



# Patterns of Giving by the Wealthy

*C. Eugene Steuerle*  
URBAN INSTITUTE

*Jenny Bourne*  
CARLETON COLLEGE

*Joycelyn Ovalle*  
URBAN INSTITUTE

*Brian Raub*  
INTERNAL REVENUE SERVICE

*Joseph Newcomb*  
INTERNAL REVENUE SERVICE

*Ellen Steele*  
CONGRESSIONAL BUDGET OFFICE

*September 2018*

**While almost all wealthy individuals make charitable contributions during their lifetimes, most fail to make charitable gifts when they die. But when they do, these contributions are, on average, many times larger than the gifts they gave over their last few years of life, even though earlier giving would have almost always reduced their total tax burden. In this study, we use a file of estate tax returns matched to income tax returns to analyze charitable giving by wealthy individuals at the time of their death (2007) compared with giving over their last five years of life (2002–06). We examine likely reasons for these giving patterns and their implication: that strengthening appeals focused on the legacy opportunities provided by wealth might significantly increase charitable giving.**

## Background

People with higher incomes and greater wealth account for a significant share of the total contributions received by charities. For instance, excluding gifts from estates or foundations, people in the top quintile of the income distribution are estimated to give \$193 billion out of a projected \$306 billion in total charitable giving—63 percent of all charitable contributions—in 2018.<sup>1</sup> Seldom, however, are data available to examine patterns of giving by the wealthy both during life and at death.

This study matches estate and income tax returns to draw a broader picture of the generosity of the wealthy than can be had from most surveys or from income tax data alone. These data are invaluable for research on the giving patterns of the wealthy and whether they give consistently or optimize their giving for tax purposes.

The data similarly inform charities' decisions as to the relative importance of fundraising through planned giving and related appeals to top wealthholders vis-à-vis general contribution drives. As one example, a charity might reflect on the known housing or business wealth of its board members and conclude from this study that generating two bequests to the charity might add more resources than one year of fundraising drives.

As another example, beginning in 2010, close to 200 of the world's wealthiest individuals across several continents signed up for the Giving Pledge, a commitment to give the majority of their wealth to charity.<sup>2</sup> Most have wealth in excess of \$100 million, yet little is known about the typical patterns of giving by people with similar levels of wealth. In this study, we look at some of the lifetime (2002–06) and deathtime (2007) charitable giving patterns of a more random set of people, with wealth ranging from \$2 million to well over \$100 million, in a period before this pledge drive was conducted. These data provide insights into the still-open question of the potential success of that type of pledge effort among people with moderate or high wealth. More generally, it provides insights into “planned giving” efforts, here broadly defined to extend beyond estate planning to the lifetime opportunities for giving provided by wealth, not just current income.

## **The Estate Tax, Income Tax, and Tax Treatment of Charitable Giving**

During the five years examined here (2002–06), a person itemizing deductions was eligible to receive a deduction each year for charitable giving up to 50 percent of his or her adjusted gross income. Generally, the maximum deduction was reduced to 30 percent (or less) if gifts were made in the form of capital gain assets or to private foundations engaged mainly in grantmaking. Excess amounts were allowed a carryover but, when combined with new giving, only up to each year's annual limits. Charitable gifts were fully excludable from the combined estate and gift tax for transfers made at death or during life.

Charitable gifts made during life are almost always more “tax efficient” than gifts at time of death because they potentially benefit from both income and estate tax deductions. Even when 2002–06 gifts exceed maximum income-tax deduction limits (for most people in this sample, annual giving does not reach that level), 100 percent of any gift's investment returns now earned by the charity rather than the individual would effectively be fully excludable from income and estate tax. In contrast, when individuals hold on to the assets and then later give away the investment returns, those same investment returns would more likely be subject to income tax caps or limitations.<sup>3</sup>

Of course, only the richest of estates are subject to the estate tax. By 2007, the year of death for the study population, the Economic Growth and Tax Relief Reconciliation Act of 2001 had increased the exclusion amount before one had to pay estate tax from a net worth of \$675,000 in 2001 (with a top

rate of 55 percent) to a net worth of over \$2 million (with a top rate of 45 percent). Debts, transfers to spouses, and charity can all add to the base level of wealth excluded from taxation.

Administrative estate tax data on the top wealthholders since 2007 have become increasingly unavailable. By 2010, the Economic Growth and Tax Relief Reconciliation Act had temporarily repealed the estate tax for one year, and after a couple of adjustments, the American Taxpayer Relief Act of 2012 established a base exemption of \$5 million, to be adjusted for inflation, with a top rate of 40 percent. Under the Tax Cuts and Jobs Act passed at the end of 2017, the basic exclusion amount for 2018 was effectively doubled to \$10,000,000, indexed for inflation after 2011, with a top rate of 40 percent.<sup>4</sup> The information provided by our sample is thus extremely important for understanding the charitable giving behavior of the wealthy.

## Description of Data

A total of 36,889 estate tax returns filed in 2007 make up the basic population examined for this study, and they are matched with income tax returns from the five years before death (from 2002 to 2006). Because these are data on people who have died, about 80 percent were age 70 or older, and the average age of estate filers was 79.6 (table 1). Men made up about 57 percent of the sample, and women 43 percent; the data indicate about an even split between married and single filers.

Although almost any sample of decedents in year of death will be older on average than the general population, the sample included a significant number of nonelderly people as well. This is important because we have information on giving for only the last five years of life for all decedents and, therefore, the behavior of the nonelderly in the sample allow us to speculate on whether patterns observed among older estate filers might significantly miss out on their behavior in previous years (e.g., through trusts set up when they were younger).

