course, just because the most familiar expressions of civic life are in decline does not mean that civic life itself is. We may simply find community in different places now than we used to, such as in the workplace, online, or in recent political and protest movements.<sup>21</sup> The nostalgic tinge to the “decline of civil society” view can also obscure the fact that the vitality of some traditional civic institutions relied on exclusion and subordination.<sup>22</sup> Thus, some scholars see in this nostalgia a backlash against women’s economic empowerment—which may have resulted in the decline of organizations that relied on women’s unpaid labor—and movements for racial integration—which may have destabilized the culture, class, and racial homogeneity of unions, neighborhoods, and fraternal organizations.<sup>23</sup> Oftentimes, a strong sense of in-group membership in a voluntary organization is based on

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<sup>15</sup> Naomi E. Feldman, *Time Is Money: Choosing between Charitable Activities*, 2 AM. ECON. J.: ECON. POL’Y 103 (2010).

<sup>16</sup> Kim Manturuk, et al., *Homeownership and Civic Engagement in Low-Income Urban Neighborhoods: A Longitudinal Analysis*, 48 URB. AFF. REV. 731 (2012).

<sup>17</sup> Amornrat Apinunmahakul et al., *Charitable Giving, Volunteering, and the Paid Labor Market*, 38 NONPROFIT & VOLUNTARY SECTOR Q. 77 (2009)

<sup>18</sup> Feldman, *supra* note 14 (“membership in voluntary organizations increases as social status increases.”)

<sup>19</sup> *Id.*

<sup>20</sup> Galston, *supra* note 10, at 340 (“a person’s work is not as significant a factor in prompting civic engagement, at least in the form of political participation, as is participation in voluntary forms of associational life.”)

<sup>21</sup> Wolfe, *supra* note 7.

<sup>22</sup> Galston, *supra* note 10, at 303 (critics “point out that a significant number of traditional associations favored by Putnam and other civic renewal advocates were exclusionary and that, at times, the bonds created or reinforced among group members were based on hostility toward outsiders—women or blacks or anyone who was not Irish (or Italian, or Jewish, or Armenian).”)

<sup>23</sup> *Id.*



commonalities of status that can lead to the perpetuation of social inequality. And, needless to say, not all voluntary organizations have salutary missions.

Since civic engagement can sometimes organize around status differences that reinforce inequality and sometimes energize political activity designed to exclude or oppress other groups, we need to ask why civic engagement should be encouraged, in general. Scholars articulate three broad sets of benefits from voluntary associations: the cultivation of individuals' skills, capacities, and democratic virtues, the nurturing of community, and the equal respect and protection of different interests in political life.<sup>24</sup> For our purposes, we divide these three sets of benefits into those that accrue immediately to the individual participants and those that take longer to realize and that are contingent on the efficacy of volunteer associations in the political realm.

For individuals involved with voluntary associations, two categories of benefits are instrumentally beneficial—such as the cultivation of skills and a professional and social network—and others are intrinsically beneficial—the pleasures that come from being in community with other people with a common purpose, realizing shared goals and developing friendships.

Scholars have documented the instrumental benefits of voluntary associations for the development of individual skills and capacities, such as learning about financial accounting and bookkeeping, how to navigate bureaucracies, productive negotiation and conflict resolution, and whatever front-line skills might be necessary for the association to carry out its mission. These benefits of civic participation have been particularly important in minority communities<sup>25</sup> and for religious institutions, which have been found to be effective places for both the development of skills and for building the confidence of individuals with lower socioeconomic status.<sup>26</sup>

Participation in voluntary associations can also embed individuals in a community network that may help them realize professional goals, such as

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<sup>24</sup> Kay Lehman Schlozman, et al., *Civic Participation and the Equality Problem*, in *CIVIC ENGAGEMENT IN AMERICAN DEMOCRACY* (eds. Theda Skocpol & Morris P. Fiorina) (2004).

<sup>25</sup> SIDNEY VERBA ET AL., *VOICE AND EQUALITY: CIVIC VOLUNTARISM IN AMERICAN POLITICS* 320-330 (1995) (“participation in churches increases the level of participation of poor blacks and white fundamentalists; however, participation in churches does not increase the participation levels of Catholics.”)

<sup>26</sup> Galston, *supra* note 10, at 398.

job placement, the development of a client list, or obtaining career guidance and advice.<sup>27</sup> The network may also provide access to professional services—such as legal services—or to experience, expertise, and counsel that might not be available to an individual from her existing social networks based on family and friends. For voluntary organizations that enable the sharing of knowledge and opportunities, the addition of a new member has positive benefits—externalities—on the rest of the members of the organization. Unless the members of the existing network can find a way to pass some of these benefits to a potential new member as part of the recruitment process, the decision of the potential member will reflect only her private cost-benefit calculus, and so she will be less likely to join than would be socially desirable.

In addition to these instrumental benefits of voluntary association are the intrinsic benefits of being socially connected to a group with a shared mission: friendship and a sense of common purpose. Although harder to quantify, empirical evidence supports the intuition that these experiences matter for individual happiness and wellbeing.<sup>28</sup> Not only is there a correlation between volunteering and people's self-reports of individual satisfaction with their lives, but several attempts to identify a causal link show that life satisfaction increases when people volunteer,<sup>29</sup> and that religious

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<sup>27</sup> Jodi Benenson, *Civic Engagement and Economic Opportunity Among Low-Income Individuals: An Asset-Based Approach*, 28 VOLUNTAS 988 (2017) (“study participants were often able to mobilize and deploy the social and human capital assets accumulated through different types of civic engagement into employment and education opportunities.”)

<sup>28</sup> Lalin Anik, et al., *Feeling Good About Giving: The Benefits (and Costs) of Self-Interested Charitable Behavior*, Harvard Business School Marketing Unit Working Paper No. 10-012 (2009), <https://papers.ssrn.com/abstract=1444831> (reviewing the literature and concluding that giving causes increased happiness); Martin Binder & Andreas Freytag, *Volunteering, subjective well-being and public policy*, 34 J. ECON. PSYCH. 97 (2013) (“the impact of regular volunteering on subjective well-being is positive and increasing over time if regular volunteering is sustained...this effect seems to be driven by reducing the unhappiness of the less happy quantiles of the well-being distribution for those who volunteer regularly.”).

<sup>29</sup> Stephan Meier & Alois Stutzer, *Is Volunteering Rewarding in Itself?*, 75 ECONOMICA 39 (2008) (“We find robust evidence that volunteers are more satisfied with their life than non-volunteers”); Luigino Bruni & Luca Stanca, *Watching alone: Relational goods, television and happiness*, 65 J. ECON. BEHAV. & ORG. 506 (2008); Martin Binder, *Volunteering and life satisfaction: a closer look at the hypothesis that volunteering more strongly benefits the unhappy*, 22 APPLIED ECON. LETTERS 874 (2015) (“relational goods have a significant effect on life satisfaction.”); Leonardo Becchetti, et al., *Relational Goods, Sociability, and Happiness*, 61 KYKLOS 343 (2008). One study report correlations between activism and psychological well-being, but the causal link is not well-established. Malte Klar & Tim Kasser, *Some Benefits of Being an Activist: Measuring Activism and Its Role in Psychological Well-Being*, 30 POL. PSYCH. 755 (2009).

attendance makes people happier.<sup>30</sup>

As important as participation in voluntary organizations seems to be to individual wellbeing, there is reason to think that people undervalue these benefits when considering whether to volunteer. Economists studying so-called “relational goods,” argue that these goods are underconsumed—one must think about time spent with a good friend as a form of consumption—relative to things like flashy consumer goods, for which consumption is more conspicuous.<sup>31</sup> One reason that people undervalue relational goods is that they tend to underestimate how habituated they will become to the pleasures of material consumption—the so-called “hedonic treadmill.” By contrast, people experience relatively little habituation to relational goods, so that good relationships tend to be evergreen sources of fulfillment.<sup>32</sup> A second reason for the underconsumption of relational goods is that, at their heart, there is a coordination or matching problem that must be overcome to realize them. It is much more difficult to find a mutually compatible life partner than a mode of transportation to work.

The second category of benefits from a flourishing sector of voluntary organizations accrue to society more generally. For example, there is also some evidence that civic participation increases voter turnout<sup>33</sup> and political involvement, more generally.<sup>34</sup> Increases in political engagement may lead to more equal representation in the lawmaking process and greater protection of

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<sup>30</sup> Danny Cohen-Zada & William Sander, *Religious Participation versus Shopping: What Makes People Happier?*, 54 J. L. & ECON. 889 (2011) (“repealing blue laws causes a significant decline in the religious participation of women and in their happiness.”)

<sup>31</sup> Becchetti, et al., *supra* note 28; Bruno Frey & Alois Stutzer, *Does the political process mitigate or accentuate individual biases due to mispredicting future utility*, in BEHAV. PUB. FIN. (eds. Edward McCaffery & Joel Slemrod) (2005) (“There is an increasing belief that people systematically err in these decisions and that people spend too much time, effort and money on goods, services and activities with strong extrinsic attributes. We argue that this tendency for people to behave in this way is due to systematic misprediction of future utility.”) (Citations omitted). *See also* TIBOR SCITOVSKY, *THE JOYLESS ECONOMY: AN INQUIRY INTO HUMAN SATISFACTION AND CONSUMER DISSATISFACTION* (1976); ROBERT H. FRANK, *LUXURY FEVER: WHY MONEY FAILS TO SATISFY IN AN ERA OF EXCESS* (1999); Richard A. Easterlin, *Building a better theory of well-being*, in *ECONOMICS AND HAPPINESS: FRAMING THE ANALYSIS* (eds. Luigino Bruno & Pier Luigi Porta) (2005); Benedetto Gui & Luca Stanca, *Happiness and relational goods: well-being and interpersonal relations in the economic sphere*, 57 INT’L REV. ECON. 105 (2010).

<sup>32</sup> Bruno S. Frey & Alois Stutzer, *Economic consequences of mispredicting utility*, 15 J. HAPPINESS STUD. 937 (2014).

<sup>33</sup> Galston, *supra* note 10, at 349-351 n.267-75.

<sup>34</sup> Galston, *supra* note 10, at 349 n.266.

minority interests. Group membership also tends to increase trust among members,<sup>35</sup> and some scholars even argue that civic engagement has positive spillover effects on the amount of social trust in society, including between members of the association and outsiders.<sup>36</sup>

Just as with some of the private benefits from social networks, social capital—of which trust is a key input—may be undersupplied by the marketplace. Two economists put it this way:

Social capital is an unusual commodity. No one can buy or sell it in the marketplace. It is a byproduct of individuals' collective choices on how to allocate their scarce time. Volunteers compare their own private costs and benefits of donating their time; they rarely consider the long-run social benefits of having these diverse groups interact—which may be economic as well as social.<sup>37</sup>

Thus, whether looking at the private benefits of civic engagement or the public benefits of civic engagement, the social science evidence and theory suggest that civic engagement will be lower than is socially optimal. Individuals' private cost-benefit calculus underestimates the benefits of voluntary association to them and disregards the benefits to others. One of the widely accepted uses of tax law is to correct for market failures of these kinds,<sup>38</sup> and yet tax law has neglected these issues. The primary tax incentive for supporting voluntary associations is the deduction for charitable contributions, but it is a poor fit for a policy aimed at increasing civic engagement.

## II. THE CHARITABLE CONTRIBUTION DEDUCTION

We begin by describing the federal income tax deduction for charitable contributions and outline the traditional arguments for and against the

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<sup>35</sup> Costa & Kahn, *supra* note 13 (ethnic fragmentation lowers voting rates and, generally, “civic engagement is lower in more-heterogeneous communities.”)

<sup>36</sup> Galston, *supra* note 10, at 291-292 (“for many civic renewal advocates, the most salutary effects of broadening and deepening participation in voluntary associations stem from their role in creating generalized interpersonal trust and the inclination of association members to cooperate with people outside their circle of friends and acquaintances in order to improve the surrounding communities.”).

<sup>37</sup> Costa & Kahn, *supra* note 13.

<sup>38</sup> See, e.g., Hunt Allcott, et al., *Energy policy with externalities and internalities*, 112 J. PUB. ECON. 71 (2014) (analyzing how to tax energy in presence of consumption externalities and “internalities” due to individuals' failure to properly weight costs and benefits”).

deduction. Although a great deal of attention has been paid to whether the deduction increases financial giving, the scholarly literature has taken little notice of the collateral effects of the deduction on volunteerism. In fact, there is good evidence that the deduction increases both financial giving and volunteerism. This evidence sets the stage for the new evidence that we report in Part III on the relationship between volunteerism and civic and political engagement. Our argument, which extends the connection from the charitable deduction all the way to broad civic and political engagement is new to the literature, and informs our proposal for adopting a Community Contribution Credit in Part IV.

### *A. The Legal Landscape*

Section 170 of the Internal Revenue Code (the “Code”) provides an itemized deduction for contributions of cash and property to entities that are themselves exempt from federal income tax because they are organized and operated for religious, charitable, scientific, literary, or educational purposes.<sup>39</sup> Deductible contributions can also be made to fraternal organizations if the donation is to be used for one of these charitable purposes,<sup>40</sup> to certain organizations of war veterans,<sup>41</sup> to certain cemetery corporations,<sup>42</sup> and to federal, state and local governments.<sup>43</sup> Since the charitable deduction is an itemized deduction, it is not available to taxpayers who take the standard deduction—generally those with lower incomes.<sup>44</sup>

The Code limits the amount of the contribution that is deductible, depending on whether the donor is an individual or a corporation. For corporations, the amount of charitable contribution deductions is generally limited to 10% of the corporation’s taxable income.<sup>45</sup> For individuals, the deduction for contributions to most entities is limited to 50% of the taxpayer’s adjusted gross income (AGI).<sup>46</sup> For contributions to other entities, the

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<sup>39</sup> I.R.C. § 1701(c)(2). This excludes entities certain entities operated to influence legislation or to support a candidate for political office. Donations to social welfare organizations listed in I.R.C. § 501(c)(4) are not deductible.

<sup>40</sup> I.R.C. § 170(c)(4).

<sup>41</sup> I.R.C. § 170(c)(3).

<sup>42</sup> I.R.C. § 170(c)(5).

<sup>43</sup> I.R.C. § 170(c)(1).

<sup>44</sup> In addition to the federal charitable deduction, there are a wide variety of state income tax incentives for charitable giving. We discuss these in Part II, when summarizing evidence about the effect of tax incentives on donations.

<sup>45</sup> I.R.C. § 170(B)(2).

<sup>46</sup> I.R.C. § 170(b)(1)(A).

deduction is limited to the lesser of 30% of the taxpayer's AGI and the difference between 50% of the taxpayer's AGI and the deduction allowable for contributions to the first set of entities.<sup>47</sup> If a taxpayer donates property that would give rise to long term capital gain if it were sold, the amount of the contribution that is deductible is subject to another set of limitations.<sup>48</sup> When the amount of a contribution or deduction is limited by these caps, then any excess amount is generally carried forward to the next five tax years.<sup>49</sup>

In general, the value of a charitable contribution for the purpose of calculating the deduction includes built-in long-term capital gains but not short-term capital gains.<sup>50</sup> Contributing inventory and property used in the taxpayer's trade or business,<sup>51</sup> and many other situations trigger specific rules and limitations. Deductions for contributions over \$250 must be substantiated by the donee organization with a written acknowledgement stating the amount of cash and a description of any property donated, and whether the donee organization provided any goods or services to the donor and an estimate of the property's value.<sup>52</sup>

Illustrating its ambivalence about the charitable deduction, Congress expanded the availability of the charitable deduction to encourage giving during the pandemic as part of the CARES Act, passed in March 2020.<sup>53</sup> The temporary changes made by the CARES Act allowed taxpayers who take the standard deduction to deduct up to \$300 for charitable contributions. It also increased the maximum amount of deductible cash contributions for itemizers.<sup>54</sup>

### *B. Traditional Justifications*

The charitable contribution deduction occupies an unusual place in

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<sup>47</sup> I.R.C. § 170(b)(1)(B).

