

Is Charitable Giving by Nonitemizers Responsive to Tax Incentives? New Evidence

Abstract - Was nonitemizer giving responsive to the 1982-6 "above-the-line" tax deduction provided for in the 1981 Economic Recovery Tax Act? Here, a Tobit model is applied to Treasury Individual Tax Model file data for 1985 and 1986 to estimate the price elasticity of nonitemizer giving. Nonitemizer giving is found to be price-responsive. The responsiveness is, however, smaller than that for itemizer giving (at least for 1986 when the nonitemizer deduction was fully phased in), suggesting diminishing returns from extending the itemizers-only deduction to nonitemizers. These findings also question whether the nonitemizer deduction can be touted as a highly efficient tax subsidy.

INTRODUCTION

At present, the U.S. tax code only permits taxpayers who itemize their deductions to deduct for tax purposes the value of their charitable giving. Nonitemizers claim the standard deduction in lieu of reporting any itemized deductions. But this has not always been the case. Best remembered for slashing individual and corporate marginal tax rates and subsequently indexing the tax brackets for inflation, the 1981 Economic Recovery Tax Act (ERTA) also contained a provision phasing in a tax deduction for charitable contributions by nonitemizers. This "above-the-line" deduction was treated as an experiment and was scheduled to expire at the end of 1986. Since the Tax Reform Act of 1986 was silent on this provision, it expired as scheduled. The existence of the above-the-line deduction permits an estimation of the responsiveness of nonitemizer giving to tax incentives. It then becomes possible to directly compare the responsiveness of nonitemizer giving to that of giving by itemizers. Such a comparison can be instructive in light of current proposals to reinstitute a tax deduction for nonitemizer giving as well as proposals for other sorts of above-the-line deductions (such as education savings accounts, medical savings accounts, etc.).

The ERTA provided for the phasing in of the above-the-line contributions deduction over the five-year period 1982-6. During the first three years of the phase-in period, there were strict dollar limits on the amount of giving that nonitemizers could deduct for tax purposes. In 1982 and 1983,

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TABLE 1
NONITEMIZERS CLAIMING THE DEDUCTION

Year	Number of Nonitemizer Returns	Number of Nonitemizer Givers	Percent of Returns Giving	Dollars Claimed ^a (in Billions)	Average Dollars Claimed per Giver
1982	61,904,623	19,284,231	31.10	\$0.43	\$22
1983	61,091,018	22,512,944	36.90	\$0.51	\$23
1984	61,235,616	22,920,542	37.40	\$1.17	\$51
1985	61,812,103	25,359,085	41.00	\$4.72	\$186
1986	62,378,162	28,041,097	45.00	\$13.28	\$474

^aDollars claimed refers to the amount deducted on the return, which for 1982-5 would have been a fraction of the dollar value of total giving. In 1986, since nonitemizer giving was 100 percent deductible, dollars claimed and dollars deducted would have been equal.

nonitemizers were permitted to deduct 25 cents on the dollar only for the first \$100 of giving. (Only the first \$50 of giving was deductible for married couples filing jointly.) In 1984, the ceiling on deductible giving was raised to \$300. The ceilings were removed in 1985 and nonitemizers were allowed to deduct 50 cents on the dollar. In 1986, the deduction was fully phased in and nonitemizer giving was 100 percent deductible.

Inclusion of the above-the-line deduction in ERTA, as Clotfelter (1980) noted, was intended to offset the disincentive effect from increases in the standard deduction over the decade prior to 1981. Between 1970 and 1980, the standard deduction rose from \$1,000 to \$3,400 in current dollars, an increase of 74 percent in real terms. As the standard deduction rose, so also did the proportion of taxpayers who do not itemize and thus received no tax incentive to engage in charitable giving—from 52 percent in 1970 to 69 percent in 1980. The nonitemizer deduction in ERTA was aimed at stimulating charitable contributions by this growing class of taxpayers.

Table 1 indicates the extent to which nonitemizers claimed the special deduction. Note the dramatic increases in reported giving that coincided with the lifting of the contribution limits in 1985 and 1986.

It has been a decade since the above-the-line deduction was allowed to expire. But the issue of charitable giving by nonitemizers has not lost its saliency. Leg-

islation restoring a tax incentive for nonitemizer giving was introduced in the recently concluded 105th Congress. H.R. 1338 sponsored by Representative Souder (R-IN) provided for the deductibility of nonitemizer giving above a floor of \$1,000 (\$2,000 for married couples filing jointly). Fifty cents of nonitemizer giving on the dollar (above a \$500 floor) would have been deductible under H.R. 2499 sponsored by Representative Crane (R-IL).