**TABLE 1**  
**Demographics of Data Sample**

	Share of sample
<b>Age at death</b>	
<70 years	20%
≥70 years	80%
<b>Gender</b>	
Female	43%
Male	57%
<b>Marital status</b>	
Married	49%
Not married	51%

**Source:** Authors' analysis based on a dataset created by the Statistics of Income Division of the Internal Revenue.

## Wealth and Net Estate

We define wealth as equal to net estate, or total gross estate at death less debts and mortgages reported on Form 706, plus a valuation discount. There are several valuation options, almost all of which tend to reduce valuation. The first allows an estate to value assets on a date six months after death if values decrease over that period. The second applies to assets, mostly land employed in farming or business uses, and allows an appraiser to report value in current use rather than highest and best use if all heirs agree to maintain the farm or business use for a fixed number of years. The third valuation discount is frequently taken when a decedent owns a fractional share of an asset, typically a limited partnership, and acknowledges that it is difficult to find a buyer for partial interests. Here, we were able to add back in the valuations discount reported on tax returns, but tax preparers sometimes adopt valuation methods that favor the taxpayer but do not require reporting on tax returns.

Average net estate among decedents was between \$5.5 and \$6 million. The average did not vary greatly by age or gender; older women had the highest average at a bit over \$6 million and younger women had the lowest average at almost \$5 million, with older men and younger men falling in between. About 70 percent of estate filers had \$2 million to under \$5 million of net estate, about 90 percent had under \$10 million, and less than 1 percent had more than \$50 million in their estate. Still, because of the relatively large sample size, even the highest wealth class (\$100 million or more) contained 112 returns.

## Income and Other Details

Decedents' prior income tax returns give information about income and charitable giving patterns during life via claimed charitable deductions. As might be expected, average annual income among decedents was positively correlated with estate size. For decedents with from \$2 million to under \$5 million in net estate, average income ranged from \$114,000 in 2002 to \$150,000 in 2006. For decedents with \$100 million or more in net estate, average income ranged from \$6.6 million in 2002 to \$10.6 million in 2006.

This study builds on an earlier study by Bourne and colleagues (2018) that used the same data and examined the relationship between income as realized on tax returns and underlying wealth. Further background information on the estate and income tax returns can be found there.

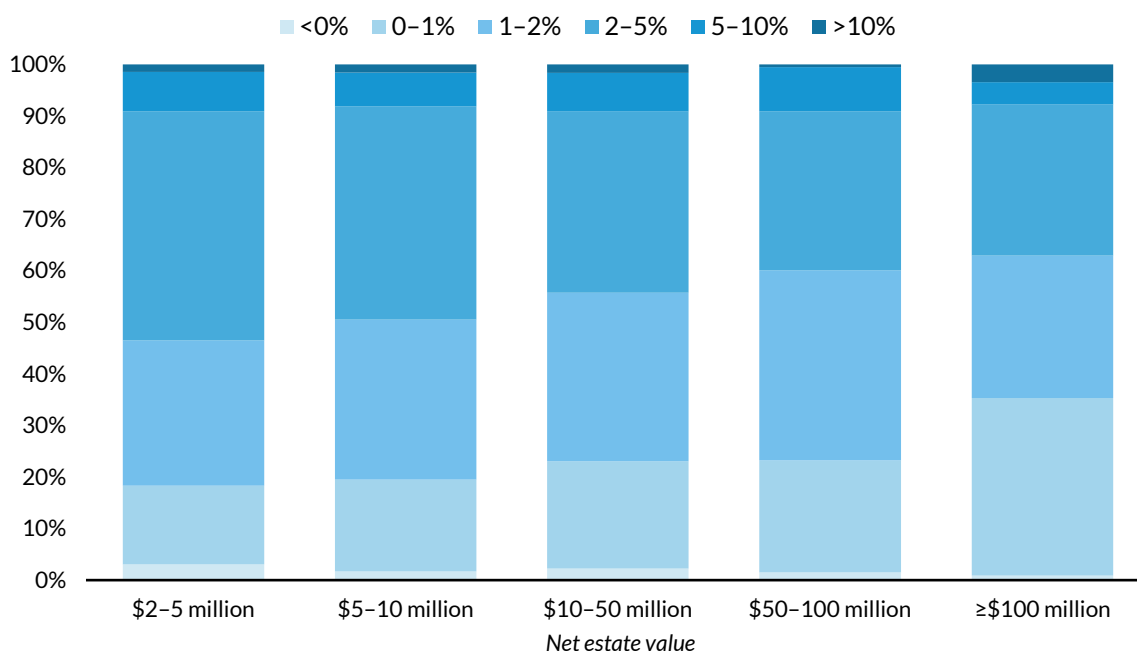
Of special relevance from that study is the preponderance of capital income in the total income of these wealthholders and their low rate of realization of income from that capital. Net capital income ranges from 67 percent of total income for those with \$2 million to under \$5 million of wealth to 93 percent for those with \$100 million or more.

Realized income from capital includes interest, dividends, partnership income, sales of capital assets, and similar items. However, much income is not recognized, particularly if accrued as capital gains from assets never sold before death. At death, those accruals are excluded forever from tax through a step-up in the basis of each asset to its current market value so that, if sold immediately by an heir, the sale value less the new basis would yield a taxable gain of \$0.

As can be seen in figure 1, taken from the Bourne and colleagues (2018) study, most income tax returns in the sample report taxable rates of return—one measure of a “realized” rate of return—of less than 2 percent, and only a few report a rate in excess of 5 percent. Yet typical expected economic returns on stock, real estate, and similar investments held in these estates yield something closer to 7 or 8 percent. At \$100 million or more of wealth, the realized rate of return is even lower than in the lower wealth classes, implying that even greater shares of economic income are being accrued rather than realized. At the lower wealth levels in this file, the low realized rates of return are also more likely to be the result of greater shares of wealth held in the form of homes. Regardless, rates are very low among all the classes of top wealthholders, and it is quite common to see realized rates of less than 1 percent. When the data were used to estimate reporting by all income taxpayers, not just an older population near to death, the results were very similar. In fact, that study found an even greater percentage in the classes with \$50 million or less reporting zero capital income on returns.

**FIGURE 1**  
**Percentages of Estates with Different Rates of Realization of Net Taxable Capital Income, by Net Estate Level**

*Share of realization rate*



URBAN INSTITUTE

**Source:** Jenny Bourne, Eugene Steuerle, Brian Raub, Joseph Newcomb, and Ellen Steele, “More Than They Realize: The Income of the Wealthy,” *National Tax Journal* 71, no. 2 (June 2018): 335–56.