<sup>48</sup> See I.R.C. §§ 170(b)(1)(C), (b)(1)(D).

<sup>49</sup> See, e.g., § 170(b)(1)(D)(ii).

<sup>50</sup> See I.R.C. § 170(e)(1). The credit for built-in long-term capital gain is does not apply in certain cases. See I.R.C. § 170(e)(1)(B).

<sup>51</sup> I.R.C. § 170(e)(3), (4).

<sup>52</sup> I.R.C. § 170(e)(8).

<sup>53</sup> Coronavirus Aid, Relief, and Economic Security (CARES) Act, Pub. L. No. 116-136, §§ 2104, 2105, 134 Stat. 281, 335-40 (2020).

<sup>54</sup> Richard Rubin, Expanded Tax Break for Charitable Gifts Gains Support in Congress, WALL ST. J. (Jun. 15, 2020) <https://www.wsj.com/articles/expanded-tax-break-for-charitable-gifts-gains-support-in-congress-11592218800>.

federal income tax policy.<sup>55</sup> For some tax scholars, the *sine qua non* of a deduction is that it is necessary to properly measure income. On this view, the charitable contribution deduction is justifiable only if it is necessary to measure income. An alternative view, which views the income tax as a tool of social and economic policy, justifies the deduction in terms of its social and economic benefits.<sup>56</sup>

### 1. Income measurement

The income tax is generally—albeit only generally—speaking a tax on income.<sup>57</sup> Income, given its most capacious definition by Haig-Simons, is the sum of the taxpayer’s consumption and their increase in wealth over the tax period.<sup>58</sup> Held to this standard, the question of whether a taxpayer should be able to deduct charitable contributions depends on whether a gift of property or cash is equivalent to engaging in “consumption.” If it is, then no deduction should be allowed just as no deduction is appropriate for the cost of going to dinner and a movie.<sup>59</sup>

Perhaps surprisingly, even though charitable gifts have been deductible under the federal income tax from the beginning, there is no consensus over

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<sup>55</sup> Professor Gergen provides three theories supporting the charitable contribution deduction. Mark P. Gergen, *The Case for a Charitable Contributions Deduction*, 74 VA. L. REV. 1393 (1988).

<sup>56</sup> For a summary of the deduction based on base measurement or subsidy grounds, see Roger Colinvaux, *Rationale and Changing the Charitable Deduction*, TAX NOTES, Mar. 25, 2013, at 1453. Miranda Fleischer has written extensively about the compatibility of tax benefits for nonprofits with theories of justice, with a focus on classical liberalism. See, e.g., Miranda Perry Fleischer, *Subsidizing charity liberally*, in RESEARCH HANDBOOK ON NOT-FOR-PROFIT LAW (2018); Miranda Perry Fleischer, *How is the Opera Like a Soup Kitchen?*, in THE PHILOSOPHICAL FOUNDATIONS OF TAX LAW (2016); Miranda Perry Fleischer, *Charitable Giving and Utilitarianism: Problems and Priorities*, 89 IND. L.J. 1485 (2014); Miranda Perry Fleischer, *Libertarianism and the Charitable Tax Subsidies*, 56 B.C. L. REV. 1345 (2015); Miranda Perry Fleischer, *Theorizing the Charitable Tax Subsidies: The Role of Distributive Justice*, 87 WASH. U. L. REV. 505 (2009).

<sup>57</sup> There are many features of the income tax that cause it to resemble a consumption tax, such as the deduction for contributions to qualified retirement plans, the deferred taxation on gain from dealing in property due to the realization requirement, and the basis step up at death. See I.R.C. §§ 1001, 1014.

<sup>58</sup> HENRY C. SIMONS, PERSONAL INCOME TAXATION 50 (1938) (“Personal income may be defined as the algebraic sum of (1) the market value of rights exercised in consumption and (2) the change in the value of the store of property rights between the beginning and end of the period in question.”).

<sup>59</sup> See I.R.C. § 262 (No deduction allowed for personal expenses.)

the proper treatment of cash gifts for federal income tax purposes.<sup>60</sup> Does an individual who gives money to charity have the same ability to pay taxes as someone who spends the same amount of money on material consumption purchase in the market? Although the donor is poorer by having made the contribution, so is the moviegoer. We cannot avoid the question of whether a gift is more like going to a movie, or like an uncompensated loss. The puzzle of how to treat charitable contributions is even more vexing when compared with the treatment of personal gifts, such as those between family members. Personal gifts are neither deductible by the giver nor includible as income by the recipient.<sup>61</sup>

Although scholars are undecided about whether charitable contributions should be deductible under an ideal income tax,<sup>62</sup> the federal government is not. Both Congress' Joint Committee on Taxation and the U.S. Treasury Department identify the charitable deduction as a "tax expenditure," meaning that it is a deduction best understood as a substitute for a separate spending or regulatory program;<sup>63</sup> it is a carveout from the tax base adopted not to properly measure income but for policy reasons.<sup>64</sup> Indeed, Treasury lists the

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<sup>60</sup> David Hasen, *How Should Gifts Be Treated under the Federal Income Tax*, 2018 MICH. ST. L. REV. 81 (2018).

<sup>61</sup> This result derives from fact that tax law does not provide a deduction for gifts and I.R.C. § 102 excludes the value of cash and property gifts from income. There are several alternatives for how to treat personal gifts, summarized in JOSEPH BANKMAN ET AL., *FEDERAL INCOME TAXATION* (2018) and Richard Schmalbeck, *Gifts and the Income Tax—An Enduring Puzzle*, 73 L. & CONTEMP. PROBS. 63 (2010).

<sup>62</sup> Professor Andrews was influential in arguing that contributions should be deductible on income measurement grounds. William D. Andrews, *Personal Deductions in an Ideal Income Tax*, 86 HARV. L. REV. 309 (1972).

<sup>63</sup> Office of Tax Analysis, *Tax Expenditures*, U.S. Department of the Treasury 16 (Oct. 19, 2018), ("The baseline tax system would not allow a deduction for personal expenditures including charitable contributions"); Joint Committee on Taxation, *Estimates of Federal Income Tax Expenditures for Fiscal Years 2019-2023*, <https://www.jct.gov/publications/2019/jcx-55-19/>.

<sup>64</sup> Since most giving to religious organizations benefits members of the community, the deduction has generally been viewed as a subsidy. Ellen P. Aprill, *Churches, Politics, and the Charitable Contribution Deduction The Conflicted First Amendment: Tax Exemptions, Religious Groups, and Political Activity*, 42 B.C. L. REV. 843 (2000). Evidence on whether financial giving and participation are substitutes or complements here is mixed. Compare Barış K. Yörük, *The Impact of Charitable Subsidies on Religious Giving and Attendance: Evidence from Panel Data*, 95 REV. ECON. & STAT. 1708 (2012) (Charitable subsidies have spillover effects in the religious context, with subsidies for giving increasing religious participation) with Jonathan Gruber, *Pay or pray? The impact of charitable subsidies on religious attendance*, 88 J. PUB. ECON. 2635 (2004) (giving subsidy increases giving but finds from it reduces religious attendance.)



charitable contribution deduction as a tax expenditure that was expected to result in foregoing \$48.2 billion in fiscal year 2020.<sup>65</sup> So, what is the social policy behind the charitable deduction?

## 2. Social policy

Viewed from a social policy or tax expenditure perspective, the charitable deduction is a mechanism through which the federal government subsidizes the beneficiaries of private giving. Scholars have offered a wide range of arguments for why this is a good thing to do. A partial list of these arguments include that: the deduction helps fund charities that cannot access private capital markets; charities do what the government would otherwise do but “with more imagination, diversity, flexibility or economy”;<sup>66</sup> nonprofits retain a sphere of sovereignty that the income tax should respect;<sup>67</sup> the charitable contribution deduction is a way for Congress to delegate funding decisions;<sup>68</sup> the deduction is a “process subsidy” that supplements majoritarian politics by allowing for the expression of minority perspectives;<sup>69</sup> or that it is simply the sensible way of supporting organizations that have public support.<sup>70</sup>

Once we are in the realm of social policy, it is appropriate to ask about the distributional effects of the charitable deduction. Who benefits? The federal deduction for charitable contribution is an itemized deduction. This has two implications for who benefits from the deduction. First, the charitable contribution deduction only benefits taxpayers whose itemized deductions exceed the standard deduction. Since the most significant other itemized deductions include state and local taxes and mortgage interest, taxpayers who itemize tend to have higher incomes and are more likely to be homeowners than nonitemizers. In 2017, the tax bill generally known as the Tax Cuts and Jobs Act doubled the standard deduction—to \$24,000 in the case of married couples filing jointly. This change reduced the number of households that itemize their deductions, and therefore the number who received a tax benefit

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<sup>65</sup> *Id.* at 33.

<sup>66</sup> Boris I. Bittker, *Charitable Contributions: Tax Deductions or Matching Grants*, 28 TAX L. REV. 37 (1972).

<sup>67</sup> Evelyn Brody, *Of Sovereignty and Subsidy: Conceptualizing the Charity Tax Exemption*, 23 J. CORP. L. 585 (1998).

<sup>68</sup> Saul Levmore, *Taxes As Ballots*, 65 U. CHI. L. REV. 387 (1998).

<sup>69</sup> Ilan Benshalom, *The Dual Subsidy Theory of Charitable Deductions*, 84 IND. L.J. 1047 (2009).

<sup>70</sup> Daniel Halperin, *A Charitable Contribution of Appreciated Property and the Realization of Built-in Gains*, 56 TAX L. REV. 1 (2002).

from any charitable contribution, from 46 million to 19 million.<sup>71</sup>

Second, since each dollar of a charitable contribution deduction reduces the taxpayer's taxable income by a dollar, the ultimate tax benefit of the deduction depends on the rate at which the taxpayer's income is taxed. Taxpayers in higher tax brackets therefore benefit more from a deduction than taxpayers in lower tax brackets. The net effect of these features of the charitable contribution deduction is that the deduction tends to benefit higher income taxpayers. And, in fact, the charitable contribution deduction was originally incorporated into the federal income tax with primarily the rich in mind, to encourage their continued support of charitable organizations.<sup>72</sup>

Of course, the fact that higher income taxpayers tend to save more in taxes from the charitable deduction does not mean that they are the sole economic beneficiaries. To the extent that the reduced cost of charitable giving increases the *amount* of giving, the charity benefits as well. Consider a taxpayer who is willing to forego \$100 of income to benefit a charity. If the donation is not deductible, then the \$100 donation to the charity costs the taxpayer \$100. If the donation is deductible—at a 20% rate, for example—then the taxpayer can make a \$125 contribution that will only cost her \$100 after the deduction is accounted for. The increase in giving that results from the charitable contribution deduction means there is another beneficiary of the deduction: the charities that receive charitable contributions.

The total redistributive effect of the charitable contribution deduction depends on the degree to which increased giving goes to charities that benefit lower-income households.<sup>73</sup> Of course, tracing the ultimate beneficiaries of the nonprofits' activities is not easy. For example, consider the case of post-secondary education. If a college or university predominantly educates students from lower-income backgrounds and significantly increases their earnings potential at a subsidized cost, then donations to this college or university would tend to have a redistributive effect. This is not, however, how post-secondary education currently works in the United States. The

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<sup>71</sup> Tax Policy Center, *A Last Look At The 2019 Filing Season* (2019), <https://www.taxpolicycenter.org/taxvox/last-look-2019-filing-season> (last visited Feb 5, 2021).

<sup>72</sup> Nicolas J. Duquette, *Founders' Fortunes and Philanthropy: A History of the U.S. Charitable-Contribution Deduction*, 93 BUS. HIST. REV. 553 (2019).

<sup>73</sup> Schmalbeck, *supra* note 60 (“it is appropriate to view them [charitable entities] instead as intermediaries that transfer the resources to ultimate beneficiaries of the organization's charitable program.”)

household income of students is highly correlated with both the prestige of the university and the amount of charitable contributions that they receive.<sup>74</sup>

Therefore, the net distributional effect of charitable contributions depends both on who makes deductible contributions and who ultimately benefits from these contributions. The charitable organization is only an intermediary between donors and the beneficiaries. This net effect might be regressive, given the distribution of tax benefits from the deduction and the intermediating institutions that receive the majority of deductible gifts. But, this is ultimately an empirical question and we do not yet know the answer.<sup>75</sup>

In general, arguments in defense of charitable tax subsidies focus on these distributional effects and the value of charities to their clients.<sup>76</sup> Our argument in this article is that these prior scholarship misses an important factor: the effect of charitable giving on the *donors*. Other scholars have conjectured about the broader effects of the charitable deduction. We take up the challenge of those conjectures to provide mechanisms and evidence for the idea that the charitable deduction can benefit the donor through increased civic engagement.<sup>77</sup>

### C. *An Onramp to Civic Engagement*

As a theoretical matter, the charitable deduction could affect volunteerism and civic engagement through several channels, which we describe here. Ultimately, the effect of giving on volunteerism and engagement is ambiguous, requiring empirical analysis. Drawing on existing research and reporting new results, we conclude that the charitable deduction **likely** increases civic engagement.

First, we consider the reasons that reducing the price of donating to

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<sup>74</sup> Raj Chetty, et al., *Income segregation and intergenerational mobility across colleges in the United States*, 135 Q. J. ECON. 1567 (2020).

<sup>75</sup> Religious organizations, which are some of the largest beneficiaries of charitable giving, tend to be favored by lower-income taxpayers. Aprill, *supra* note 63.

<sup>76</sup> Roger Colinvaux et al., *Evaluating the Charitable Deduction and Proposed Reforms*, URBAN INSTITUTE & TAX POLICY CENTER (2012) (“Subsidy theories take many forms but generally posit that the deduction is warranted as a way of achieving some widely agreed-upon social good for beneficiaries, either as individuals or part of some collective.”)

<sup>77</sup> *Id.* (“Viewed broadly, fostering acts of charity through a charitable deduction may promote a more altruistic, cooperative society and help develop better citizenship. Such gains to society derive not just from the benefits transferred to ultimate donees, but from a contagious effect on the behavior of the donors.”)

charity—such as through a charitable deduction—might reduce a taxpayer’s willingness to volunteer for that charity. Suppose that the taxpayer cares primarily about the ability of a charity to fulfill its mission, and that the taxpayer can contribute to the fulfillment of that mission by donating money, volunteering time, or both. Reducing the price of financial contributions will have both income and substitution effects, making her richer (through the tax savings) and reducing the price of financial donations as compared with other things that she might “buy” with her income. Both effects will increase her financial giving. The effect on the amount of time she spends volunteering, however, is ambiguous; it depends on whether the income effect is larger—in which case she will volunteer more—or the substitution effect is larger—in which case she will volunteer less. For example, suppose that the taxpayer has a fixed budget for how much she wants to support a given charity. If it becomes cheaper for her to contribute financially than by volunteering, then her increased financial contributions will reduce her volunteerism one-for-one.

On the other hand, making financial contributions could affect the desirability of volunteering. If the charity has greater financial resources, then the work environment for volunteers could be better, say by providing a more comfortable work environment, refreshments, etc. A significant financial donor might also be known by managers and employees of the charitable organization and receive favorable treatment when she volunteers her labor. If the charity has greater financial resources, then it may also increase the productivity of volunteers, just as an increase in capital increases the productivity of labor for private firms. An individual who makes financial donations may want to volunteer for the organization to monitor the use of funds and ensure that her donations are being used productively.<sup>78</sup> All of these factors may make an individual more likely to volunteer when she has given larger financial contributions.

