Congressional Research Service
Informing the legislative debate since 1914

Tax Issues Relating to Charitable Contributions and Organizations

January 8, 2026

Congressional Research Service
https://crsreports.congress.gov
R48789

CRS REPORT
Prepared for Members and
Committees of Congress

Congressional Research Service
Informing the legislative debate since 1914

SUMMARY

Tax Issues Relating to Charitable Contributions and Organizations

R48789

January 8, 2026

Jane G. Gravelle
Senior Specialist in Economic Policy

Donald J. Marples
Specialist in Public Finance

Brendan McDermott
Analyst in Public Finance

The federal government supports the charitable sector through favorable tax treatment for charitable organizations and donors. Individuals itemizing deductions may claim a tax deduction for charitable contributions (and other individuals can deduct a limited amount of contributions). Estates can make charitable bequests. Corporations can deduct charitable contributions before computing income taxes. Earnings on funds held by charitable organizations and used for a related charitable purpose are also exempt from tax. In FY2026, projected tax subsidies for charities, not including the value of the tax exemption on earnings of charities or the estate tax deduction, total $78 billion. If investment income of nonprofits were taxed at the 21% corporate tax rate in 2022, revenue collected is estimated at $12 billion (this amount excludes religious organizations). Based on 2023 estate tax returns, the cost of deducting bequests on estates is estimated at $13 billion to $20 billion.

Charitable organizations include both operating charities (including religious institutions) and organizations that tend to hold assets and make grants to operating charities, most notably private foundations, but also donor-advised funds (DAFs) and supporting organizations. The tax code treats different types of organizations differently. For example, foundations and certain supporting organizations have minimum payout requirements, while DAFs do not. Limits on charitable giving also differ across gifts to different types of organizations.

Changes in the tax revision enacted in late 2017, popularly known as the Tax Cut and Jobs Act (TCJA; P.L. 115-97), reduced the scope of the tax benefit for charitable giving through broader modifications to the tax code. A higher standard deduction and the limit on the deduction for state and local taxes caused more individuals to take the standard deduction, as opposed to itemizing deductions. As a result, many individuals who were able to deduct charitable contributions no longer claim this itemized deduction. Other changes exempted more estates from the estate tax, eliminating the benefit of deducting charitable contributions in these cases. These changes were made permanent by P.L. 119-21, the FY2025 reconciliation law sometimes referred to as the One Big Beautiful Bill Act (OBBBA). Concerns have arisen that these changes are expected to lead to a reduction in charitable contributions.

In 2024, charitable contributions were estimated at $593 billion, or 2.9% of gross domestic product (GDP). Charitable gifts come from four sources: individual contributions (accounting for 66%), foundations (accounting for 19%), bequests (accounting for 8%), and corporations (accounting for 7%). Estimates suggest approximately 63% of individual contributions were claimed as itemized deductions in 2022.

A number of policy options could be considered with respect to the tax treatment of charitable giving or the tax treatment of charitable entities. The charitable deduction could be modified in ways that could extend charitable giving incentives to taxpayers not itemizing deductions, or with the intent of making charitable giving tax incentives more effective (inducing more giving for each dollar of lost federal tax revenue). There are also options related to the type of treatment of certain types of gifts, such as appreciated property or charitable miles driven. Some proposals have also been made to address concerns about aspects of certain charitable organizations, such as payouts by DAFs and university endowments. Some proposals would reverse certain changes made by the 2017 tax revision to the unrelated business income tax (UBIT) or impose administrative reforms.

Contents

Figures

Tables

Appendixes

Contacts

Introduction

The federal government supports the charitable sector through favorable tax treatment for charitable organizations and donors. Estates, corporations, and individuals who itemize their tax deductions can deduct the value of their charitable contributions within limits. Other individuals are allowed limited charitable contribution deductions. Charitable organizations themselves generally owe no tax on income earned by funds they hold.

The tax revision enacted in late 2017, popularly known as the Tax Cuts and Jobs Act (TCJA; P.L. 115-97), made some temporary changes that reduced the scope of the tax benefit for charitable giving. Among other changes affecting charitable organizations, this legislation temporarily more than doubled the standard deduction and capped the itemized deduction for state and local taxes. These reforms caused more individuals to take the standard deduction rather than itemizing deductions. The law also exempted more estates from the estate tax, eliminating the benefit of deducting charitable contributions in these cases. These changes were expected to lead to a reduction in charitable giving.

P.L. 119-21, the FY2025 reconciliation law sometimes referred to as the One Big Beautiful Bill Act (OBBBA), made the temporary provisions—and thus the reduction in charitable deductions to individuals and estates—permanent. Among other changes that indirectly and directly affected the charitable deduction, it created a new above-the-line tax deduction for charitable contributions of $1,000 ($2,000 for married joint filers), which taxpayers who do not itemize their tax deductions can claim. Such taxpayers make up the majority of individual income tax filers.

This report begins with a description of the charitable sector and tax provisions affecting the sector. The following sections discuss the magnitude of charitable deductions, including sources and beneficiaries, with historical data. The report then discusses the incentive effects of the deductions and the consequences for charitable giving, and concludes with a discussion of policy options.

The Charitable Sector

Definitions and Overview

The focus of this report is the *charitable sector*. Charities are one type of tax-exempt organization. Specifically, they are organizations with 501(c)(3) public charity status.[1] As illustrated in **Figure 1**, most 501(c) organizations are 501(c)(3) "religious, charitable, and similar organizations."

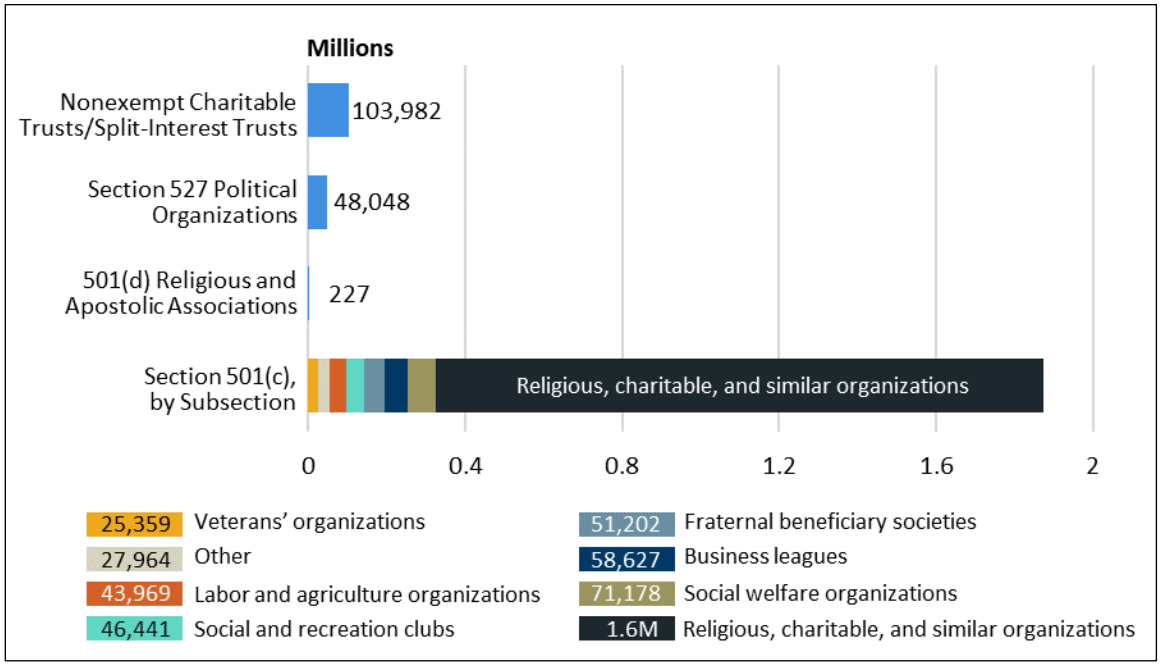
Charitable organizations fall within the broader *nonprofit sector*. In public policy discussions, the term *nonprofit sector* is often intended to include all organizations with federal tax-exempt status.[2]

[1] IRC §501(c)(3) describes organizations "organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition … or for the prevention of cruelty to children or animals." Among other requirements, "no part of the net earnings of" the organization may "inure to the benefit of any private shareholder or individual." In the United States, 501(c)(3) organizations are commonly understood to comprise the charitable sector.

[2] While the terms *tax-exempt organization* and *nonprofit organization* are often used interchangeably, doing so might not be appropriate in certain contexts. The term *tax-exempt organization* refers to organizations with federal tax-exempt status. The term *nonprofit organization* is often used to refer to an entity that is not intended to be a profit-making (continued...)

The Internal Revenue Code (IRC) describes approximately 30 types of tax-exempt organizations. Noncharity tax-exempt organizations include social welfare organizations, labor unions, trade associations, chambers of commerce, fraternal societies, and political organizations. Within the nonprofit tax-exempt sector, the bulk of organizations are exempt from tax under IRC Section 501(c)(3) (i.e., they are "religious, charitable, or similar organizations"). Most of the tax-exempt sector's financial activity also takes place in 501(c)(3) organizations.

Figure 1. Tax-Exempt Organizations by Type, 2024



Source: Internal Revenue Service (IRS), Statistics of Income, "Tax-Exempt Organizations and Nonexempt Charitable Trusts, IRS Data Book Table 25," https://www.irs.gov/statistics/soi-tax-stats-tax-exempt-organizations-and-nonexempt-charitable-trusts-irs-data-book-table-25.

Notes: Religious, charitable, and similar organizations are exempt from federal income tax under IRC §501(c)(3). The "Religious, charitable, and similar organizations" category includes private foundations. Social welfare organizations are exempt under IRC §501(c)(4). Labor and agriculture organizations are exempt under §501(c)(5). Business leagues are exempt under §501(c)(6). Social and recreation clubs are exempt under §501(c)(7). Fraternal beneficiary societies are exempt under §501(c)(8). Veterans' organizations are exempt under §501(c)(19).

Every 501(c)(3) organization is classified as either a "public charity" or "private foundation." Public charities have broad public financial support and tend to provide charitable services directly to the intended beneficiaries. Private foundations often are tightly controlled, receive significant portions of their funds from a small number of donors or a single source, and make grants to other organizations rather than directly carry out charitable activities. 501(c)(3)

corporation. The term can be more precisely understood to mean an entity organized under the laws of a state, with its status and privileges determined under state law. Because the qualifications for nonprofit status vary among states, it is possible for the term *nonprofit organization* to be broader than, narrower than, or identical to the term *tax-exempt organization*. For a nonprofit organization to be exempt from federal income taxes, it must meet the statutory requirements found in the Internal Revenue Code and usually must file an application with the IRS. Some organizations, including small 501(c)(3) organizations and qualifying religious organizations, are exempt from the application requirement.

organizations are presumed to be private foundations unless they qualify for public charity status based on support and control tests.

IRS Filing Requirements for 501(c)(3) Charities and Foundations

Form 990 collects information about organizations' finances, assets, and activities. Organizations with gross receipts of $50,000 or more are generally required to file a Form 990 or Form 990-EZ. Private foundations file a Form 990-PF. Smaller organizations are not required to file an annual return, but may be required to file an annual electronic notice, the "e-postcard."[3] The informational returns (i.e., Form 990s) of exempt organizations are public, unlike individual and corporate income tax returns.[4] Churches and other qualifying religious organizations are exempt from the annual information-reporting requirements.[5] In 2022, there were 1,586,742 registered 501(c)(3) public charities and foundations.[6] Of this total, 346,469 were reporting public charities, and filed a Form 990 or Form 990-EZ.[7]

In addition to the information return, there are situations when tax-exempt organizations must file an income tax return. For example, tax-exempt organizations are subject to tax on income from business activities unrelated to their exempt purpose.[8] Organizations subject to this tax, known as the unrelated business income tax (UBIT), must file a tax return using the Form 990-T. Two changes to UBIT took effect in 2018 (see the shaded box "UBIT Changes for 2018" below), although the second one was subsequently repealed. Additionally, tax-exempt organizations must generally pay the same employment taxes (i.e., withhold income and payroll taxes of their employees) as for-profit employers. Finally, an organization's activities might require it to file other returns, such as an excise tax return.