This paper will assess the responsiveness of nonitemizer giving to the tax incentive provided by the above-the-line deduction, using tax data from 1985 and 1986. The remainder is divided into four sections. A short review of the literature on charitable giving is provided in the next section. The third section describes the model and data to be used. The fourth section presents the empirical results and provides some interpretation. The last section closes with a discussion of some possibilities for further research.

LITERATURE REVIEW

There is a sizable literature dealing with the effect of tax incentives upon charitable giving. Most studies have found giving to be highly price elastic, implying that the deduction stimulates more in giving than it costs the treasury in terms of foregone tax revenue.¹ The deduction is thus said to meet the test for being "treasury efficient."² More recent studies using

¹ For a more comprehensive review of the literature, see Clotfelter (1985) and Steinberg (1990).

² See Barrett (1991).

panel data, such as Broman (1989), Ricketts and Westfall (1993), Randolph (1995), and Barrett, McGuirk, and Steinberg (1997), have challenged the conclusion of treasury efficiency, estimating considerably smaller magnitude price elasticities. Income elasticity is generally estimated between 0.5 and 1.0.

Only a handful of studies, though, has addressed the specific question of nonitemizer giving, and the issue remains unsettled. Dye (1978) used data from a survey of low-to-middle income households to investigate the existence of an "itemization effect"—whether the observed differences in contributions across households might simply reflect the effect of itemization status rather than price. The coefficient on a dummy variable representing itemization status was estimated to be positive and significant, a result which was interpreted as evidence in favor of such an effect. Using the same data set as Dye but focusing on a narrower income range, Boskin and Feldstein (1977) obtained results that argued against an itemization effect's existence. The hypothesis of an itemization effect was also tested for and rejected by Brown (1987).

A small number of studies have simulated the consequences of extending the itemizers-only deduction to nonitemizers. These include Feldstein and Taylor (1976) and Clotfelter (1980). Extending the deduction to nonitemizers was concluded to stimulate more in giving than it would cost the treasury in foregone revenue. Since the findings were driven by the assumption of identical price elasticities for both nonitemizers and itemizers, though, they may be suspect.

Only two studies have explicitly estimated the price elasticity of nonitemizer giving. The first of the two, Robinson

(1990), used tax data from 1985 and obtained results that were, due to the large standard errors, inconclusive.³ More recently, Dunbar and Phillips (1997) estimated a nonitemizer price elasticity using a set of panel data covering both 1985 and 1986. A model of year-to-year changes in contributions similar to that employed by Broman (1989) was estimated. It was shown that the above-the-line deduction was a highly efficient tax subsidy, with the price elasticity of nonitemizer giving estimated at -3.36 . It was also demonstrated that the boosting of the deductible portion of nonitemizer giving from 50 percent in 1985 to 100 percent in 1986 prompted 1985 nongivers to become givers in 1986. In light of these findings, the authors questioned the wisdom of Congress' permitting the nonitemizer deduction to expire in 1986 as scheduled.

MODEL AND DATA

This study will follow the standard practice of modeling charitable giving by means of a double-log specification. The logged value of charitable contributions is represented as a linear function of the log of the after-tax "price" of giving, logged disposable income, number of dependent children, and dummy variables for both marital status and age. A Tobit regression is used to account for the non-negativity constraint on total giving.⁴ For itemizers, the difference between Tobit and ordinary least squares (OLS) is unimportant, as the vast majority of itemizers reported positive giving. But for nonitemizers, the majority of whom did not claim the above-the-line deduction, Tobit is the more appropriate regression.⁵ Following is a description of each of the regression variables.

³ The price elasticity of nonitemizer donations was estimated to be insignificantly different from zero, as well as insignificantly different from the price elasticity of donations by itemizers.

⁴ One could also motivate the use of Tobit by the possibility that some nonitemizers with positive giving may have failed to claim the deduction due to a lack of sophistication about the tax code, a failure to keep records, or a fear of the IRS.

⁵ The superiority of Tobit over OLS for nonitemizer giving is discussed in detail by Robinson (1990).