There may be other psychological factors at play as well. Making financial contributions to a charity may cause someone to feel invested in the enterprise, such that her preferences for volunteering change and she develops a greater taste for supporting the organization. And causation may run in the other direction as well. An individual who volunteers may both

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<sup>78</sup> David M. Schizer, *Subsidizing Charitable Contributions: Incentives, Information, and the Private Pursuit of Public Goals*, 62 TAX L. REV. 221, 256 (2009) (“Since they are contributing their own money, donors have the incentive to assess whether their gifts are having a positive impact. When the donor is capable of making a large contribution, moreover, she is likely to have influence with the nonprofit manager.”)

develop a greater attachment to the organization's mission and learn more about the charitable organization. What she learns may make her more confident about the effectiveness of the organization and the stewardship of its financial resources, and thereby make her more willing to donate.

For many of the same reasons, financial contributions could be an onramp to—or offramp from—civic engagement more generally. A taxpayer who cares about the mission of a charitable organization should be more likely to turn out to vote for elected officials who will support that mission, and to show up to public meetings to discuss issues that may affect that organization. They may be more likely to write letters and call government leaders and to work with community groups whose activities could benefit the charity. Similar to how homeownership creates vested interests in the community, once a taxpayer becomes invested in the mission of a charitable organization then she also becomes interested in other actors—government actors in most cases—that affect the organization. As the individual expands her spheres of concern beyond her own material consumption, she will naturally take an interest in, and may work to change, the legal and policy environment to favor the people and organizations in her area of concern.<sup>79</sup>

Ultimately, we are interested in whether providing tax incentives for charitable donations of cash or property will result in increased volunteerism and civic participation. Two causal links support this argument. First, tax incentives encourage financial giving and volunteerism. Second, giving and volunteerism affects civic participation.

## 1. Taxes and Giving

Economists have devoted a lot of attention to the effects of tax incentives on charitable giving. It is clear that charitable giving responds to tax incentives; the only question is how much. The key metric for evaluating the efficiency of the charitable contribution deduction is how responsive giving is to the after-tax price of giving, a quantity known as the “price elasticity” of giving, which is the percent change in giving for a 1% change in the price of giving. One can similarly define the income elasticity of giving as the

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<sup>79</sup> This is analogous to cultivating other-regarding preferences. For analyses of the effect of other-regarding preferences on standard results in law and economics, see Andrew T. Hayashi, *The Law and Economics of Animus*, Virginia Public Law and Legal Theory Research Paper 2019-57 (2019); Michael D. Gilbert & Andrew T. Hayashi, *Do Good Citizens Need Good Laws? Economics and the Expressive Function*, THEORETICAL INQUIRIES IN LAW (2021).

change in giving associated with a 1% in income. The key price elasticity threshold is 1. This is the point at which the charitable deduction is “treasury efficient”, such that each dollar of foregone tax revenue is associated with a dollar increase in charitable receipts.<sup>80</sup>

Estimates of the price elasticity have varied over time. Studies from the 1970s show price elasticities of greater than 1, but studies done in the 1980s in the periods around tax reform show smaller effects, with the largest effects of tax on giving at the higher end of the income distribution.<sup>81</sup> More recently, estimates of the price and income elasticities of charitable giving have been around 1 and 0.5, respectively, although the giving was less responsive to income and more responsive to the price of giving during the Great Recession.<sup>82</sup> One study finds price elasticities of between 0.94 and 1.15 and income elasticities of 0.24 to 0.35.<sup>83</sup> A meta-analysis of the research in this area conducted in 2005 found that the price elasticity of giving is likely greater than 1,<sup>84</sup> and that lower income taxpayers are as responsive to tax incentives as higher-income taxpayers.<sup>85</sup>

The price elasticity also depends on the donee organization. Recent research reports that giving is more price sensitive for religious organizations and charitable organizations like the United Way than to health organizations.<sup>86</sup> Duquette finds very large effects of taxes on giving, with

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<sup>80</sup> John Peloza & Piers Steel, *The Price Elasticities of Charitable Contributions: A Meta-Analysis*, 24 J. PUB. POL’Y & MARKETING 260 (2005).

<sup>81</sup> William S. Reece & Kimberly D. Zieschang, *Consistent Estimation of the Impact of Tax Deductibility on the Level of Charitable Contributions*, 53 ECONOMETRICA 271 (1985). (Finding lower elasticities for lower income taxpayers, suggesting that charitable giving is a luxury good.); Gerald E. Auten, *The Effects of Tax Reform on Charitable Contributions*, 45 NAT’L TAX J. 267 (1992) (increasing tax rates reduces giving, particularly for high-income taxpayers, with a large effect on atypically large gifts.)

<sup>82</sup> Arthur C. Brooks, *How Did the Great Recession Affect Charitable Giving?*, 46 PUB. FIN. REV. 715 (2018). See also Jon Bakija & Bradley T. Heim, *How does charitable giving respond to incentives and income? New estimates from panel data*, 64 NAT’L TAX J. 615 (2011), Brian Galle, *How do nonprofit firms respond to tax policy?*, 45 PUB. FIN. REV. 364 (2017).

<sup>83</sup> Laura Tichen, *Tax Policy and Charitable Contributions of Money*, 54 NAT’L TAX J. 707 (2001).

<sup>84</sup> Peloza and Steel, *supra* note 79.

<sup>85</sup> *Id.* One study finds that elasticities for households earning under \$30,000 in 1974 exceeds 2. Michael J. Boskin & Martin Feldstein, *Effects of the Charitable Deduction on Contributions by Low Income and Middle Income Households: Evidence From the National Survey of Philanthropy*, 59 REV. ECON. & STAT. 351 (1977).

<sup>86</sup> Arthur C. Brooks, *Income tax policy and charitable giving*, 26 J. POL’Y ANALYSIS & MGMT. 599 (2007).

health care and home care donations being more sensitive to taxes while donations to higher education and arts organizations are less tax sensitive.<sup>87</sup> Other research finds larger giving responses for donations to private foundations than public charities, and the greatest sensitivity for donations to charities for environmental protection, animal welfare, arts and culture, private health care, and philanthropy.<sup>88</sup>

States also provide a wide variety of tax incentives for charitable giving, although they tend to be restricted to certain kinds of organizations. Differences across states in how they treat gifts and how they implement their tax incentives provide a good opportunity to study the effects of those tax incentives. Economists who examine these differences have found that some state tax credits do not appear to have an effect on giving,<sup>89</sup> but that one reason for this is taxpayers' lack of awareness of the credits.<sup>90</sup> The simplicity of claiming the credit is also a key factor affecting the take-up of these charitable tax credits—even more important than the rate at which donations are credited against tax liability.<sup>91</sup>

The evidence on the effectiveness of tax credits increasing giving is mixed, with research suggesting that Arizona's Working Poor Tax Credit and Michigan's Homeless Shelter and Food Bank Credit,<sup>92</sup> which appeared to be geared toward small donors making regular contributions, had only limited effects on giving. On the other hand, more generous programs that focused on larger, one-time gifts, such as those in Iowa, Connecticut, Delaware, and

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<sup>87</sup> Nicolas J. Duquette, *Do tax incentives affect charitable contributions? Evidence from public charities' reported revenues*, 137 J. PUB. ECON. 51 (2016).

<sup>88</sup> Michelle H. Yetman & Robert J. Yetman, *How Does the Incentive Effect of the Charitable Deduction Vary across Charities?*, 88 ACCT. REV. 1069 (2012).

<sup>89</sup> Nicolas Duquette, et al., *The Effectiveness of Tax Credits for Charitable Giving* (2018), <https://papers.ssrn.com/abstract=3201841>.

<sup>90</sup> Peloza & Steel, *supra* note 79.

<sup>91</sup> Daniel Teles, *Do Tax Credits Increase Charitable Giving? Evidence from Arizona and Iowa*, 109 PROC. ANN. MEETING NAT'L TAX ASS'N 1 (2016)

<sup>92</sup> For a review of this program, see Naomi E. Feldman & James R. Hines Jr., *Tax credit and charitable contributions in Michigan*, *Ann Arbor* 1001 (2003), <https://www.bus.umich.edu/otpr/WP2003-7.pdf> (“Contributors claiming credits in Michigan are disproportionately drawn from the high-income part of the population, though the ratio of tax credit benefits to total tax obligations is approximately equal for all income groups.”)

Missouri,<sup>93</sup> have been more successful.<sup>94</sup> Michigan has had success with a charitable credit for giving to community foundations,<sup>95</sup> as has Arizona.<sup>96</sup> When we propose a federal Community Contribution Credit in Part IV, we pay special attention to the ways that awareness of the credit and the simplicity of administration are likely to affect take-up.

A central question in the scholarly literature on charitable giving—which complicates the analysis of how tax incentives encourage giving—is how much people care about the charitable organization and the resources available to the charity for its mission, and how much they get a “warm glow” from giving itself.<sup>97</sup> This distinction matters because it affects whether government support for a charity will “crowd out” private donations. The logic is as follows: if people care only about the total resources available to the charity, then an increase in government support for the charity will cause individuals to reduce their own donations dollar-for-dollar. On the other extreme, if people care only about the good feeling that comes from contributing to a worthy cause themselves, then there will be no effect of public support on private giving.

In truth, people are what known as “impure altruists,” caring both about the charity and about the feeling of giving themselves.<sup>98</sup> For impure altruists,

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<sup>93</sup> Iowa’s program was called Endow Iowa. In Connecticut and Delaware, the programs were called Neighborhood Assistance Tax Credits, and in Missouri it was the Youth Opportunities Program. Virginia has a Neighborhood Assistance Program as well, with specified charities getting allocations of credit that can be given to donors at 65% reimbursement rate.

<sup>94</sup> Teles, *supra* note 90.

<sup>95</sup> Donna M. Anderson & Ruth Beier, *The Effect of a State Tax Credit on Giving to Community Foundations*, 43 AM. ECON. 66 (1999).

<sup>96</sup> Carol J. De Vita, *Charitable Tax Credits: Boon or Bust for Nonprofits?* (2004), <http://webarchive.urban.org/publications/311036.html> (last visited Feb 4, 2021).

<sup>97</sup> For evidence that people are motivated by the warm glow of giving, see Alex Imas, *Working for the “warm glow”: On the benefits and limits of prosocial incentives*, 114 J. PUB. ECON. 14 (2014); Heidi Crumpler & Philip J. Grossman, *An experimental test of warm glow giving*, 92 J. PUB. ECON. 1011 (2008); C. Null, *Warm glow, information, and inefficient charitable giving*, 95 J. PUB. ECON. 455 (2011) (“Suggestive evidence indicates that warm glow utility derived from the act of making a gift, which can lead to a love of variety even among similar charities, and risk aversion over the social value of charitable gifts are both important factors motivating donors who make socially inefficient gifts.”) There is some evidence that women are more likely to be warm-glow givers. Mirco Tonin & Michael Vlassopoulos, *Disentangling the sources of pro-socially motivated effort: A field experiment*, 94 J. PUB. ECON. 1086 (2010).

<sup>98</sup> For a review of this literature, see MATTHEW KOTCHEN & KATHERINE R.H. WAGNER, *Crowding In with Impure Altruism: Theory and Evidence from Volunteerism in National*



an increase in government support can both crowd out and can “crowd in” private donations.<sup>99</sup> Whether government support crowds out or in private donations depends on the nature of the charity, with researchers finding that public spending on parks crowds in volunteerism,<sup>100</sup> whereas government funding of public radio crowds out private donations.<sup>101</sup> More generally, government transfers to the poor probably crowd out donations while spending on social services crowd in donations.<sup>102</sup>

The distinction between warm-glow giving and pure altruism also affects how best to structure a tax incentive for giving, a topic that we return to in Part IV. The issue is this: how does an individual who makes a \$100 donation that entitles her to a \$90 tax credit perceive her donation? Is it a \$100 donation made by her—which will be most attractive for a warm-glow giver—or is it a \$10 donation that is accompanied by a \$90 donation from the federal government? Because the evidence suggests that people care at least a little about the warm-glow, we have balanced the design of our Community Contribution Credit to maximize the feeling of personal agency in the donation decision while still incentivizing the donation.

## 2. Giving and Volunteering

Volunteer labor is an important source of support for charities. In 2017, individuals volunteered 8.8 billion hours of labor estimated to be worth roughly \$195 billion.<sup>103</sup> At the individual level, volunteering and giving are highly correlated<sup>104</sup> for several reasons.<sup>105</sup> First, charities often approach

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*Parks* (2019), <http://www.nber.org/papers/w26445> (last visited Jun 15, 2020).

<sup>99</sup> There can even be greater crowding out for impure altruists than pure altruists. *Id.* (“the different cases depend in part on the degree of substitutability or complementarity between the public good and the private benefit associated with one’s own provision”)

<sup>100</sup> *Id.*

<sup>101</sup> Bruce Robert Kingma, *An Accurate Measurement of the Crowd-out Effect, Income Effect, and Price Effect for Charitable Contributions*, 97 J. POL. ECON. 1197 (1989).

<sup>102</sup> Jerald Schiff, *Does Government Spending Crowd Out Charitable Contributions?*, 38 NAT’L TAX J. 535 (1985).

<sup>103</sup> Urban Institute National Center for Charitable Statistics, *The Nonprofit sector in brief 2019*, <https://nccs.urban.org/publication/nonprofit-sector-brief-2019> (last visited Feb. 13, 2021)

<sup>104</sup> VIRGINIA A. HODGKINSON & MURRAY S. WEITZMAN, *GIVING AND VOLUNTEERING IN THE UNITED STATES: FINDINGS FROM A NATIONAL SURVEY* (1992).

<sup>105</sup> Joseph Cordes, *The Cost of Giving: How Do Changes in Tax Deductions Affect Charitable Contributions?*, URBAN INSTITUTE, <https://www.urban.org/sites/default/files/publication/42686/310256-The-Cost-of-Giving-How-Do-Changes-in-Tax-Deductions-Affect-Charitable-Contributions-.PDF> (“some

volunteers to make monetary donations as well (and vice versa). And simply being asked to support a charity has a very large effect on the probability of making a financial gift.<sup>106</sup> Second, a person who either contributes to or volunteers for an organization is likely interested in advancing the mission of the organization. Doing both activities help the organization pursue its mission even further than either action alone.

But, this last explanation also raises a puzzle, at least for social scientists who have studied the relationship between monetary donations and volunteerism. If the value of someone's time is the wage that they could earn in the marketplace, then the benefits to the charity of their time will be either greater than their wage—in which case the person should volunteer—or the value of their labor to the charity is less than their market wage—in which case the person should work and donate their earnings. If the potential volunteer cares only about the value of her donations and the ability of the charity to pursue its mission, then we should not observe people giving both money and their time.

Yet, we do. Even high earners volunteer their time.<sup>107</sup> The reason is that financial giving and volunteering are not perfect substitutes.<sup>108</sup> Although both contribute to the mission of a charitable organization, they confer different benefits on the donor. For example, people derive more of a “warm glow” from making in-kind donations than cash donations.<sup>109</sup> When you volunteer

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studies have found that when people give money to charities they are also more likely to volunteer their time. Hence, financial incentives that encourage gifts of cash may also help charities expand and deepen their pool of volunteers in a way that direct government grants to charities will not. Increased volunteer participation in charitable activities not only provides a tangible bene-fit to charities but also may help foster civic virtues that are needed to help maintain a “civil society.”); Apinunmahakul, et al., *supra* note 16 (the effect is stronger in Canada for men than women, as is the crowding out effect).