[3] The "e-postcard," also called the Form 990-N, requires eight pieces of information: (1) the employer identification number (EIN) or taxpayer information number (TIN); (2) the tax year; (3) legal name and mailing address; (4) other names used by the organization; (5) name and address of the principal officer; (6) web address (if applicable); (7) confirmation that gross receipts are $50,000 or less; and (8) if applicable, a statement that the organization has or intends to terminate operations.

[4] Some information, such as the names and addresses of contributors to organizations other than a private foundation, is not subject to public disclosure.

[5] For more information on organizations not required to file a Form 990, see Internal Revenue Service, *Instructions for Form 990 Return of Organization Exempt From Income Tax (2024)*, https://www.irs.gov/instructions/i990.

[6] Candid, "How Many Nonprofit Organizations Are There In the U.S.?," https://learning.candid.org/number-of-nonprofits-in-us/272665#:~:text=According%20to%20the%20Business%20Master,employ%20more%20people%20than%20nonprofits.

[7] Internal Revenue Service, Statistics of Income, "Charities and Other Tax-exempt Organizations Statistics, Table 3. Form 990 Returns of 501(c)(3)-(9) Organizations: Balance Sheet and Income Statement Items, by Internal Revenue Code Section, Tax Year 2022", and "Table 4. Form 990-EZ Returns of 501(c)(3)-(9) Organizations: Balance Sheet and Income Statement Items, by Internal Revenue Code Section, Tax Year 2022," https://www.irs.gov/statistics/soi-tax-stats-charities-and-other-tax-exempt-organizations-statistics.

[8] For example, if an exempt organization operates a bakery in a commercial district, where business activity is regularly carried on, the income from this bakery may be considered unrelated business taxable income (UBTI). Specifically, income from this type of activity is UBTI if it is substantially unrelated to the exempt organization's exempt purpose.

UBIT Changes Effective for 2018

The 2017 tax revision (P.L. 115-97), (TCJA), made two permanent changes to UBIT; the second has been repealed. Both changes were effective for the 2018 tax year onward.

- **Tax-exempt organizations are required to compute unrelated trade or business income for each trade or business separately.** The rules were designed to prevent losses from one unrelated trade or business from offsetting income from another unrelated trade or business. Net operating loss (NOL) deductions and carryovers are permitted, but only within each specific trade or business. This treatment differs from for-profit businesses, as for-profits can generally aggregate income and expenses across different trades or businesses.
- **Unrelated business taxable income increased by amount of certain fringe benefit expenses.** For for-profit businesses, the TCJA disallows deductions for certain fringe benefits, including transportation-related benefits and parking benefits. Since for-profit businesses are no longer allowed to deduct these expenses as a result of other changes in the TCJA, in an effort to create parity, tax-exempt organizations are required to add the value of these fringe benefits provided to employees to their unrelated business taxable income. Increasing unrelated business taxable income by the amount of fringe benefits effectively requires tax-exempt entities to pay the corporate tax rate of 21% on the value of these benefits as provided. For some organizations that did not previously file Form 990s, particularly churches, this change could require that information returns be filed. The Taxpayer Certainty and Disaster Tax Relief Act, enacted as Division Q of the Further Consolidated Appropriations Act, 2020 (P.L. 116-94), repealed this provision.

Current Tax Treatment

Federal statute includes multiple tax preferences for nonprofit and charitable organizations. Donations to charitable organizations may be tax deductible, which subsidizes charitable giving. Additionally, nonprofit and charitable organizations are generally exempt from tax on most income, including investment income.

Some of the tax benefits are considered "tax expenditures" by the Joint Committee on Taxation (JCT), meaning the JCT provides an estimate of the amount of forgone revenue associated with the provision.[9] Other tax benefits confer financial benefits to the sector, although the value of those benefits is not regularly estimated by the JCT.

In addition to the federal tax benefits discussed here, there may also be state and local tax benefits associated with nonprofit or charitable status. For example, in addition to income tax benefits that mirror federal income tax benefits, state and local governments may provide property or sales tax exemptions.

The Tax Deduction for Charitable Contributions

The primary tax expenditure for charities is the charitable deduction.[10] Individual taxpayers who itemize their deductions can, subject to certain limitations, deduct charitable donations to

[9] Tax expenditures are revenue losses resulting from tax provisions that grant special tax relief designed to encourage certain kinds of behavior or aid taxpayers in special circumstances.

[10] To be deductible as a charitable contribution, the gift must generally meet the following requirements. First, the gift must be made to a qualifying organization. Second, the gift must be made without the expectation of a benefit in return. Third, the donor is generally required to transfer their entire interest in the contributed property. Forth, a deduction can be claimed only for gifts of money and property—services are not deductible (because the value of forgone earnings is not included in income, which is equivalent to a deduction for the value of labor). There are a number of substantiation and recordkeeping requirements associated with the charitable deduction.

qualifying organizations.[11] In 2022, approximately 9% of taxpayers who filed returns itemized deductions, and 7.5% claimed itemized deductions for charitable contributions.[12]

The 2017 tax cuts, which substantially reduced the number of itemizers because of increases in the standard deduction and a $10,000 cap on state and local tax deductions, were scheduled to expire after 2025. Their expiration would have significantly increased the number of itemizers. The Urban-Brookings Tax Policy Center projected that the share of itemizers (including nonfiling tax units) would have been 26% in 2026 had the tax cuts expired.[13]

P.L. 119-21 made the 2017 tax changes permanent, which considered in isolation would have continued the smaller share of itemizers, projected to be 9.9% for 2026. P.L. 119-21 made some other changes that are projected to affect the share of itemizers, largely in 2026 and after. It temporarily increased the limit on deductions for state and local taxes for some taxpayers to $40,000 for 2025 through 2029 (increased by 1% in each year after 2025) with the increase phased out for higher-income taxpayers, which is projected to increase the share of itemizers. It also increased the standard deduction by $1,500 for joint returns and $750 for single returns, which is projected to reduce the share of itemizers. With these changes, the number of itemizers is projected to be 12% in 2025, rising to 14% in 2029, because a temporary increase in the limit on itemized deductions for state and local taxes is scheduled to expire.[14] In 2030, the share of itemizers is projected to fall to 10.5% as the higher state and local tax deductions expire but the larger standard deductions remain. The Tax Policy Center projected a 12.7% share of itemizers in 2030 had a TCJA extension alone been enacted, and a 26.8% share if P.L. 119-21 had not been enacted.

P.L. 119-21 also made some other changes that affected individual and corporate charitable contributions. It limited the value of the individual deduction for high-income taxpayers subject to the top marginal tax rate of 37% to a marginal rate of 35%, thus reducing the value of the deduction for these taxpayers to 35 cents for each dollar of deduction rather than 37 cents. It also limited deductions for itemizers to contributions above 0.5% of adjusted gross income and limited the tax rate at which itemized deductions are valued to 35% beginning in 2026. Corporations are also able to deduct charitable contributions, and P.L. 119-21 limited these deductions to 1% of taxable income.

P.L. 119-21 also allowed an above-the-line deduction of up to $1,000 for single returns and $2,000 for joint returns for taxpayers who do not itemize, beginning in 2026. A similar above-the-line deduction of up to $300 for individuals and $600 for married couples filing jointly was previously made available for tax year 2021. The IRS estimates that roughly 50 million filers

[11] For more on how individuals claim a deduction for charitable contributions, and the rules associated with claiming the deduction, see IRS Publication 526, *Charitable Contributions*, https://www.irs.gov/forms-pubs/about-publication-526.

[12] Internal Revenue Service (IRS), Statistics of Income, "Individual Income Tax Returns, Table 1.2," https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income.

[13] Urban-Brookings Tax Policy Center, "Impact of the 2025 Reconciliation Act on the Number of Itemizers, 2025-35 Calendar Years," July 16, 2025, https://taxpolicycenter.org/model-estimates/T25-0243.

[14] Urban-Brookings Tax Policy Center, "Impact of the 2025 Reconciliation Act on the Number of Itemizers, 2025-35 Calendar Years," July 16, 2025.

claimed that 2021 deduction, and deducted a total of $18 billion.[15] The JCT estimates that the new deduction will reduce revenues by roughly $74 billion from FY2026 to FY2034.[16]

Organizations qualified to receive tax-deductible charitable contributions include public charities and private foundations; federal, state, or local governments; and other less common types of qualifying organizations.[17] Contributions to civic leagues, labor unions, most foreign organizations, lobbying organizations, political contributions, and contributions directly made to individuals are not deductible as charitable contributions.

There are limits on the deduction for charitable contributions for both individuals and corporations. For individuals, the deduction for cash contributions given to a public charity; private operating foundation; or federal, state, or local government is 60% of the taxpayer's adjusted gross income (AGI). These limitations are summarized in **Table 1**.[18] The limit for noncash contributions is 50% of AGI. Gifts of cash or short-term capital gain property to private nonoperating foundations or certain other qualifying organizations are generally limited to 30% of AGI. The CARES Act increased the limit to 100% for 2020 for cash contributions to public charities (not to private foundations, supporting organizations, or donor-advised funds).

Table 1. Limitations on Individual Charitable Contributions

Type of Donation	Recipient	Valuation Rules for Property	Limitation
Cash or short-term capital gain property	Public charity; private operating foundation; federal, state, local government	Basis of the property	60% of AGI[a]
	Private nonoperating foundation; other[b]	Basis of the property	30% of AGI
Long-term capital gain property	Public charity; private operating foundation; federal, state, local government	Fair market value	30% of AGI
	Private nonoperating foundation; other[b]	Basis of the property	20% of AGI

Source: Internal Revenue Code (IRC) §170.

Note: These are general rules, and there are exceptions.

a. A temporary increase from 50% to 60% for cash contributions through 2025 was made permanent by P.L. 119-21.

b. Includes qualifying contributions to veterans organizations, fraternal societies, and nonprofit cemeteries. Not all nonoperating foundations are subject to the 30% limit.

The contribution of appreciated assets has particularly beneficial treatment, as the value of most appreciated assets can be deducted without including the capital gains in income that would be subject to tax. Thus, gifts of appreciated property are generally subject to lower deduction limits. Donations of long-term capital gain property to public charities; private operating foundations; or federal, state, or local government are limited to 30% of AGI, while contributions to private nonoperating foundations or certain other qualifying organizations are generally limited to 20%

[15] IRS, Statistics of Income, "Individual Income Tax Returns, Table 3.3," 2021, https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income.

[16] Joint Committee on Taxation (JCT), *Estimated Revenue Effects Relative To The Present Law Baseline Of The Tax Provisions In "Title VII – Finance" Of The Substitute Legislation As Passed By The Senate To Provide For Reconciliation Of The Fiscal Year 2025 Budget*, JCX-35-25, July 1, 2025, https://www.jct.gov/publications/2025/jcx-35-25/.

[17] Less common organizations are veterans' organizations, domestic fraternal societies, and cemetery companies.

[18] P.L. 115-97 temporarily increased this limit from 50% to 60% from 2018 through 2025, and this provision was made permanent by P.L. 119-21. Due to a possible drafting error, all of the 60% must be in cash, whereas for the 50% limit a portion can be in appreciated assets up to their limits.

of AGI. Individuals are allowed to carry forward charitable contributions that exceed the percentage limits for up to five years.

Corporate charitable contributions are generally limited to 10% of a corporation's taxable income. Beginning in 2026, under a provision enacted in P.L. 119-21, corporations can only deduct amounts in excess of a floor of 1%. For a corporation, transfer of property to a charity might qualify as a deductible charitable contribution or a deductible business expense, but cannot be both. Like individuals, corporations are allowed to carry forward charitable contributions that exceed the percentage limits for up to five years.

The TCJA also increased the exemptions from the estate and gift tax, and P.L. 119-21 made these exemptions permanent. In the most recent year for which data are available, 0.07% of decedents were estimated to pay the estate tax.[19] In that year, $22.3 billion was deducted on estate tax returns, with $7.9 billion of that on taxable returns.[20] In 2019, total giving by bequest was $43.2 billion,[21] so that a significant share of bequests could have received the benefit of an estate tax deduction.

Valuation Rules for Charitable Contributions

There are several rules related to the valuation of charitable contributions (also summarized in **Table 1**). For cash contributions, the value is simply the amount donated. However, when property is donated, the charitable deduction may be limited to the fair market value of the property, the taxpayer's tax basis in the property, or some other amount. Generally, as noted above, taxpayers can deduct the full fair market value of long-term capital gain property. Taxpayers may also be able to deduct the full fair market value of tangible personal property donated to a charity whose use of the property is related to their tax-exempt purpose.