Information on specific wealthholders is not available through the IRS because of the confidentiality of data. But Warren Buffet made public some information on the income realized for tax purposes when he released his 2015 tax return, which showed he paid little or no tax on the returns from his wealth. Similar anecdotal cases correspond with the very low realized rates of taxable returns on wealth found in these estate-income tax studies.<sup>5</sup>

These low rates of realization imply that measures of the rate of lifetime giving out of realized income will tend to be overstated relative to the rate of lifetime giving as a share of economic income.

## **The Special Characteristics of Top Wealthholders**

Low rates of realization among top wealthholders are not surprising once we consider why and how individuals fall into that class. When we examine estate tax filers, we effectively select (in a statistical sense) a group more likely than the general population to have characteristics that increase the probability that they fall into the class of top wealthholders.

If top wealthholders merely had higher incomes than others during their lives but otherwise exhibited the same rates of consumption and saving out of their income and wealth, rates of return on assets, and rates of inheritance, the wealth distribution would roughly represent the income distribution. But it does not even come close, as wealth is much more highly skewed or unequal than income.<sup>6</sup> Consider two people who are alike in every way, including earnings from labor, except one tends to save more. The saver will more likely end up a top wealthholder. The same applies for a person with a higher rate of return on assets over time, whether achieved through luck, successful entrepreneurship, or skill.

Thus, by examining top wealthholders, we already have selected a class of people that are less likely to consume their income and wealth, which by default means they must be more likely to engage in the only other options available: transferring larger shares of their lifetime income or accumulated wealth to either charities or individual heirs.<sup>7</sup>

At the same time, lower rates of consumption imply a lesser need to recognize capital income or sell capital assets to raise cash; in addition to tax considerations, this helps explain the low rates of realization shown in figure 1.

## **Trusts and Lifetime Transfers**

In examining the charitable transfers of these individuals both at death and during their last years of life, we must also consider how trusts and other transfers of wealth before death could affect our results. Although the greater propensity of top wealthholders to transfer rather than consume wealth at times makes lifetime transfers propitious, the estate tax provides even stronger incentives to engage in such planning.

If a person made noncharitable gifts or transfers per recipient in excess of \$11,000 per year from 2002 through 2005 or \$12,000 in 2006, the total amount of each gift should have been reported on a

gift tax return and the excess amount added to a combined estate and gift tax base (although the value of the gifts is not indexed for inflation from the time of the gift to time of death).

If the gifts were made through trusts, the value of the transfer would be likely be reported to the IRS on a donor's income tax returns because of both the availability of a deduction and the likely presence of legal help in setting up and managing the trust. Here we must briefly delve into the different purposes of trusts, particularly where related charitable giving would show up on tax returns.

If total transfers are at least partly for charity, the trust will divide rights to trust assets between what goes to charity and what goes to individuals, a split-interest trust. For instance, a charitable remainder trust typically allows a noncharitable recipient to receive a lifetime distribution, often in the form of an annuity, with charities eligible to receive the remainder after death. In this case, the price of the annuity, or the expected value of the annuity, would be treated as an individual gift subject to gift tax, and the remainder would be treated as a charitable gift. If irrevocable—the more common approach because it allows for income tax deductions not available otherwise—the value of the charitable gift would be reported on the income tax return. If revocable, the charitable gift would fall into the estate, as would other deathtime contributions.

A charitable lead trust also divides assets into those for charities and individuals, with the amount for charity fixed up front. The charitable gift again normally would show up on individual income tax returns.

Trusts are often formed for a variety of noncharitable purposes as well. A lifetime transfer would add to the unified estate and gift tax base at its nominal value at the time of the gift, not its value at the time of the donor's death. Small business or other business owners may believe that the assets will appreciate considerably in value and may then conclude that the early grant of a gift would reduce the present value of taxes paid over time despite the losses of earnings on the taxes paid prematurely with a lifetime gift in lieu of one at death.

Accordingly, when individuals give away wealth to their heirs during life, the estate wealth valuation we use may well understate the value of wealth they had available for all transfers, whether to charities or heirs. On the flip side, we had no way to adjust for growth in the value of wealth from, say, gains in asset value from 2002 to 2007, so when comparing lifetime giving to wealth—particularly in earlier years—we may be overstating the value of wealth by using its 2007 estate value.

In summary, whatever the error in using our measure of wealth—that reported on the estate tax return—we will still likely capture almost all the charitable transfers made from 2002 through the filing of the estate. When deathtime planning leads to the establishment of charitable gifts coming out of irrevocable trusts or charitable lead trusts rather than at time of death, those gifts generally will show up on income rather than estate tax returns.

Of course, people do not give only in their final years of life, and this brings us to the limitation of almost all panel studies: we do not have data for every year of life. Here we capture charitable gifts made only in the last five years of life and at death. The annual rates of giving during life that we observe, therefore, could be understated for someone who gave significantly more in prior years,

whether directly or through a charitable remainder trust. However, we have a significant number of younger filers as well. Their annual rates of giving out of wealth, which would include most giving through trusts, are lower than those of older filers.

As we shall see, the differences between observable lifetime (2002–06) and deathtime giving (2007) are quite pronounced. Consequently, these various limitations on the data have limited effect on our comparisons of the lifetime and deathtime giving patterns of the wealthy. In particular, the annual behavior of wealthy older filers in earlier years for which we do not have income tax returns might be represented reasonably by the annual behavior of wealthy younger filers for whom we *do* have income tax returns. If so, we are unlikely to be understating annual rates of giving out of wealth. If anything, what we will soon show to be a very low average annual rate of giving out of wealth during the last years of life likely overstates the annual rate of giving out of wealth for the population, which contains proportionately more younger people than in our sample.

## Patterns of Giving at Death and during the Last Years of Life

Giving patterns vary widely both across and within wealth groups. Taxpayers in this study behave similarly to those in an earlier study of estates in 1977 matched to income tax returns from 1974 to 1976 (Steuerle 1987). In both cases, taxpayers display wide inconsistency between giving during life and at death. Many who gave a high proportion of their income during life did not give at all at death and vice versa.