<sup>106</sup> Being asked to give increases giving by 19 percentage points on one estimate. Barış K. Yörük, *How responsive are charitable donors to requests to give?*, 93 J. PUB. ECON. 1111 (2009).

<sup>107</sup> *Id.* at 1455.

<sup>108</sup> Compare Tore Ellingsen & Magnus Johannesson, *Time is not money*, 72 J. ECON. BEHAVIOR & ORG. 96 (2009) (in lab experiments, many people do not demand compensation for their time but they do for their monetary investment) with Thomas K. Bauer, Julia Bredtmann & Christoph M. Schmidt, *Time vs. money — The supply of voluntary labor and charitable donations across Europe*, 32 EUR. J. POL. ECON. 80 (2013) (“we document a positive correlation between time and money contributions on the individual as well as on the country level. In addition, we find evidence that individuals substitute time donations by money donations as their time offered to the market increases.”)

<sup>109</sup> Alexander L. Brown et al., *Why Do People Volunteer? An Experimental Analysis of Preferences for Time Donations*, 65 MGMT. SCI. 1455 (2018).

with a charity you may get to see grateful faces, receive recognition, make social contacts, and even experience the work as leisure.<sup>110</sup> The scholarly literature on charitable giving identifies “warm glow, prestige, reciprocity, fairness, social pressure, and impact philanthropy” all as explanations for why people donate their time or money.<sup>111</sup> Volunteering can better achieve some of these goals than financial giving.

Some argue that non-monetary donations are a more effective way of signaling one’s altruism to other people, certainly more so than anonymous donations.<sup>112</sup> Volunteerism may even have a different moral valence than monetary contributions.<sup>113</sup> There is also evidence that thinking about money and thinking about time activate different emotional goals—with time activating thoughts about happiness and money activating thoughts about goal achievement—further suggesting that the two are imperfect substitutes.<sup>114</sup>

Economists have extensively studied whether financial contributions and volunteerism are substitutes or complements.<sup>115</sup> The answer depends on whether reducing the price of charitable donations of cash or property (such as by providing an income tax deduction) will also increase volunteerism—in which case the two are complements—or whether it will reduce volunteerism—in which case the two are substitutes.

Some of the early scholarship in this area found that as the price of financial giving falls, both financial giving and volunteerism increased, suggesting that they are complements,<sup>116</sup> but other work found that financial

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<sup>110</sup> *Id.* at 1456.

<sup>111</sup> *Id.*

<sup>112</sup> Tore Ellingsen & Magnus Johannesson, *Conspicuous generosity*, 95 J. PUB. ECON. 1131 (2011) (model predicting prevalence of volunteering for this reason).

<sup>113</sup> Americus Reed et al., *Moral Identity and Judgments of Charitable Behaviors*, 71 J. MARKETING 178 (2007) (finding that those with a strong sense of moral identity believe that volunteering is more moral than giving money)

<sup>114</sup> Wendy Liu & Jennifer Aaker, *The Happiness of Giving: The Time-Ask Effect*, 35 J. CONSUMER RES. 543, 545 (2008).

<sup>115</sup> See Aprill, *supra* note 63, at 862.

<sup>116</sup> David G. Tuerck, *America’s Volunteers Deserve a Tax Break*, WALL ST. J., Apr. 28, 1997, at A18 citing CHARLES T. CLOTFELTER, FEDERAL TAX POLICY AND CHARITABLE GIVING (2007); Eleanor Brown & Hamilton Lankford, *Gifts of money and gifts of time estimating the effects of tax prices and available time*, 47 J. PUB. ECON. 321 (1992) (“The tax price of money giving is significant in all equations, with estimated elasticities of -1.7 for money giving, - 2.1 for women’s time, and -1.1 for men’s time. The complementarity between volunteer labor and cash donations suggests that the effect of tax policy on

contributions and volunteering are perfect substitutes.<sup>117</sup> This seeming inconsistency in the research can be resolved by noting that a fall in the price of giving leads to both an “income effect”, and a “substitution effect.” For example, assume that donations are not deductible and that a potential donor receives a wage of \$20 per hour (after tax). Suppose she donates \$100 to her local food bank and she volunteers for 5 hours. Since her wage is \$20, then the price of making a \$100 cash donation is 5 hours of work. If her cash donation becomes deductible and her tax rate is 40%, then the after-tax price of her donation is now \$60, not \$100—she is \$40 richer than before. Since she is now richer than she was before, she will increase the amount that she spends (in time and cash) on the things that she cares about, such as the work of the food bank. This is the income effect.

But making the cash contribution deductible also changes the price of volunteering. Making a \$100 deductible donation costs her \$60, after tax, meaning that the price of making that donation is only 3 hours of work. This would cause her to volunteer less, and to donate more in cash, to provide any fixed amount of support to the foodbank. This is the substitution effect.

If the income effect is larger than the substitution effect, then a reduction in the price of financial giving will result in an increase in both contributions and volunteerism. If the substitution effect is larger than the income effect then subsidizing financial giving will reduce volunteerism. The scholarly literature has jointly estimated both effects and has generally found that providing a subsidy for giving increases volunteerism—which is to say that the income effect tends to dominate.

In the first estimates of the effect of giving subsidies on volunteerism that do not conflate the income effect with the price effect, researchers found

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philanthropy is understated by considering monetary donations alone.”); Apinunmahakul et al., *supra* note 16 (contributions are complements, especially for employed people. Donations of employed men are crowded out by government spending.). *But see* Brian Duncan, *Modeling charitable contributions of time and money*, 72 J. PUB. ECON. 213 (1999) (“the voluntary labor supply literature has concluded that charitable gifts of time and money are gross complements. The model developed in this article suggests just the opposite, that gifts of time and money are perfectly substitutable.”); Richard F. Dye, *Contributions of Volunteer Time Some Evidence on Income Tax Effects*, 33 NAT’L TAX J. 89 (1980) (estimates a cross-price elasticity of  $-0.136$ .); Paul L. Menchik & Burton A. Weisbrod, *Volunteer labor supply*, 32 J. PUB. ECON. 1569 (1987) (“donations of time are negatively related to the after-tax wage rate and the price of monetary giving, with elasticities of  $-0.41$  and  $-1.2$ , respectively.”)

<sup>117</sup> Duncan, *supra*.

that the income effect dominates,<sup>118</sup> and estimated that eliminating the charitable deduction would reduce financial gifts by 5.7 percent and volunteer labor by 0.7 percent.<sup>119</sup> They also found that making donations deductible to nonitemizers would increase financial contributions by 3.0 percent and volunteer hours by 0.6 percent.<sup>120</sup> More recent work finds that reducing the tax price of cash donations increases both giving *and* volunteerism, but that time and money are substitutes, in the technical sense that reducing the price of giving would reduce the amount of volunteering if we could hold income fixed.<sup>121</sup>

But if all that matters is that subsidies for financial giving increase volunteerism, what difference does it make that the income and substitution effects cut in opposite directions? It matters because of how the tax deduction is funded. If the charitable deduction were funded by increasing—or holding constant—the overall tax liability for people who took the deduction, the income effect would disappear and the substitution effect would lead to a reduction in volunteerism. In order to get the benefits of the deduction on volunteerism, the deduction needs to be financed by increasing taxes on other people, either current taxpayers or future taxpayers by borrowing to fund the reduction in revenues, or by cutting government spending on people other than those who take the deduction.<sup>122</sup>

### 3. Contributions and Taxes

Evidence on the relationship between charitable contributions and volunteerism, and civic and political participation more generally, raise questions about whether paying taxes has a similar effect. The argument

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<sup>118</sup> James Andreoni, et al., *Charitable contributions of time and money*, University of Wisconsin–Madison Working Paper (1996) (“Like previous papers on volunteer labor, we find that on average gifts of time and money are gross complements. Using a compensated (Hicksian) notion of substitution, however, gifts of time and money are substitutes.”)

<sup>119</sup> *Id.*

<sup>120</sup> *Id.* Their estimates of the price and income elasticities of giving are smaller than most in the literature, due to an assumption about the form of individuals’ utility functions.

<sup>121</sup> *Id.* (“households that receive a tax subsidy for monetary contributions...are 50 percent more likely to seek out volunteering opportunities on their own accord (18.2 percent as opposed to 12.2 percent), and this holds even when controlling for a number of other relevant factors. In addition, these households tend to volunteer for a larger number of organizations and are also more likely to volunteer on a regular monthly or weekly basis (47.1 percent as opposed to 40.0 percent) as compared to other households that are more likely to volunteer on an ad hoc basis”)

<sup>122</sup> Feldman, *supra* note 14.

would typically runs as follows. Individuals who pay taxes ought to be interested in whether their contributions are being properly managed and will therefore have a greater incentive to monitor government officials and to influence the political process to ensure that their funds are used according to their preferences. This argument has greater force in the case of state and local taxes, where the taxpayer has easier access to their representatives.<sup>123</sup> Professor Stark has argued that since state and local tax payments are fundamentally similar to charitable contributions, they should be treated in the same way (i.e., both deductible or neither deductible) for federal income tax purposes.<sup>124</sup> Both kinds of payments fund the provision of public goods and provide income and social support for lower-income households, effecting redistribution.

And, indeed, some have speculated that it is important for more people to pay taxes, so that they have “skin in the game,” and are therefore more willing to monitor the overall size of government.<sup>125</sup> Disagreements about this claim tend to revolve around whether low- and middle-income households who do not pay income taxes nevertheless do have a reason to monitor government spending and be engaged on fiscal matters because they pay other taxes and forms of social contributions, such as sales taxes, property taxes, and payroll taxes.<sup>126</sup> Professor Zelenak has argued that filing a tax return can facilitate improved “fiscal citizenship,” and “recognizing and formalizing the financial responsibilities of citizenship.”<sup>127</sup>

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<sup>123</sup> The same argument could apply to the payment of federal income taxes as well, but in addition to the problems of access, the relative size of any one person’s contributions to the federal budget is much smaller than their contribution to the budget of a state and local government.

<sup>124</sup> Kirk J. Stark, *The Power Not to Tax*, 69 AM. U. L. REV. 565 (2019) (outlining an approach that treats state and local taxes and charitable contributions both as “social contributions.”)

<sup>125</sup> Curtis Dubay, *More People Should Pay Taxes*, HERITAGE FOUNDATION, <https://www.heritage.org/taxes/commentary/more-people-should-pay-taxes> (last visited Jan 30, 2021) (“Taxes are fostering dependence by exempting too many from the cost of government. They should be changed so more people have a stake in the size of government.”)

<sup>126</sup> “Skin in the Game” No Excuse for Taxing the Incomes of Poor Families, CENTER ON BUDGET AND POLICY PRIORITIES (2012), <https://www.cbpp.org/blog/skin-in-the-game-no-excuse-for-taxing-the-incomes-of-poor-families> (last visited Jan 30, 2021). (“In recent years, a range of policymakers, political candidates, and commentators have questioned the wisdom of those [income tax] exemptions. They argue that everyone should have some ‘skin in the game’ when it comes to paying for public services. These arguments are off base.”)

<sup>127</sup> LAWRENCE ZELENAK, LEARNING TO LOVE FORM 1040: TWO CHEERS FOR THE RETURN-BASED MASS INCOME TAX (2013). For a discussion of the related controversy around Senator (then presidential candidate) Mitt Romney’s remarks about the fact that 47%

One important difference between state and local tax payments and charitable contributions, of course, is that the former are coerced expenditures while the latter are voluntary. Although this difference may not matter for their proper treatment under federal income tax law,<sup>128</sup> it will likely affect the consequences of deductibility. A person who makes a voluntary charitable contribution reveals that the benefits of doing so are greater than the opportunity cost of using those funds for some other purpose. By contrast, a person who pays their taxes reveals only that they prefer doing so to engaging in criminal tax fraud, or to moving out of the tax jurisdiction, and either option can involve incurring significant costs. Certainly, one cannot say that everyone who pays taxes does so because they prefer the services that are funded with their taxes to what they would do with their tax dollars if they were not compelled to remit them to the government.

For this reason, we would expect to see correlations in the data between the charities to which someone gives money and the charities to which they give their time, if only because donations of both money and times are ways of helping a charity provide the services that the donor wants to see provided. By contrast, a taxpayer may view her entire tax payment as a loss, and not care at all about the goods and services provided by the government, in which case there is no reason to expect that paying taxes will be associated with greater political participation.

### III. VOLUNTEERING AND CIVIC/POLITICAL ENGAGEMENT

In this Part, we report two new findings on the relation between civic and political engagement. First, volunteerism is positively related to both civic and political engagement. This relationship is important to establish a pathway for using tax law to improve community engagement. Existing research demonstrates the causal links from tax incentives to increased charitable giving and volunteerism. We show that there is a strong relation between volunteerism and civic and political engagement. The second important takeaway is the relationship between income and engagement. Across all of our measures of civic and political engagement, higher incomes are associated with greater engagement. This evidence is crucial in informing our proposal in Part IV to the tax incentive for giving to target lower-income

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of households in the United States do not pay income tax, *see* Lawrence Zelenak, *Mitt Romney, the 47 Percent, and the Future of the Mass Income Tax* NYU/UCLA Tax Policy Symposium: Politics and Taxation, 67 TAX L. REV. 471 (2013).

<sup>128</sup> *Cf.* Stark, *supra* note 123.

households, which are the least engaged in their communities.

#### *A. Data*

Our evidence on volunteerism and engagement comes from a supplemental survey conducted in 2017 by the U.S. Census and U.S. Bureau of Labor Statistics to accompany its annual Current Population Survey (CPS).<sup>129</sup> The CPS is a labor force survey with a variety of questions about employment status, and the 2017 supplement—the “Volunteering and Civic Life Supplement”—includes a number of questions about volunteerism and civic and political engagement.<sup>130</sup> Respondents were interviewed between September 10-19, 2017 about their volunteer and other activities over the prior 12 months. In addition to answering questions about volunteerism, political and civic engagement, the data include a variety of demographic variables. The U.S. Census Bureau and the U.S. Bureau of Labor Statistics selected a sample of 56,000 households and sampled all persons sixteen years old or older. Of the population of 147,268 surveys, we examine only completed surveys, leaving a sample of 115,280.

In addition to information about respondents’ volunteerism over the prior year the data include responses to a number of questions that we use as measurements of civic and political engagement. Details about these questions are provided in Table 1, in the appendix. Our proxies for civic engagement include questions about how often the respondent spent time with friends, had a conversation or spent time with neighbors, did or received a favor from a neighbor, spent time with people from a different racial or ethnic or cultural background, gathered with neighbors to do something for the neighborhood or community, and whether the respondent belonged to a group or organizations. Our proxies for political engagement include how often the respondent consumed news and discussed political or social issues with friends, family and neighbors or shared their views on the internet, as well as whether they voted in local elections, attended public meetings or contacted elected officials, or participated in a boycott of goods or services

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<sup>129</sup> United States. Bureau of the Census, United States Department of Labor. Bureau of Labor Statistics, and Corporation for National and Community Service. Current Population Survey, September 2017: Volunteering and Civic Life Supplement. Ann Arbor, MI: Inter-university Consortium for Political and Social Research [distributor], 2019-05-20. <https://doi.org/10.3886/ICPSR37303.v2>

<sup>130</sup> The Civic Life survey had not been conducted before, so we cannot describe how our measures changed over time. The BLS did conduct “civic engagement” surveys in 2008-2011 and 2013. 1

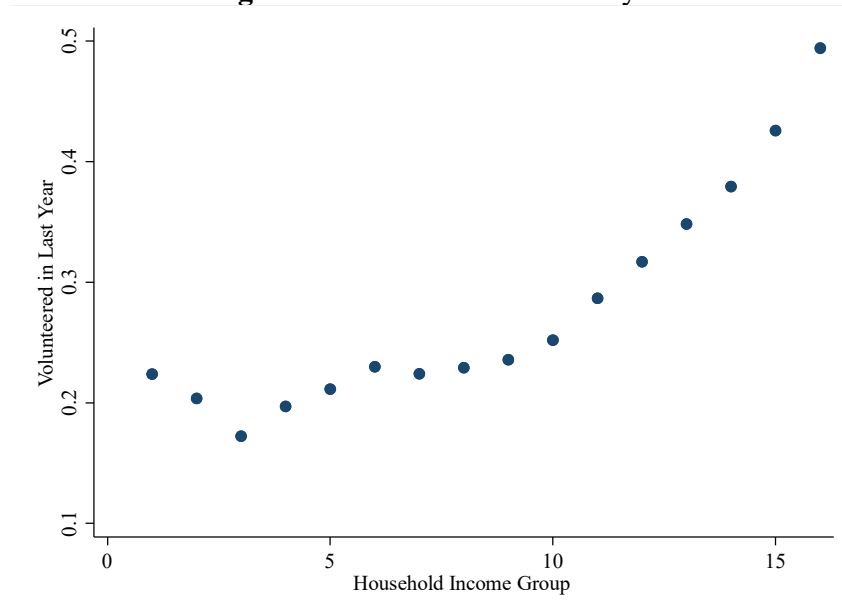


because of political values. Although these measures certainly do not capture all aspects of civil and political engagement, taken together they capture important aspects of it.

