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Weakening Ties to Charity: A Smaller Percentage of People Giving to Charity with Greater Declines Among Non-Itemizers than Itemizers

Changing behavior in donors

In October 2017, *The Chronicle of Philanthropy* published a report on the giving behavior of Americans, “How America Gives,” showing that the fraction of Americans giving to charity, especially among middle- and low-income families, is declining¹. Additional analysis of giving behavior by United Way Research reveals the following important charitable giving trends:

- The percentage of households that itemize their taxes has been steadily declining, but among itemizers, declines in the fraction claiming the charitable deduction occurred *prior to the recession*
- Non-itemizers have seen a much larger decline in the percentage that give to charity than itemizers
- Itemizing is strongly associated with giving to charity—those that itemize in some years and not others are more likely to give in the years they itemize
- Declines in giving have been largest among those who previously gave to both religious *and* secular causes, with much smaller declines in those who gave exclusively to either secular or religious organizations
- Average gift size has increased in current dollars, with the fastest increase among itemizers, but has declined when adjusted for inflation except among itemizers

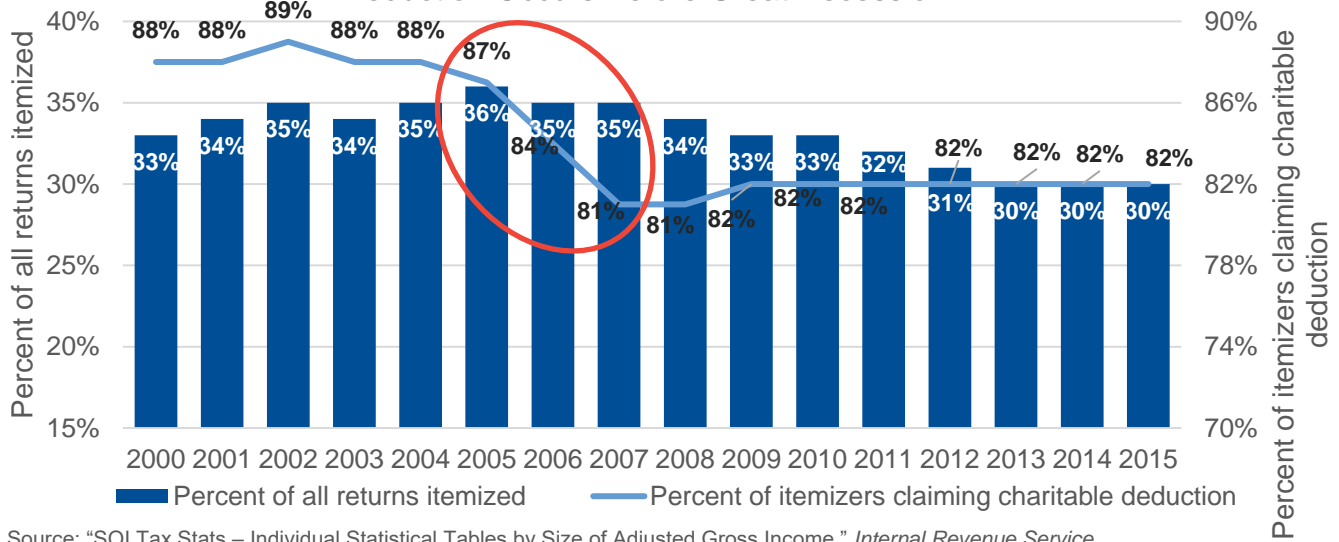
Giving behavior among itemizers

The “How America Gives” study uses tax data from the Internal Revenue Service to observe giving behavior among donors who claim the charitable deduction¹. The study shows that over the last decade, between 2005 and 2015, the percent of tax returns claiming the charitable deduction declined from 31% to 24%². It is important to note that this study only examines the giving behavior of American households that itemize their taxes, 30% of filers in 2015; the 70% of filers that do not itemize cannot claim the charitable deduction and are therefore excluded from this analysis. Additionally, it is important to note the general decline in the percentage of people itemizing their taxes during this period. When taking this into account, the real decline in the percentage of itemizers claiming a charitable deduction occurred *before* the recession, between 2005 and 2007, and it leveled off during and after the recession, from 2008 to 2015.