In some cases, the amount that can be deducted is limited to the donor's tax basis in the property. Specifically, deductions for contributions of property may be limited to basis for contributions of inventory or short-term capital gain property, contributions of tangible personal property that are used by a recipient organization for a purpose unrelated to the recipient's exempt purpose, or contributions to private foundations (other than certain private operating foundations).[22] Donations of appreciated stock to private nonoperating foundations are not subject to this limit, and may be deducted using fair market value. Contributions of patents or other intellectual property may also be limited to the donor's basis in the property. Deductions are generally limited to the fair market value of the donated property, if the fair market value is less than the tax basis.

Special Rules for Certain Types of Contributions

There are a number of special rules related to donations of certain types of property, not all of which are discussed here. Contributions of inventory are limited to the lesser of basis (cost) or fair market value, with inventory reduced by the contributions (so that cost in excess of fair

[19] CRS Report R48183, *The Estate and Gift Tax: An Overview*, by Jane G. Gravelle.

[20] IRS, Statistics of Income, "Estate Tax Year of Death Data," https://www.irs.gov/statistics/soi-tax-stats-estate-tax-year-of-death-tables.

[21] Giving USA, "*Giving USA 2020*: Charitable Giving Showed Solid Growth, Climbing to $449.64 Billion in 2019, One of the Highest Years for Giving on Record," June 16, 2020, https://web.archive.org/web/20200917053946/https://givingusa.org/giving-usa-2020-charitable-giving-showed-solid-growth-climbing-to-449-64-billion-in-2019-one-of-the-highest-years-for-giving-on-record/.

[22] Short-term capital gain property is a property that, if sold at its fair market value on the day it was donated, would have generated a short-term capital gain. Short-term capital gains are realized when an asset has been held for less than 12 months.

market value can be deducted as the cost of goods sold). Special rules provide an enhanced deduction equal to the basis plus half the difference between the fair market value and basis, not to exceed twice the basis for C corporations contributing inventory to 501(c)(3) organizations for the care of the ill, the needy, or infants. There is a similar enhanced deduction for businesses (both corporate and noncorporate) for contributions of food inventory for the care of the ill, needy, and infants. This deduction is limited to 15% of income (temporarily increased to 25% for 2020 by the CARES Act). Cash basis taxpayers who do not keep inventories are allowed to deduct half the fair market value.[23] There are special rules associated with donations of vehicles,[24] intellectual property,[25] and clothing and household items.[26] Another special provision allows for tax-free distributions from individual retirement accounts (IRAs) for charitable purposes.[27] The IRA distribution provision is especially beneficial to nonitemizers because it excludes the distribution from income, which is equivalent to receiving the distribution and making a charitable deduction.

Generally, a charitable deduction can be claimed only if the donor transfers their full interest in the property to a qualified recipient organization. This *partial interest rule* generally prohibits charitable deductions for contributions of income interests, remainder interest, or rights to use property. There is an exception to the partial interest rule for conservation contributions. Conservation contributions allow for charitable donations of conservation easements, where land, natural habitats, open space, or historically important sites are protected from development without the owner having to give up ownership of the property. Additionally, special rules increase the limit for appreciated property contributed for conservation purposes to 50% of AGI for individuals.[28] For farmers and ranchers, including individuals and corporations that are not publicly traded, the limit is increased to 100% of income. Conservation contributions that exceed the 50% or 100% of income giving limits can be carried forward for 15 years, instead of the usual 5 years.

Individuals can take a deduction for donations of property in the future with rights to the income stream for themselves or others, through a charitable remainder trust. In a charitable remainder trust, assets are transferred to a trust and a deduction taken for the present value of the future

[23] This provision was enacted in the Katrina Emergency Tax Relief Act of 2005 (P.L. 109-73), extended multiple times as part of "tax extenders," and expanded and made permanent in the Protecting Americans from Tax Hikes Act of 2015, enacted as Division Q in the Consolidated Appropriations Act, 2016 (P.L. 114-113). See CRS Report R43517, *Recently Expired Charitable Tax Provisions ("Tax Extenders"): In Brief*, by Jane G. Gravelle and Molly F. Sherlock.

[24] If a recipient charity sells the donated vehicle, a donor's deduction is generally limited to the gross proceeds from the sale. A deduction may be claimed at fair market value if the charity uses the vehicle or gives (or sells at a significant discount) the vehicle to a needy individual. See IRS Publication 4303, *A Donor's Guide to Vehicle Donations*, https://www.irs.gov/pub/irs-pdf/p4303.pdf; and IRS Publication 4302, *A Charity's Guide to Vehicle Donations*, https://www.irs.gov/pub/irs-pdf/p4302.pdf.

[25] While contributions of patents and intellectual property are generally limited to a taxpayer's basis at the time of the contribution, additional deductions may be claimed for income allocable to the intellectual property.

[26] Clothing and household items are required to be in good used or better condition for a charitable deduction to be claimed.

[27] This provision was enacted in the Pension Protection Act of 2006 (P.L. 109-280), extended multiple times as part of "tax extenders," and made permanent in the Protecting Americans from Tax Hikes Act of 2015, enacted as Division Q in the Consolidated Appropriations Act, 2016 (P.L. 114-113). See CRS Report R43517, *Recently Expired Charitable Tax Provisions ("Tax Extenders"): In Brief*, by Jane G. Gravelle and Molly F. Sherlock; and CRS Report RS22766, *Qualified Charitable Distributions from Individual Retirement Accounts: Features and Legislative History*, by John J. Topoleski and Gary Sidor.

[28] This provision was enacted in the Pension Protection Act of 2006 (P.L. 109-280), extended multiple times as part of "tax extenders," and made permanent in the Protecting Americans from Tax Hikes Act of 2015, enacted as Division Q in the Consolidated Appropriations Act, 2016 (P.L. 114-113). See CRS Report R43517, *Recently Expired Charitable Tax Provisions ("Tax Extenders"): In Brief*, by Jane G. Gravelle and Molly F. Sherlock.

donation. The donor or other designated individual can receive a stream of income from the trust, for example, until death. Appreciated assets can be donated to the trust, which is tax exempt and pays no tax on the gain from the sale of assets.

Beginning in 2027, a 100% tax credit up to $1,700 is allowed for contributions to scholarship granting organizations for K-12 educational expenses for lower-income families. The credit is reduced by any state credits allowed. This provision was added by P.L. 119-21.

Recent Changes to Charitable Giving Tax Incentives

The tax expenditure associated with the charitable deduction fell after the TCJA. Under the act, however, there were limited direct changes in tax policies affecting charities. The one change to the charitable deduction expanded the deduction, raising the AGI limit for individual cash contributions to public charities from 50% to 60% through 2025. However, other changes that reduced the number of itemizers, such as the expanded standard deduction and the limit on state and local tax deductions, reduced the number of itemizers and reduced the marginal incentive to give to charity for many taxpayers.[29] P.L. 119-21 made the increased limit permanent. As noted above, the law also enacted a number of other provisions.

At times, Congress had passed legislation eliminating the percentage of AGI limit for charitable contributions made for disaster relief purposes. The Disaster Tax Relief and Airport and Airway Extension Act of 2017 (P.L. 115-63) eliminated the limit for charitable contributions of cash for Hurricane Harvey, Irma, or Maria disaster relief. The Bipartisan Budget Act of 2018 (P.L. 115-123) eliminated the limit for charitable contributions of cash associated with the 2017 California wildfires.[30] The CARES Act provided temporary enhancements for 2020, including creating an above-the-line deduction of up to $300 for nonitemizers, eliminating the percentage of individual income limits for cash donations to charities (excluding gifts to private foundations and donor-advised funds), increasing the deduction limit for businesses (both corporate and noncorporate) from 10% to 25% of taxable income, and increasing the limit on contributions of food inventory from 15% to 25% for all businesses' contributions.

Charitable Tax Expenditures

JCT's tax expenditure estimates include several charitable tax expenditures: the deduction for charitable giving, tax expenditures for certain tax-exempt bonds, and the exclusion for ministers housing allowance. The JCT provides charitable deduction tax expenditure estimates separately for contributions to 501(c)(3) educational institutions and health organizations. In FY2025, the tax expenditure for charitable deductions associated with giving to organizations other than education institutions or health organizations was $52.5 billion, while the tax expenditures for giving to educational institutions and health organizations were $10.6 billion and $7.6 billion, respectively (see **Table 2**).

[29] For more on the $10,000 limit on state and local tax deductions, see CRS In Focus IF11098, *2019 Tax Filing Season (2018 Tax Year): The State and Local Tax Deduction*, by Grant A. Driessen and Joseph S. Hughes.

[30] For additional background on tax incentives for charitable giving to support disaster relief, see CRS Report R45864, *Tax Policy and Disaster Recovery*, by Molly F. Sherlock and Jennifer Teefy.

Table 2. Projected Charitable Tax Expenditures, FY2025

(in billions of dollars)

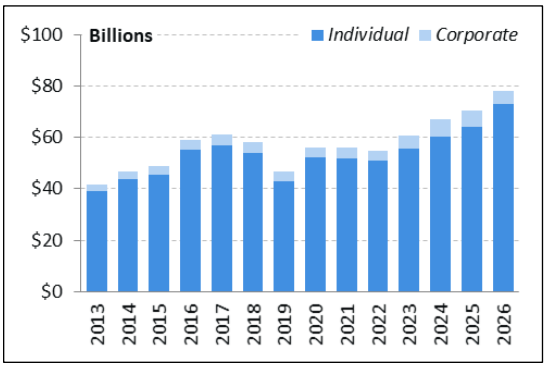
Provision	Individual	Corporate	Total
Deduction for Charitable Contributions (total)	64.2	6.5	70.7
Educational Institutions	*9.1*	*1.5*	*10.6*
Health Organizations	*5.9*	*1.7*	*7.6*
Other than Education and Health	*49.2*	*3.3*	*52.5*
Tax-Exempt Bonds (total for educational facilities and hospitals)	4.0	1.0	5.0
Private Nonprofit and Qualified Public Educational Facilities	*2.5*	*0.6*	*3.1*
Private Nonprofit Hospitals	*1.5*	*0.3*	*1.8*
Ministers Housing Allowance Exclusion	1.0	—	1.0

Source: Joint Committee on Taxation, *Estimates of Federal Tax Expenditures, FY2025-FY2029*, JCX-45-25, December 03, 2025.

Tax expenditures for the charitable deduction have generally trended upward over the past decade. For FY2025, JCT estimates that the charitable deduction will be associated with $73.6 billion in forgone revenue (see **Figure 2**).[31] This is up from the estimated $66.8 billion in forgone revenue for FY2024, and $60.8 billion for FY2023.[32] The charitable deduction tax expenditure declined after the introduction of the 2017 tax revision (P.L. 115-97), but has increased since.

Most of the forgone revenue associated with the charitable deduction is from individual giving, as opposed to corporate giving. The charitable deduction does not reflect forgone revenue associated with giving from bequests (which is discussed further below).

Figure 2. Charitable Deduction Tax Expenditures, FY2013–FY2026



Source: Joint Committee on Taxation.

Notes: All tax expenditure estimates are projections.

There are also revenue effects associated with allowing nonprofit educational institutions and hospitals to issue tax-exempt bonds, and for the provision exempting the housing allowance of clergymen from tax. Tax expenditure estimates for charities in FY2025 are reported in **Table 2**.

The Tax Treatment of Investment Income

For charities, most investment income is exempt from tax (there is a tax on the investment income of certain endowments, which is discussed below). The JCT does not consider the

[31] Tax expenditure estimates are projections for each fiscal year, as published in JCT's annual tax expenditure publication. These annual publications are available at https://www.jct.gov/publications/?searchWithin=&category_name=Tax+Expenditures&find-publication=Find+a+Publication. Tax expenditure estimates are forgone revenue associated with a tax provision, and may be viewed as the budgetary cost of the provision.

[32] FY2018 includes the end of calendar year 2017. Thus, changes in the value of the charitable deduction tax expenditure resulting from the 2017 tax revision (TCJA) are not fully realized until FY2019.

exemption of charities' investment income from tax a tax expenditure, and thus does not provide an estimate of the forgone revenue associated with this tax treatment.

