

Evaluating the Charitable Deduction and Proposed Reforms

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Visit Tax Policy and Charities website at:

<http://www.urban.org/taxandcharities/index.cfm>

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Federal Taxes & Spending per Household

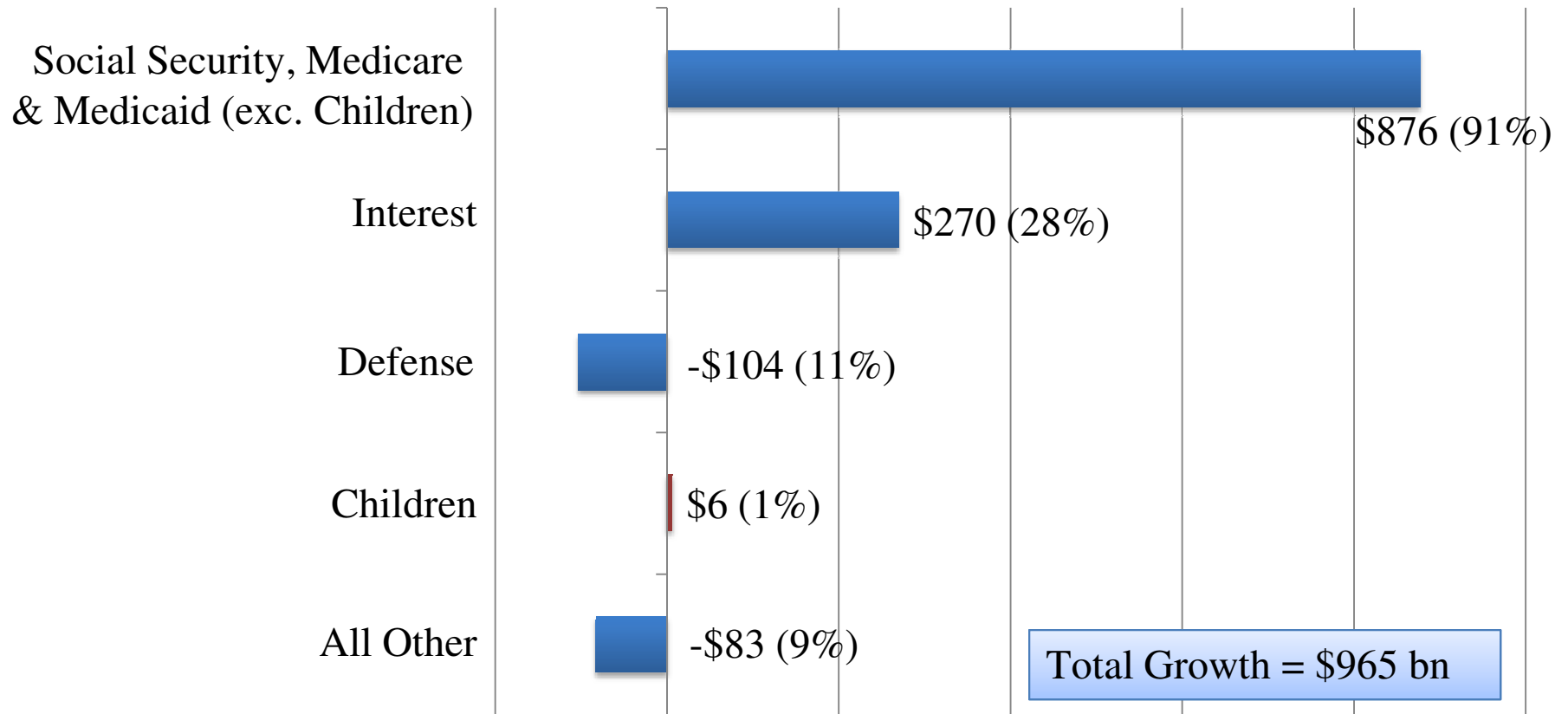
(\$2012)

	<u>2012</u>	<u>2022</u>
Taxes	\$ 21,000	\$ 29,000
Total Spending	\$ 30,000	\$ 37,000
Tax Expenditures	\$ 9,000	\$ 12,000
Interest Spending	\$ 2,000	\$ 6,000

Source: C. Quakenbush and C. E. Steuerle, the Urban Institute, 2012. Revenues, outlays, and interest based on CBO Alternative Baseline projections; tax expenditures based on extrapolation of Treasury estimates.