¹ Lindsay, Drew. “How America Gives Special Report: Breaking the Charity Habit.” *The Chronicle of Philanthropy*. 3 October 2017. <https://www.philanthropy.com/article/How-America-Gives-Special/241344>

² “SOI Tax Stats – Individual Statistical Tables by Size of Adjusted Gross Income.” *Internal Revenue Service*. <https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income>

Chart 1. Drop In Percent of Itemizing Taxpayers Claiming Charitable Deduction Occurs Before Great Recession

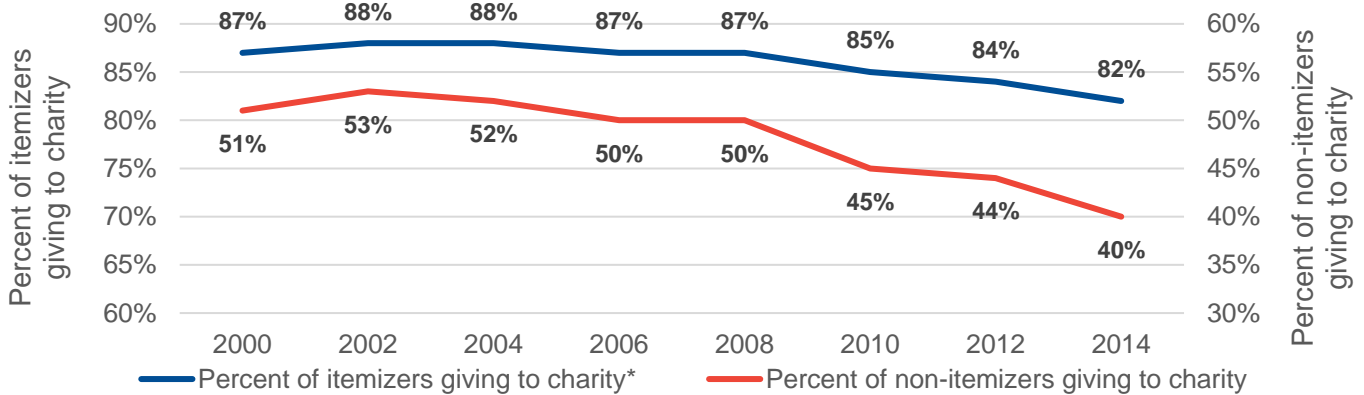


Source: "SOI Tax Stats – Individual Statistical Tables by Size of Adjusted Gross Income." Internal Revenue Service. <https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income>

Factoring in non-itemizers

Unlike tax data, which only includes information about the charitable giving of itemizers, the Panel Study of Income Dynamics (PSID), the longest running longitudinal study of representative households in the U.S., tracks the giving behavior of itemizers and non-itemizers alike³. **An analysis of the PSID data shows there has been a much more pronounced decline in the percentage of non-itemizers who give to charity than itemizers.** Between 2004 and 2014, the percentage of non-itemizers giving to charity dropped 12 percentage points from 52% to 40%. During this same period, giving from itemizers dropped six percentage points, from 88% to 82%⁴ (see Chart 2). **While the "How America Gives" study focused on the decline among itemizers, the greater, more pronounced drop-off in charitable giving, and the larger source of donor decline overall, has been occurring among non-itemizers.**

Chart 2. Giving Rates Among Non-Itemizers Declined Much Faster than Among Itemizers



*Includes those who did not claim charitable deduction or did not know if they claimed deduction

Source: United Way Research analysis of Panel Study of Income Dynamics Philanthropy Panel data. University of Michigan. <https://psidonline.isr.umich.edu/>

³ United Way Research analysis of Panel Study of Income Dynamics Philanthropy Panel data. University of Michigan. <https://psidonline.isr.umich.edu/>. The Panel Study of Income Dynamics (PSID) is a study run every two years by the University of Michigan. Questions regarding charitable giving have been asked of the panel since 2000. The panel included more than 9,000 households in 2014.

⁴ Includes itemizers who gave but did not claim deduction or didn't know if they claimed the deduction.