Data from IRS Form 990 informational returns can be used to gauge the magnitude of 501(c)(3)s' exemption for investment income. In 2021, charities had $55.1 billion in investment income, $115.3 billion in net capital gains (mostly from the sale of securities), $4.8 billion in net rental income, and $5.9 billion in royalties.[33] If this income had been subject to a 21% income tax (the corporate income tax rate in 2021), $38 billion in revenue would have been raised.[34] This number does not include religious organizations.[35]

IRS data for 2021 reported assets of $5.9 trillion held by charities, with about $1.3 trillion of that amount in land, buildings, and equipment.[36] Private foundations had $1.2 trillion in assets, with $1.1 trillion in investment assets.[37] A significant share of investment assets held in charities is held in university endowments, with an estimated value of $874 billion in FY2024.[38] Assets do not include assets of nonreporting religious organizations.

Private Foundations

Most private foundations differ from operating charities in that they often have a single donor or small group of donors. In addition, while a gift to a foundation is deductible for income (and estate and gift) tax purposes, the donated funds are not immediately used for active charitable purposes. Rather, funds are invested and donations are often made to charitable organizations from earnings that may allow the corpus of the foundation to be maintained and grow. Contributions to foundations benefit from both the charitable deduction, when the contribution is made, as well as the exemption on investment earnings, as earnings accrue on invested contributions over time.

To address concerns that foundations could retain earnings and grow indefinitely, and because foundations are often closely tied to a family or specific group of donors, tax laws require a

[33] See IRS, Statistics of Income, "Tax Stats—Charities & Other Tax-Exempt Organization Statistics, Form 990—Balance Sheet and Income Statement Items for 501(c)(3) Organizations," https://www.irs.gov/statistics/soi-tax-stats-charities-and-other-tax-exempt-organizations-statistics.

[34] Looking at other types of tax-exempt organizations (those exempt from tax under IRC §§501(c)(4) through 501(c)(9)), investment income was $11.6 billion, net capital gains were $6.0 billion, royalties $2.0 billion, and net rental income $0.5 billion in FY2016. If this income had been taxed at a rate of 35%, an additional $7.0 billion would have been raised in tax revenue. See IRS, Statistics of Income, "Tax Stats—Charities & Other Tax-Exempt Organization Statistics, Form 990—Balance Sheet and Income Statement Items for 501(c)(3) Through 501(c)(9) Organizations," https://www.irs.gov/statistics/soi-tax-stats-charities-and-other-tax-exempt-organizations-statistics. More revenue would have been raised had this investment income been subject to the top individual income tax rate of 39.6% in 2016. Less revenue would be raised if the tax rate were lower, like the 21% corporate tax rate that applied after 2017.

[35] One estimate suggests that religious organizations have a substantial benefit from tax exemption, at $35.3 billion in 2012. Ryan T. Cragun et al. "How Secular Humanists (and Everyone Else) Subsidize Religion in the United States," *Free Inquiry*, June/July 2012, pp. 39-46, https://www.ryantcragun.com/how-secular-humanists-and-everyone-else-subsidize-religion-in-the-united-states/.

[36] IRS, Statistics of Income, "Tax Stats—Charities & Other Tax-Exempt Organizations Statistics, Form 990 Balance Sheet and Income Statement, Table 1," https://www.irs.gov/statistics/soi-tax-stats-charities-and-other-tax-exempt-organizations-statistics.

[37] IRS, Statistics of Income, "Tax Stats—Charities & Other Tax-Exempt Organizations Statistics, Domestic Private Foundations, Table 1," https://www.irs.gov/statistics/soi-tax-stats-domestic-private-foundation-and-charitable-trust-statistics.

[38] National Association of College and University Business Officers (NACUBO), 2024 NACUBO-TIAA Study of Endowments, *Summary and Key Insights from the 2024 NCSE*, https://www.nacubo.org/Research/2024/Public-NCSE-Tables. This figure does not include assets held by institutions that did not participate in this study.

minimum payout rate (5% of assets) and restrict activities that may benefit donors. The tax code imposes taxes and/or penalties for self-dealing, for failure to distribute income on excess business holdings, for investments that jeopardize the charitable purposes, and for taxable expenditures (such as lobbying or making open-ended grants to institutions other than charities).

For tax years beginning after December 20, 2019, private foundations are subject to a 1.39% excise tax on their net investment income.[39] Before December 20, 2019, the excise tax rate was 2%. However, the rate was reduced to 1% if qualifying charitable distributions are increased. Specifically, to qualify for the reduced excise tax rate, a foundation must pay out (1) an amount equal to its assets times the average payout rate during the base period (usually the past five years), plus (2) 1% of net investment income. In FY2024, excise taxes on private foundations generated $1.03 billion in revenue.[40]

Donor-Advised Funds (DAFs) and Supporting Organizations

DAFs allow individuals to make a gift to a fund in a sponsoring organization. Sponsoring organizations are charities that are allowed to receive tax-deductible donations. The gift is irrevocable, as in the case of a gift to a foundation or any other charity. The donor does not legally oversee the payment of grants to charities from the fund, which is determined by the sponsoring organizations. Donors make recommendations for grants (hence donor advised), and there is general agreement that these recommendations determine, with few exceptions, the contributions.[41] DAFs, like private foundations, can accumulate assets and earn a return tax free, but they are not subject to many of the restrictions on foundations, including the minimum payout rate.[42] These funds have been growing rapidly, in part through funds set up by major financial institutions.[43] According to the National Philanthropic Trust, in 2023 there were 1,782,281 individual DAFs, with contributions of $59.4 billion, assets of $282.9 billion, and recommended grants of $54.8 billion. The DAFs were managed by 78 national charities, 723 community foundations, and 344 single-issue charities.[44] In 2023, more than 322,000 donors had accounts at Fidelity Charity, with grants of over $11.8 billion.[45]

Supporting organizations are organized for the benefit of public charities, and they provide grants to these charities. There are several types of supporting organizations (DAFs are themselves supporting organizations). Type I and Type II organizations support a single charity and are supervised or controlled by the supported charity (with Type I similar to a parent-subsidiary relationship and Type II similar to a brother-sister relationship). A Type III organization supports more than one charity and falls into the category of a functionally integrated supporting

[39] Certain operating foundations are exempt from the tax. This change was made as part of the Taxpayer Certainty and Disaster Tax Relief Act of 2019, enacted as Division Q of the Further Consolidated Appropriations Act, 2020 (P.L. 116-94).

[40] See IRS, Statistics of Income, "Tax Stats, Historical Table 20," https://www.irs.gov/statistics/soi-tax-stats-historical-table-20.

[41] See CRS Report R42595, *An Analysis of Charitable Giving and Donor Advised Funds*, by Molly F. Sherlock and Jane G. Gravelle, for an analysis of some of the issues surrounding DAFs.

[42] The ability to accumulate assets without paying them out has been criticized by some. See Will Hobson, "Zombie Philanthropy: The Rich Have Stashed Billions in Donor-Advised Charities—But It's Not Reaching Those in Need," *Washington Post*, June 24, 2020, https://www.washingtonpost.com/lifestyle/style/zombie-philanthropy-the-rich-have-stashed-billions-in-donor-advised-charities—but-its-not-reaching-those-in-need/2020/06/23/6a1b397a-af3a-11ea-856d-5054296735e5_story.html.

[43] Large donor-advised fund sponsors include Fidelity Charitable, Vanguard Charitable, and Schwab Charitable.

[44] National Philanthropic Trust, *The 2024 DAF Report*, https://www.nptrust.org/reports/daf-report/.

[45] Fidelity Charitable, *2024 Giving Report*, https://www.fidelitycharitable.org/insights/2024-giving-report.html.

organization, or FISO (either through performing certain activities directly or exercising governance and direction) and nonfunctionally integrated (non-FISO). A Type III non-FISO has a number of additional restrictions, including a requirement to distribute the greater of 85% of net income or 3.5% of nonexempt-use assets.[46]

College and University Endowments

A college or university endowment fund—often referred to simply as an endowment—is an investment fund maintained for the benefit of the educational institution. University endowments have been the subject of some scrutiny, in part because of the juxtaposition of growing endowment sizes with increasing tuition at private universities.[47]

The TCJA added a 1.4% excise tax on net investment income of nonprofit colleges and universities (the "endowment tax") with assets of at least $500,000 per full-time equivalent (FTE) student and more than 500 FTE students. In 2024, the IRS estimated that institutions paid a total of $169 million in endowment tax on 45 filings.[48]

P.L. 119-21 further revised the endowment tax. Starting in tax year 2026, institutions with assets of at least $750,000 per FTE student will pay a rate of 4%, while those with assets of at least $2 million per FTE student will pay a rate of 8%. Institutions will only have to pay the tax if they have at least 3,000 FTE students. The definition of "net investment income" will expand to include interest on student loans and federally subsidized royalty income. The JCT estimated these changes will increase revenues by $761 million from FY2026 to FY2034.[49]

Tax-Exempt Hospitals

For private nonprofit hospitals to be eligible for tax-exempt status, to be able to receive tax-deductible charitable contributions, and to be eligible for tax-exempt bond financing, they must meet a *community benefit standard*. Health care is not by itself a stated objective in the tax provisions determining charitable (501(c)(3)) status. Generally, the community benefit standard requires the hospital to show that it has provided benefits that promote the health of a broad class of persons in the community. One way hospitals may demonstrate that they have met the community benefit standard is by providing charity care (free or discounted services to charity patients). Other types of community benefit include participation in means-tested programs such as Medicaid; providing health professions education, conducting health services research, providing subsidized health services, funding community health improvement, and donating cash or in-kind contributions to other health-related community groups.[50] Community-building activities (such as for housing and the environment) may qualify if a link to community health

[46] Restrictions on Type III supporting organizations were adopted in the Pension Protection Act of 2006 (P.L. 109-280).

[47] See CRS Report R44293, *College and University Endowments: Overview and Tax Policy Options*, by Molly F. Sherlock et al., for a further discussion.

[48] IRS, Statistics of Income, "Excise Taxes Reported by Charities, Private Foundations, and Split-Interest Trusts on Form 4720, 2024," https://www.irs.gov/statistics/soi-tax-stats-charities-and-other-tax-exempt-organizations-statistics. The number of filings may not equal the number of institutions since some relevant institutions may file their Form 4720 early or late, causing them to submit more or less than one filing in a given calendar year.

[49] JCT, *Estimated Revenue Effects Relative To The Present Law Baseline Of The Tax Provisions In "Title VII – Finance" Of The Substitute Legislation As Passed By The Senate To Provide For Reconciliation Of The Fiscal Year 2025 Budget*, JCX-35-25, July 1, 2025, https://www.jct.gov/publications/2025/jcx-35-25/.

[50] See IRS, "Revenue Ruling 69-545," https://www.irs.gov/pub/irs-tege/rr69-545.pdf. See also CRS Report R48027, *Legal Requirements for Section 501(c)(3) Hospitals*, by Edward C. Liu.

can be shown. The IRS does not count shortfalls associated with Medicare or bad debts from those not qualifying for charity care as part of the community benefit standard.

The Patient Protection and Affordable Care Act (PPACA; P.L. 111-148) added additional requirements for 501(c)(3) tax-exempt hospitals. Specifically, 501(r) requires these hospitals to conduct community health needs assessments, establishing a written financial assistance policy, limit charges to financial-assistance-eligible patients to amounts billed to insured patients, and not engage in extraordinary billing collections until an effort is made to determine eligibility for financial assistance. Tax-exempt hospitals report their community benefit actions on their Form 990.[51] In 2016, total net community benefit expenses were $75.1 billion (9.42% of expenses); of that amount, $12.8 billion was for charity care (1.58% of expenses) and $35.7 billion for unreimbursed means-tested costs (3.7%, almost entirely Medicaid). Data from the Centers for Medicare & Medicaid Services indicated that charity care was a smaller share of expenses for nonprofit private hospitals than for private for-profit hospitals: 2.07% compared to 2.64%.[52] One study estimated the cost of all federal, state, and local subsidies for tax-exempt hospitals (income, sales, and property tax benefits) to be $28.1 billion in 2011 including $10.3 billion for the federal tax-exempt status. That study also estimated that charity care accounted for 2.2% of expenses.[53] Another study using 2012 data found that nonprofit hospitals' community benefit expenses were 7.63% of total expenses, while the value of nonprofit hospitals' tax exemption was 5.87% of total expenses.[54] The study also evaluated incremental community benefits, or community benefits beyond those provided by for-profit hospitals. Incremental community benefits provided by nonprofit hospitals were estimated to be 5.71% of expenses in 2012.