GIVING. In 1985 and 1986, both itemizers and nonitemizers could receive a tax break by reporting charitable contributions on their tax returns. For nonitemizers in 1986, as well as for itemizers in both years, donations were deductible on a dollar-for-dollar basis. In 1985, nonitemizers could only deduct one dollar for every two in contributions, so that year's contributions deduction would have to be doubled to determine total giving. To avoid taking the log of zero, the standard practice is to adjust reported giving upward by some nominal amount, in this case \$10.

PRICE. The price variable is defined as the after-tax cost to the donor of contributing \$1 to charity.⁶ For itemizers and 1986 nonitemizers, the federal tax deduction reduces the after-tax price of a \$1 cash donation to \$1 minus the marginal tax rate. For 1985 nonitemizers, the after-tax price of donating \$1 cash would be \$1 minus half the marginal tax rate. To avoid the endogeneity bias arising from the dependence of marginal tax rate on total giving, the standard practice is to use the after-tax price corresponding to the first dollar of giving, as well as to exclude so-called "borderline itemizers" for whom charitable contributions represent the difference between the decision to itemize or not to itemize.⁷

Because in 1985 and 1986 the tax code favored noncash gifts over cash gifts, separate prices were calculated for the two

types of gifts and filers were grouped by income class with separate weights calculated for each class. Further reducing the price of giving are state-level tax deductions.⁸ While state tax rates are smaller than federal rates, their effect is not trivial.⁹ In 1985, for example, income taxes were levied by 44 states plus the District of Columbia, with 36 permitting the deduction of charitable contributions. Marginal tax rates exceeded 10 percent in nine of those states, topping out at 16 percent in Minnesota. Following other studies, filers subject to the peculiar rate structure of the alternative minimum tax were excluded from the final sample.

INCOME. Disposable income is taken to be the difference between before-tax income and exogenous-of-giving taxes. For before-tax income, many studies have simply used adjusted gross income (AGI). But AGI alone provides an incomplete picture of pretax income. Certain forms of income are partially excluded from AGI, and there are numerous "adjustments to income" that are subtracted out prior to figuring AGI. An alternative is to use AGI plus the excluded part of pension income, dividend income, Social Security income, and unemployment compensation, as well as the adjustments for the two-earner married deduction, IRA and Keogh plan contributions, and penalties for early withdrawal of savings.¹⁰ This should provide a more accurate picture of before-tax income.¹¹ From this measure of before-tax

⁶ An alternative would have been to employ expected future price and lagged price, but that would have required panel data to which the author did not have access.

⁷ Conversely, there is the possibility that some filers who would otherwise have itemized might choose to become nonitemizers in 1985 and 1986 to take advantage of the standard deduction and above-the-line nonitemizer deduction. Since the data do not provide information on these filers' other potential deductions, however, it was not possible to delete those so-called borderline nonitemizers.

⁸ Since state income taxes are deductible at the federal level and federal income taxes are deductible in certain states, there is an interaction between the federal and state deductions. This interaction was accounted for in constructing the price term.

⁹ Estimation of state tax rates for all taxpayers was not possible since the 1985 and 1986 ITM data sets suppressed the state indicator for taxpayers with adjusted gross income (AGI) exceeding \$200,000.

¹⁰ Excluded capital gains were not added back since 1986 capital gains realizations contain a large transitory component due to taxpayers' response to enactment of the Tax Reform Act of 1986 and its boosting of the top tax rate on capital gains.

¹¹ While this is preferable as a measure of pretax income, the results were not dependent upon its use.

income is subtracted the tax liability associated with a charity deduction of zero. If instead the actual tax liability was subtracted from before-tax income, an element of bias could be introduced due to the dependence of tax liability on total charitable contributions. To avoid taking the log of zero or a negative number, filers whose disposable income was nonpositive were excluded from the final sample.

Additional variables are used for dependents, marital status, and age. The dependents term is defined as the sum of the number of exemptions claimed for dependent children living at home and for dependent children living away from home. Marital status and age are represented by dummy variables. The marital status dummy is set equal to one for married taxpayers filing jointly and zero for single filers. Following Slemrod (1989), married taxpayers filing separately were excluded due to the possibility that their inclusion could bias the estimated price and income elasticities. The age dummy is set equal to one if any age exemptions were claimed, and zero otherwise.