As seen in Table 1, some of the questions require simple yes/no responses while others asked the respondent to estimate the amount of their engagement. The yes/no questions are represented by “indicator variables” in our tables (i.e., they have a value of 0 for “no” and 1 for “yes), which the other questions are represented by “categorical variables” that have values of between 0 and 5. For example, responses to the question “How often did you discuss political, societal, or local issues with your neighbor” could be one of the following: “Not at all” (0), “Less than once a month” (1), “Once a month” (2), “A few times a month” (3), “A few times a week” (4), or “Basically every day” (5). For all of our engagement variables, higher values correspond to greater engagement.

### *B. Volunteering*

Figure 1 shows how the share of survey respondents who volunteered in the prior year varies with their household income level. The graph shows some variation at the lower income levels, but the likelihood of volunteering clearly increases with income with the share of respondents in the highest income brackets approaching 50%.

**Figure 1: Share of Volunteers by Income**

We also find that the relationship between volunteerism and income persists even after using a regression model which accounts for education, age, gender, the number of hours worked, race, citizenship status, marital status, geographic region, and whether the respondent had children. We find that the probability of volunteering is higher for women, older and more highly educated respondents and those with children, while the more hours that the respondent works the less likely they are to volunteer.

As discussed above, we expect that volunteerism increases with income. One channel, of course, is through the charitable deduction. Taxpayers with higher incomes benefit more from the charitable deduction, and their financial giving may lead to increased volunteerism. At least as importantly, we suspect, is that individuals at higher incomes can afford to engage in more unpaid labor. Higher income households may also be the target of greater outreach by organizations and associations.

It is important to note that our measure of volunteering likely captures only a fraction of unpaid labor, including labor that benefits the broader community. The survey asks not only whether the respondent has volunteered for an organization or association in the prior year, but also asks a number of follow-up questions about involvement with particular kinds of organizations that should prompt recollection of time spent doing work that may not have

immediately occurred to the respondent. Nevertheless, the questions are designed to capture only volunteering for *organizations*, and so they may omit volunteering that happens in less formal settings (e.g., providing childcare for a neighbor or relative). We can only speculate about how any measurement error here may or may not be correlated with income. Nevertheless, we think it is appropriate to focus on formal volunteerism, since both the tax deduction and our Community Contribution Credit are only available for donations to organizations.

### *C. Civic and Political Engagement*

As we would expect, our measures of civic engagement are correlated with each other, as are our measures of political engagement. The same people who spend more time with friends and neighbors are also the same people who are more likely to work with others to improve their communities, be part of a group or association, and spend time with people from other races or cultures. Similarly, people who discuss politics and social issues with friends, family, and online, also tend to vote in local elections, attend public meetings and be in contact with their local officials. Table 2 reports pairwise correlations among our proxies for civic and political engagement. Although the correlations among the different measures are statistically significant, the size of the correlations are modest, indicating that each captures a unique dimension of civic and political engagement.

The first evidence that civic and political engagement is associated with volunteerism can be seen in Table 3, which reports summary statistics for our various measures of engagement separately for people who volunteered in the prior year and those who did not. The last column shows the difference in average values of the engagement variables by volunteer status, with the stars next to the numbers indicating that the differences are statistically significant—i.e., that the observed differences in civic engagement across volunteer status are unlikely to be due to chance. In all tests, the measures of civic (Panel A) and political (Panel B) engagement are higher for volunteers than non-volunteers and statistically significant.

Why is it that volunteers are also engaged in civic and political life more broadly? We note a few possibilities. Certain people could be more likely to engage in all of these activities because of their life stage, educational attainment, income, gender, or family composition. Also, by bringing together people from diverse backgrounds, volunteering could instill a heightened sense of community engagement and mission of the organization,

prompting them to become more active politically to help the organization. Alternatively, perhaps the desire starts with community engagement and leads to volunteering. For example, perhaps people get involved in politics and spend a lot of time with friends and neighbors, and this connects them to charitable networks and other organizations that they end up volunteering for.

We cannot definitively state which explanation dominates, even after we account for a wide variety of factors that could cause someone to both volunteer and exhibit greater civic engagement. To account for these factors, we estimate a series of multivariate statistical regressions designed to test the relationship between volunteerism and our measures of engagement while controlling for the demographic factors that are associated with both.<sup>131</sup>

Table 4 reports the estimates of the effect of volunteerism and some demographic variables on our measures of engagement. Our focus is on the effect of volunteering on engagement. Looking at the first row of the table, we can see that volunteerism has a positive and statistically significant effect on engagement—even after controlling for a large number of demographic characteristics and income. Since some of the civic engagement variables are categorical variables with values between 0 and 5, it can be difficult to interpret the size of the estimates in row 1. To better understand just how large is the effect of volunteering on engagement, the last row of Table 4 reports the effect of being a volunteer on civic engagement as a percentage of the average of the civic engagement variable. The volunteer effect is relatively large. For example, volunteering is associated with a 41.9% increase in the variable capturing the exchange of favors with neighbors. Volunteerism more than doubles the probability of being engaged in neighborhood improvement or belonging to an organization, although we think that these variables are probably capturing the same behavior.

Looking at the other variables in these regressions, we see that demographics bear a strong relationship to civic engagement. People with kids are more likely to spend time with friends and neighbors and engage in neighborhood improvement, although they have less time to be members of associations and organizations. Plausibly these effects are due to the social opportunities created by children's activities. More educated individuals

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<sup>131</sup> Specifically, we estimate the following regression equation for each engagement variables (denoted  $EV_i$ ), where  $VOL_i$  indicates whether the respondent volunteered in the prior year,  $X_i$  is a vector of controls (age, gender, education, work hours category, children) and  $Y_i$  is vector of fixed effects (race, citizenship, income, interview type, geographical location, population category, and marital Status):  $EV_i = \beta_0 + \beta_1 VOL_i + \gamma X_i + \rho Y_i + \epsilon_i$ .

spend less time with friends, but they are otherwise more civically engaged, being more likely to work for neighborhood improvements and belong to associations. They are also more likely to interact with people from different races, ethnicities and cultures. People who work longer hours tend to have less time for gathering with friends and neighbors, but they too interact more with people who are culturally different from them.

Is volunteerism also associated with political activity? Table 5 reports estimates similar to those in Table 4, only for our political engagement variables. Again, the numbers in the first row show that people who volunteer are more likely to be politically engaged across all of our measures of engagement, and this positive effect is very unlikely to have arisen by chance. The effects are quite also large. The final row reports the size of the effect of volunteering on political engagement as a percentage of the average values of the political engagement variables. If someone has volunteered in the prior year, this more than doubles the probability that they will also have attended a public meeting, contacted an elected official, or participated in the boycott. Volunteering is also associated with a 30.9% increase in the probability of voting in a local election.

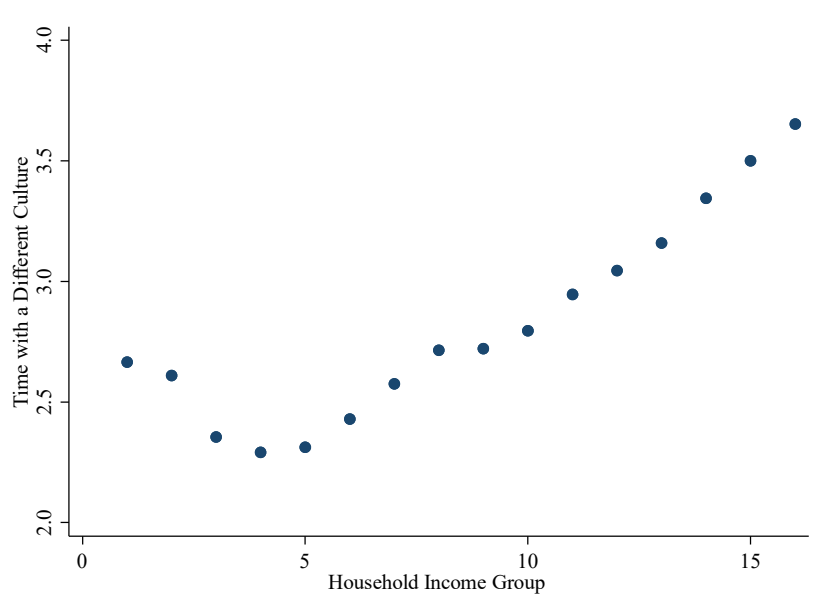
Overall, these tables indicate that, after controlling for a variety of personal and geographic characteristics, those individuals who volunteer are more likely to engage in civic and political actions and activities. We cannot say for certain whether volunteering causes someone to be engaged in these ways, but the correlations between volunteerism and political engagement are strong and persist even when we control for a large number of other factors.

One of these factors is of particular interest: income. One reason for wanting to know the relationship between income and civic/political engagement is what it might reveal about low- and middle-income households: how connected are they to their communities and neighbors, including those from different races, cultures and ethnicities? How politically involved are they and—we might expect—are their interests represented? The second reason to focus on how income is associated with civic and political engagement is that it can tell us something about how tax incentives would need to be targeted to have the greatest effect on engagement.

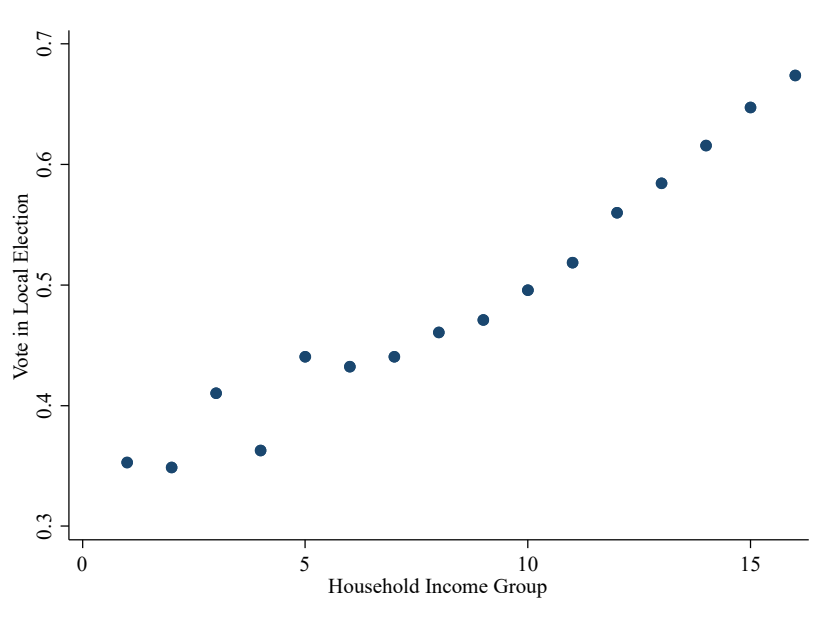
Figures 2 and 3 show how the amount of time people spent with others from a different race, ethnicity or culture, and the fraction of people who voted in the last election, vary with household income. In the figures, household income has been divided into 16 different categories, with the

lowest category representing incomes of less than \$5,000 and the highest income category representing incomes of at least \$150,000.

**Figure 2:** Time Spent with Someone from a Different Culture by Income



**Figure 3:** Share of Voters in Local Election by Income



These figures show that civic and political activity increases with income, and they are not exceptions. These figures are merely illustrative, because *all* of our measures of civic and political engagement are increasing in household income.

Thus, there is the greatest room for improvement in civic and political engagement among low- and middle-income households. We might expect, as a result of these numbers, that these households suffer more from the alienation that scholars associate with being isolated from community life, and that their interests would not be as well represented in politics. Although civic and political engagement is lowest for individuals with lower household incomes, is there reason to think that increasing volunteerism for low and middle-income households would have an effect on engagement? Our estimates for the effect of volunteerism in Tables 4 and 5 report the effect based on all survey respondents, across a wide range of incomes. Is this effect being driven by high, middle, or low income individuals?

To explore how the relationship between volunteerism and engagement varies with income, we estimate the same regression model as in Tables 4 and 5 separately for each of five income groups: \$0-\$25,000; \$25,000-\$50,000; \$50,000-\$75,000; \$75,000-\$100,000; > \$100,000. In Table 6, we report the effect of volunteerism on engagement for each of these five income groups, across all of our engagement variables. For all forms of political engagement, volunteerism has a larger effect for people with lower incomes than those with higher incomes. For example, volunteerism is associated with a 31% or 33% increase in voting for individuals with incomes below \$75,000 but only a 24% to 25% increase in voting for those with incomes above \$75,000.

The relationship between volunteerism and civic engagement tends to be stronger for lower income households, although certain forms of engagement have a strong relationship with volunteerism for high-income individuals as well. For example, volunteerism has its biggest effect on spending time with neighbors or exchanging favors with neighbors for people whose income is below \$25,000 but the second biggest effects is on individuals with incomes above \$100,000. Volunteerism has the biggest effect on how much time one spends with people from other cultures for individuals with incomes below \$25,000 or in the \$50,000 to \$75,000 range.

This is encouraging. Not only is volunteerism reliably associated with civic and political engagement across all our measures of engagement, but

the relationship between volunteering and engagement is the strongest among the lowest income survey respondents. Given the low initial starting point for civic and political engagement among low- and middle-income households, this means that there is both the most room for growth in engagement among these households and the greatest potential to create that growth through encouraging volunteerism. In our last Part, we describe our proposal to realize that potential.

#### IV. A COMMUNITY CONTRIBUTION CREDIT

In this Part we describe our proposal for a new tax credit for community contributions. The credit is designed to provide financial support for local charitable organizations (already eligible to receive tax deductible donation) and social welfare organizations (currently ineligible to receive deductible contributions), but also to increase the civic and political engagement of donors.

##### *A. The Proposal*

We propose that all taxpayers whose adjusted gross income is below the national median receive a refundable tax credit known as the Community Contribution Credit, equal to 90% of their contributions and capped at \$500, for donations to either Section 501(c)(3) or 501(c)(4) organizations.