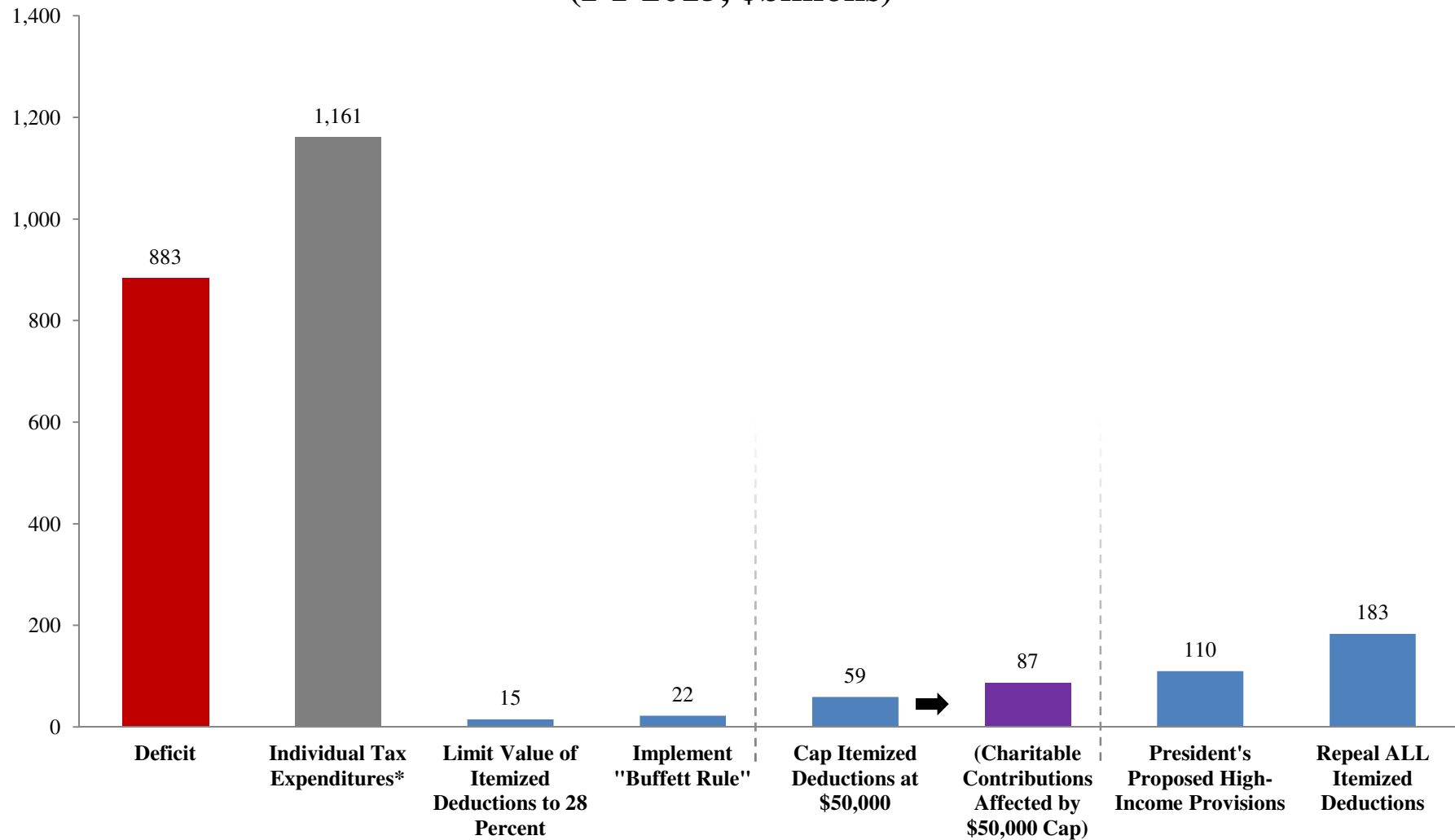
Share of Projected Growth in Federal Outlays (from 2011 to 2022) Going to Major Budget Items *(billions of 2011 dollars)*



