

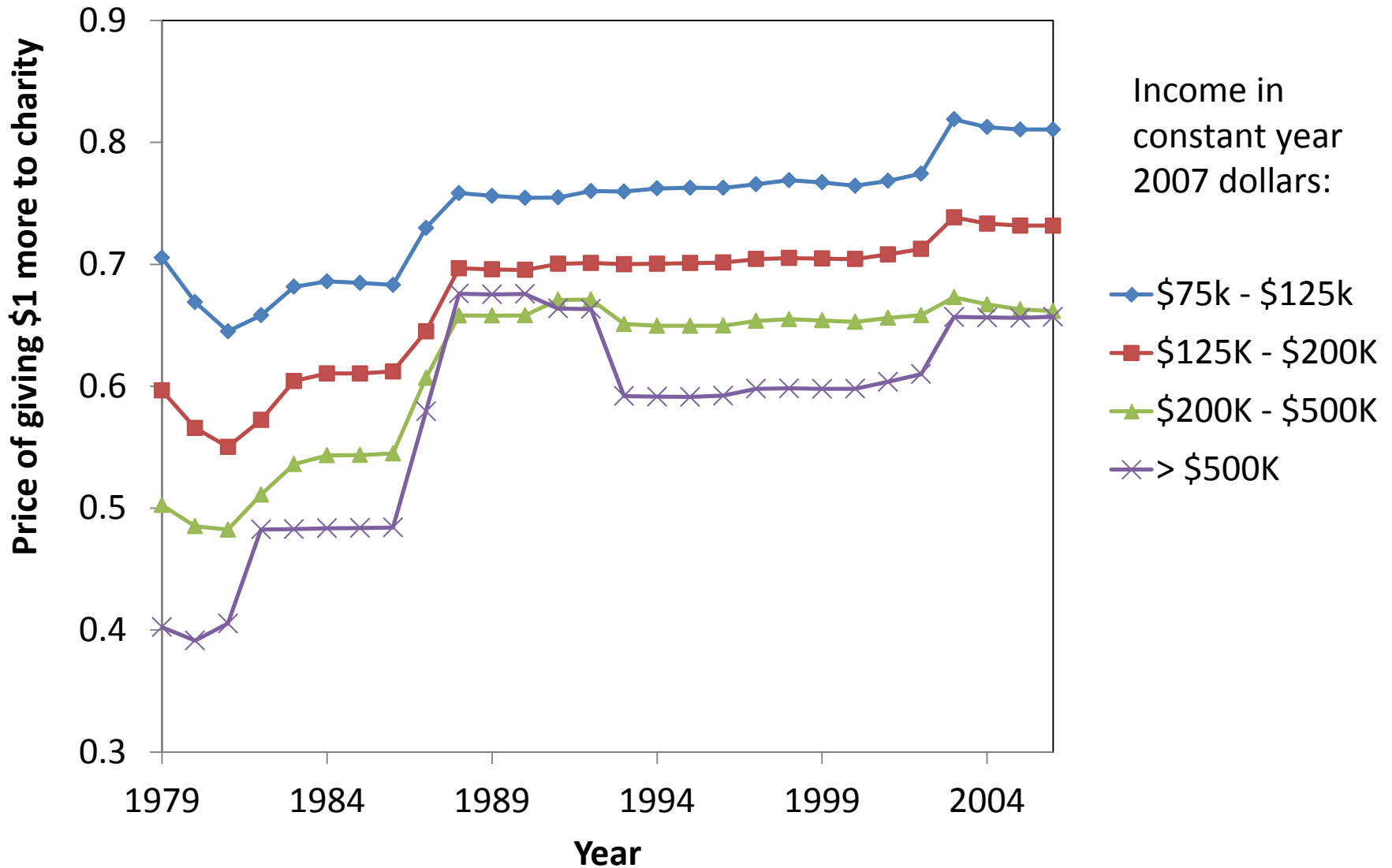
# **Empirical Evidence on the Responsiveness of Charitable Giving to Tax Incentives**

