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Federal Tax Policy and Charitable Giving

Charles T. Clotfelter



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Federal Tax Policy and Charitable Giving



**A National Bureau
of Economic Research
Monograph**

Federal Tax Policy and Charitable Giving

Charles T. Clotfelter



The University of Chicago Press
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(Resolution adopted October 25, 1926, as revised through September 30, 1974)

**To my parents
James and Caroline Clotfelter**

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Preface

In answer to a question about the possible effects of eliminating the charitable deduction in the nation's income tax, Ronald Reagan replied that Americans "are the most generous people on earth" and that they would remain so without a deduction (*Wall Street Journal*, 7 July 1982, p. 4). The question was prompted by one of several major proposals for reforming the U.S. tax system, a low-rate comprehensive income tax. Indeed, concern over economic incentives, the effects of inflation, tax compliance, and distributional equity appears to have reached a new level in the United States. From 1976 to 1983 an average of one major tax bill was enacted every two years, and there is mounting discussion of comprehensive tax reform. As the question to the president suggests, one source of concern amid these actual and potential tax changes is the effect they will have on charitable giving. This question is a particularly important topic now, following recent cuts in federal social-welfare expenditures. In fact, the philanthropic sector has long shown a keen interest in tax provisions affecting their support and operation.

This book concerns the relation between federal taxes and charitable giving. Its objective is to present and discuss econometric evidence on this relationship in order to assist in the evaluation of tax policy. The aim of the book is not to make policy recommendations, however, but rather to provide evidence and a framework for analysis of policy. I attempt to review the body of applied econometric analysis in the area and to extend that analysis in several areas using four basic sets of data. One of these data sets has been used previously to study charitable giving. Two others have been adopted for the present study to include the most recent data on contributions. A fourth has not previously been analyzed for this purpose. In addition to this statistical estimation, I present results based on computer simulations of charitable giving, one of which is a revised

version of a model used in a previously published paper. Because of the technical nature of many of the issues dealt with, some parts of the text cannot be made fully accessible to all readers. Where such technical topics are unavoidable, I have attempted to include more generally comprehensible discussion in hopes that the book can be of use to those not trained in economics and statistical methods.

The National Bureau of Economic Research provided the major support for this book. I am also grateful for the support I received from Drake University, where I am employed, and from the University of North Carolina, where I spent a sabbatical semester. Throughout the project, I have benefited from the able and industrious research assistance of Susan Cowan and from the skillful manuscript preparation of Dante Noto and Patsy Terrell. In addition, I received assistance from Richard Bostic, Mark Gallo, William Long, Mayre Loomis, Stan Paskoff, and Allyson Tucker. Karl-Heinz Paqué, Thomas Petska, Thomas Rosen, and Roy Wycarver provided me with useful unpublished data. For helpful comments and discussions, I am grateful to Elizabeth Boris, Arthur Clarke, Daniel Feenberg, Daniel Frisch, Pamela Gann, H. Gregg Lewis, Ralph McCaughan, Richard Schmalbeck, John Siegfried, B. J. Stiles, Emil Sunley, and members of the tax group at the National Bureau. In addition, I have benefited from many discussions I have had over the past decade with my coauthors on papers dealing with individual charitable giving: Martin Feldstein, Lester Salamon, and Eugene Steuerle. Finally, I am grateful to Lucile, James, and John Clotfelter for their indulgence over the period I have worked on this project.