More recent data for 2021 indicated a benefit of $11.5 billion in savings from federal income taxes, $3.2 billion from charitable deductions, and $2.1 billion from tax-exempt bond financing.[55]

Since the tax code does not identify health as a justification for tax benefits, the treatment has largely developed from IRS regulations. A 2023 Government Accountability Office (GAO) study recounts this issue and also raises questions about whether the reporting requirements provide enough evidence to demonstrate community benefits.[56] The community benefit standard for private hospitals has generated recent congressional interest, including a 2023 hearing of the House Ways and Means Committee.[57]

---

[51] See CRS Report R48027, *Legal Requirements for Section 501(c)(3) Hospitals*, by Edward C. Liu, for further discussion and a history of the evolution of this standard. See CRS In Focus IF10918, *Hospital Charity Care and Related Reporting Requirements Under Medicare and the Internal Revenue Code*, by Marco A. Villagrana et al., for a description of reporting requirements.

[52] See Internal Revenue Service, Department of the Treasury, *Report to Congress on Private Tax-Exempt, Taxable and Government-Owned Hospitals*, May 2020, https://www.grassley.senate.gov/imo/media/doc/3-24-20%20CY%202016%20Hospital%20Report%202020.pdf.

[53] Zachary Levinson et al., *Key Facts About Hospitals*, Kaiser Family Foundation, February 19, 2025, https://www.kff.org/key-facts-about-hospitals/?entry=overview-introduction.

[54] This included income, sales, and property tax benefits. Bradley Herring et al., "Comparing the Value of Nonprofit Hospitals' Tax Exemption to Their Community Benefits," *INQUIRY: The Journal of Health Care Organization, Provision, and Financing*, vol. 55 (January 2018), pp. 1-11.

[55] Elizabeth Plummer et al. , "Estimation of Tax Benefit of U.S. Nonprofit Hospitals," *Journal of the American Medical Associatio*n, vol. 332, no. 20 (November, 2024), pp. 1687-1768, https://jamanetwork.com/journals/jama/fullarticle/2824116.

[56] Government Accountability Office (GAO), *Tax Administration: IRS Oversight of Hospitals' Tax-Exempt Status*, GAO-23-106777, April 26, 2023, https://www.gao.gov/products/gao-23-106777.

[57] U.S. Congress, House of Representatives, Committee on Ways and Means, Subcommittee on Oversight, *Tax-Exempt Hospitals and the Community Benefit Standard*, 118th Cong., 1st sess., April 26, 2023, https://gop-waysandmeans.house.gov/wp-content/uploads/2024/02/04.26.23-OS-Transcript.pdf.

Tax Treatment of Charitable Bequests

Charitable donations made by an estate are generally referred to as *charitable bequests*. Decedents potentially subject to the estate tax can deduct charitable contributions.[58] Estates are effectively subject to a 40% rate on amounts above the statutorily exempted value, which P.L. 119-21 set at $15 million per decedent who dies in 2025.

Transfers to a spouse at death are also excluded from the estate tax, and any unused exemption can be added to the exemption of the second spouse. Because of the large exemption, a small share of estates are subject to the estate tax, although a significant share of charitable contributions made by bequests appear on estate tax returns. The increase in the exemption decreased the amount of bequests that receive a benefit from the charitable deduction.

The data from estate tax returns filed in 2023 showed $49.5 billion of bequests reported on all estate tax returns, with $32.8 billion reported on taxable returns.[59] Some of the bequests reported on nontaxable returns may benefit from the tax deduction, indicating a range of revenue costs from $13.1 billion to $19.8 billion.[60]

Data Describing the Charitable Sector

The following sections describe the charitable sector. Specifically, data are presented on the size of the sector and the sector's revenues (including charitable contributions).

The Size of the Charitable Sector

In 2022, 501(c)(3) organizations reported $6.2 trillion in total assets ($4.0 trillion in net assets) and total revenues of $3.0 trillion (or approximately 12% of GDP).[61] Most of IRS Form 990 filers are small (assets of less than $500,000) or medium-sized (assets of $500,000 up to $10 million) charities (37% and 48%, respectively). Large organizations, those with at least $10 million in assets, were 14% of Form 990 filers. Assets and revenues—and to a lesser extent, contributions—are concentrated in these larger organizations. Although large organizations are 14% of charitable organizations filing Form 990s, such organizations hold 95% of assets, receive 91% of revenues, and collect 79% of contributions.

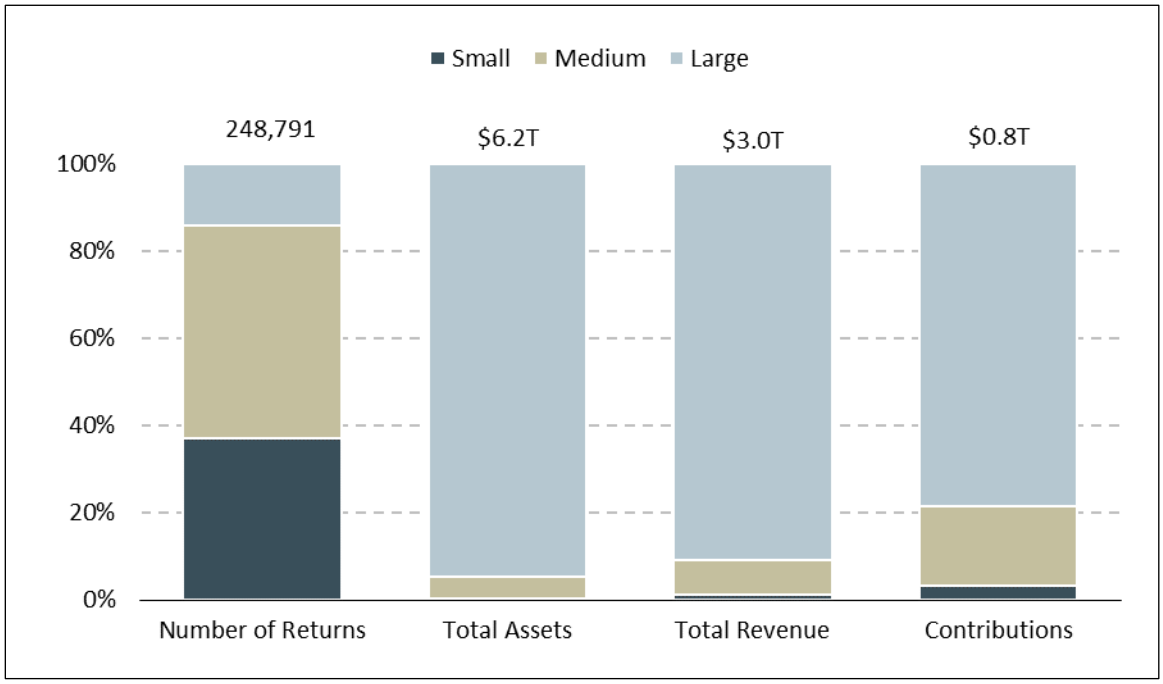
[58] See CRS Report R48183, *The Estate and Gift Tax: An Overview*, by Jane G. Gravelle, for a more detailed discussion of the estate tax.

[59] IRS, Statistics of Income, "Estate Tax Data by Filing Year, Table 1. Selected Income, Deduction and Tax Computation Items, by Tax Status and Size of Gross Estate," https://www.irs.gov/statistics/soi-tax-stats-estate-tax-filing-year-tables https://www.irs.gov/statistics/soi-tax-stats-estate-tax-statistics-filing-year-table-1.

[60] Estates may be made nontaxable through making charitable bequests.

[61] IRS, Statistics of Income, "Charities & Other Tax-Exempt Organization Statistics, Table 1. Form 990 Returns of 501(c)(3) Organizations: Balance Sheet and Income Statement Items, by Asset Size, Tax Year 2021," https://www.irs.gov/statistics/soi-tax-stats-charities-and-other-tax-exempt-organizations-statistics.

Figure 3. 501(c)(3) Organizations: Returns, Assets, and Revenue by Organization Size, 2022

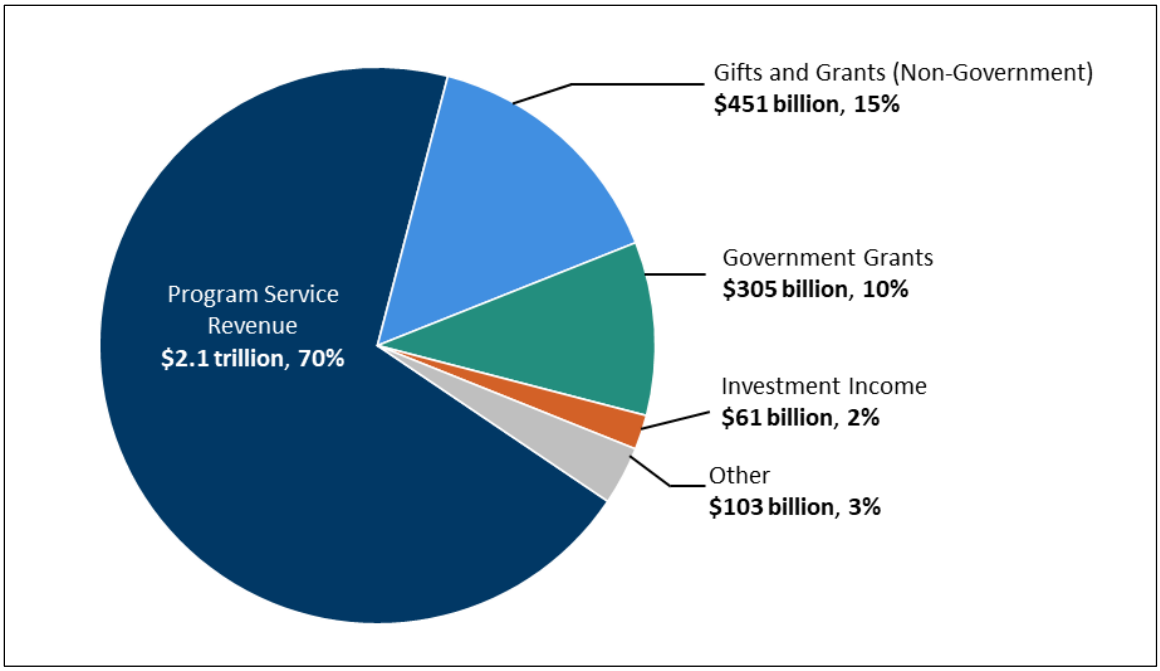


Source: Internal Revenue Service (IRS), Statistics of Income, "Charities & Other Tax-Exempt Organization Statistics, Table 1. Form 990 Returns of 501(c)(3) Organizations: Balance Sheet and Income Statement Items, by Asset Size, Tax Year 2022," https://www.irs.gov/statistics/soi-tax-stats-charities-and-other-tax-exempt-organizations-statistics.

Notes: Figures are for returns filed during 2022, which may differ from the number of total organizations submitting filings due to early or late filings by some institutions. Large organizations include those with assets over $10 million. Small organizations are those with assets under $500,000. Contributions includes all forms of gifts and grants, including charitable contributions, government grants, as well as contributions from related organizations and funds raised from fundraising events, through membership dues, or from federated campaigns.

Charitable contributions are a small share of revenues of 501(c)(3) organizations reporting to the IRS, accounting for 15% of revenue in 2022 (**Figure 4**). The primary source of revenue (70%) is program services, such as tuition paid by college and university students, payments for hospital stays, and entry fees. Charitable organizations' revenue sources depend on the type of charity. For example, charitable giving is much less important for fee-for-service organizations such as educational institutions and hospitals than it is for other organizations. (These data represent those filing Form 990 returns. This excludes nonfiling religious organizations, which are likely to rely more on contributions.)

Figure 4. Sources of 501(c)(3) Organization Revenue, 2022



Source: IRS, Statistics of Income, "Charities & Other Tax-Exempt Organization Statistics, Table 1. Form 990 Returns of 501(c)(3) Organizations: Balance Sheet and Income Statement Items, by Asset Size, Tax Year 2022," https://www.irs.gov/statistics/soi-tax-stats-charities-and-other-tax-exempt-organizations-statistics.

Notes: Program service revenue includes fee-for-service revenue, such as tuition payments or hospital service revenue. Hospital service revenue may come from private or public sources. Gifts and grants include private contributions, as well as contributions from related organizations.