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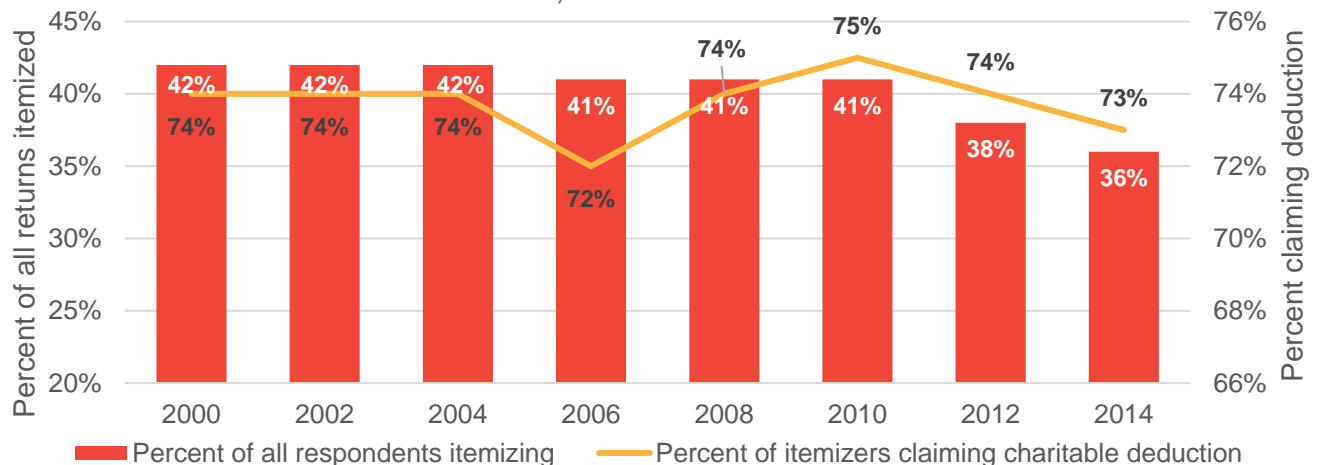
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A similar pattern to that observed in the IRS tax data can be seen in the giving behavior in the PSID. Between 2004 and 2006, there was a small decline in the percentage of itemizing panel respondents who claimed the charitable deduction (74% to 72%), much like what was seen in the tax data from 2005 to 2007 (see Chart 3). Giving by itemizers increased in 2008 and 2010, then declined from 2010 to 2014, along with the fraction of households that itemized. It does not appear to be the effects of the Great Recession driving the charitable participation of those claiming the charitable deduction, as the initial decline came prior to the recession, and an increase in the percent claiming the deduction continued through 2010. However, for the non-itemizers, the greatest decline in their giving rates occurred during and after the recession (2008-2014, -10 percentage points).

The percent of itemizers who claimed the charitable deduction is also approximately ten percent lower in the PSID data than the tax records, likely in part because the PSID analysis excludes those who do not remember if they claimed the deduction. The PSID also is a less accurate representation of giving behavior for the top 10% of earners⁵, who claim the charitable deduction at higher rates than those earning less⁶.

Chart 3. PSID Shows Similar Decline in Charitable Deduction Claims Before Recession, Different Behavior After



Source: United Way Research analysis of Panel Study of Income Dynamics Philanthropy Panel data. University of Michigan.
<https://psidonline.isr.umich.edu/>

Another key finding is that the likelihood of giving is closely associated with itemizing. Considering a non-representative sample of PSID panelists who responded in every year of the study, those who itemize consistently each year are also more likely to give to charity each year, and **those who itemize in some years but not in all years are more likely to give to charity in the years that they itemize.** Of respondents who itemized in 2008 but not in 2010, there was an 11% decline in the fraction that gave to charity. Similarly, there was an 11% increase in the fraction giving to charity among those who *did not* itemize in 2008 but *did* itemize in 2010. We cannot tell if the association is causal from the dataset and the sample is not representative of the population as a whole, but itemizing and giving appear related.

⁵ Wilhelm, Mark. "The Quality and Comparability of Survey Data on Charitable Giving." *Nonprofit and Voluntary Sector Quarterly*. 36 (2007): 65-84.

⁶ United Way Research analysis of "SOI Tax Stats – Individual Statistical Tables by Size of Adjusted Gross Income." Internal Revenue Service.
<https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income>