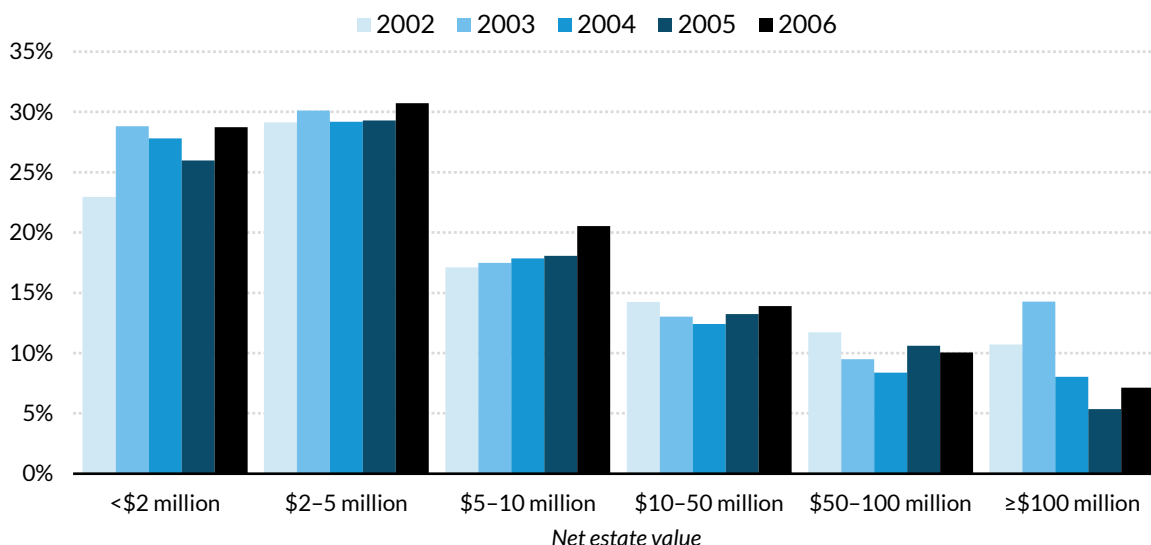
In the years before death, almost all wealthholders examined in this study gave something to charity, as indicated by charitable contribution deductions taken on their tax returns (figure 2). For those who did not itemize, we do not know whether they gave; many likely gave something, though almost always less than the standard deduction taken when the sum of charitable gifts, taxes, and other deductible items is smaller.

More precisely, among the different net estate classes during each year of life examined here, the share of those who failed to report any giving (including those who did not itemize and, therefore, gave less than the standard deduction) never exceeds 25–30 percent, a figure that is even lower among those with more than \$5 million in wealth. In each year, about 15–20 percent of these individuals were nonitemizers, which means that most of those who itemized gave something to charity. Among those with \$100 million or more in wealth during the five years before death, for instance, on average, more than 90 percent reported itemized charitable contributions. To estimate the share of that entire group that gave requires adding an additional share of the 1–4 percent who did not itemize in each year.



FIGURE 2

Share of Income Tax Returns with Zero Itemized Giving at Different Net Estate Levels, 2002–06



URBAN INSTITUTE

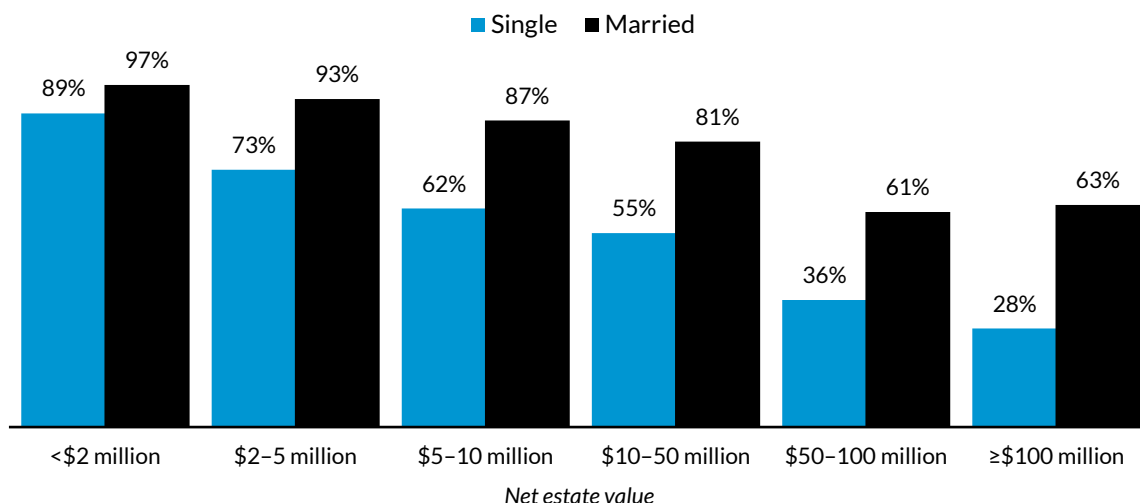
**Source:** Authors' analysis based on a dataset created by the Statistics of Income Division of the Internal Revenue.

**Notes:** Some 80.2 percent of returns in this study itemized in in 2002, 79.8 percent in 2003, 81.2 percent in 2004, 82.4 percent in 2005, and 84.5 percent in 2006. The percentages were much higher for those with greater wealth. In the \$50 million to under \$100 million category, the figures for each year were 94, 96, 96, 97, and 96 percent, respectively; for those with \$100 million or more of net estate, they are 96, 97, 97, 97, and 99 percent.

On the other hand, most decedents in all wealth classes under \$50 million left no bequest to charity (figure 3). This held true even among single filers who did not take a marital deduction. For joint filers, any tax can be deferred by using marital bequests, though as we have noted, it is almost always tax advantageous to give to charity earlier. At \$10 million to under \$50 million of wealth, 81 percent of joint filers and 55 percent of single filers left no charitable bequest, although over 85 percent of all filers gave to charity in the years before their death. Only in the wealth categories above \$50 million did the majority pass on some charitable bequest, although a sizable minority did not. In effect, much less attention is given to charity by the wealthy through their wills, even though death eliminates the risks associated with long-term care or other lifetime expenses, and it is highly doubtful that the needs of heirs have changed significantly.