Two sets of tax data are used, the 1985 and 1986 Individual Tax Model (ITM) files, compiled by the Statistics of Income division of the IRS.¹² Of the 108,840 returns in the unweighted 1985 ITM data set, 3,104 were prior-year returns. Deleting those left 105,736 returns, of which 75,331 (71.2 percent) were itemized and 30,405 (28.8 percent) claimed the standard deduction. The relatively high proportion

of itemized returns reflects the oversampling of high-income returns, which are more likely to be itemized. (Overall, 39 percent of the 101.7 million returns filed in 1985 itemized their deductions.¹³) A total of 72,203 (95.8 percent) of the itemizers and 11,000 (36.2 percent) of the nonitemizers reported positive giving. For the 1986 ITM set, the figures were 75,400 returns, of which 1,913 were prior-year returns, leaving 73,487 returns split between 53,598 (72.9 percent) itemizers and 19,889 (27.1 percent) nonitemizers. Charitable contributions were claimed by 51,344 (95.8 percent) of those itemizers and 7,439 (37.4 percent) of the nonitemizers. As for the borderline itemizers, the contributions deduction represented the difference between the decision to itemize or claim the standard deduction for 1,462 (1.9 percent) of the 1985 itemizers and 381 (0.7 percent) of the 1986 itemizers.

Some interesting observations can be drawn from employing the sample weights and breaking down reported giving in the 1985 and 1986 ITM sets by AGI class. Such a breakdown is presented on the following page (Table 2).

An inspection of the weighted data suggests that nonitemizer giving appeared responsive to the enhancement of the tax incentive from 1985 to 1986.¹⁴ Between 1985 and 1986, the proportion of nonitemizers who gave rose across all income classes, while the proportion of itemizers (for whom the tax treatment was not sweetened) who donated did not. At all

¹² The decision to focus on those years has to do with the specifics of the nonitemizer charity deduction. Although the special deduction existed from 1982 through 1986 and it is possible to obtain ITM files for all five years, for the years 1982-4, nonitemizers were permitted to deduct only token amounts.

¹³ Clotfelter (1990).

¹⁴ The evidence from Table 2 is not conclusive on this point, because in 1985 and 1986, the criteria differ for whether it is advantageous to the taxpayer to be an itemizer. Conceivably, some 1985 itemizers may have opted to become 1986 nonitemizers to take advantage of the combination of the standard deduction and the jump from 50 to 100 percent in the contributions deduction. An example is a filer who donates generously to charity but for whom all other potentially itemizable deductions total less than the standard deduction. For that filer, it would be advantageous to itemize in 1985 but switch to nonitemizer status in 1986. Some of the boost in nonitemizer giving in 1986 could be an indication of such changes in filing status by large donors rather than a behavioral response to the more favorable tax treatment.

TABLE 2
1985-86 GIVING BREAKDOWN (WEIGHTED)

Year	Filing Status	AGI Class	Percent Donating	Average Donor's Gift
1985	Nonitemizers	<= \$20,000	36.5	\$339
		\$20,000-\$40,000	62.8	\$448
		\$40,000-\$60,000	73.3	\$636
		>\$60,000	74.0	\$742
		totals	41.6	\$376
	Itemizers	<= \$20,000	79.4	\$746
		\$20,000-\$40,000	91.1	\$854
		\$40,000-\$60,000	95.7	\$1,225
		>\$60,000	97.1	\$4,135
		totals	90.3	\$1,358
1986	Nonitemizers	<= \$20,000	39.9	\$388
		\$20,000-\$40,000	66.7	\$610
		\$40,000-\$60,000	79.4	\$1,031
		>\$60,000	79.6	\$1,973
		totals	45.6	\$477
	Itemizers	<= \$20,000	76.4	\$653
		\$20,000-\$40,000	90.5	\$837
		\$40,000-\$60,000	94.9	\$1,192
		>\$60,000	97.1	\$4,711
		totals	89.6	\$1,463

income levels, nonitemizers who gave contributed more, on average, in 1986, when nonitemizer giving was fully deductible, than in 1985 when it was not. The average nonitemizing donor's gift jumped from \$376 in 1985 to \$477 in 1986. For the highest AGI class, the rise in the average nonitemizer gift was more pronounced, from \$742 in 1985 to \$1,973 in 1986. On the other hand, in both years, the proportion of nonitemizer givers was considerably smaller than the proportion of itemizer givers. For all incomes, the average nonitemizing donor also reported less giving than the average itemizing donor—even in 1986 when the tax treatment of nonitemizer and itemizer gifts was identical. This last point suggests that reported giving by nonitemizers may be less responsive to tax incentives than reported giving by itemizers.