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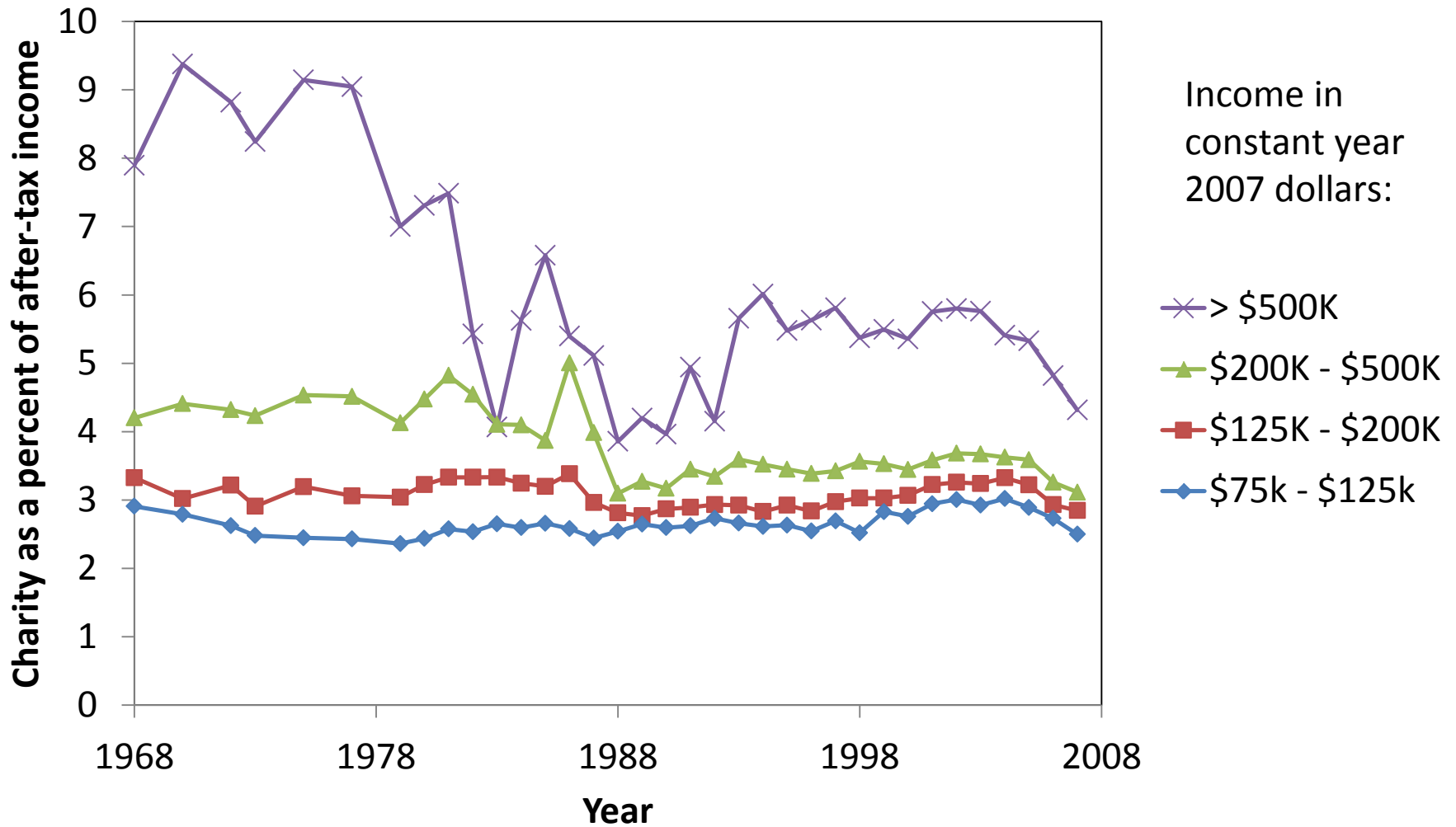
# The Price Elasticity of Charitable Giving: What it is and Why it Matters

- Price of donating \$1 to charity =  $\$1 - (\text{tax savings caused by the } \$1 \text{ donation})$
- “Price elasticity” = percentage change in charitable donations caused by one percent increase in price