FIGURE 3

Share of Estate Tax Returns with Zero Charitable Bequests at Different Net Estate Levels, by Marital Status, 2007



URBAN INSTITUTE

Source: Authors' analysis based on a dataset created by the Statistics of Income Division of the Internal Revenue.

Further Relationships between Giving at Death and during the Last Years of Life

Table 2 provides further information on the relationship between size of estate, giving out of estate, and giving in life. The average net estate of those who gave 0 percent, less than 2 percent, 2-5 percent, 5-10 percent, or even 10-20 percent of their estate wealth to charity during life did not vary widely; only when we get to those who gave more than 20 percent of their estate do we find an association between a higher average estate size and a higher rate of giving out of the estate.

TABLE 2

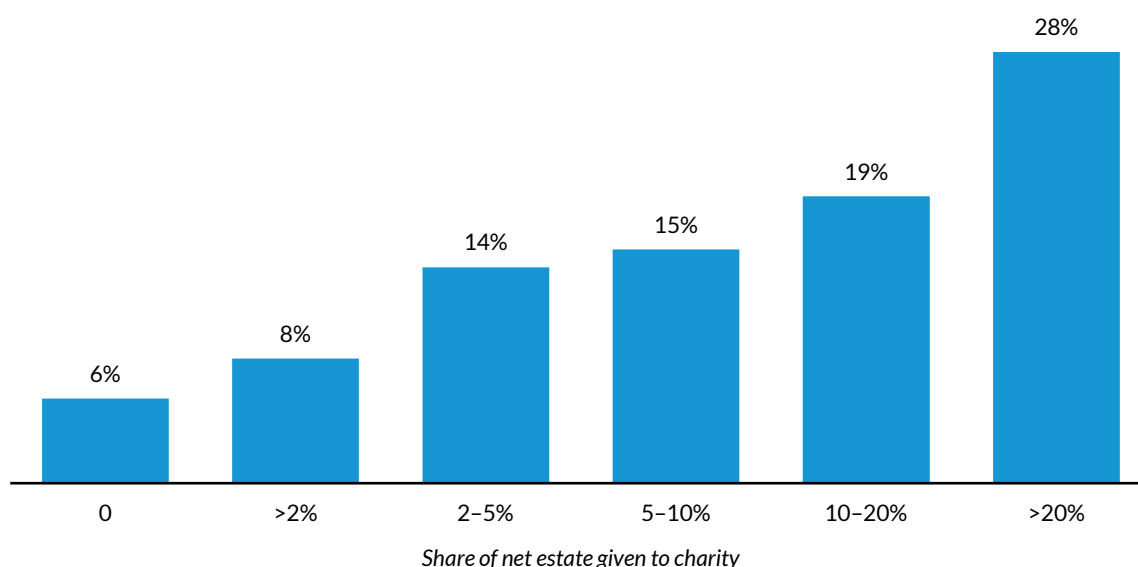
Patterns across Estate Giving Groups

Share of estate given to charity	Average net estate (\$)	Share with zero giving on income tax returns, 2006
0%	5,023,000	29%
Under 2%	6,949,000	26%
2-5%	7,315,000	18%
5-10%	8,773,000	12%
10-20%	7,593,000	21%
More than 20%	15,475,000	25%

Source: Authors' analysis based on a dataset created by the Statistics of Income Division of the Internal Revenue.

At the same time, figure 4 shows that the rate of giving out of estates increases with the rate of giving out of income, demonstrating an expected correlation between share of income and share of estate given to charity. Also, even those who gave nothing to charity in their estates gave about 6 percent of their income in the five years from 2002 to 2006, a figure well above the 2 percent of income typically reported as annual giving in Giving USA.<sup>8</sup> Note again that “income” is defined here as income reported or recognized on tax returns.

**FIGURE 4**  
Average Aggregate Giving Over Income, 2002–06



URBAN INSTITUTE

Source: Authors’ analysis based on a dataset created by the Statistics of Income Division of the Internal Revenue.

Despite this correlation, table 3 reveals that many among those who give large shares of their income to charity still leave nothing to charity in their estates. For instance, 70 percent of those who gave 10–20 percent of their income to charity over the five years in the sample left nothing to charity in their estates.

**TABLE 3**  
Patterns across Income Giving Groups

Share of income given to charity	Average net estate (\$)	Gross bequest (\$)	Share with zero giving on estate tax returns
0%	3,761,000	284,000	86%
Under 2%	5,805,000	618,000	87%
2–5%	5,023,000	258,000	84%
5–10%	5,927,000	392,000	75%
10–20%	6,753,000	767,000	70%
More than 20%	12,486,000	4,432,000	49%

Source: Authors’ analysis based on a dataset created by the Statistics of Income Division of the Internal Revenue.

## The Dominance of Aggregate Dollar Giving at Death

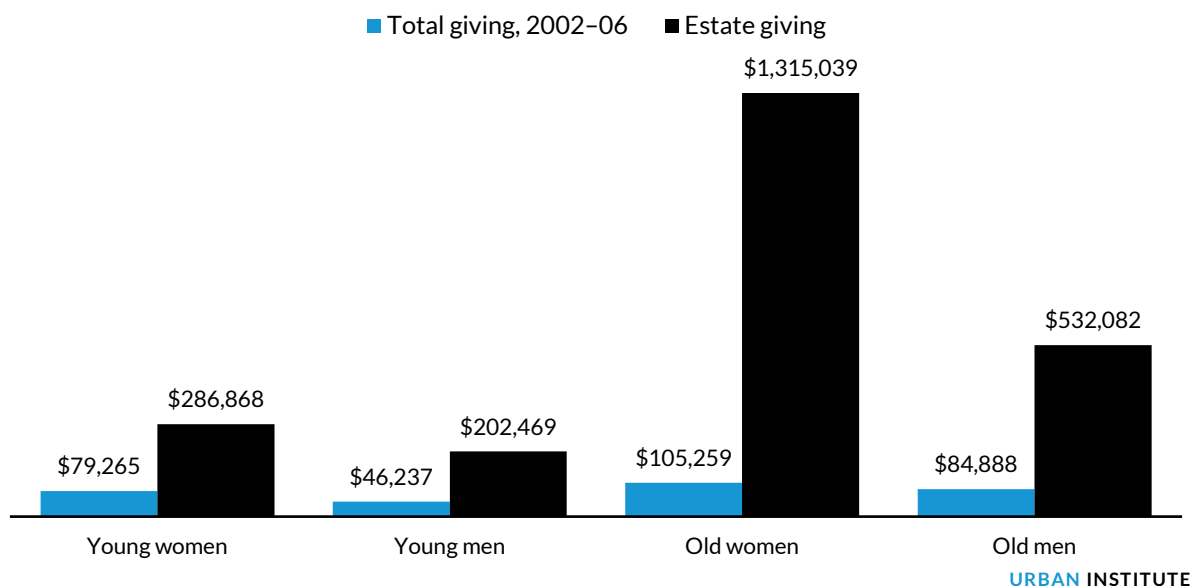
Although most top wealthholders, whether married or single, are much more likely to give during their last years of life than at death, those who do give at death contribute so much at that point that, in aggregate, it thoroughly exceeds their own total 2002–06 lifetime giving. In fact, it dominates the giving of all top wealthholders, whether they give in estates or not, in the last five years of life.