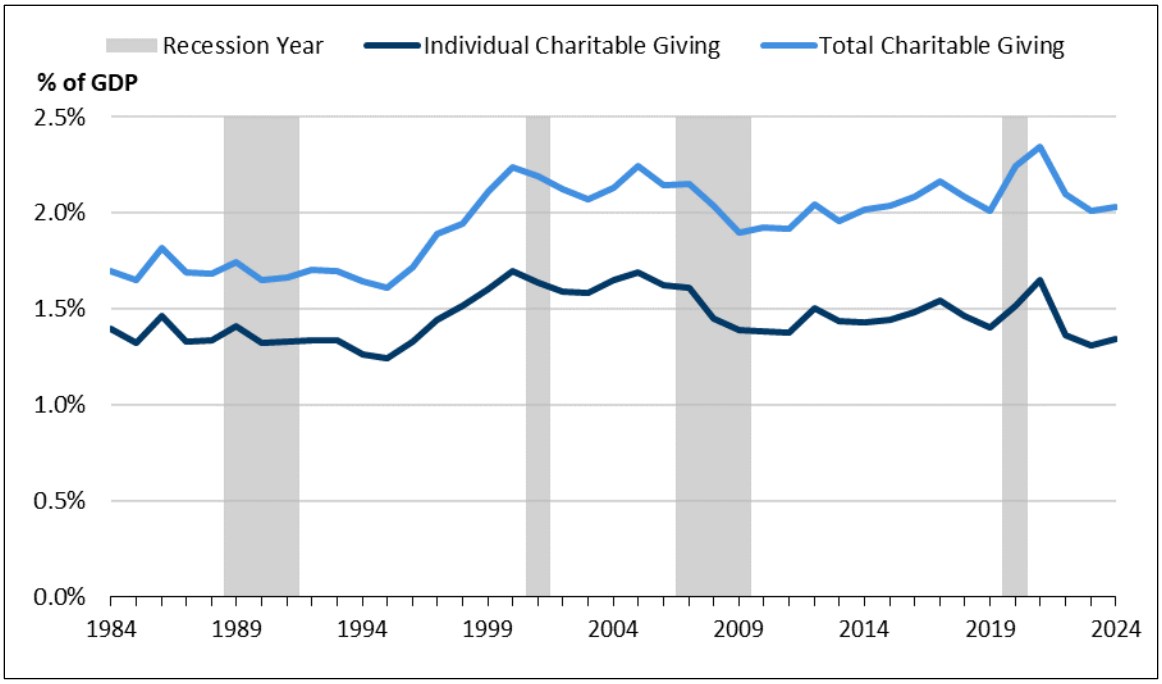
Magnitude, Sources, and Beneficiaries of Charitable Giving

In absolute terms, charitable giving has increased over time. When considering the magnitude of the charitable sector in the economy, one metric is charitable giving as a share of GDP. In 2024, estimated total giving was $592.5 billion, or 2.0% of GDP.[62]

Charitable giving since 1984 has averaged 2.0% of GDP. However, as seen in **Figure 5**, this average obscures variation over time and across business cycles. The smallest share of charitable giving occurred in 1995 (1.6% of GDP), whereas the largest share occurred five years later in 2000 (2.2% of GDP). Although a decline appears between 2017 and 2018 (which could reflect the effects of the TCJA), it appears small in the context of historical fluctuations in giving as a share of GDP.

[62] Data on giving are from The Center on Philanthropy at Indiana University, *Giving USA 2024*; GDP from Bureau of Economic Analysis, "National Income and Product Accounts, Table 1.1.5," https://www.bea.gov/.

Figure 5. Charitable Giving as a Percentage of GDP, 1984-2024

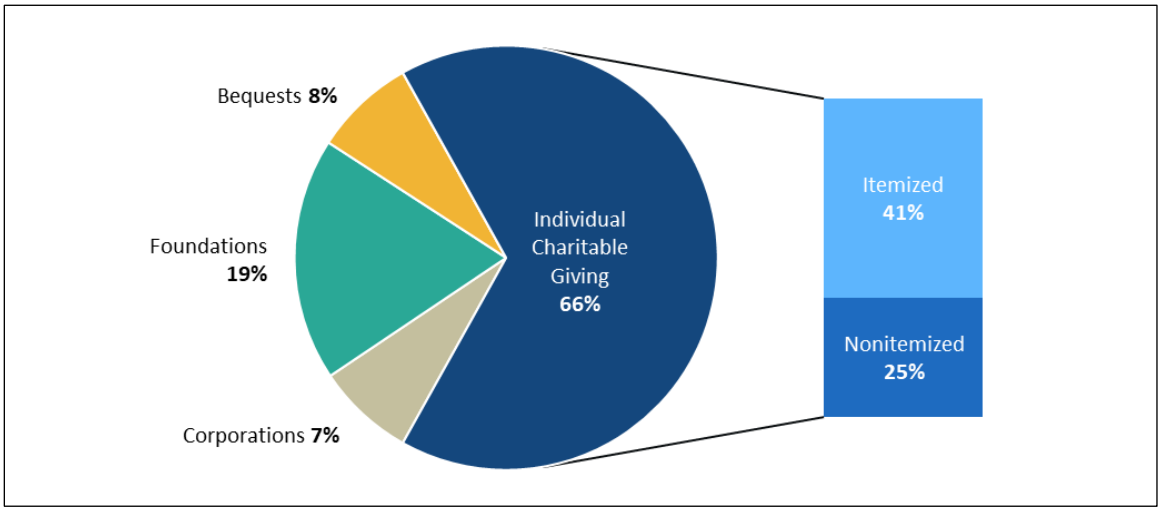


Source: The Center on Philanthropy at Indiana University, *Giving USA 2024*.

Note: The difference between the individual and total charitable giving is the sum of charitable giving from corporations, foundations, and bequests.

Private contributions to charitable organizations come from four different sources: individuals, foundations, bequests, and corporate giving. As shown in **Figure 6**, individuals were the largest source of charitable giving in 2024 and totaled $392 billion, or 66% of all giving. As estimated subsequently in this report, 41% of 2024 giving received a tax benefit from itemized deductions. Grants from foundations were the second-largest source of charitable contributions in 2024 ($110 billion, or 19%), followed by charitable bequests ($46 billion, or 8%) and corporate giving ($44 billion, or 7%).

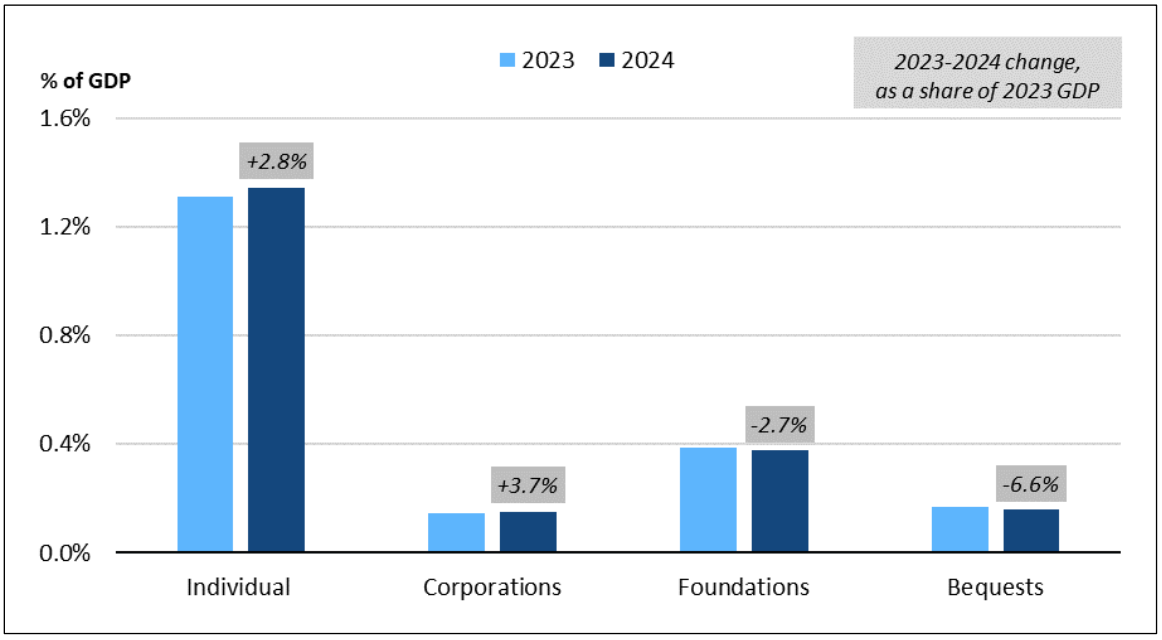
Figure 6. Shares of Charitable Giving by Source, 2024



Source: The Center on Philanthropy at Indiana University, *Giving USA 2025*; with CRS calculations for share of itemized and nonitemized giving based on 2022 estimates.

As illustrated in **Figure 7**, individual giving as a percentage of GDP rose by 2.8% and corporate giving rose by 3.7% between 2023 and 2024. In contrast, giving from foundations and bequests fell as a percentage of GDP, by 2.7% and 6.6%, respectively, between 2023 and 2024.

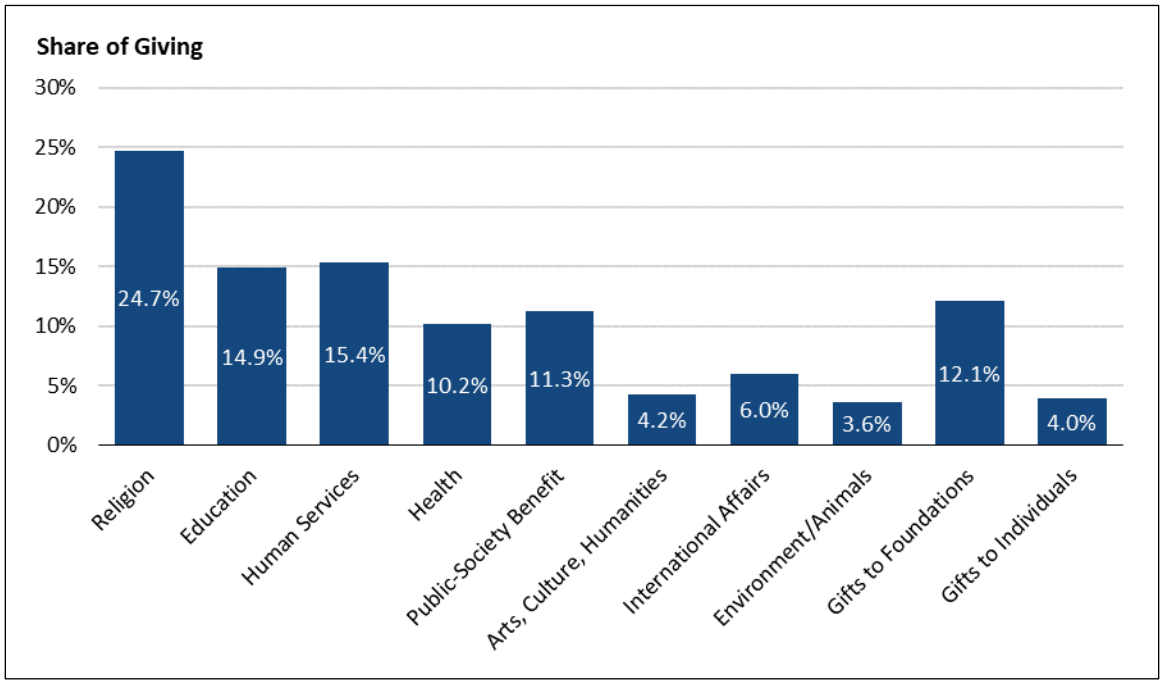
Figure 7. Charitable Giving by Source as a Percentage of GDP, 2023 and 2024



Source: The Center on Philanthropy at Indiana University, *Giving USA 2025*; and CRS.