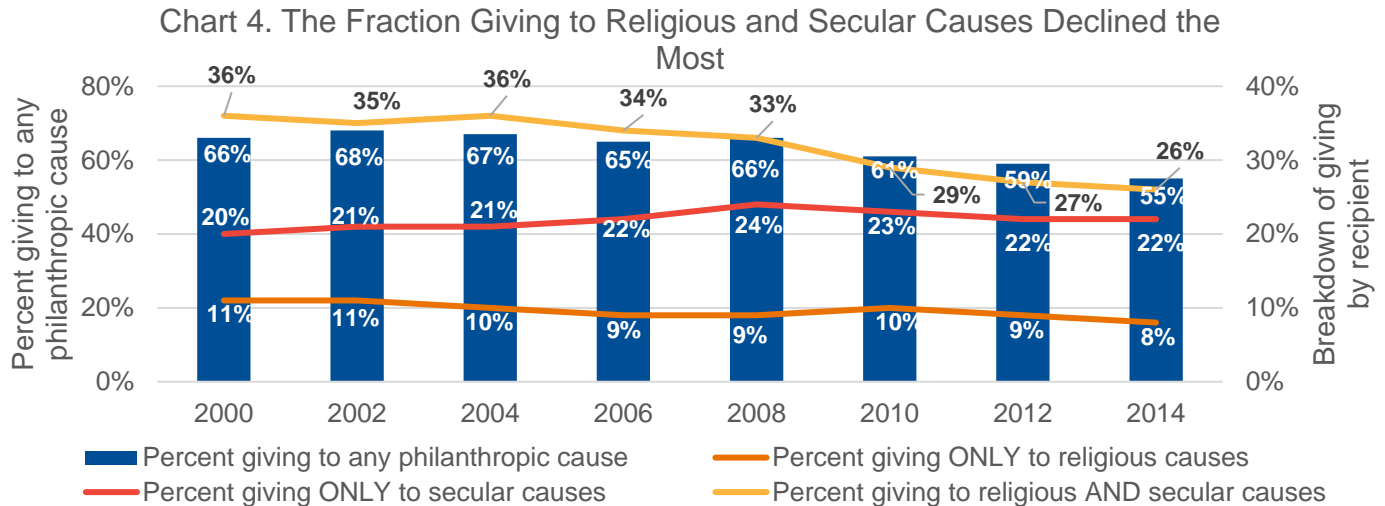
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Giving to religion

Gallup polls have found that the percent of respondents claiming to donate to a secular charity has been stable over time, while the percent donating to a religious organization has been declining⁷. Analysis of the PSID data shows a more nuanced trend⁸. The percent of respondents who gave *exclusively* to a secular charity or *exclusively* to a religious organization saw only a very small change from 2004 to 2014 (+1% and -2%, respectively). The percent of respondents who gave to religious *and* secular causes declined much more rapidly, from 36% in 2004 to 26% in 2014 (see Chart 4).



Source: United Way Research analysis of Panel Study of Income Dynamics Philanthropy Panel data. University of Michigan.
<https://psidonline.isr.umich.edu/>

Analysis of the non-representative sample of panelists who responded in every year of the study showed that the decline was most often because the family stopped giving entirely. Among individuals who gave to at least one religious *and* one secular cause in 2004 but not in 2014, a plurality (43%) did not give to either in 2014. Roughly the same number switched to secular giving only (30%) as to religious giving only (28%).

Change in average gift

The Panel Study of Income Dynamics also tracks how much money participants are giving to charity. The average gift has increased over time, both for itemizers who claimed the charitable deduction and non-itemizers⁸. The rate of change for itemizers has been approximately twice the rate of change for non-itemizers (43% increase from 2004-2014 for itemizers compared to 21% for non-itemizers). However, after adjusting for inflation, the size of gift for non-itemizers declines by 12% from 2004-2014 and increases 4% for those claiming the charitable deduction.

⁷ "Religious Giving Down, Other Charity Holding Steady." Gallup News. 21 December 2017. <http://news.gallup.com/poll/224378/religious-giving-down-charity-holding-steady.aspx>