For all gender and age groups, total estate giving in 2007 dominated total giving between 2002 and 2006 (figure 5). Whatever the difference in risks between the groups, those who gave at death contributed far more at that point than all estate filers combined for the total given in their last years of life.

FIGURE 5

### Average Total Giving in the Last Five Years of Life and at Death

Thousands of dollars



Source: Authors' analysis based on a dataset created by the Statistics of Income Division of the Internal Revenue.

When we turn to a comparison by wealth group, table 4 shows that estate giving dominated lifetime giving among all the higher wealth classes. Only those with less than \$2 million in wealth gave less at death than in their last five years of life combined.

Turning to the highest wealth class (\$100 million or more of net estate), average estate giving of \$143 million dominates average lifetime giving (2002–06) of \$7 million. This 20-to-1 ratio would average out to about 100 to 1 if we were comparing estate giving to average annual contributions rather than the sum of annual giving over five years.

Finally, we compare charitable giving in the last year of life, which does not differ greatly in from giving in each of the previous four years, with giving at death (table 5). The average rate in every wealth class at best only slightly exceeds 0.40 percent of available wealth.

TABLE 4

**Average Total Giving in the Last Five Years of Life and at Death, by Wealth Level**

Net estate	Average total giving, 2002–06	Average estate giving	Estate giving as a multiple of 2002–06 giving
Under \$2 million	20,000	14,000	0.7
\$2 million to under \$5 million	30,000	117,000	3.9
\$5 million to under \$10 million	90,000	452,000	5.0
\$10 million to under \$50 million	284,000	1,575,000	5.5
\$50 million to under \$100 million	1,254,000	12,425,000	9.9
\$100 million or more	6,987,000	143,100,000	20.5

Source: Authors' analysis based on a dataset created by the Statistics of Income Division of the Internal Revenue.

TABLE 5

**Average Decedents' Charitable Contributions in 2006 as a Share of Net Estate, 2007**

Net estate	Total number	Average net estate	Average charitable contributions before death, 2006	Average charitable contributions as a share of net estate
Under \$2 million	1,294	1,455,000	4,000	0.27%
\$2 million to under \$5 million	26,146	2,969,000	6,000	0.20%
\$5 million to under \$10 million	6,324	6,794,000	17,000	0.25%
\$10 million to under \$50 million	2,834	18,382,000	60,000	0.32%
\$50 million to under \$100 million	179	68,515,000	283,000	0.41%
\$100 million or more	112	304,104,000	1,314,000	0.43%

Source: Authors' analysis based on a dataset created by the Statistics of Income Division of the Internal Revenue.

## Reconciling Giving Behavior during Life and at Death

These data raise two fascinating questions: Why do most people who give—and sometimes give generously—out of their income fail to dedicate anything to charity in their wills? And why do more people with significant wealth not contribute more during life rather than waiting until their death, when giving is less tax efficient? Giving during life has an additional advantage in that it allows the donor some say over where the money will go, whereas an estate turns control over to someone else, whether an executor, financial advisor, heir, or manager within the charity receiving a bequest.

We offer five possible explanations suggested by the data here and on estate planning generally:

1. **Health concerns.** People are risk averse and want some control over long-term care for themselves and their relatives. The 2017 US Trust Insights on Wealth and Worth study, a nationwide survey of high-net-worth individuals with more than \$3 million of wealth (excluding real estate) reported that health care is among the top threats to financial peace of mind. For

the young, health worries include expenses for aging parents.<sup>9</sup> Certainly, that explains why many individuals are reluctant to give away money, at least before death.

For much of our sample, however, those lifetime risks are easily insurable through such devices as charitable remainder trusts and long-term care insurance, so giving earlier in life is still a missed opportunity. As for giving at death, those risks go away for the decedent, so they offer limited explanation for low giving.

2. **Low rates of realization of economic income.** As shown above, individuals can quickly eat up any income-tax charitable deduction by giving away only modest shares of their wealth. For instance, retired people living off capital income yielding 2 percent of asset value will have eaten up the 50-percent-of-income limit on charitable contributions as soon as they give away 1 percent of their wealth. People likely respond to such signals even when they mislead people to conclude that there is no advantage to giving above the limit. For instance, retired people with \$5 million of wealth but only \$100,000 in realized income (because the rest is in the form of appreciation within a 401(k) plan or imputed rent from homes) might think they must live modestly within what they see as their annual income. More complicated calculations, such as adding in the “return” from homeownership or considering the tax efficiency of giving at one time versus another, is not an issue in which many are likely to engage.

These factors help explain the low rates of giving out of available wealth during life, but they do not explain the failure to give out of an estate.

3. **Satisfaction from managing wealth.** Top wealthholders, on average, do not consume the same portion of their income as the average person (Carroll et al. 2017; Dynan et al. 2000). That is one reason many fall into the class of top wealthholders.<sup>10</sup> These top wealthholders often get satisfaction out of continuing to run their business or manage their wealth. For many, maximum consumption is not a top priority. Also, we often do not easily give up the habits we have acquired over time, including managing our wealth in ways that have become familiar and perhaps even part of our identity.