Religious charities receive the largest share of charitable giving, receiving 25% of total giving in 2024 (**Figure 8**). Human services and education ranked next, both at 15%, while gifts to foundations represented 12%, and to public-society benefit at 11%.[63]

Figure 8. Shares of Charitable Giving by Type of Recipient, 2024

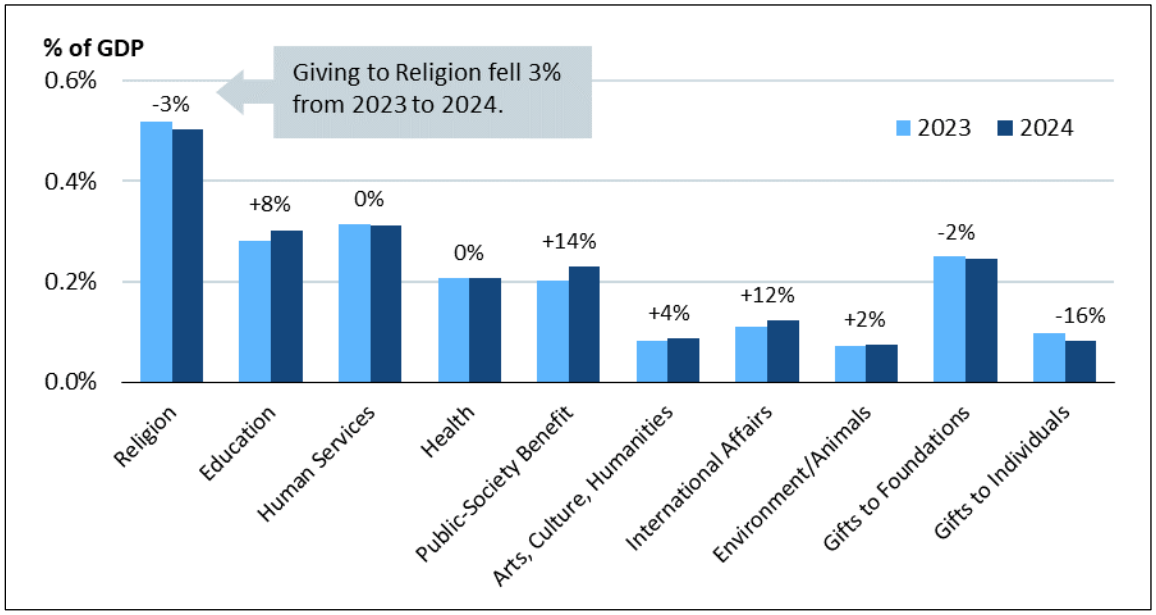


Source: The Center on Philanthropy at Indiana University, *Giving USA 2025*.

[63] Public society benefit includes civil rights, social action, and advocacy; community improvement and capacity building; philanthropy, voluntarism, and grantmaking foundations (including donor-advised funds); science and technology; social science; and public and societal benefit such as public policy research, government and public administration, transportation systems, public utilities (including telecommunications), consumer rights/education/protection, military and veterans organizations, and financial institutions.

Year-over-year giving by type of recipient was mixed between 2023 and 2024, as shown in **Figure 9**. Giving as a share of GDP rose for gifts to public-society benefit (14%), international affairs (12%), education (8%), arts, culture, and humanities (4%), and environment/animals (2%). In contrast, giving to individuals (-16%), foundations (-2%), and religion (-3%) all declined as a percentage of GDP.[64]

Figure 9. Charitable Giving by Type of Recipient as a Percentage of GDP, 2023 and 2024

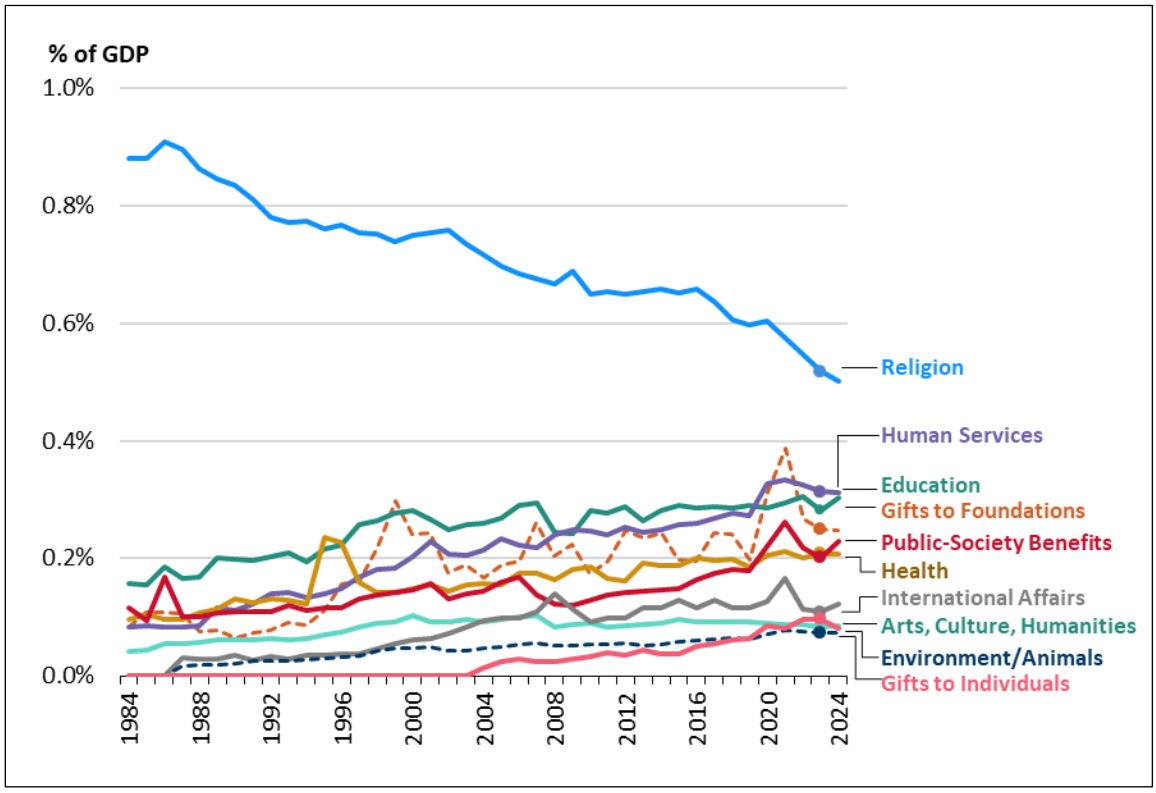


Source: The Center on Philanthropy at Indiana University, *Giving USA 2025*; and CRS.

[64] Giving to human services and health stayed roughly even as a share of GDP.

Giving to religion as a percentage of GDP and as a share of total giving has declined over time, as shown in **Figure 10**. The decline in giving to religion from 2023 to 2024 may have been part of a continuing trend.

Figure 10. Trends in Charitable Giving by Type of Recipient, 1984-2024



Source: The Center on Philanthropy at Indiana University, *Giving USA 2025*.

The Incentive Effects of Tax Benefits for Charitable Contributions and Organizations

To understand how much charitable giving is induced by tax incentives, it is important to understand how donors respond to tax incentives. Individuals give for a variety of reasons (e.g., altruism); research indicates that tax benefits may also influence charitable giving. Tax benefits encourage charitable giving by reducing the cost of giving, with the federal government effectively subsidizing charitable giving.

For ordinary donations during donors' lifetimes (inter-vivos giving) and for donors not claiming the standard deduction, their marginal income tax rate determines the incentive effect by lowering the cost of giving. Donors who do not claim itemized deductions do not receive an incentive effect from the tax code unless their gifts fall below the cap. For gifts of appreciated property, subsidies are affected by the capital gains tax rate as well, regardless of whether itemized deductions are used. For bequests, the tax rate is the estate tax rate, but only a small fraction of estates are subject to tax. Corporate giving is potentially affected by the corporate tax rate.

Taxes also have income effects, which may be important for wealthy donors who donate large shares of income or leave large shares of their estates to charity; taxes reduce charitable giving by

reducing disposable income. Deductions for charitable contributions not only provide a tax incentive for donating or leaving bequests, but also have an income effect that increases giving.

Tax Subsidies for Charitable Giving, Inter-Vivos Giving

Taxpayers who itemize their deductions face a lower cost of giving than other taxpayers. Prior to the 2017 tax revision, the majority of individuals' charitable giving was deducted. For 2017, charitable deductions of $256.1 billion were reported on tax returns, although $13.6 billion of that number was on returns with no ultimate tax liability.[65] According to *Giving USA*, in that same year individuals donated $286.7 billion,[66] indicating that approximately 89% of charitable deductions benefited from some subsidy in that year. Taxpayers with $500,000 of adjusted gross income or more, representing 1% of returns, accounted for 39% of charitable contributions. Taxpayers with $100,000 to $500,000 of income, slightly over 17% of returns, accounted for 38% of itemized charitable contributions as well.

In 2018, following the enactment of the TCJA, charitable deductions were $197 billion while individual contributions were $292.1 billion, with approximately 67% receiving a subsidy.[67] The amount of giving that benefits from tax reductions through itemized deductions declined substantially in 2018 due to provisions of the 2017 tax revision.[68] The TCJA decreased the share of itemizers due to a significant increase in the standard deduction and restrictions on itemized deductions, most importantly a $10,000 cap on deductions for state and local taxes.[69] The share of households reporting a benefit from deducting charitable contributions fell from 24.8% to 9.7% between 2017 and 2018.[70] P.L. 119-21 made these changes permanent, slightly increased the standard deduction, and temporarily allowed a higher cap on state and local tax deductions.

Charitable contributions itemized on individual income tax returns are estimated to have fallen by about 23% as a result of the 2017 tax revision while the share of returns with itemized deductions for contributions fell by 61%.

The estimated tax savings from charitable contributions, reflecting both the decline in itemizing and the decline in tax rates, also fell from $57 billion to $41.9 billion, or by 26%, from 2017 to 2019.[71] The Tax Policy Center estimated that the marginal benefit (effect on an additional $1,000 of contributions) declined most steeply in the middle and upper-middle of the income distribution

[65] Data on charitable contributions from IRS, Statistics of Income, "Individual Statistical Tables by Size of Adjusted Gross Income, Table 2.1," https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income. Distribution of returns is taken from Table 1.1.

[66] The Center on Philanthropy at Indiana University, *Giving USA 2019*.

[67] Tax deductions from IRS Statistics of Income, "Individual Statistical Tables by Size of Adjusted Gross Income, Table 2.1," https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income. Data on individual giving from Giving USA, "*Giving USA 2019*: Americans Gave $427.71 Billion to Charity in 2018 amid Complex Year for Charitable Giving," https://www.marylandphilanthropy.org/news/giving-usa-2019-americans-gave-42771-billion-charity-2018-amid-complex-year-charitable-giving?page=21.

[68] Calculations based on IRS filing season statistics document the decline in the number of taxpayers claiming the charitable deduction. For a discussion, see James Andreoni and Jon Durnford, "Effects of the TCJA on Itemization Status and Charitable Deduction," *Tax Notes Federal*, August 26, 2019, pp. 1399-1403.

[69] The tax revision eliminated the personal exemption, and the standard deduction increase slightly more than offset the loss for personal exemptions for the taxpayer and spouse (dependent exemptions were offset by increased credits). While these effects were largely offsetting for those already taking the standard deduction, they increased the benefit of taking the standard deduction for those who were itemizing, who lost personal exemptions in any case.

[70] Data from IRS, Statistics of Income, "Individual Statistical Tables by Size of Adjusted Gross Income, Tables 1.2 and 2.1," https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income.

[71] JCT, *Estimates Of Federal Tax Expenditures For Fiscal Years 2017-2021*, JCX-34-18, May 25, 2018, https://www.jct.gov/publications/2018/jcx-34-18/

(the benefit fell by 50% in the fourth quintile, whereas it fell by 4% in top 0.1%). The TPC reported that taking into account all returns (including those not itemizing before the tax change), the average marginal tax rate across all donations fell from 20.7% to 15.2% from 2017 to 2019, or by 27%.[72]

Gifts of Cash

About two-thirds of charitable contributions in 2017 were in cash, and high-income taxpayers have a smaller share of cash contributions than their general contribution share (51% in 2017 for taxpayers with income greater than $1 million).[73] The price of charitable contributions for itemizers is (1-t), where t is the taxpayer's tax rate at which contributions are deducted.[74] For example, if the individual is in a 25% tax bracket, every dollar the taxpayer donates and deducts from their income reduces their taxes by 25 cents. Hence, the tax price is 0.75, indicating that a taxpayer has to give up 75 cents for each dollar of charitable contributions. That is, if the taxpayer in that bracket contributes a dollar, he or she saves 25 cents in taxes and loses 75 cents that could have been used for other purposes.

