Charitable Donations in the United States: Tax Code and Impacts

Jacqulean Salib, Mo Li, Chien-Chung Huang, and Shuang Lu
Overview

In the United States a charitable donation does not only benefit the charity but also the donors. The tax code of the United States allows donors to itemize their donations and receive tax benefits. However, the amount of tax benefits depends on marginal tax rate of the donor. This brochure overviews charitable donation around the world and tax code of charitable donation in the United States, and reviews studies examining the effect of tax code on charitable donation.
International Comparison of Social Expenditure and National Giving

Table 1 shows public and private social expenditure in percent of Gross Domestic Product (GDP) in seven OECD countries in 2009. Although its total expenditure was in the middle range, the United States had the highest percentage of private social expenditure in GDP. Likewise, as shown in Table 2, national giving in percent of GDP was the highest for the United States in early 2000s.

<table>
<thead>
<tr>
<th>Country</th>
<th>Public</th>
<th>Private</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>17.8</td>
<td>3.2</td>
<td>21.0</td>
</tr>
<tr>
<td>Canada</td>
<td>19.2</td>
<td>5.1</td>
<td>24.3</td>
</tr>
<tr>
<td>France</td>
<td>32.1</td>
<td>3.1</td>
<td>35.2</td>
</tr>
<tr>
<td>Germany</td>
<td>27.8</td>
<td>3.2</td>
<td>31.0</td>
</tr>
<tr>
<td>Netherlands</td>
<td>23.2</td>
<td>6.7</td>
<td>29.9</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>24.1</td>
<td>6.3</td>
<td>30.4</td>
</tr>
<tr>
<td>United States</td>
<td>19.2</td>
<td>10.5</td>
<td>29.7</td>
</tr>
</tbody>
</table>

Notes: Social expenditures include cash benefits, as well as direct and indirect in-kind provision of goods and services.

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>0.69</td>
</tr>
<tr>
<td>Canada</td>
<td>0.72</td>
</tr>
<tr>
<td>France</td>
<td>0.14</td>
</tr>
<tr>
<td>Germany</td>
<td>0.22</td>
</tr>
<tr>
<td>Netherlands</td>
<td>0.45</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.73</td>
</tr>
<tr>
<td>United States</td>
<td>1.67</td>
</tr>
</tbody>
</table>

Source: Charities Aid Foundation, 2006.
Notes: Based on surveys of adults covering various years between 2000 and 2004.
Benefits from Charitable donations in the United States

**Tax Benefits from Charitable Donation**

Donations to qualified charity organizations are tax deductible. These donations can reduce taxable income and tax payment. Therefore, there are tax benefits associated with charitable donations.

**Who Benefits from a Charitable Donation?**

Essentially everybody benefits from a charitable donation. First and foremost, it helps people meet their needs by receiving relevant services or benefits from these donations. Meanwhile, it facilitates the development of charitable organizations and their services with the funding from donations. In addition, donors also benefit from their own donations because of tax benefits, social credibility, and many other reasons.

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**Reasons why people donate:**

1.) Awareness of social needs  
2.) Altruism  
3.) Tax benefits  
4.) Psychosocial benefits  
5.) Solicitation by others
Current Tax Code

Cash Donations
Donors are allowed to deduct up to 50% of their adjusted gross income. If people donate more than 50% then they are allowed to carryover whatever is left to their tax return for the following year.

However, if donors receive a gift as a result of the donation, the net worth of the gift needs to be subtracted from the donation. For instance, when donating $100 to a charitable organization and receiving a gift with a $25 worth, the $25 has to be subtracted from the $100 donation, which means that only $75 is deductible from the donor’s taxable income.

Procedure of Tax Deduction for Cash Donations

• In order to benefit from a charitable donation, donors must itemize their donations on the tax return forms.

• In order to itemize cash contributions, donors must have valid proof of each donation, which can be one of the followings:

  1) A bank record that shows the name of the qualified organization, as well as the date and amount of the contribution.

  2) A receipt from the qualified organization showing the name of the organization, as well as the date and amount of the contribution.

