

## Preliminary Estimates of the Impact of the Camp Tax Reform Plan on Charitable Giving

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The Tax Reform Act of 2014—the tax reform plan released earlier this year by House Ways and Means Committee Chairman Dave Camp (R-MI)—proposes comprehensive changes to both individual and corporate income taxes intended to improve the administration, efficiency, and fairness of the federal tax system. This note focuses narrowly on only one aspect of that bill, the potential effect on charitable giving by individuals.<sup>1</sup>

A number of changes would affect tax incentives for charitable giving both directly and indirectly. Overall, the marginal tax benefit attributable to the charitable deduction would fall by roughly half, from about 23 percent to 12 percent. As a result, the after-tax cost of every additional \$100 of charitable contributions (what the taxpayer gives up after accounting for the tax benefits) rises from roughly \$77 to \$88 on average, a 14 percent increase. Total individual giving, which totaled \$240 billion in 2013 according to Giving USA<sup>2</sup>, would decrease by 7 to 14 percent. Some of these effects would be offset by positive impacts on giving, such as allowing charitable deductions to be taken up to the time of filing of a tax return, much the same way as is currently allowed for contributions to individual retirement accounts.<sup>3</sup>

### Estimated Change in Charitable Giving by Tax Provision

While the Camp plan alters the charitable deduction in several ways, a large percentage of the overall effect on giving arises from indirect changes to tax laws that greatly reduce the number of taxpayers who itemize and generally lower statutory tax rates. In order to assess the relative

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<sup>1</sup> A more complete analysis of the Camp bill can be found in Jim Nunns, Amanda Eng, and Lydia Austin. July 2014. “Description and Analysis of the Camp Tax Reform Plan.” Available at <http://www.taxpolicycenter.org/publications/url.cfm?ID=413176>. As in that analysis, we do not attempt to measure effects on giving that might arise from any macroeconomic effects resulting from the legislation, including changes in the overall size of the economy.

<sup>2</sup> Giving USA Foundation (2014). *Giving USA 2014 Report Highlights*. Retrieved from [www.givingusareports.org](http://www.givingusareports.org).

<sup>3</sup> For more on the April 15<sup>th</sup> proposal see C. Eugene Steuerle. March 2013. “Extending the Charitable Deduction Deadline to Tax Day.” Available at <http://www.taxpolicycenter.org/publications/url.cfm?ID=412769>.

importance of the various provisions, we separately estimate the impact of four groups of tax changes:<sup>4</sup>

- **Group 1: Rate structure.** This group includes changes to statutory individual income tax rates, the 10 percent surtax rate, repealing the individual alternative minimum tax, the treatment of capital gains and qualified dividends, and the phaseout of the 10 percent bracket.
- **Group 2: Standard deduction and other nonitemized deduction provisions.** This group includes the increased standard deduction, repeal of personal exemptions, phaseout of the standard/itemized deduction, phaseout of the child tax credit, and other provisions.
- **Group 3: Itemized deductions other than charity.** This group includes eliminating the deduction for medical expenses and state and local taxes paid, and the limitation on the deduction for mortgage interest.
- **Group 4: Charitable deduction.** This group includes adding a 2 percent adjusted gross income (AGI) floor to the charitable deduction and the combined 40 percent of AGI limit.<sup>5</sup>

The total impact of the Camp plan is estimated to reduce individual giving in the range of 7 to 14 percent, which corresponds to a reduction of between 17 and 34 billion dollars based on 2013 giving levels. The wide range reflects uncertainty in the responsiveness of individuals to the tax incentive provided by the charitable deduction.<sup>6</sup> Provisions that directly affect the charitable deduction account for less than half of the total effect (table 1). The provisions included in groups 2 and 3—including the larger standard deduction and the elimination of most other itemized deductions—dramatically reduce the number of taxpayers who elect to itemize deductions and reduce giving by an estimated \$5 billion to \$10 billion. The lower statutory rates

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<sup>4</sup> We estimate each group separately against current law. The remaining effect—the residual between the total change and the sum of the four separate pieces—is due to interactions between groups and is reported separately.