Again, this pattern helps explain low rates of giving during life but not why so many fail to give after death. Some recent articles have highlighted a new pattern of giving among young, wealthy donors.<sup>11</sup> In this study, however, we did not see such efforts reflected in lifetime giving among a broad class of wealthholders, young or old, though that pattern might be amenable to change. And even if efforts like the Giving Pledge are influencing the very wealthy, we are not aware of evidence that such behavior has trickled down to the more moderate wealth classes.

4. **Limited deathtime planning.** Research suggests that people rarely engage in planning for use of their assets at death. Approximately 40 percent of people die having never prepared a will (Francesconi, Pollak, and Tabasso 2015). Other evidence points to limited planning with respect to the estate in general, not just charitable giving. For instance, an equal allocation of the estate among children is often the default option despite the likelihood that adjusting transfers according to the needs of children and grandchildren might make more sense (Altonji, Hayashi,

and Kotlikoff 1992; Stark 1998; Wilhelm 1996). While the wealthy are likely more engaged because of their greater access to financial planning, human factors in deferring estate planning may still be at play.

5. **Giving out of income and giving out of wealth.** Combined, these first four explanations seem inadequate without relating them to a fifth overriding—and somewhat overlapping—explanation: many people simply neglect to look at the opportunities that wealth provides during life and through transfers at death.

Sooner or later, those with significant wealth who do not plan to consume all of it must make significant transfers. Yet the limited attention to this opportunity is reflected in the neglect of possibilities for both charities and heirs. For instance, why, at death, make so many transfers in one lump sum to children who will often have reached age 50 or older when transfers could have been made earlier in their lives?

Societal customs and financial “rules” may be at play here because they largely focus on income and not wealth as a source of available funds to be used for consumption or transfers out of the household.

Consider the financial advice often given to older people: to spend the return from their investments but not the corpus. Or the related rule that endowments maintain corpus. If applied blindly, such a rule makes the rate of spending and potential spenddown of wealth depend nonsensically upon the realized but not economic return, or size of wealth. Or consider the religious prescription for tithing. A person with \$5 million of wealth and \$100,000 of realized capital income who tithes would give away \$10,000 annually, the same amount as a tithing wage earner with \$100,000 of income only from wages and much less overall capacity to give. Even then, the religious tithing prescription does not seem to apply to estates.

For most people, the stock of wealth is limited, and charitable contributions will mainly come out of their flows of income. To be inclusive of most of the population, therefore, charitable fundraising drives seldom mention wealth. Although planned giving drives are occasionally undertaken by larger institutions like universities, they make up only a tiny portion of fundraising efforts.

However, one weighs these five explanations, our analysis strongly supports the proposition that many people pay limited attention to the potential charitable opportunities provided by their wealth. Put simply, it is hard to believe that economic circumstances somehow encourage people worth millions of dollars to give money to charity during their life but discourage them to do so when they die. Instead, for most, the habit of thinking of wealth rather than income as a source for giving is a much less advertised and less socially compelled form of giving in life and at death alike.

At the same time, the dominance of giving at death over giving during life among the wealthy seems easy to explain. When realized income from wealth is only 1, 2, or even 5 percent of that wealth, a typical person’s wealth would correspondingly be 100, 50, or 20 times larger than the annual income

realized on that capital. Thus, at those realized rates of return, a donation of merely 10 percent of an estate would still be 20–100 times larger than a donation of 10 percent of realized income. As table 5 showed, no class of wealthholders gives away even 0.5 percent of their wealth in a year.

## Conclusion

These data, we believe, support three very strong conclusions about patterns of giving among the moderate to highly wealthy while presenting an intriguing potential for increasing contributions to charity.

First, most people have long made a habit of giving to charity during life. Social and legal structures have reinforced a lifetime pattern of giving among all the wealth classes examined here and, as seen in other IRS and survey data, among most segments of the public.

Second, this pattern does not extend to deathtime giving, where most people do not seem to consider establishing a charitable legacy. Nor, given the small share of wealth given to charity while alive, do we see many considering the opportunities during life that such wealth provides even among those who almost certainly will transfer rather than consume most of it. Of course, even when transferring wealth to heirs is a priority, it does not explain inconsistent patterns of giving prior to and at death. Is a person with, say, \$10 million of wealth who gives during life but not at death overly concerned about reducing transfers to heirs to \$9 million?

Third, when people with significant wealth do consider giving out of that wealth, the wealth base is often so much larger than the income base—particularly the realized income base—that simply giving a small percentage of their wealth to charity will tend to dominate their giving out of realized income during their life.

This raises a fascinating question: Can societal expectations be changed to make giving out of wealth both during life and at death more normal? Has society somehow undersold the creation of charitable legacies? Can we learn from those who do give a significant share of their wealth away, at least at death, and tailor campaigns around what motivates them to act?

Consider some efforts made to date. The Giving Pledge clearly intends to increase charitable giving among the wealthy but has mainly been directed at the wealthiest of the wealthy. Donor-advised funds, a relatively new giving vehicle, may be leading more people to consider the possibilities that wealth brings for greater engagement with charities during life, but the full potential of those funds has yet to be determined. Planned giving has long been available, but it is a small part of everyday conversations or charitable giving drives. Planned giving efforts also tend to be charity-specific rather than society-centered, and appeals to give to one charity are unable to achieve the economies of scale in marketing available for appeals for generosity for all charities in a community. Experiments with community foundations that can more broadly encourage giving out of wealth during life and at death seem particularly appealing on this front.



The obstacles are not small. We have already noted the limited attention that wealthy people give to estate planning. This might be overcome through efforts by financial advisers, but they must also be engaged through broader social efforts because a greater transfer of wealth to charity could reduce how much they earn from fees and commissions.

Despite these limitations, our data hint at a large untapped potential for raising the level of charitable giving in society by helping people better visualize the legacy possibilities made possible by their wealth.