**Figure 1 -- The tax price of charitable donations went up for the rich compared to the middle class, 1979-2006**

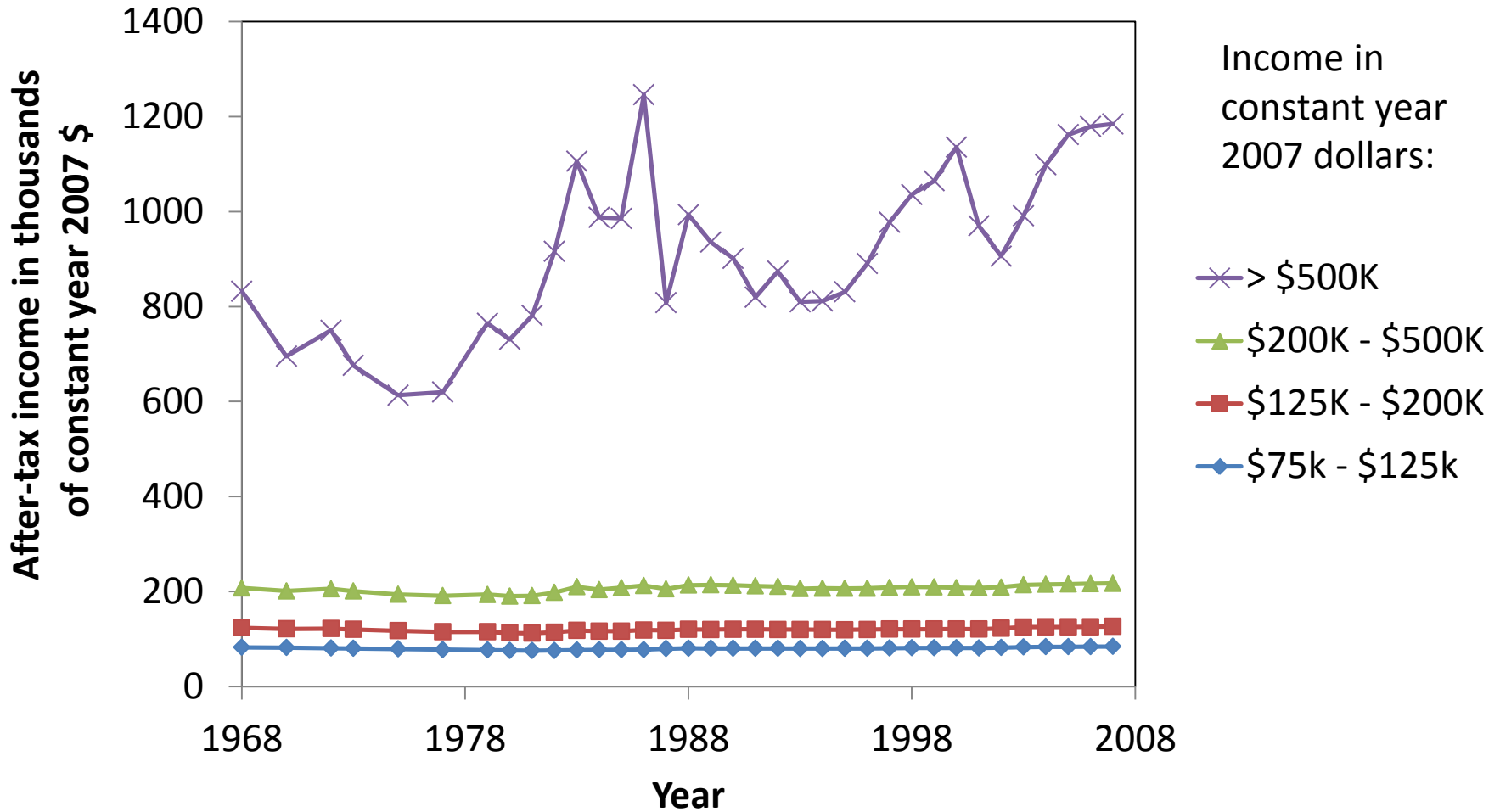


**Figure 2 -- Charity declined as a percentage of after-tax income for the rich compared to the middle class, 1968-2007**