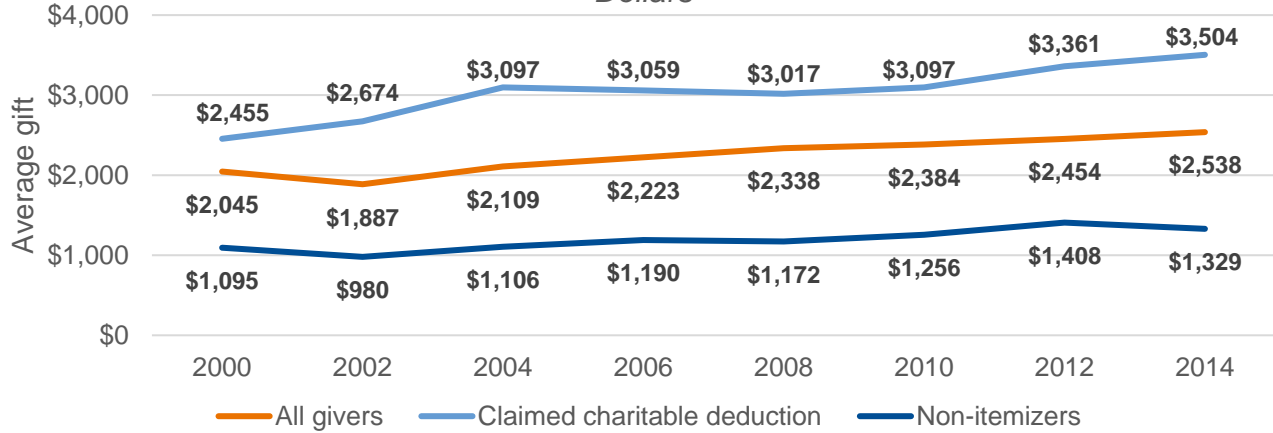
⁸ United Way Research analysis of Panel Study of Income Dynamics Philanthropy Panel data. University of Michigan.
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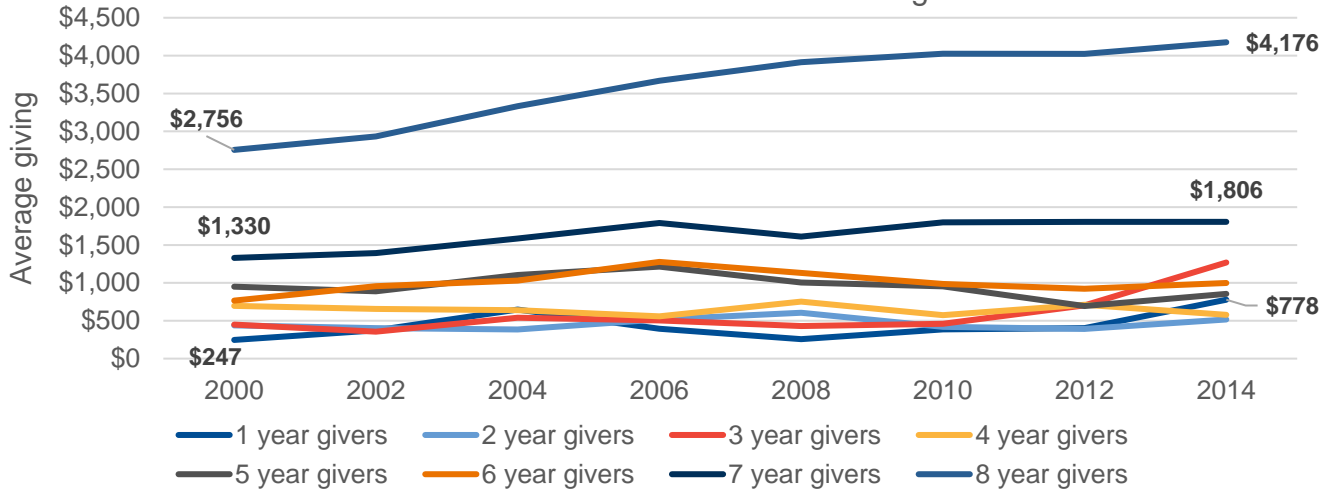
Chart 5. Average Charitable Gift Has Increased For All Givers in *Current Dollars*



Source: United Way Research analysis of Panel Study of Income Dynamics Philanthropy Panel data. University of Michigan. <https://psidonline.isr.umich.edu/>

Consistency also plays a role in gift size. Those who give to charity regularly—every year—tend to make larger gifts. The panel nature of the PSID allows individual behavior to be tracked over time. Those who gave in each of the eight years tracked gave much larger gifts than those who gave only in some years (see Chart 6). Those who only missed one year (7 year givers) also gave more than those who gave less frequently. The pattern is less clear for those who missed more than one year of giving. Consistency of giving is highly correlated with family income, which may suggest that when families give less consistently—and make smaller gifts—it may be because they have fewer resources. This pattern may not be generalizable to the US population as a whole, however, as the sample of panelists that responded to the survey in each year is not nationally representative.

Chart 6. Panelists Who Give in All Years Make Larger Donations



Source: United Way Research analysis of Panel Study of Income Dynamics Philanthropy Panel data. University of Michigan. <https://psidonline.isr.umich.edu/>

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Tax reform and charitable giving

The Tax Cuts and Jobs Act, passed in December 2017, is expected to reduce the number of households that itemize their taxes by more than half, with the Tax Policy Center estimating the number will go from 46.5 million households to 19.3 million⁹. Given that only itemizers can claim the charitable deduction, this means it will be available to far fewer people. Several studies have estimated that the changes in tax law will lead to a reduction in charitable giving.