  3) The records of payroll deduction.
Amount Donated and Tax Deductions by Tax Bracket

Tax Deductible Amount

<table>
<thead>
<tr>
<th>Tax Bracket</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.1</td>
</tr>
<tr>
<td>0.15</td>
</tr>
<tr>
<td>0.25</td>
</tr>
<tr>
<td>0.28</td>
</tr>
<tr>
<td>0.33</td>
</tr>
<tr>
<td>0.35</td>
</tr>
</tbody>
</table>

Amount Donated
In-Kind Donations – Stock Donation

- An important type of in-kind donation, which is also known as non-cash donation, is stock donation. The tax benefit of stock donation is calculated by the market value of stocks at the time of donation.

- The same rules apply to stock donations as in cash donations. If the stock values more than half of taxable income, the donor has to carryover whatever is left into the following year.

- Tax benefit of stock donation in excess to cash donation is to avoid capital gains tax due to the unrealized capital gains of the donated property, which benefit both the charity and the donor. As the charity receives more benefits from a stock donation, the donor is able to claim a higher deduction of the market value of the donated shares as a charitable donation deduction, but not the value after tax.

- For example, you are holding a stock worth $10,000 when you bought it. Since the price went up, it is now worth $20,000. You have two choices: selling the stock and donate the gains, or donating the stock.

- Suppose the tax rate for long-term capital gains is 15 percent. The first way will cost you capital gains tax on the $10,000 gain in value which leads to the final donation amount being $18,500 ($20,000 - $10,000 * 15%).

- However, by donating the stock instead, tax savings would be $1,500 ($10,000 * 15%). This benefits both the charity and the donator. As the charity can receive more benefit from a stock donation, say $1,500 in this case. And the donor can claim a higher deduction of the market value of the donated shares as a charitable donation deduction, but not the value after tax. If you are in the 25% tax bracket, this would lead to tax savings of $5,000 ($20,000 * 25%) which is $375 higher than the amount of $4625 ($18,500 * 25%) from a cash donation. So as you can see your tax benefits from making a donation of appreciated stock versus giving cash can be substantial. And the organization will be just as happy to receive the stock versus cash.

- However, there are restrictions; this can only be applied to a stock held for more than one year. Otherwise it would be treated as an ordinary income property for these purposes. The charitable deduction would be limited to the stock’s original price.
Other Types of In-Kind Donations may Include

- Used clothing (must be in good condition)
- Property
- Volunteering

- Except for volunteering donation, all these donations work in the same way as cash donations.
- Donors have to obtain a receipt from the charitable organization stating their donation and the net worth of the donation, which enables them to itemize their donations.
- Volunteering service donors are able to deduct costs that are caused by their volunteering activities only, such as the gasoline cost of traveling for the volunteering service, and equipment that is used specially for the volunteering service.
- In general, deducted items for volunteering service donations must be:
  - Unreimbursed
  - Directly connected with the services
  - Expenses produced only because of the services donors provided
  - Not personal, family, or living expanses
Reports show that Americans donate approximately 2% of their annual income to charitable organizations. Donations come from all financial backgrounds.

- As of 2008, people with an income of $500,000 and above, which included 1% of all tax payers, contributed 24% of all donations.
- As of 2008, people with an income of fewer than $50,000, which included two thirds of all tax payers, contributed 19% of all donations.
- Although people who make a higher income donate a bigger dollar amount to charitable organizations, people who are in middle class donate more percentage of their annual income.

About two in every three households make a donation to charitable organizations. In 2010 the amount individual donations came up to around $211 billion (Clotfelter, 2012).