RESULTS

The responsiveness of charitable contributions to tax incentives is estimated using a Tobit regression on the standard

double-log model of charitable giving. Separate results are presented for the years 1985 and 1986 when the dollar ceilings on deductible nonitemizer giving were lifted. Regarding the price responsiveness of nonitemizer giving, the 1985 results are suggestive but inconclusive. The results obtained using the 1986 data are more conclusive. The reporting of separate results for itemizers permits a comparison of the two filing classes' price sensitivity. As a check, the itemizer results can also be compared with those of other studies that used similar tax data to examine itemizer giving.

Table 3 presents the coefficient estimates from performing a Tobit regression on the double-log giving model with the 1985 data. Separate coefficient estimates are provided for nonitemizers and itemizers. Standard errors are reported in parentheses.

Begin by looking at the findings for 1985. Evidently, the deductibility of giving stimulated donations by both classes of filers. Price elasticity for both itemizers and nonitemizers came out negative and

Charitable Giving by Nonitemizers

TABLE 3
1985 AND 1986 REGRESSION RESULTS
(ITEMIZERS AND NONITEMIZERS)

Year	Term	Itemizers	Nonitemizers
1985	<i>INTERCEPT</i>	-4.460 (0.084)	-10.754 (0.498)
	<i>LN(PRICE)</i>	-1.052 (0.060)	-1.827 (0.910)
	<i>LN(DISPOSABLE INCOME)</i>	0.929 (0.009)	1.370 (0.062)
	<i>DEPENDENTS</i>	0.099 (0.006)	-0.097 (0.025)
	<i>MARITAL STATUS DUMMY</i>	0.438 (0.020)	0.300 (0.057)
	<i>AGE DUMMY</i>	0.535 (0.021)	1.155 (0.067)
	<i>N</i>	55,591	23,656
	<i>PROPORTION DONATING</i>	95.5%	44.2%
	<i>PRICE ELASTICITY</i>	-1.005 (0.057)	-0.807 (0.402)
	<i>INCOME ELASTICITY</i>	0.887 (0.009)	0.605 (0.027)
1986	<i>INTERCEPT</i>	-4.428 (0.098)	-11.327 (0.581)
	<i>LN(PRICE)</i>	-1.302 (0.076)	-1.295 (0.440)
	<i>LN(DISPOSABLE INCOME)</i>	0.913 (0.011)	1.466 (0.071)
	<i>DEPENDENTS</i>	0.100 (0.008)	-0.091 (0.030)
	<i>MARITAL STATUS DUMMY</i>	0.463 (0.026)	0.270 (0.069)
	<i>AGE DUMMY</i>	0.544 (0.028)	1.110 (0.027)
	<i>N</i>	37,077	14,231
	<i>PROPORTION DONATING</i>	95.3%	49.2%
	<i>PRICE ELASTICITY</i>	-1.241 (0.072)	-0.637 (0.216)
	<i>INCOME ELASTICITY</i>	0.870 (0.011)	0.721 (0.035)

significant. While the nonitemizer point estimate came out smaller than the itemizer point estimate, the hypothesis that price elasticity for the two filing classes was equal could not be rejected, nor could the hypothesis that the nonitemizer price elasticity is equal to the -1 critical value for treasury efficiency. Income elasticity was estimated to be positive and in the inelastic range for both filing classes.

More conclusive are the results obtained using the 1986 data. As with 1985, for both filing classes, price elasticity came out negative and significant. This time, though, due largely to the decline in the size of the standard error associated with the nonitemizer price elasticity, the hypothesis that the two elasticities were equal could be rejected. Evidently, in 1986, donations by nonitemizers were less responsive to the tax subsidy than were donations by itemizers, even though gifts by the two filing classes received identical tax treatment. Alternately, the hypothesis that nonitemizer price elasticity is equal to the -1 critical value still could not be rejected, although the margin narrowed. Estimates of income elasticity for the two filing classes again came out in the positive and inelastic range.

Both the 1985 and 1986 results, though, have certain shortcomings. For the 1985 results, the drawback is the large standard error associated with the nonitemizer price elasticity. Going from 1985 to 1986, the standard error on the nonitemizer price elasticity dropped by half. This drop-off is likely attributable to the increase in the size of the range over which the nonitemizer price variable varied. Only 50 percent of nonitemizer giving was deductible in 1985, while 100 percent of

nonitemizer giving was deductible in 1986. For 1986, then, there would be greater variation across taxpayers in the price term than in 1985.¹⁵ Giving by itemizers, on the other hand, was 100 percent deductible in both years. Hence, there was little change between 1985 and 1986 in the standard error associated with the itemizer price elasticity.