The benefits of a credit as compared with a deduction—primarily the fact that the value is independent of the taxpayer’s marginal tax rate—have made it a recurring proposal from both political progressives and conservatives.<sup>132</sup> Many economists<sup>133</sup> and legal scholars have argued for a tax credit for

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<sup>132</sup> See, e.g., Heritage Foundation, *How a Flat Tax Would Affect Charitable Contributions* (1996) (discussing proposal by Senator Dan Coats (R-IN) to provide a \$500 tax credit for donations to human service charities); Gary Klott, *A Closer Look at Dole’s Economic Package*, CHICAGO TRIBUNE, Aug. 20, 1996, at C5; Martin A. Sullivan, *Dole to JCT: Fill in the Blanks*, TAX NOTES, Aug. 16, 1996; and NATIONAL COMMISSION ON FISCAL RESPONSIBILITY AND REFORM, *THE MOMENT OF TRUTH* (2010) (commission convened by President Obama describing 12% non-refundable charitable tax credit available to all taxpayers). There have been a handful of proposals for charitable contribution tax credits in recent years. For example, H.R. 4702 introduced in 2010 would have allowed a credit for up to \$1,000 of charitable contributions.

<sup>133</sup> Some economists have argued for a charitable tax credit. See, e.g., William Vickrey, *AGENDA FOR PROGRESSIVE TAXATION* 131 (1947); Murray L. Weidenbaum, *Advantages of Credits on the Personal Income Tax*, 42 GEO. WASH. L. REV. 516 (1974); Harold M. Hochman & James D. Rodgers, *The Optimal Tax Treatment of Charitable Contributions*, 30 NAT’L TAX J. 1 (1977); Richard Thaler, *It’s Time to Rethink the Charity Deduction*, N.Y.



charitable contributions in lieu of a deduction.<sup>134</sup>

But, several alternatives could also make charitable giving more equitable. These proposals include simply allowing nonitemizers to deduct their donations,<sup>135</sup> providing a matching government grant instead of a deduction,<sup>136</sup> or a “stratified deduction,” with taxpayers in middle and lower income brackets being able to deduct more than the amount of their contribution.<sup>137</sup> In fact, extending the deduction to nonitemizers was done for a short time 1983 to 1986.<sup>138</sup> The two primary objections to extending the deduction to nonitemizers was the revenue loss and the added administrative complexity from auditing small deductions that may have been fraudulent.<sup>139</sup>

These objections are not insurmountable, however. As we discuss below, there are ways to pay for a tax credit for lower income taxpayers—most of whom will be nonitemizers. But more importantly, reconceptualizing the community credit as a public investment in social organizations and civic engagement suggests that there may be economic benefits in terms of reduced social harm and increasing earnings that offset some of the revenue loss.

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Times, Dec. 19, 2010, at 5. *See also*, Rob Reich, *JUST GIVING: WHY PHILANTHROPY IS FAILING DEMOCRACY AND HOW IT CAN DO BETTER* (2018) (arguing for a flat, non-refundable credit)

<sup>134</sup> *See, e.g.*, Richard Gershon, *A Proposed Charitable Contributions Credit: It Is Best to Give and to Receive*, 11 OHIO N.R. L. REV. 75, 83 (1984) (“This article has emphasized that a device producing a tax incentive for charitable contributions must be equitable, efficient, and available to all taxpayers. Thus, a proposal for a charitable credit must be subject to the same scrutiny. The charitable credit will survive such scrutiny.”); Todd Izzo, Comment, *A Full Spectrum of Light: Rethinking the Charitable Contribution Deduction*, 141 U. PA. L. REV. 2371, 2375 (1993) (“this Comment proposes that the current itemized deduction for charitable contributions be replaced by a refundable tax credit available to all Americans, that is, itemizers, nonitemizers, and nonfilers alike.”); James Patrick Huston, Note, *Pauper’s Parity: Taking Away the Fine Print of “Your Contribution Is Tax Deductible”*, 25 GEO. J. ON POVERTY L. & POL’Y 115, 117 (2017) (“The solution proposed by this Note does not replace Section 170, but modifies the Section by creating a Charitable Contribution Credit for lower-income Americans.”)

<sup>135</sup> This was done in ERTA of 1981, but severely limited, and then introduced again in CARES Act.

<sup>136</sup> Paul R. McDaniel, *Federal Matching Grants for Charitable Contributions: A Substitute for the Income Tax Deduction*, 27 TAX L. REV. 377 (1971).

<sup>137</sup> John A. Wallace & Robert W. Fisher, *The charitable deduction under section 170 of the Internal Revenue Code*, in RESEARCH PAPERS SPONSORED BY THE COMMISSION ON PRIVATE PHILANTHROPY AND PUBLIC NEEDS (1977).

<sup>138</sup> Joseph Cordes et al., *Extending the Charitable Deduction to Nonitemizers*, URBAN INSTITUTE (2000), <https://www.urban.org/sites/default/files/publication/62481/310338-Extending-the-Charitable-Deduction-to-Nonitemizers.PDF>

<sup>139</sup> *Id.*

Second, the administrative costs of ensuring that taxpayers truthfully report the community credit can be overcome, and a program the size of our proposed Community Contribution Credit (CCC) may justify improved reporting processed for charitable giving. For example, donations eligible for the community credit in any one year could be limited to one organization. Donee organizations could be required to register with the I.R.S. and provide a report with each credit-eligible donation they received that year. These reports could then be electronically matched to the tax reporting of individuals claiming the credit, similar to how those same organizations report income to employees and contract workers.

The tax credit should not reduce the cost of giving to 0, as a 100% credit would do, because many of the positive effects of charitable giving on volunteerism and civic engagement depend on the donor having donated some of her own money. Consider an alternative: a tax credit for 100% of all charitable contributions up to \$500. We would expect that many taxpayers who did not previously donate to charity would donate \$500 as they would receive the same amount back. But, that taxpayer may not feel the same sense of responsibility and ownership as the donor that contributed some of her earned income, and may therefore be less likely to volunteer to monitor the organization because they do not feel like they have a stake in the organization.

A second important question about eligibility for the CCC is whether it should be limited to public charities and exclude (as the charitable contribution currently does) social welfare organizations covered by Section 501(c)(4) of the Code.<sup>140</sup> The underlying justification of the charitable deduction should influence the kinds of organizations for which donations should be deductible. If the justification is income measurement, then the distinction between 501(c)(3) and 501(c)(4) organizations is that donations to the former are less likely to generate a consumption benefit for the donor, whereas social welfare organizations tend to hew more closely to the line in terms of providing benefits on their members.<sup>141</sup> As Professor Schmalbeck observes in the 501(c)(3) context, “[t]he difficult cases for exclusion are presented by organizations like churches, or by arts organizations. The

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<sup>140</sup> For an analysis of whether the tax exemption for social welfare organizations is justified on grounds of political justice, see Philip Hackney, *Political Justice and Tax Policy: The Social Welfare Organization Case*, 8 Texas A&M L. Rev. 271 (2021).

<sup>141</sup> Professor Aprill notes that “[m]any agree that our country urgently needs to encourage institutions that foster a community and a civil society,” but notes that they are covered under (c)(4), (7) and (8). Aprill, *infra* note 63, at 866.

benefits provided by these organizations are enjoyed largely by the group of contributors.”<sup>142</sup> But if the justifications for charitable giving subsidies are social policy, including the positive effects on civic engagement, then this opens the possibility that donations to social welfare organizations should be deductible too.<sup>143</sup>

Social welfare organizations must be devoted to promoting the common good and general welfare of the community, typically through civic betterment and social improvement.<sup>144</sup> The most common kinds of social welfare organizations are service organizations, such as the Rotary Club.<sup>145</sup> Although social welfare organizations must be focused on civic betterments, this does not include participating in a political campaign or operating a social club.

Professor Galston has surveyed the regulation of tax-exempt organizations under the Internal Revenue Code and evaluates whether these regulations help or hinder the “civic potential of voluntary associations”<sup>146</sup> depending on which of four perspectives are adopted for valuing voluntary organizations: (1) they build generalized trust for coordinated and effective collective action (the collective action perspective), (2) they enable freedom and autonomy by giving people greater control over their lives and give them practice at deliberation and exercising that autonomy,<sup>147</sup> (3) they strengthen

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<sup>142</sup> Schmalbeck, *supra* note 60. Social welfare organizations can also engage in more political activity than public charities, and disallowing deductible contributions to social welfare organizations is also motivated by the desire not to subsidize political speech.

<sup>143</sup> Interestingly, there is evidence that the availability of a tax benefit for donations to 501(c)(3) organizations may have spillover effects on the amount of non-deductible donations to (c)(4) social welfare organizations. Large subsidies for charitable giving reduce contributions to (c)(4)s, and whereas smaller subsidies *increase* giving. Brian Galle, *The Dark Money Subsidy? Tax Policy and Donations to Section 501(c)(4) Organizations*, 22 *Am. L. & Econ. Rev.* 339 (2020). For an overview of (c)(4) organizations, see Ellen P. Aprill, *Examining the Landscape of 501(c)(4) Social Welfare Organizations*, 21 *N.Y.U. J. Legis. & PUB. POL’Y* 345 (2018).

<sup>144</sup> Ellen P. Aprill, *Nonprofits helped organize the pro-Trump rally before the Capitol siege – but they probably won’t suffer any consequences* (Jan. 15, 2021), THE CONVERSATION, <http://theconversation.com/nonprofits-helped-organize-the-pro-trump-rally-before-the-capitol-siege-but-they-probably-wont-suffer-any-consequences-153271>. Treas. Regs. Section 1.501(c)(4)-1(a)(2).

<sup>145</sup> Hackney, *supra* note 139, at 298 (citing Jeremy Khoulish, *From Camps to Campaign Funds: The History, Anatomy, and Activities of 501(c)(4) Organizations* 6 (2016), [https://www.urban.org/sites/default/files/publication/77226/2000594-From-Camps-to-Campaign-Funds-The-History-Anatomy-and-Activities-of-501\(c\)\(4\)-Organizations.pdf](https://www.urban.org/sites/default/files/publication/77226/2000594-From-Camps-to-Campaign-Funds-The-History-Anatomy-and-Activities-of-501(c)(4)-Organizations.pdf)).

<sup>146</sup> Galston, *supra* note 10.

<sup>147</sup> Nonprofits do not need to operate in a democratic fashion, but democratic governance

representative institutions and democratic values by increasing the communication of preferences and priorities of the members of associations, such as through increased voting, and (4) they build community morality.<sup>148</sup> The appropriate tax treatment of voluntary organizations depends on which perspective one takes. For example, from the collective action perspective, large organizations without involved members may still be very effective in achieving their goals.

Our concern is with both the activities of the donee organization and the effects of giving on volunteerism, civic and political engagement by the donors themselves. These are benefits that can follow from greater engagement with community organizations of all kinds, and so we would not exclude social welfare organizations from the Community Contribution Credit. We do not doubt that if we want to encourage civic engagement—and not just interest aggregation—then we need to encourage donations to entities that are more than “associations without members.”<sup>149</sup> However, we believe that a crucial factor affecting the success of the CCC will be its simplicity, and increasing the complexity of the CCC for potential donors and the administrative costs to the IRS of drawing fine distinctions between entities on the basis of how active are their members is not worth the benefits of more precise targeting.

### B. Design Choices

The goal of the Community Contribution Credit is to put financial resources in the hands of low- and middle-income households that can only be used to support social organizations—charities and social welfare

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is helpful in inculcating civic virtues. Dana Brakman Reiser, *Dismembering Civil Society: The Social Cost of Internally Undemocratic Nonprofits*, 82 OR. L. REV. 829 (2003) (“Institutions that are internally democratic are more capable of and effective at building social capital and teaching civic skills. Thus, a trend away from governance with members reduces nonprofits’ ability to perform these essential societal services, imposing social costs.”)

<sup>148</sup> Galston, *supra* note 10, at 315 (“According to this perspective, healthy civic life is impossible without widespread acceptance of a core of moral norms and a sense of moral obligation toward oneself, others, and the community as a whole.”) Some scholars think that once culture and custom stop constraining morality, then law must fill the gap. *See, e.g.*, DON E. EBERLY, *AMERICA’S PROMISE: CIVIL SOCIETY AND THE RENEWAL OF AMERICAN CULTURE* 112 (1998); DENEEN, *supra* note 2.

<sup>149</sup> Galston, *supra* note 10, at 376 (“organizations often need the opportunities provided through federal income tax exemption to perform both functions deemed critical to the self-governance perspective, i.e., informed deliberation about community-wide policies and serving as a counterpoise to centralized government actions.”)

organizations—with the aim of both supporting the missions of those institutions but also to draw the donors into a volunteering relationship with those organizations and broader civic and political participation. There are a variety of ways of implementing the CCC, however, and the implementation is an important determinant in the success of the credit.

The most familiar way of implementing the credit would be to allow taxpayers to claim the credit when they file their tax return. This is how the refundable child tax credit (CTC) and the earned income tax credit (EITC) are claimed. This allows the credit to be claimed on the same tax return on which the taxpayer reports her income for the year and the other features of her circumstances that affect eligibility, such as whether she had dependent children. The sizeable refunds associated with these tax credits has a number of collateral effects, both on household financial decisions and the tax preparation market.<sup>150</sup> EITC recipients often have significant debt that accumulates during the winter holidays that they only discharge with their tax refunds, making them vulnerable to delays or garnishment. Tax return preparers also sell a variety of goods, services, and financial products that are parasitic on the tax preparation services and that are paid for with tax refunds. Consumer advocates argue that these financial products are a multi-billion dollar drain on the EITC program.<sup>151</sup>

We note an important difference between a credit for charitable giving and the CTC and EITC: the taxpayer must make a cash outlay during the year to obtain the CCC. Even if the CCC rate were set at 100%, so that the taxpayer received the full amount of a charitable contribution back after filing her taxes, she would still need to find the money to make the donation and possibly wait several months to get the money back in the form of the credit. For some taxpayers this difference in the timing of when the donation is made and when the credit is received may not matter, but many more households than is generally thought are “illiquid,” having very little room in their budgets to make discretionary cash expenditures at any point in time.<sup>152</sup> This concern is especially acute since the CCC would be limited to low and

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<sup>150</sup> For a description of the market for tax preparation and tax financial products, see Andrew T. Hayashi, *Myopic Consumer Law*, 106 VA. L. REV. 689 (2020).

<sup>151</sup> See, e.g., Chi Chi Wu, *Something New in Tax-Time Financial Products: Refund Anticipation Checks and the Next Wave of Quickie Tax Loans*, NAT'L CONSUMER LAW CTR. & CONSUMER FED'N OF AM., SOMETHING OLD, (2013), <https://www.nclc.org/images/pdf/high-cost-smallloans/ral/ral-report-2013.pdf>.

<sup>152</sup> For data on household illiquidity and the costs of that illiquidity, see Andrew T. Hayashi, *The Quiet Costs of Taxation: Cash Taxes and Noncash Bases*, 71 TAX L. REV. 781 (2017).

middle-income taxpayers. If households do not have the cash on hand to make the donations, then households will either fail to take advantage of the CCC or borrow to make the donation, which, given the unfavorable credit terms generally available to low-income borrowers, may result in a significant loss of the benefits of the CCC.

On the other hand, making the CCC available only upon filing a tax return may increase the number of low- and middle-income taxpayers who actually file a tax return which could have collateral benefits for those taxpayers. The EITC and refundable CTC are only available to people who file a tax return, and many taxpayers eligible for these benefits do not file.<sup>153</sup> If the CCC is effective in increasing charitable donations then it may also increase filing rates by low-income taxpayers, which is likely to also increase the take-up of benefits like the EITC.<sup>154</sup>

The history of the EITC also provides a helpful lesson in designing refundable tax credits. Before 2011, the Advance EITC program allows taxpayers to claim their EITC in increments over the course of the year rather than receive a lump sum payment after filing their return.<sup>155</sup> The program has been almost a complete failure measured by takeup rates. People have a strong preference to receive the EITC as a lump sum payment.<sup>156</sup> Interventions to reduce the costs of claiming the advance EITC and to reduce any stigma associated with it only increases Advance participation from 0.3 to 1.2 percent. We do not know why the Advance EITC was so unpopular, although many explanations are possible. For example, taxpayers lacked information about the program, had a preference for lump sum payments as a savings mechanism, and were concerned about having to repay the EITC if they withheld too few taxes for the year. Clearly, addressing these shortcomings will be important to ensure the effectiveness of the CCC.