## Notes

- <sup>1</sup> Tax Policy Center estimates indicate substantial concentration at even higher income levels. For instance, the top 1 percent of taxpayers are estimated to give \$80 billion, or more than one-quarter of the total \$306 billion in charitable contributions. See “T17-0336 - Effective Marginal Tax Benefit of Charitable Contributions Under Current Law and Conference Agreement for H.R. 1, The Tax Cuts and Jobs Act; By Expanded Cash Income Percentile, 2018” Tax Policy Center, December 21, 2017, <http://www.taxpolicycenter.org/model-estimates/charitable-contributions-and-tcja-nov-2017/t17-0336-effective-marginal-tax-benefit>.
- <sup>2</sup> “History of the Pledge,” The Giving Pledge, September 7, 2018, <https://givingpledge.org/About.aspx>.
- <sup>3</sup> Some exceptions exist, as when dividend income is taxed at a lower rate than the normal rate applied to wage income and the deduction is deductible at a normal rate.
- <sup>4</sup> See the Joint Explanatory Statement of the Committee of Conference, available at <http://docs.house.gov/billsthisweek/20171218/Joint%20Explanatory%20Statement.pdf>
- <sup>5</sup> C. Eugene Steuerle, “What Trump’s and Buffett’s Tax Returns Say About How the Wealthy are Taxed,” *TaxVox* (blog), Tax Policy Center, October 12, 2016, <http://www.taxpolicycenter.org/taxvox/what-trumps-and-buffetts-tax-returns-say-about-how-wealthy-are-taxed>.
- <sup>6</sup> “Nine Charts about Wealth Inequality in America (Updated),” Urban Institute, last modified October 24, 2017, <http://apps.urban.org/features/wealth-inequality-charts/>.
- <sup>7</sup> Of course, the top wealthholders will include some people who garner most of their wealth through inheritance or high income from work and who consume at high rates and invest poorly. But even among these wealthholders, those more likely to have more accumulated wealth at time of death will be those who saved more and got higher returns on their portfolios.
- <sup>8</sup> “See the numbers – Giving USA 2017 Infographic,” Giving USA, June 12, 2017, <https://givingusa.org/tag/giving-usa-2017>.
- <sup>9</sup> “2017 U.S. Trust Insights on Wealth and Worth,” <http://www.pva-advisory.com/wp-content/uploads/2017/10/2017-US-Trust-Insights-on-Wealth-and-Worth.pdf>
- <sup>10</sup> To be clear, they need not be misers either. Their wealth may simply be providing them with a high rate of return, so that, say, they both consume 4 percentage points (or 50 percent) out of an 8 percent return, while households with limited wealth consume 2 percentage points (or 100 percent) out of a 2 percent return.
- <sup>11</sup> Maria Di Mento, “Fundraisers Must Adapt to New Breed of Wealthy Young Donors, Authors Say,” *Chronicle of Philanthropy*, October 3, 2017.

## References

- Altonji, Joseph G., Fumio Hayashi, and Laurence J. Kotlikoff. 1992. "Is the Extended Family Altruistically Linked? Direct Tests Using Micro Data." *American Economic Review* 82 (5): 1177–98.
- Bourne, Jenny, Eugene Steuerle, Brian Raub, Joseph Newcomb, and Ellen Steele. 2018. "More Than They Realize: The Income of the Wealthy, Wealth Concentration, and Tax Policy." *National Tax Journal* 71 (2): 335–56.
- Carroll, Christopher, Jiri Slacalek, Kiichi Tokuoka, and Matthew N. White. 2017. "The Distribution of Wealth and the Marginal Propensity to Consume." *Quantitative Economics* 8 (3): 977–1020.
- Dynan, Karen E., Jonathan Skinner, and Stephen P. Zeldes. 2004. "Do the Rich Save More?" *Journal of Political Economy* 112 (2): 397–444.
- Francesconi, Marco, Robert A. Pollak, Domenico Tabasso. 2015. "Unequal Bequests." Working Paper 21692. Cambridge, MA: National Bureau of Economic Research.
- Stark, Oded. 1998. "Equal Bequests and Parental Altruism: Compatibility or Orthogonality?" *Economics Letters* 60 (2): 167–71.
- Steuerle, C. Eugene. 1987. "Charitable Giving Patterns of the Wealthy." In *America's Wealthy and the Future of Foundations*, edited by Teresa Odendahl, 203–21. New York: The Foundation Center.

## About the Authors

**C. Eugene Steuerle** is an Institute fellow and holds the Richard B. Fisher chair at the Urban Institute.

**Jenny Bourne** is the Raymond Plank Professor of Incentive Economics, and chair of economics, at Carleton College.

**Joycelyn Ovalle** is a research analyst in the Center on Nonprofits and Philanthropy at the Urban Institute.

**Brian Raub** is a chief for data delivery and support, Compliance Data Warehouse, Data Management Division, at the Internal Revenue Service

**Joseph Newcomb** is a former economist in the Statistics of Income Division at the Internal Revenue Service.

**Ellen Steele** is an analyst in the Tax Analysis Division of the Congressional Budget Office. She previously worked as a research analyst at the Urban Institute for the Tax Policy and Charities initiative.

# Acknowledgments

This report is part of the Center on Nonprofits and Philanthropy's Greater Giving initiative, which is supported by the Bill & Melinda Gates Foundation. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission.

The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute's funding principles is available at [urban.org/funding-principles](http://urban.org/funding-principles).

We appreciate the very helpful comments of Barry Johnson and Beth Kaufman, as well as those many dedicated members of the IRS Statistics of Income Division who made possible the data collation used in this study.



2100 M Street NW  
Washington, DC 20037

[www.urban.org](http://www.urban.org)

## ABOUT THE URBAN INSTITUTE

The nonprofit Urban Institute is a leading research organization dedicated to developing evidence-based insights that improve people's lives and strengthen communities. For 50 years, Urban has been the trusted source for rigorous analysis of complex social and economic issues; strategic advice to policymakers, philanthropists, and practitioners; and new, promising ideas that expand opportunities for all. Our work inspires effective decisions that advance fairness and enhance the well-being of people and places.

Copyright © September 2018. Urban Institute. Permission is granted for reproduction of this file, with attribution to the Urban Institute.