<sup>5</sup> This analysis does not account for the ability of taxpayers to “carryover” gifts in excess of the income limit amount and deduct them in future years, so therefore the estimates of the AGI limit include only the tax benefit attributable to current-year contributions.

<sup>6</sup> The low estimate is based on an elasticity of giving with respect to the net-of-tax cost of -0.5 and the high estimate is based on a price elasticity of -1.0.

under the Camp bill (\$2–\$5 billion) and interactions between provisions (\$2–\$5 billion) account for the remaining decline.

**Table 1: Estimated Percentage Decline in Individual Giving**

	Percentage Point Change Due to Provisions Related to:					
	Group 1: Rate Structure	Group 2: Standard Deduction and Other Non-itemized Deduction Provisions	Group 3: Itemized Deductions Other Than Charity	Group 4: Charitable Deduction	Residual due to Interactions	
<b>Camp Tax Reform Plan</b>	<b>7.0–14.0</b>	0.9–1.9	0.9–1.8	1.2–2.6	2.2–4.4	1.6–3.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0613-3).

### Impact on Charitable Giving Incentives by Income Group

The groups of provisions in the Camp plan affect giving incentives differentially across the income distribution (table 2). Several points are worth mentioned, including:

- The tax subsidy is almost entirely eliminated in the bottom two income quintiles, mostly due to the sharp reduction in the number of itemizing taxpayers even before taking into account any change in the charitable deduction (groups 1–3 ).
- The largest percentage increase in the after-tax cost of giving (equal to one minus the percent marginal tax benefit) occurs among taxpayers in the 80th to 99th income percentiles, who would see the cost increase by nearly 20 percent.
- The lower rate structure (group 1) reduces giving incentives at most income levels (the very top of the income distribution being the exception), although the impact is greatest in the 60th to 99th percentiles.
- The provisions that sharply reduce the number of itemizers (groups 2 and 3) have the largest effects from the third quintile up through the 95th percentile.
- Changes to the charitable deduction (group 4) have the largest impact on taxpayers in the top 5 percent of the income distribution and account for the majority of the reduction for taxpayers in the top 1 percent.

**Table 2: Marginal Tax Benefit of Charitable Contributions Deduction by Expanded Cash Income Percentile, 2023**

Expanded Cash Income Percentiles	Marginal Tax Benefit of Charitable Contributions							
	Current Law	Camp Tax Reform Plan	Percentage Point Change Due to Provisions Related to:					Residual due to Interactions
			Group 1: Rate Structure	Group 2: Standard Deduction and Other Non-itemized Deduction Provisions	Group 3: Itemized Deductions Other Than Charity	Group 4: Charitable Deduction		
<b>Lowest Quintile</b>	0.9	0.1	-0.1	-0.3	-0.3	-0.2	0.0	
<b>Second Quintile</b>	4.0	0.7	-1.0	-0.9	-1.6	-0.5	0.7	
<b>Third Quintile</b>	11.8	3.8	-1.8	-2.2	-3.1	-1.4	0.5	
<b>Fourth Quintile</b>	16.0	5.5	-2.3	-2.9	-3.2	-2.2	0.2	
<b>Top Quintile</b>	29.2	16.8	-1.3	-0.9	-1.5	-5.9	-2.8	
<b>All</b>	22.7	11.9	-1.5	-1.4	-2.0	-4.2	-1.6	
<b>Addendum</b>								
<b>80-90</b>	21.6	7.5	-1.3	-2.7	-4.0	-3.7	-2.5	
<b>90-95</b>	26.1	10.1	-2.2	-1.9	-4.1	-4.8	-2.8	
<b>95-99</b>	31.1	17.2	-3.0	-0.5	-1.9	-6.9	-1.6	
<b>Top 1 Percent</b>	33.5	23.8	-0.3	0.1	0.8	-6.9	-3.5	
<b>Top 0.1 Percent</b>	32.8	24.5	0.4	0.1	0.9	-5.7	-3.9	

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0613-3).

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