In particular, making donors feel as if they have “skin in the game,” while not imposing too much hardship on liquidity-constrained households, is a tough needle to thread. We think that the simplicity and salience of the credit

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<sup>153</sup> Taxpayers do not need to file a return unless their income exceeds the standard deduction, which for 2020 was \$24,800 for a married couple filing jointly.

<sup>154</sup> See Hayashi, *supra* note 148.

<sup>155</sup> For a summary of design features, including some of the benefits of advance payments but the reasons for low takeup, see Elaine Maag et al., *Redesigning the EITC: Issues in Design, Eligibility, Delivery, and Administration* (June 10, 2019). Available at SSRN: <https://ssrn.com/abstract=3498856> or <http://dx.doi.org/10.2139/ssrn.3498856>

<sup>156</sup> Jennifer L. Romich & Thomas Weisner, *How families view and use the EITC: Advance payment versus lump sum delivery*, NAT'L TAX J. 1245 (2000).

will be crucial for its long-term success. With high rates of take-up and persistence over time, we can expect that community groups will begin to devote greater efforts to inform and fundraise from CCC recipients, which will in turn increase the visibility and utilization of the credit, and along with it the economic power and political and civic engagement of the recipients.

We propose that the taxpayer claims the credit on her federal income tax return by indicating the amount of the donation that she intends to make in the coming year. For example, if we assume a 96% credit rate with a cap of \$480 then a taxpayer who wanted to claim the full credit would take a refundable credit of \$480 against her taxes for the prior tax year and indicate that she intends to make the maximum donation of \$500 in the coming year. The full credit would be available to all persons with taxable income below a specified threshold, based on their income in the prior tax year. Since the taxpayer's income for the prior year is reported at the same time that the credit is claimed, there is no uncertainty about the taxpayer's eligibility for the credit, such as was the case with the Advance EITC.

Allowing the taxpayer to receive the credit before making the donation, eliminates the liquidity problem. Since the credit is paid out with the rest of the taxpayer's refund, it increases the benefits from filing a tax return, and incentivizes filings. If the taxpayer does not follow through on the donation, then the amount of the credit that was improperly claimed will be added to her tax liability for the following year.

If tax time becomes associated a large amount of money for community organizations, we should expect that not only will nonprofits and community groups market their organizations to CCC recipients, but also that unscrupulous operators will organize entities to solicit funds. It may be instructive to think about what would seem to be the worst-case scenario. Imagine a new nonprofit entity X Corp. that aggressively solicits CCC funds from taxpayers in early March each year right around when people receive their CCC refunds. X Corp.'s mission is "neighborhood improvement" and, with a wink and a nod, X Corp. pays for groceries and pays rent to needy members of the community who, it just so happens, are the people who have also made creditable donations to X Corp. The president of X Corp. also draws a salary equal to 20% of the donations made to X Corp.

This kind of collusion works to the benefit of everyone involved. Imagine that 1,000 people make donations of \$500 each to X Corp. The president draws a salary of \$100,000 leaving \$400,000 to be distributed to the

clients/donors of X Corp. Each client/donor receives \$400 worth of goods from X Corp. as well as \$480 in CCC refunds in exchange for the \$500 donation that she made. Thus, each donor benefits by \$380, and the president of X Corp. is \$100,000 better off. Effectively, the U.S. Treasury pays the groceries and rent of the X Corp. donors as well as the president's salary.<sup>157</sup>

Of course, credit eligibility could—and should—be designed to deny eligibility for donations of this nature. Just as with the current income tax rules for charitable donations, the fair market value of any goods and services received by the donor should be deducted from the amount of the contribution. If only 501(c)(3) entities are eligible to receive CCC donations, then brazen self-dealing of the kind involving X Corp. should cause it to lose its exempt status and eligibility to receive donations.

But, it is also worth reflecting on the costs of errors in the administration of the CCC program. Inevitably, benefits will accrue to taxpayers who should not receive them, or the organizations will not use the funds as intended. But, limiting the CCC to low- and middle-income households financed with a progressive tax—or a partial repeal of a regressive charitable contribution deduction—is important, because even if the credit funds the “donors” own consumption, it merely increases the progressivity of the federal system of taxes and transfers. Further, “abusing” the credit in this manner will increase household incomes, leaving them with greater time and resources to be more civically and politically engaged.

### *C. Distributional Effects*

The goals of the Community Contribution Credit are both to support the work and output of charities and social welfare organizations, and to increase civic and political engagement. As we report in Part III, there are significant disparities by income group in the amount of civic and political engagement and participation. These differences affect influence over the political process and the extent to which the preferences and interests of low-income households are reflected in policymaking—itself a first-order problem—but they also affect result in differences in how connected people are to their communities. We propose focusing the community contribution credit on households with incomes below the national median household income, or

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<sup>157</sup> Professor Hackney notes that the IRS has viewed a community-operated bus service that was open to all as a social welfare organization, even though the service was primarily used by the group's founders. Hackney, *supra* note 139. See Rev. Rul 78-69, 1978-1 C.B. 156.



roughly \$70,000 for several reasons.

First, re-allocating the tax expenditure towards low-income households will make charitable giving—and the implicit government subsidy that comes with it—more democratic. As charitable giving policy becomes more democratic, more support will be directed to the kinds of organizations favored by low-income households, incentivizing other organizations to emerge and provide the services they value. Professor Bullock has also argued that giving lower income-households more power to donate to nonprofits may improve the performance of charities that serve low-income households, and “create a vast constituency for charitable organizations by freeing them from dependency on the wealthy.”<sup>158</sup>

Second, to the extent that the community giving credit is inframarginal—and nonitemizers already do make significant donations—the credit merely increases the after-tax incomes of these households. The inframarginal effect, which is generally viewed as an efficiency loss when it comes to providing tax incentives, in this case amounts to a redistribution of wealth to low-income households. If one is in favor of greater progressivity in the tax system, the inframarginal effect is not much of a downside.

Third, since tax incentives for financial donations also tend to increase volunteerism, the CCC should increase volunteerism by low-income households. As Professor Schizer has noted, the charitable contribution deduction can help recruit donors to monitor the quality of nonprofits’ activities,<sup>159</sup> which can increase the efficiency of the nonprofit sector. That monitoring can be valuable, but it can also allow them to influence the nonprofit in ways that are not consistent with the mission. Opening the door for more monitoring by low-income households may bring both new kinds of expertise to nonprofits.

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<sup>158</sup> For a summary of different alternatives, see Alice Gresham Bullock, *Taxes, Social Policy and Philanthropy: The Untapped Potential of Middle- and Low-Income Generosity*, 6 CORNELL J.L. & PUB. POL’Y 325, 331 (1997) (“this article discusses alternatives to the current deduction, including matching grants, nonitemizer deduction, a refundable credit, and a nonrefundable credit for gifts to qualified poverty relief organizations. It concludes that a refundable credit for gifts to charity is the superior solution, for it satisfies concerns about both equity and efficiency. A refundable credit will increase gifts to organizations that are expected to bridge the gap in the government’s spending on social welfare.”)

<sup>159</sup> Schizer, *supra* note 77. Professor Schizer analyzes three justifications for the charitable deduction: increased giving, empowering minority perspectives and measuring popular preferences, and recruiting private donors to monitor the nonprofits.

Fourth, we have documented in Part III that lower-income taxpayers report both lower levels of civic and political engagement, and also a stronger correlation between volunteerism and engagement. Thus, there is both a greater need for engagement and a greater potential for increasing engagement among lower income households. The challenge is that civic and political engagement can be costly. Lower income households can less afford to spend time volunteering and being involved politically, and the benefits of being engaged may not be as immediate as needs such as food and housing and childcare. The fact that a community tax credit makes households richer, if nothing else, gives them more resources to spend on political and civic activities.

Finally, the personal benefits of increased civic and political engagement may also be greater for low-income households.<sup>160</sup> Lower-income individuals could gain education, training, and networking opportunities that could lead to greater employment opportunities, and an ability to navigate bureaucracies and avail oneself of public benefits.<sup>161</sup>

The first link in our argument from charitable giving to civic engagement is the link from giving to volunteerism. Outside of the studies attempting to estimate that effect directly, there is a large literature on the factors driving volunteerism more generally. We think it is important to draw attention to some of these factors. Among the reasons that older adults give for not engaging in more formal volunteering is the concern that their efforts are not properly valued by the donee organization and that they are not treated well, or being “bossed around.”<sup>162</sup> Other factors limiting formal volunteering include poverty, poor health, and lack of transportation.<sup>163</sup> They report that “Inadequate personal resources, including finances, are consistently

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<sup>160</sup> See Liang Guo, et al., *Work resources and civic engagement: Benefits to employee physical and mental health*, 100 J. VOCATIONAL BEHAV. 56 (2017) (“we demonstrate that civic engagement and work resources enhance people’s perception of happiness and that this, in turn, is conducive to greater mental and physical health. We also found that the association between civic engagement and happiness is moderated by income such that the association is positive for people with either low or high income.”)

<sup>161</sup> These effects could help reduce the barriers to accessing social programs or generally exercising one’s rights. For evidence on differential use of property tax appeals as one example of this, see Andrew T. Hayashi, *The Legal Salience of Taxation*, 81 U. CHI. L. REV. 1443 (2014).

<sup>162</sup> Iveris L. Martinez et al., *Invisible Civic Engagement among Older Adults: Valuing the Contributions of Informal Volunteering*, 26 J CROSS CULT GERONTOL 23 (2011).

<sup>163</sup> *Id.*

presented as a limiting factor for voluntary activity.”<sup>164</sup>

We think that the community contribution credit could address some of these factors. First, for any adult for whom the credit is inframarginal, the effect is to increase their after-tax income, perhaps freeing up time and resources to volunteer. Second, the community credit will give lower-income taxpayers more influence over the operations of nonprofits, and we expect that nonprofits would begin to court and cater to these taxpayers as a fundraising strategy. Someone who donates her community contribution credits to the same organization for which she volunteers has the power to withdraw her donations, and for that reason is likely to be treated better when she is volunteering. Moreover, this shift in the status of low-income households from client to patron (or client and patron) of charitable organizations may cause them to be treated with greater status and respect.

#### *D. Why Tax?*

If our sole concern were to increase civic participation among low-income households, then it is sensible to ask whether there might not be a more direct way of doing that than through the links to volunteerism and charitable giving and ultimately back to a tax credit for financial contributions. Scholars who are concerned with a decline in social capital, social trust, and the being alienated from local communities attribute much of this to a dynamic form of capitalism that they see as an inevitable outgrowth of liberalism that privileges mobility, autonomy, consumerism, and unfettered freedom of choice. Their response is an attack on liberalism or, less dramatically, a rolling back of economic and industrial policy from free markets toward greater protectionism. So why do we propose a tax credit?

If the only benefit of the Community Contribution Credit were to be derived from increasing civic and political engagement, it would be a slender reed indeed for such a substantial tax expenditure. But, there are other significant benefits to inducing civic and political engagement through a tax

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<sup>164</sup> *Id.* citing Jeffrey A. Burr et al., *Productive Activity Clusters Among Middle-Aged and Older Adults: Intersecting Forms and Time Commitments*, 62 J. OF GERONTOLOGY: SERIES B S267 (2007); Jeni Warburton & Deirdre McLaughlin, *Passing on our culture: How older Australians from diverse cultural backgrounds contribute to civil society*, 22 J. CROSS-CULTURAL GERONTOLOGY 47 (2007); R. A. Sundeen et al., *Differences in perceived barriers to volunteering to formal organizations: lack of time versus lack of interest*, 17 NONPROFIT MGMT. & LEADERSHIP 279 (2007).

incentive for charitable giving. By giving low and middle-income households the financial means to contribute to community organizations, it changes the terms on which they can engage. With an ability to make a modest monetary donation, even \$500, comes some measure of power that can change the respect that donor is given in general, and how they are treated by the organization when they volunteer. Recipient organizations may be more willing to listen to the input of a volunteer who is also a CCC donor, and more willing to consider whether their expertise and knowledge can help the organization pursue its mission.

Moreover, although any one CCC contribution may not be terribly large, the aggregate amount of CCC donations that we contemplate is very significant, approaching the amount of the current tax expenditure for the charitable deduction. We should expect that potential recipient organizations will seek out CCC donors, change their messaging, priorities, and operations, to cater to the interests and concerns of CCC donors. We also expect that new community organizations will form to cater to the interests of CCC recipients, helping to democratize the nonprofit sector so that its objectives better reflect the preferences of the population more generally. It should also be relatively likely for organizations to respond to the incentives created by having a new pool of potential donors, since those donors will include everyone with an income below the specified threshold. All an organization needs to do to identify a potential market is to know the median income of that population of people, since eligibility for the CCC will depend only on income. This is likely to make the nonprofit sector particularly responsive to the interests of CCC donors and make the transmission of their preferences into charitable activities particularly efficient.

Nonprofits already have incentives to publicize the availability of tax credits to potential donors. For example, Arizona provides a 100% tax credit for donations to certain organizations, and some food banks rent billboard space to advertise their eligibility.<sup>165</sup> To some sensibilities, the expected reaction of the nonprofit sector to a massive influx of potential donations by low- and middle-income households will seem like an unseemly grab for donation dollars. But if the nonprofit sector has a frenzied reaction, with new and old organizations scrambling to cater to low- and middle-income households and meet their demand for particular kinds of charitable activities and forms of public service that want to see provided, then we think this is a

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<sup>165</sup> Duquette et al., *supra* note 88.

needed rebalancing of the activities of the nonprofit sector.<sup>166</sup>

Finally, for some households the CCC will be inframarginal, which is to say that the credit will not increase their financial giving but only reduce their taxes or increase the size of their refund. Although not the primary purpose of the CCC, we think that even this is an acceptable cost to bear, since it amounts to a redistribution of wealth to the lower end of the income distribution.

### *E. Financing*

The empirical economic literature on the effect of the charitable contribution deduction on volunteerism suggests that the income effect is the primary driver of volunteerism. This means that the way that the CCC is financed will have an effect on the amount of volunteerism that it encourages. It is typical within economic models, when evaluating the efficiency of a tax or tax incentive, to assume that any taxes paid as a result of the tax are refunded to the individual as a lump sum. The efficiency costs of a tax are due to the distortionary effect on prices – the substitution effect. By assuming that any taxes collected are refunded to the taxpayer, the only behavioral effect is due to the change in prices.

In the case of the charitable contribution deduction, this suggests that the manner in which we fund the deduction may have an important effect on the behavioral response. If a deduction is funded by increasing tax rates, effectively clawing back the increase in income that results from the deduction, we may not observe any increase in volunteerism. Thus, the CCC must be funded elsewhere.

Possibilities include raising taxes, or cutting spending, on individuals who are not intended to be the primary beneficiaries of the credit, or deficit-financing the deduction and thereby increasing taxes on future generations. We propose reforming the existing incentives for charitable giving as a way of funding the CCC. There is no reason of economic logic to assume that this is how the credit should be financed. And yet, as a political matter, adopting

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<sup>166</sup> Carol J. De Vita & Eric C. Twombly, *Charitable Tax Credits: Boon or Bust for Nonprofits?*, URBAN INSTITUTE (2004), [http://webarchive.urban.org/UploadedPDF/311036\\_charting\\_no16.pdf](http://webarchive.urban.org/UploadedPDF/311036_charting_no16.pdf) (Tax credits “may carry un-intended consequences, such as increasing competition among charitable organizations for donor dollars and further emphasizing marketing and outreach activities to help an organization stand out in a field of competitors.”)

the Community Contribution Credit may provide the energy for rationalizing the taxation of charitable giving more generally.