For the 1986 results, the drawback is of a different nature. There is the possibility that the 1986 giving data may be contaminated by taxpayer timing behavior related to the landmark tax reforms enacted that year. The Tax Reform Act of 1986 may have influenced the timing of charitable contributions in two ways. First, marginal tax rates fell (from 1986 to 1988, the top rate was slashed from 50 to 28 percent), thereby reducing the tax subsidy for deducting contributions. Filers claiming a deduction for their donations would have faced a strong temptation to move post-1986 giving forward into 1986 in order to capitalize on the larger tax subsidy. The extent to which itemizers, and particularly high-income itemizers, moved giving forward into 1986 in response to the 1986 tax reforms has been examined by Auten, Cilke, and Randolph (1992). Plus, the Tax Reform Act of 1986 permitted the expiration of the nonitemizer deduction at the end of 1986, encouraging nonitemizers to accelerate post-1986 giving into 1986. Such timing behavior is less of a concern for the 1985 data, as the 1986 tax reforms didn't really take shape and begin to gain political momentum until early 1986.¹⁶

Despite those shortcomings, some significant generalizations can be drawn from Table 3. First, it appears that charitable giving by nonitemizers is responsive to tax incentives. The estimated price elas-

¹⁵ For a nonitemizer facing the lowest (0 percent) federal marginal tax rate, the after-tax price of donating one dollar cash would be one dollar in 1985 and 1986 (ignoring state taxes). The after-tax price of making the same donation for a nonitemizer facing the top federal marginal tax rate (50 percent) would be only 75 cents in 1985 and 50 cents in 1986, hence the larger variation in the price term for 1986.

¹⁶ See Birnbaum and Murray (1987) for a superb account of the maneuverings through Congress of the Tax Reform Act of 1986.

ticities are negative and significant for both 1985 and 1986. Similar estimates of price elasticity were obtained for both sets of nonitemizer regressions, despite the fact that the tax treatment of charitable giving by that class of filers was not constant during 1985–6. The after-tax price of giving by nonitemizers fell dramatically when contributions went from being 50 percent deductible in 1985 to 100 percent deductible in 1986. The similarity of the price elasticity estimates despite the changed tax treatment of nonitemizer giving is persuasive.

While giving by nonitemizers appears responsive to tax incentives, it seems that the degree of responsiveness is smaller than that for itemizers—at least for 1986 when the above-the-line deduction was fully phased in and giving by both filing classes was deductible on a dollar-for-dollar basis. This is a potentially important finding. If giving by nonitemizers is less price responsive, then extending the deduction to nonitemizers would yield a smaller boost to giving than that implied by estimates of the price elasticity for itemizers. Studies such as Feldstein and Taylor (1976) and Clotfelter (1980), which simulated the effect of enacting a nonitemizer deduction by assuming the two classes of taxpayers to have identical price elasticities, would, then, have overstated the boost to giving. This finding also implies diminishing returns from extending the itemizers-only deduction to nonitemizers. Those taxpayers whose giving is the most price sensitive, the itemizers, can of course already claim the deduction. Extending the itemizers-only deduction to nonitemizers would then simply have the effect of making available a tax deduction to a group of taxpayers whose giving is less sensitive to tax incentives. Total giving increases, but at a diminished rate.

Why might nonitemizers be less price responsive? One explanation has to do with income. Nonitemizers have, on av-

erage, lower disposable incomes than do itemizers. The existence of disparities in disposable income between nonitemizers and itemizers is noteworthy, because there is some evidence that the price responsiveness of giving may rise with income. A finding that high-income filers may be more responsive than their lower-income counterparts was presented by Feldstein and Taylor (1976) and Auten, Cilke, and Randolph (1992). The evidence on this point, however, is not conclusive, as the findings of two other studies—Clotfelter and Steuerle (1981) and Robinson (1990)—were ambiguous.