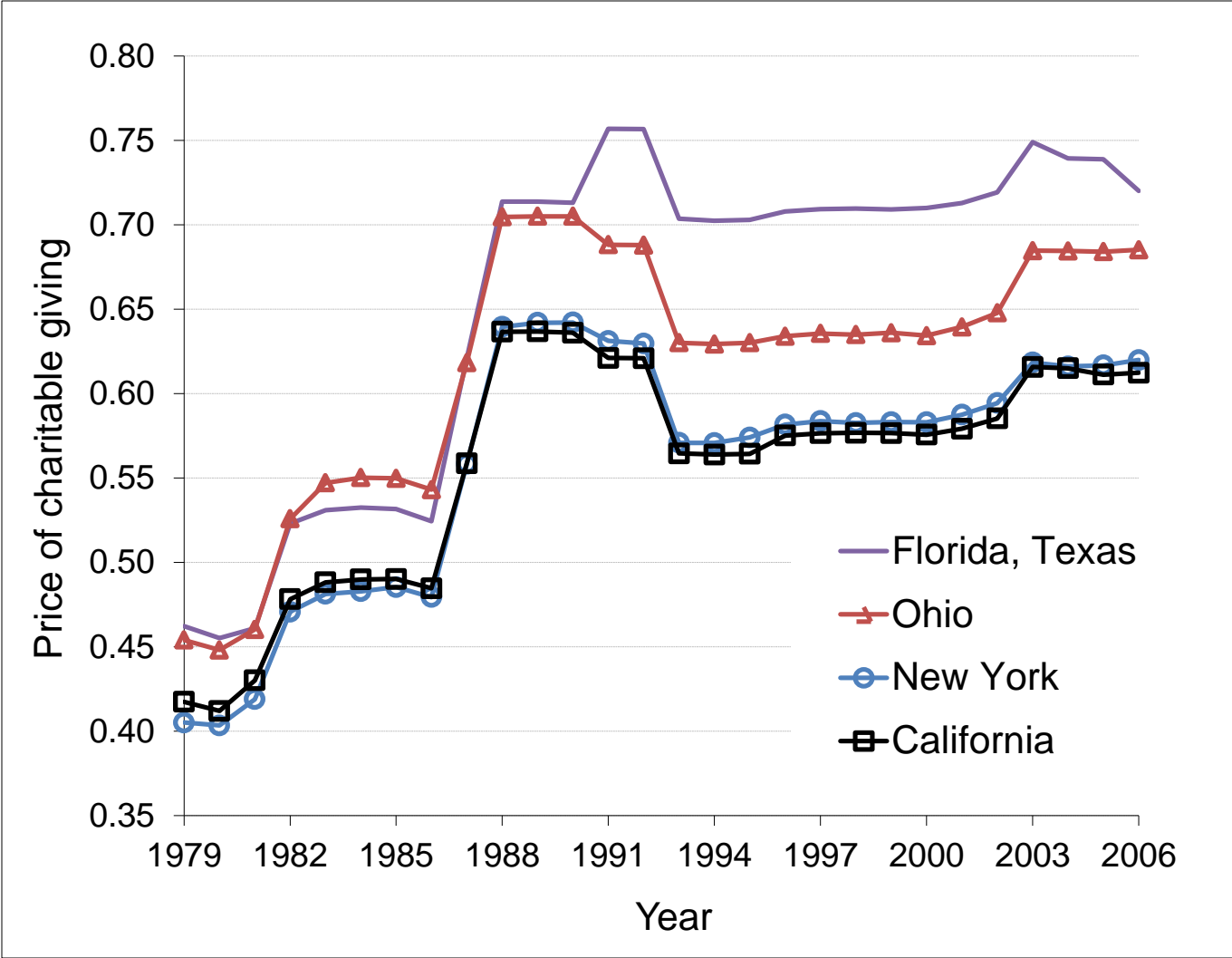
Source: author's tabulations from IRS Statistics of Income public use individual income tax return files. Sample only includes taxpayers with constant dollar itemized deductions for interest and state and local income tax and real estate tax in excess of the largest standard deduction during the sample period in constant dollars.

**Figure 3 -- This occurred despite the fact that real after-tax incomes increased for the rich compared to the middle class, 1968-2007**



Source: author's tabulations from IRS Statistics of Income public use individual income tax return files. Sample only includes taxpayers with constant dollar itemized deductions for interest and state and local income tax and real estate tax in excess of the largest standard deduction during the sample period in constant dollars.

Figure 4 -- For taxpayers with incomes above \$200,000 (in constant 2007 dollars), price of giving changed very differently over time depending on state, 1979-2006



# Bakija and Heim (2011)

- Panel data on 330,000 mostly high-income tax returns 1979-2006
- Difference-in-differences comparison across states
  - Treatment group: people in states where price changed a lot
  - Control group: people with similar incomes in other states where price changed less
  - Price elasticity in range of -1.1 to -1.5
  - Robust to different methods of controlling for unobservable influences on charity that are changing differently over time for different income classes

## Discussion of policy implications

- Removing incentives to give to charity *at the margin* may have large negative effects on donations.