We are not committed to any particular way of financing the community tax credit, and it certainly need not be the case that the cost of the community credit needs to be partially offset by reforming other aspects of charitable giving. Nevertheless, since many scholars already agree that the charitable contribution deduction is in need of reform, we consider some possibilities here. If each taxpayer in the bottom 50% of the AGI distribution takes the \$500 credit, the aggregate cost would be about \$54 billion.<sup>167</sup> For fiscal year 2021, this is roughly the size of the deduction for charitable contributions, or the Section 199A deduction.<sup>168</sup> If the charitable contribution deduction were not repealed, but instead left alongside the CCC, at least the annual limitations on deductible gifts could be reduced.<sup>169</sup> Other possibilities including limiting the amount of the deduction for contributions of appreciated property to exclude built-in long term capital gain, or to eliminate widely-panned loopholes for grantor retained annuity trusts, which have resulted in more than \$100 billion in lost revenues from 2000-2014.

#### CONCLUSION

The charitable contributions deduction is typically justified by the benefits accruing to charitable organizations, and the good work that many of them do for their clients. We have argued that this focus on the clients of nonprofits misses a crucial part of the picture: the benefits of giving to the donor, other volunteers and donors to the charity, and our community more generally. These benefits—which are undersupplied by the market without a tax incentive—accrue as financial donors become volunteers, who tend to have deeper civic and political engagement across a range of measures. We provided new evidence that this is the case.

The benefits are also unequally distributed, which contributes to the polarization of our politics, income and wealth inequality, and individual

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<sup>167</sup> This is determined by multiplying the number of tax returns file in the bottom half of the AGI distribution by 1.5 and then \$500. Erica York, *Summary of the Latest Federal Income Tax Data*, TAX FOUNDATION, <https://taxfoundation.org/publications/latest-federal-income-tax-data/> (last visited Feb 4, 2021).

<sup>168</sup> Tax Policy Center, *What are the largest tax expenditures?*, <https://www.taxpolicycenter.org/briefing-book/what-are-largest-tax-expenditures> (last visited Feb 4, 2021).

<sup>169</sup> See discussion *supra* Part II.A.

isolation and alienation. We have offered a proposal for a Community Contribution Credit that would more equitably distribute the goods from civil society and contribute to a more democratic politics.

\* \* \*

**Table 1**  
**Definitions of Proxies for Engagement**

<u>Variable Name</u>	<u>Question reference</u>	<u>Question wording</u>
<b>Proxies for civic engagement</b>		
Time with Friend	PES1	In the past 12 months, that is from September 2016 until today, how often did (you/NAME) talk to or spend time with friends and family?
Time with Neighbor	PES4	In the past 12 months, how often did (you/NAME) have a conversation or spend time with (you/his/her) neighbors?
Neighbor Favor	PES6	In the past 12 months, how often did (you/NAME) and (your/his/her) neighbors do favors for each other?
Time with Other Culture	PES8	In the past 12 months, how often did (you/NAME) talk to or spend time with people from a racial, ethnic, or cultural background that is different than (yours/his/hers)?
Positive Action for Neighborhood	PES7	In the past 12 months, did (you/NAME) get together with other people from (your/his/her) neighborhood to do something positive for (your/his/her) neighborhood or community?
Part of Association	PES15	In the past 12 months, did (you/NAME) belong to any groups, organizations, or associations?
<b>Proxies for political engagement</b>		
Discuss with friend/fam	PES2	In the past 12 months, how often did (you/NAME) discuss political, societal, or local issues with friends or family?
Discuss with neighbor	PES5	In the past 12 months, how often did (you/NAME) discuss political, societal, or local issues with (your/his/her) neighbors?
Share on internet	PES9	In the past 12 months, how often did (you/NAME) post (your/his/her) views about political, societal, or local issues on the internet or social media?
Consume news or info	PES10	In the past 12 months, how often did (you/NAME) read, watch, or listen to news or information about political, societal, or local issues?
Vote in last local election	PES11	In the past 12 months, did (you/NAME) vote in the last local elections, such as for mayor or school board?
Attend public meeting	PES12	In the past 12 months, did (you/NAME) attend a public meeting, such as a zoning or school board meeting, to discuss a local issue?
Contact public official	PES13	In the past 12 months, did (you/NAME) contact or visit a public official - at any level of government - to express (your/his/her) opinion?
Buy or boycott goods or serv	PES14	In the past 12 months, did (you/NAME) buy or boycott products or services based on the political values or business practices of that company?



**Table 2****Correlations of Engagement Proxies****Panel A: Pairwise correlations of proxies for civic engagement**

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) Time with Friend	1					
(2) Time with Neighbor	0.217*	1				
(3) Neighbor Favor	0.155*	0.581*	1			
(4) Time with Other Culture	0.216*	0.133*	0.124*	1		
(5) Positive Action for Neighborhood	0.106*	0.304*	0.339*	0.110*	1	
(6) Part of Association	0.115*	0.184*	0.180*	0.125*	0.267*	1

**Panel B: Pairwise correlations of proxies for political engagement**

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) Discuss with friend/fam	1							
(2) Discuss with neighbor	0.406*	1						
(3) Share on internet	0.237*	0.175*	1					
(4) Consume news or info	0.345*	0.190*	0.124*	1				
(5) Vote in last local election	0.228*	0.172*	0.066*	0.240*	1			
(6) Attend public meeting	0.182*	0.196*	0.109*	0.125*	0.232*	1		
(7) Contact public official	0.229*	0.205*	0.180*	0.155*	0.233*	0.383*	1	
(8) Buy or boycott goods or serv	0.233*	0.146*	0.207*	0.144*	0.188*	0.185*	0.338*	1

This table documents pairwise correlations of the proxies for civic and political engagement. \*\*\*

p<0.01, \*\* p<0.05, \* p<0.1

**Table 3**  
Descriptive Statistics

**Panel A: Proxies for Civic Engagement**

Variable	Volunteer Indicator=1				Volunteer Indicator=0				Difference in Mean
	N	Mean	Std	Median	N	Mean	Std	Median	
Time with Friend	17,490	4.57	0.77	5	36,128	4.24	1.23	5	0.33 ***
Time with Neighbor	17,439	2.90	1.56	3	35,969	2.18	1.77	2	0.72 ***
Neighbor Favor	17,416	1.69	1.50	1	35,982	1.03	1.42	0	0.66 ***
Time with Other Culture	17,300	3.53	1.65	4	35,606	2.81	2.06	3	0.72 ***
Positive Action for Neighborhood	17,431	0.41	0.49	0	36,075	0.12	0.33	0	0.29 ***
Part of Association	17,473	0.63	0.48	1	36,135	0.13	0.33	0	0.50 ***

**Panel B: Proxies for Political Engagement**

Variable	Volunteer Indicator=1				Volunteer Indicator=0				Difference in Mean
	N	Mean	Std	Median	N	Mean	Std	Median	
Discuss with friend/fam	17,368	3.08	1.70	4	35,793	2.17	1.92	2	0.91 ***
Discuss with neighbor	17,356	1.24	1.57	0	35,819	0.70	1.32	0	0.54 ***
Share on internet	17,313	0.70	1.37	0	35,734	0.48	1.20	0	0.22 ***
Consume news or info	17,401	4.29	1.33	5	35,885	3.72	1.84	5	0.57 ***
Vote in last local election	16,784	0.72	0.45	1	33,877	0.46	0.50	0	0.26 ***
Attend public meeting	17,417	0.25	0.43	0	36,074	0.05	0.22	0	0.20 ***
Contact public official	17,393	0.26	0.44	0	36,059	0.06	0.24	0	0.20 ***
Buy or boycott goods or serv	17,348	0.26	0.44	0	35,989	0.09	0.28	0	0.17 ***

This table provides descriptive statistics for the main samples used in this paper. Variables are defined in table 1.

**TABLE 4**

Multivariate Tests of Civic Engagement

	(1)	(2)	(3)	(4)	(5)	(6)
	Categorical Variables				Indicator Variables	
	Time with Friend	Time with Neighbor	Neighbor Favor	Time with Other Culture	Positive Action for Neighborhood	Part of Association
Volunteer Indicator	0.24*** (17.76)	0.59*** (19.36)	0.52*** (18.30)	0.36*** (12.19)	0.25*** (18.22)	0.43*** (67.32)
Age	-0.00*** (-3.79)	0.02*** (12.89)	0.01*** (14.29)	-0.01*** (-10.20)	0.00*** (9.63)	0.00*** (14.29)
Female Indicator	0.11*** (6.10)	-0.07** (-2.80)	-0.02 (-0.70)	0.05* (2.08)	-0.01*** (-2.96)	-0.01*** (-3.38)
Education	-0.01** (-2.63)	0.02*** (3.71)	0.00 (0.61)	0.05*** (5.82)	0.01*** (5.66)	0.02*** (8.67)
Work Hours Category	-0.01** (-2.80)	-0.02** (-2.22)	-0.01 (-1.30)	0.05*** (5.28)	-0.00 (-0.03)	-0.00 (-1.10)
Kids Category	0.01*** (4.14)	0.03*** (7.11)	0.04*** (7.81)	-0.01 (-1.18)	0.01*** (3.38)	-0.00*** (-4.27)
Constant	4.81*** (44.21)	1.13*** (5.89)	0.72*** (4.50)	1.07*** (3.45)	-0.29*** (-3.70)	-0.92*** (-7.95)
Observations	23,543	23,441	23,440	23,242	23,492	23,529
R-squared	0.04	0.09	0.09	0.05	0.13	0.31

Economic Magnitude

Volunteer

indicator as a %

of mean:

5.5%	24.4%	41.9%	11.8%	113.6%	148.3%
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This table documents OLS tests of the effect of volunteering on various measures of civic engagement. Fixed effects are included in all models: Race, Citizen Status, Income Category, Interview Type, Geographical Zone, Population Category, Marital Status. Variables are defined in table 1. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1 using two-sided tests with standard errors clustered by Income Category.

**TABLE 5**  
Multivariate Tests of Political Engagement

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Categorical Variables				Indicator Variables			
	Discuss with friend/fam	Discuss with neighbor	Share on internet	Consume news or info	Vote in last local election	Attend public meeting	Contact public official	Buy or boycott goods or serv
Volunteer Indicator	0.62*** (19.47)	0.42*** (18.67)	0.18*** (6.82)	0.36*** (11.68)	0.17*** (18.30)	0.17*** (46.25)	0.16*** (23.12)	0.15*** (27.19)
Age	0.00*** (4.52)	0.01*** (12.61)	-0.01*** (-7.39)	0.02*** (15.40)	0.01*** (12.33)	0.00*** (5.40)	0.00*** (7.75)	0.00*** (4.68)
Female Indicator	-0.13*** (-7.39)	-0.13*** (-6.43)	0.05** (2.90)	-0.10*** (-6.33)	0.03*** (3.41)	-0.00 (-1.29)	-0.00 (-1.36)	0.01 (1.39)
Education	0.11*** (20.14)	0.03*** (6.00)	0.02*** (5.66)	0.08*** (13.34)	0.03*** (23.57)	0.01*** (6.68)	0.02*** (10.66)	0.02*** (18.85)
Work Hours Category	0.01** (2.17)	-0.00 (-0.03)	-0.01** (-2.37)	0.01 (1.08)	0.00 (0.50)	0.00 (1.59)	0.01*** (3.97)	0.00** (2.24)
Kids Category	-0.00 (-0.67)	0.01** (2.37)	-0.01** (-2.64)	-0.00 (-1.13)	0.00 (0.92)	0.01*** (8.30)	-0.00*** (-4.46)	-0.00*** (-4.56)
Constant	-2.20*** (-9.62)	-0.94*** (-4.93)	-0.11 (-0.66)	0.24 (0.93)	-1.10*** (-18.43)	-0.36*** (-6.02)	-0.60*** (-9.86)	-0.62*** (-19.90)
Observations	23,331	23,357	23,266	23,382	22,315	23,475	23,458	23,413
R-squared	0.09	0.06	0.02	0.08	0.19	0.10	0.11	0.09
<u>Economic Magnitude</u>								
Volunteer indicator as a % of mean:	25.1%	48.3%	32.7%	9.2%	30.9%	141.7%	123.1%	107.1%

This table documents OLS tests of the effect of volunteering on various measures of civic engagement. Fixed effects are included in all models: Race, Citizen Status, Income Category, Interview Type, Geographical Zone, Population Category, Marital Status. Variables are defined in table 1. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1 using two-sided tests with standard errors clustered by Income Category.

**TABLE 6**

Multivariate Tests of the Relation between Volunteering and Engagement by Income Group

Panel A: Tests of Civic Engagement

	(1)	(2)	(3)	(4)	(5)	(6)
	Categorical Variables				Indicator Variables	
Income Group	Time with Friend	Time with Neighbor	Neighbor Favor	Time with Other Culture	Positive Action for Neighborhood	Part of Association
0 - 25K	0.13*** (3.23)	0.65*** (9.21)	0.52*** (8.47)	0.41*** (6.14)	0.29*** (15.74)	0.20*** (11.41)
25 - 50K	0.23*** (5.68)	0.45*** (5.93)	0.34*** (5.21)	0.24*** (3.13)	0.32*** (15.55)	0.19*** (9.57)
50 - 75K	0.28*** (6.14)	0.48*** (5.63)	0.28*** (3.76)	0.54*** (6.53)	0.32*** (12.87)	0.22*** (8.80)
75 - 100K	0.23*** (6.26)	0.37*** (5.33)	0.30*** (5.07)	0.34*** (4.99)	0.32*** (15.85)	0.16*** (8.13)
> 100K	0.19*** (8.39)	0.53*** (12.96)	0.45*** (11.84)	0.34*** (8.12)	0.32*** (25.11)	0.21*** (16.63)

Panel B: Tests of Political Engagement

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Categorical Variables				Indicator Variables			
Income Group	Discuss with friend/fam	Discuss with neighbor	Share on internet	Consume news or info	Vote in last local election	Attend public meeting	Contact public official	Buy or boycott goods or serv
0 - 25K	0.66*** (9.11)	0.40*** (6.60)	0.20*** (3.17)	0.56*** (9.05)	0.17*** (8.79)	0.14*** (9.41)	0.11*** (7.62)	0.14*** (8.88)
25 - 50K	0.51*** (6.22)	0.28*** (4.28)	0.21*** (3.08)	0.34*** (4.86)	0.18*** (8.16)	0.14*** (7.97)	0.09*** (5.58)	0.11*** (6.21)
50 - 75K	0.52*** (5.49)	0.31*** (4.29)	0.11 (1.49)	0.45*** (5.76)	0.18*** (7.31)	0.13*** (6.44)	0.10*** (5.09)	0.11*** (4.93)
75 - 100K	0.51*** (6.47)	0.15** (2.57)	0.08 (1.42)	0.27*** (4.12)	0.13*** (6.53)	0.11*** (6.50)	0.07*** (4.36)	0.10*** (5.54)
> 100K	0.40*** (8.83)	0.31*** (7.75)	0.02 (0.65)	0.27*** (7.53)	0.14*** (10.69)	0.12*** (11.51)	0.10*** (8.99)	0.11*** (9.48)

This table documents OLS tests of the effect of volunteering on various measures of civic engagement. Fixed effects are included in all models: Race, Citizen Status, Income Category, Interview Type, Geographical Zone, Population Category, Marital Status. Variables are defined in table 1. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1 using two-sided tests with standard errors clustered by Income Category.