Indiana University Lilly Family School of Philanthropy and the organization Independent Sector released a study in May 2017, prior to the passage of the tax bill, estimating its effect on charitable giving¹⁰. Due to changes in the standard deduction and tax brackets, the study estimated that charitable giving would be reduced by \$13.1 billion. The final bill had a larger change in the standard deduction and a smaller change in tax brackets than the bill analyzed. In November 2017, the Tax Policy Center estimated that the House version of the bill would reduce charitable giving by \$12 billion to \$20 billion¹¹. The final bill is expected to lead to a smaller change in charitable giving than the House version¹². An analysis of the final bill by the American Enterprise Institute estimates that it will reduce charitable giving by \$16 to \$17 billion annually¹³.

Particularly in conjunction with the close relationship between itemizing and giving to charity that is found in the PSID data, the changes to the tax law are concerning. One possible way to address the negative effects of the act would be to allow non-itemizers to claim a charitable deduction. The Lilly Family School study found that this change would eliminate the negative effect of the bill and generate up to \$4.8 billion in additional giving¹⁴.

Conclusions

Analysis of tax records and of the Panel Study of Income Dynamics both suggest there is a decline in the fraction of individuals giving to philanthropy in the United States. It is less clear how the *number* of givers has changed over time. However, declining interest in or ability to support philanthropy, paired with the declining real value of average charitable gifts, is a trend that should concern philanthropic organizations.

Particularly if the past association between giving and itemizing continues to hold under the new tax law, charitable giving may become increasingly concentrated among the wealthiest households. In 2015, approximately 63% of charitable giving from individuals came from households earning more than \$100 thousand per year, up from 47% in 2000^{15,16}. *Giving USA* has also reported a decline in the share of total giving coming from individuals over time. In the short term, this trend demands increased strategic focus on giving by high net worth individuals. If these changes continue in the long term, it is unlikely that continued growth in philanthropic giving will be sustainable.

⁹ "T18-0002 - Impact on the Number of Itemizers of H.R.1, The Tax Cuts and Jobs Act (TCJA), By Expanded Cash Income Percentile, 2018." Tax Policy Center. 11 January 2018. <https://www.taxpolicycenter.org/model-estimates/impact-itemized-deductions-tax-cuts-and-jobs-act-jan-2018/t18-0002-impact-number>

¹⁰ "Tax Policy and Charitable Giving Results." Lilly Family School of Philanthropy and Independent Sector. May 2017.

<https://independentsector.org/wp-content/uploads/2017/05/tax-policy-charitable-giving-finalmay2017-1.pdf>. The study was based on the Camp Act, proposed in 2014, as the final text of the bill had not been released.

¹¹ Rosenberg, Joseph and Philip Stallworth. "The House Tax Bill Is Not Very Charitable to Nonprofits." Tax Policy Center. 15 November 2017. <https://www.taxpolicycenter.org/taxvox/house-tax-bill-not-very-charitable-nonprofits>

¹² Gleckman, Howard. "21 Million Taxpayers Will Stop Taking the Charitable Deduction Under the TCJA." Tax Policy Center. 8 January 2018. <https://www.taxpolicycenter.org/taxvox/21-million-taxpayers-will-stop-taking-charitable-deduction-under-tcja>

¹³ Brill, Alex and Derrick Choe. "Charitable Giving and the Tax Cuts and Jobs Act." American Enterprise Institute. June 2018. <https://www.aei.org/wp-content/uploads/2018/06/Charitable-Giving-and-the-Tax-Cuts-and-Jobs-Act.pdf>

¹⁴ "Tax Policy and Charitable Giving Results." Lilly Family School of Philanthropy and Independent Sector. May 2017.

<https://independentsector.org/wp-content/uploads/2017/05/tax-policy-charitable-giving-finalmay2017-1.pdf>. The study was based on the Camp Act, proposed in 2014, as the final text of the bill had not been released.

¹⁵ *Giving USA 2018*. Lilly Family School of Philanthropy. 2018.

¹⁶ United Way Research analysis of "SOI Tax Stats – Individual Statistical Tables by Size of Adjusted Gross Income." Internal Revenue Service. <https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income>

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