Kids' Share 2012. Source: The Urban Institute and Brookings Institute, 2012. Authors' estimates based on data from the Budget of the U.S. Government Fiscal Year 2013 and CBO projections. Notes: Numbers may not sum to totals because of rounding. Social Security, Medicare, and Medicaid category excludes spending already captured in children's spending.



Effects of Various Revenue Proposals Compared with Deficit and Tax Expenditures (FY 2015, \$billions)



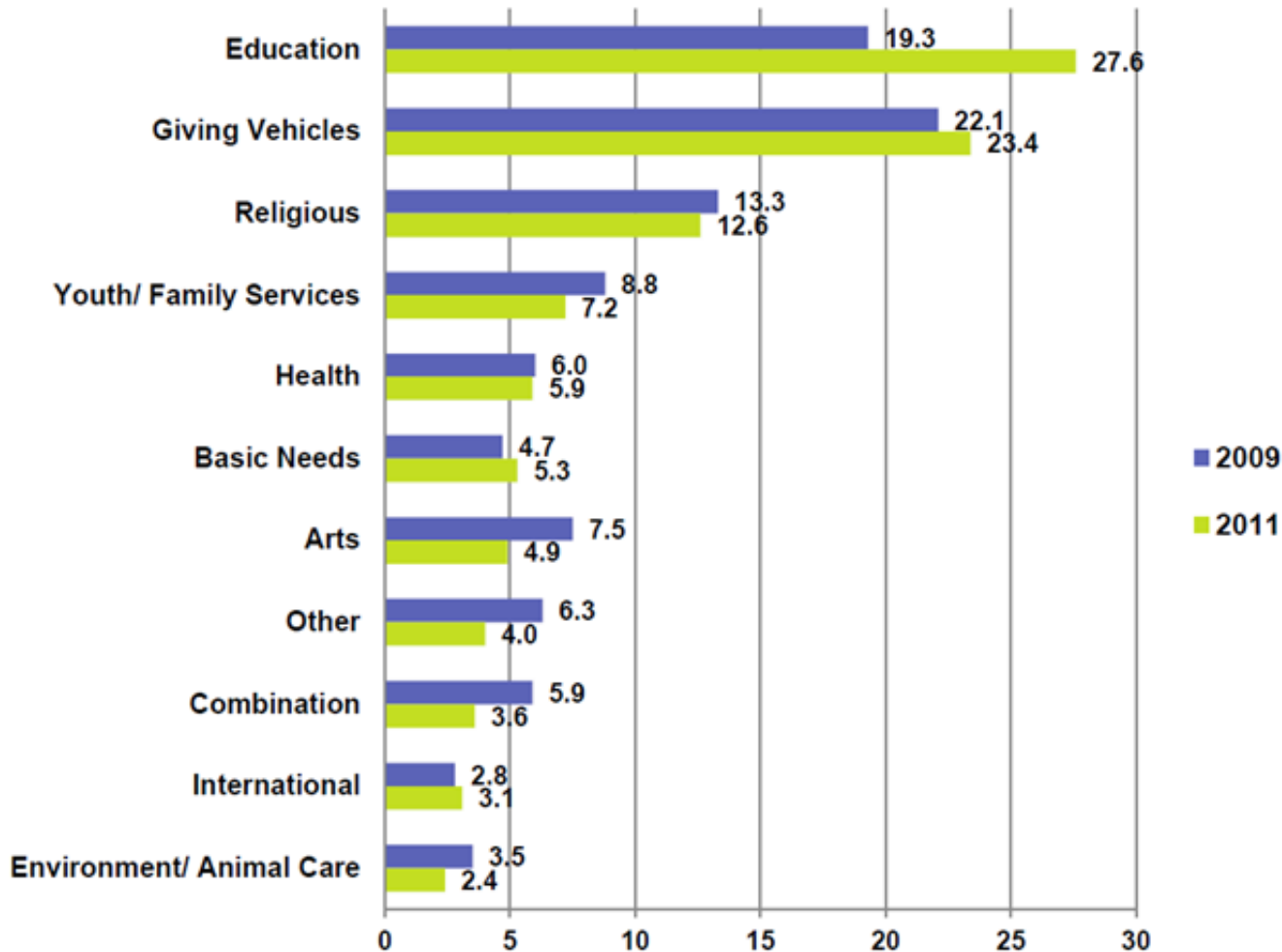
Data from CBO *Budget and Economic Outlook*, U.S. Treasury *Green Book*, and Urban-Brookings Tax Policy Center