To test whether price elasticity might vary with income, separate regressions were performed on the 1985 and 1986 data for each of four AGI classes. Because nonitemizers tend to cluster toward the lower end of the income scale, only itemizers were included in the regressions. The results are presented in Table 4 and appear to buttress the findings of Feldstein and Taylor (1976) and Auten et al. (1992). For both 1985 and 1986, the estimated price elasticities rise steadily in magnitude with income, from insignificantly different from zero for the lowest income class to significantly more than zero for the highest income class. Note that in both years it is only for the highest income class that the price elasticity exceeds in magnitude the critical value of -1 . Evidently, the itemizers-only tax deduction is treasury efficient only for the highest income taxpayers.

TABLE 4
PRICE ELASTICITY BY DISPOSABLE
INCOME CLASS

Data Set	Disposable Income Class	Price Elasticity
1985 ITM	\$1–\$40,000	–0.08 (0.15)
	\$40,000–\$70,000	–0.47 (0.13)
	\$70,000–\$100,000	–0.62 (0.17)
	>\$100,000	–1.42 (0.19)
1986 ITM	\$1–\$40,000	–0.25 (0.20)
	\$40,000–\$70,000	–0.59 (0.15)
	\$70,000–\$100,000	–0.82 (0.24)
	>\$100,000	–2.18 (0.22)

But perhaps there's more to it than simply income differences. An alternative explanation holds the possibility of intrinsic differences between nonitemizers and itemizers. Perhaps nonitemizer giving is truly less sensitive to tax considerations. How might this be? One possibility mentioned by Robinson (1990) has to do with the connection between itemization status and home ownership. Most taxpayers who itemize do so because of the deduction for home mortgage interest. To the extent that there is a link between home ownership and a commitment to the community, itemizers might be expected to contribute more to charitable causes than non-itemizers. There is also the argument that nonitemizers may be less sophisticated than itemizers in terms of understanding the tax code. Non-itemizers are, after all, a special class of taxpayers. They claim no itemized deductions of any sort. They are not required to maintain as many records for tax purposes. Their level of expertise and ability to capitalize on tax benefits is likely to be inferior to that of itemizers. As such, it is entirely plausible that taxpayers who don't itemize would be intrinsically less responsive to tax incentives than those who do.

These findings also cast some doubt on the conclusion of Dunbar and Phillips (1997) that the nonitemizer deduction is a highly efficient tax subsidy. Recall that Dunbar and Phillips found nonitemizer giving to be highly price elastic, with a price elasticity of -3.36 —larger than all but a handful of studies have obtained for itemizers and easily exceeding the standard for treasury efficiency. Here, the point estimates for nonitemizer price elasticity were considerably smaller, and for neither 1985 nor 1986 could the hypothesis that price elasticity equaled the critical value of -1 be rejected.

CONCLUSIONS

In order to stimulate charitable giving by nonitemizers, the 1981 ERTA included

a provision phasing in, over the period 1982–6, a full tax deduction for non-itemizer giving. It appears to have succeeded. Charitable contributions by nonitemizers seem to have been responsive to the decrease in the after-tax “price” of giving occasioned by the special deduction. Using Tobit to estimate a model of giving on 1985 and 1986 tax data, the price elasticity of nonitemizer giving was determined to be negative and significant. For 1985, when nonitemizer donations were 50 percent deductible, the price elasticity of nonitemizer giving was found to be insignificantly different from that of itemizer giving—a result which parallels that of Robinson (1990). More conclusive are the findings for 1986, when the above-the-line deduction was fully phased in and giving by both nonitemizers and itemizers was deductible on a dollar-for-dollar basis. Those results indicate a price elasticity for nonitemizer giving smaller in magnitude than that for itemizer giving. Such would imply diminishing returns from extending the itemizers-only deduction to nonitemizers. It would also suggest that earlier studies, which assumed identical price elasticities for the two filing classes in simulating the effect of extending the itemizer deduction to nonitemizers, would have overpredicted the boost to giving. Income elasticities of between 0.5 and 1.0 were estimated for both classes of filers.

A related issue is that of how an extension of the itemizers-only deduction to nonitemizers might alter the overall mix of giving. Which charities would benefit most? It has already been noted that, on average, nonitemizers tend to display lower incomes than itemizers. But Feldstein (1975) and Clotfelter (1990) have noted that giving by lower-income filers tends to be concentrated with religious charities. (Giving by high-income filers favors other charities such as museums and schools.) It follows, then, that extension of the itemizers-only deduction to

nonitemizers would confer the greatest benefit upon religious charities. That conclusion may be of particular interest, in light of recent proposals by Senator Ashcroft (R-MO) and others to expand the role of faith-based organizations in fighting poverty and meeting other social needs.

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