### Table 3
**Share of Tax Returns, Income, and Contributions and Percent Itemizers by income, 2008**

<table>
<thead>
<tr>
<th>Adjustment Gross Income ($ in thousands)</th>
<th>Tax Returns</th>
<th>Income</th>
<th>Contributions</th>
<th>Percent Itemizers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 50</td>
<td>65</td>
<td>21</td>
<td>19</td>
<td>15</td>
</tr>
<tr>
<td>50 - 100</td>
<td>22</td>
<td>27</td>
<td>24</td>
<td>58</td>
</tr>
<tr>
<td>100 - 200</td>
<td>10</td>
<td>22</td>
<td>21</td>
<td>86</td>
</tr>
<tr>
<td>200 - 500</td>
<td>2</td>
<td>12</td>
<td>12</td>
<td>96</td>
</tr>
<tr>
<td>Over 500</td>
<td>1</td>
<td>18</td>
<td>24</td>
<td>96</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>34</td>
</tr>
</tbody>
</table>

**Source:** U.S. Congressional Budget Office, 2011.

**Notes:** Percentages based on all taxpayers, except for percentage itemizing in two highest income groups, which is based on taxable returns only.
## Where the Donations Go?

### Table 4
Contributions by Income and Subsectors, 2005

<table>
<thead>
<tr>
<th>Subsector</th>
<th>Less than $100,000</th>
<th>$100,000 – $200,000</th>
<th>200,000 - $1 million</th>
<th>$1 million and above</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Religion</td>
<td>23.7</td>
<td>4.5</td>
<td>8.3</td>
<td>3.4</td>
<td>40.0</td>
</tr>
<tr>
<td>Combined</td>
<td>3.0</td>
<td>0.9</td>
<td>4.0</td>
<td>0.8</td>
<td>8.8</td>
</tr>
<tr>
<td>Basic needs*</td>
<td>3.7</td>
<td>1.0</td>
<td>2.1</td>
<td>0.8</td>
<td>7.5</td>
</tr>
<tr>
<td>Health</td>
<td>1.2</td>
<td>0.4</td>
<td>1.9</td>
<td>5.1</td>
<td>8.7</td>
</tr>
<tr>
<td>Education</td>
<td>1.1</td>
<td>0.5</td>
<td>11.5</td>
<td>5.1</td>
<td>18.2</td>
</tr>
<tr>
<td>Arts</td>
<td>0.4</td>
<td>0.2</td>
<td>5.4</td>
<td>3.1</td>
<td>9.1</td>
</tr>
<tr>
<td>Other</td>
<td>2.4</td>
<td>0.5</td>
<td>2.9</td>
<td>1.9</td>
<td>7.8</td>
</tr>
<tr>
<td>Total</td>
<td>35.6</td>
<td>7.9</td>
<td>36.2</td>
<td>20.3</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Center on Philanthropy, Indiana University, 2007.
* Food, shelter, or other necessities.
Effects of Tax Benefits on Charity Donation

Tax benefit is a main reason of the thriving of nonprofit organizations in the United States. Tax benefit, which influences how much donors donate, is also one of the biggest incentives for charitable donations.

**Effects of Tax Incentives on Charitable donation**

- Recent studies demonstrates that tax incentives have a great influence on people’s willing of making charitable donations.
- Realized charity giving has a positive relationship with the available amount of tax reduction, which is determined by the income level of the donor, as well as federal and state’s marginal tax rates.
- Increase in taxation will lead to a higher realization of charitable donation in that year.
- People in higher income group tend to donate more than those from low-income groups.
- Study also showed evidence of gradual adjustment to tax changes, and of re-timing of giving in response to especially salient predictable future changes in federal taxation.
- In conclusion, people’s decision about the amount of charitable donation is significantly influenced by tax incentives across all income levels.
- Charitable donations tend to increase as the marginal tax rate increases, and vice versa.

The following figure presents time series of charitable donations by income class. Changes in highest income groups are consistent with variation of taxation.

For those with income above $500,000, a dramatic spike in 1986 is corresponding to the announcement that the top federal marginal tax rate would drop from 50 percent in 1986 to 35 percent in 1987 and 28 percent in 1988. The small spike appears in 1993 and 1994 for millionaires consist with the increase of the top federal marginal tax rates from 31 percent to 39.6 percent that would begin to apply to high-income taxpayers in 1993.

Source: Bakija & Heim, 2011.

Notes: Graph depicts aggregate donations as a percentage of aggregate income for each income class. The years of 1997 and 1998 are omitted due to very small sample sizes for high income people. All currency amounts are adjusted to their 2007 values.
References


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