Baseline is current policy, which assumes extension of 2001 and 2003 tax cuts, except for Individual Income Tax expenditures, which uses Treasury's baseline.

*Tax expenditure estimate excludes payroll tax effects.



Distribution of High Net Worth Giving



Source: 2012 Bank of America Study of High Net Worth Philanthropy

Note: High net worth includes households with incomes greater than \$200,000 and/or net worth more than \$1,000,000 excluding the monetary value of their home.

^Combined organizations include United Way, United Jewish Appeal, and Catholic Charities. "Giving Vehicle" represents gifts to private foundations, charitable trusts, and donor-advised funds.

Total Revenues for Charitable Organizations by Source, 2009

Private Contributions (including individual, corporate, bequests, and foundation giving)	\$184.99 billion (13.2%)
Private Payments (program service revenue)	\$733.55 billion (52.4%)
Government Grants and Payments	\$455.62 billion (32.5%)
Investment Income	-\$3.00 billion (-0.2%)
Other Revenue (e.g., member dues, special events)	\$29.72 billion (2.1%)

Source: National Center for Charitable Statistics calculations based on the Urban Institute, National Center for Charitable Statistics, Core Files (2009); Internal Revenue Service, Statistics of Income Division, Exempt Organizations Sample Files (2007); American Hospital Association (AHA) Survey, 2009; and the Centers for Medicare & Medicaid Services, National Health Accounts. Table does not include private foundations or organizations that do not file Form 990 (e.g., churches, small organizations).

Revenue Sources for Section 501©(3) Organizations, by Sector (percent)

	Private Contributions	Private Payment	Government grants/ payments	Investment Income	Other revenue
Arts, Culture, Humanities	44	34	16	< 1	6
Education	20	65	15	-3	2
Environment, Animals	51	28	15	< 1	5
Healthcare	4	59	35	< 1	2
Human Services	17	28	51	1	3

Source: National Center for Charitable Statistics calculations based on the Urban Institute, National Center for Charitable Statistics, Core Files (2009); Internal Revenue Service, Statistics of Income Division, Exempt Organizations Sample Files (2007); American Hospital Association Survey, 2009; and the Centers for Medicare & Medicaid Services, National Health Accounts.

Rationales for the Charitable Deduction



1. Incentive/Subsidy

- market failure → political failures
- diversity → privatization

2. Ability to Pay or Ability to Consume

Taxpayer's tax base reduced by amount of charitable gifts

3 Sovereignty (mainly churches)

A less invoked theory

Becomes relevant when considering conversion to a credit

4. All of the above

Two Equally Progressive Tax Systems

Tax Payer	Income	Charity	Tax	
			<u>Regime 1</u>	<u>Regime 2</u>
A	\$100,000	\$10,000	\$18,000	\$19,000
B	\$100,000	\$0	\$20,000	\$19,000
Total A + B			\$38,000	\$38,000
C	\$40,000	\$4,000	\$3,600	\$3,800
D	\$40,000	\$0	\$4,000	\$3,800
Total C + D			\$7,600	\$7,600

Can We Favor Some Charities Over Others?



- Government does all the time with direct spending
- Question remains: Is goal of deduction to encourage private choice/altruistic behavior?
- Is it a good idea to have one set of incentives allocated by individuals through their own actions rather than through government decision-makers?
 - ▣ Note that we do this all the time with business incentives