Charitable giving is concentrated at higher income levels, and the effect of the incentive depends on the tax rate. Consider the top tax rate (applicable for taxpayers with very high income levels), which has fluctuated substantially since the income tax was introduced in 1913, beginning at rates as low as 7% and rising as high as 92%. Starting in the mid-1960s, the top rate was 70% for many years (although it rose slightly with the Vietnam War surcharge). Beginning with legislation in 1981, the top tax rate has been reduced substantially. Effective in 1982, it was reduced from 70% to 50%. In 1986, it was further reduced to 28%. Rate increases occurred in 1990 and 1993, decreases in 2001, increases in 2013, and decreases in 2017. **Table 3** compares the magnitude of those past changes in tax price. Importantly, as marginal tax rates fall, the tax price of giving increases—in effect, the subsidy from the charitable deduction is reduced. Conversely, when marginal rates increase, the tax price of giving falls, and the subsidy of the charitable deduction increases. There were very large percentage changes in the 1981 and 1986 tax cuts, with much smaller changes subsequently. The effect of the top rate change in 2017 is relatively small compared to these earlier changes.

The TPC estimated that across all taxpayers the tax price (one minus the tax rate) rose by 6.9%, to reflect the change in itemized deductions as well as the small change in tax brackets.

---

[72] Urban-Brookings Tax Policy Center, "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," https://taxpolicycenter.org/model-estimates/charitable-contributions-and-tcja-nov-2017/t17-0336-effective-marginal-tax-benefit.

[73] Deductions for charitable contributions in a given tax year exceed the sum of cash and noncash contributions, as some of the deduction is a carryover of deductions for contributions that were made in previous tax years. Limitations on charitable deductions make it such that, for some donors, the full value of the deduction cannot be claimed in the year the contribution is made. The share of cash contributions computed here is cash contributions as a share of total contributions, excluding carryovers from previous tax years.

[74] One provision that is not considered in calculating tax price changes is the now-repealed phase-out of itemized deductions. Despite the term used to describe it, the phase-out of itemized deductions did not reduce the value of itemized deductions at the margin. It was triggered by an increase in adjusted gross income, and, if itemized deductions grow with income, as is commonly the case, its effect is to increase the effective marginal tax rate by 3% in a way that does not affect the subsidy. A simple model with the phase-out, L = t(y+.003(Y-Yb)–D), where L is liability, t is the tax rate, Y is income, Yb is the point at which the phase-out begins, and D is deductions, illustrates that the change in taxes with a change in D is t. Generally, state income taxes are enough to cause deductions to grow by 3% of income, but there may be occasional circumstances where deductions do not grow fast enough. In that case the itemized deduction phase-out would reduce the value of charitable deductions. No data are available on the size of this effect, but it is likely to be small.

The share of contributions in cash was about the same in 2018, but by 2022 the cash share fell to 51%.

Table 3. Percentage Change in Tax Price, Top Tax Rate, Gifts of Cash

	Original Tax Rate	Enacted Tax Rate	Percentage Change in Tax Price
2026 Tax Change	37.0%	35.0%	3.2%
2017 Tax Cut	39.6%	37.0%	4.3%
2013 Tax Increase	35.0%	39.6%	-7.1%
2001 Tax Cut (Effective 2003)	39.6%	35.0%	7.6%
1993 Tax Increase	31.0%	39.6%	-12.5%
1990 Tax Increase	28.0%	31.0%	-4.1%
1986 Tax Cut	50.0%	28.0%	44.0%
1981 Tax Cut	70.0%	50.0%	66.7%

Source: CRS calculations.

Gifts of Appreciated Property

The value of donating property differs from the value of cash donations; most property is appreciated property such as stocks and other property gaining value. Taxpayers with incomes of $500,000 or more account for 69% of these contributions. Currently, taxpayers are allowed to deduct the entire cost of donated property, without paying the capital gains tax. Since the cost of a dollar of consumption from sale of an appreciated asset is $1/(1-at_g)$, where t_g is the capital gains tax rate and a is the share of value that would be taxed as a gain, the tax price of charitable giving of appreciated property is $(1-t)/(1-at_g)$. The tax price effects in **Table 3** reflect tax prices of assets with no appreciation. **Table 4** shows the effects at the top rates for cases with appreciation of 50% of the value and 100% of the value. An appreciation approaching the full value would occur with assets that have been held for a long time and had a faster growth rate.

Although changes in capital gains tax rates in isolation can affect the price of giving (for example, causing an increase in the price of giving by up to 10% in 1997), they sometimes offset the effects of a change in ordinary rates (as in 1986) and at other times exacerbate the effects. As with cash gifts, however, the largest changes to the tax price of appreciated property occurred in 1981 followed by 1986, where the price of charitable giving increased; the largest price decrease remains in 1993.

Table 4. Percentage Change in Tax Price, Top Tax Rate, Gifts of Appreciated Property

Year	Prior-Year Ordinary Tax Rate (%)	Enacted Ordinary Tax Rate (%)	Prior-Year Capital Gains Tax Rate (%)	Enacted Capital Gains Tax Rate (%)	Price Change with 50% of Value in Appreciation (%)	Price Change with 100% of Value in Appreciation (%)
2026	37.0	35.0	23.8	23.8	3.2	3.2
2017	39.6	37.0	23.8	23.8	4.3	4.3
2013	35.0	39.6	15.0	23.8	-2.4	3.6
2003	35.0	35.0	20.0	15.0	-2.7	-5.9
2001	39.6	35.0	20.0	20.0	7.6	7.6
1997	39.6	39.6	28.0	20.0	-4.4	-10.0
1993	31.0	39.6	28.0	28.0	-12.5	-12.5
1990	28.0	31.0	28.0	28.0	-4.2	-4.2
1986	50.0	28.0	20.0	28.0	37.8	29.6
1981	70.0	50.0	28.0	20.0	74.4	85.2
1978	70.0	70.0	35.0	28.0	-4.1	-9.7

Source: CRS calculations.

Tax Incentives for Bequests

A small share of estates are subject to the estate tax. According to the TPC, the share of deaths subject to the estate tax is 0.1%.[75]

The latest IRS estate tax data are for decedents dying in 2019. These data showed $22.3 billion of bequests reported on all estate tax returns, with $7.9 billion reported on taxable returns.[76] The amount potentially benefiting from the estate tax deduction presumably fell between those two values, as the charitable deduction could have resulted in some estates not being taxable. Giving USA reported bequests of $26.3 billion in 2013 and $28.1 billion in 2014;[77] thus, between 30% and 53% of bequests received the benefits of estate tax deductions.

The tax price of a bequest is $(1-t_e)$, where t_e is the estate tax rate. The capital gains tax rate does not apply because the capital gain on assets passed on at death is not recognized. The current estate tax rate is 40%. The estate tax rate has fluctuated over time. From the post-World War II period to 1976, the top rate was 77%, when it was reduced to 70%. In 1981, the rate was reduced over a three-year period to 55% from 1982 to 1984, an increase in tax price of 50%. The estate tax rate was lowered from 55% to 45% over the period from 2002 to 2007, a 22% price increase. The estate tax was repealed for 2010, an 82% increase in the tax price (although individuals were retroactively allowed to pay an estate tax at 2011 rates of 35% to avoid a provision that would have required future capital gains to be recognized on sale by heirs, called *carryover basis*). For those electing the 2011 tax rate, the price increase was 18%. The tax rate was reduced to 35%

[75] Urban-Brookings Tax Policy Center, Table T18-0134, https://www.taxpolicycenter.org/model-estimates/baseline-estate-tax-tables-sep-2018/t18-0134-estate-tax-returns-and-liability-under.

[76] IRS, Statistics of Income, "Estate Tax Data, by Year of Death, Estate Tax Returns for 2019," https://www.irs.gov/pub/irs-soi/19es01yd.xlsx.

[77] The Center on Philanthropy at Indiana University, *Giving USA*.

temporarily for 2011 and 2012; in 2013, the rate was set at 40%, a decrease in the tax price compared to the temporary rates of 8%. Aside from the year of repeal in 2010, the largest price increase was 50%, and significant price changes were fewer than for inter-vivos gifts.

The benefits of the subsidy for bequests are also affected by the exemption, and the increases in exemptions make the tax subsidy less applicable—reducing the tax incentive for charitable bequests. Nevertheless, for bequests reported on estate tax returns, these bequests are concentrated in large estates. The estate tax data for 2019 decedents include estates of $11.4 million or more, since smaller estates would be exempt, but 73% of contributions from these estates were from estates of $50 million or more, and 91% were reported for estates of $20 million or more. For taxable estates, 84% were reported on estates of $50 million or more, and 97% were reported on estates of $20 million or more. Thus, it appears that most charitable contributions that benefited from the deduction from the estate tax were from large estates.

Incentives for Corporate Giving

Corporate giving is a relatively small share of total giving. In 2021, the last year for which tax data were available, tax statistics indicated total contributions of $34.7 billion.[78]

The incentive effects for corporate giving depend on the motivation. If charitable contributions are an expenditure for purposes of advertising and public relations, the deduction is like any other cost, and the corporate tax rate does not matter. If the contribution increases the welfare of managers, the donation reduces profit, and the corporate tax matters.[79]

To the extent that the corporate tax price affects charitable giving, the tax price has changed infrequently. In 1981, the corporate tax rate was 46%. The 1986 legislation phased the rate down over two years to 34%, increasing the tax price by 22%. In 1993, the corporate tax rate increased to 35%, for a small tax price reduction of less than 2%. The corporate tax rate stayed at that level, until 2018, when the rate was reduced to 21%, for a tax price increase of 25%.

Accumulating Earnings Tax Free

Numerous opportunities are available for adding to the tax benefit of a charitable contribution by accumulating earnings that are not subject to tax. In effect, the deduction for the charitable contribution is provided before it is actually spent on charitable activity. An example illustrates this point. If the interest rate is 10%, a dollar donated today and spent a year later by a tax-exempt charity will provide $1.10 in resources. If a taxpayer is subject to the 37% top tax rate on the earnings, the amount available to give to charity after paying taxes is $1.063. In the tax-exempt case, the tax price of giving is $0.61, while the tax price of giving in the taxable case is $0.63.[80] The longer the asset is held by a tax-exempt entity, the greater the benefit to the charitable organizations: after 10 years tax-exempt accumulation leads to $2.69, while the amount available after paying tax is $1.84.

[78] IRS, Statistics of Income, "Corporation Income Tax Returns Line Item Estimates," https://www.irs.gov/statistics/soi-tax-stats-corporation-income-tax-returns-line-item-estimates-publication-5108.

[79] If the charitable contribution benefits shareholders (a rationale apparently viewed less likely by most theories about why corporations make charitable contributions), the combined corporate and individual rate matters.

[80] This assumes that the taxpayer discounts future charitable giving at the after-tax interest rate (the after-tax interest rate is 6.3%). Thus, the value of his gift rises from $1 to $1.10/1.063. The taxpayer's cost to give $1.10 in future benefits in the tax-free case is $0.63. Thus, the tax price of giving is $0.63 / [$1.10 / 1.063], or $0.61. In the case where investment earnings are taxable, the taxpayer gives $1.063 in the future, so the tax price of giving is $0.63 / [$1.063 / 1.063], or $0.63.

There are a number of ways to accumulate funds without paying taxes on earnings, most notably through foundations, although they are required to pay out a minimum amount each year in charitable purposes. Other methods of delaying the payment of taxes is through private charities' endowment funds and supporting organizations, as well as DAFs, none of which are subject to payout restrictions. A DAF can act, in many ways, as a private foundation but without many of the restrictions of a private foundation. Taxing these earnings directly at the corporate rate would reduce the tax incentive for those subject to high individual marginal tax rates, but not eliminate it, given the lower corporate rate now in place.

The Aggregate Effect of Tax Incentives on Giving

As previously discussed, the effect of changes in tax incentives on giving depends on the behavioral response to changes in tax rates. The measure is a price elasticity, which is the percentage change in charitable contributions divided by the percentage change in the tax price (in the case of individual cash giving, the tax price is one minus the tax rate).

Given the large changes in tax price that have occurred over time, it is useful to examine some historical data. **Figure 5** above shows the pattern of giving as a percentage of GDP over the 1983-2023 period. There is little indication of significant shifts in giving due to tax rate changes. Contributions after 1981, despite pronounced tax price increases at higher incomes, remained relatively stable as a percentage of GDP. The small peak around 1986 is generally attributed by most researchers to a temporary rise in deductions reflecting a timing shift as tax cuts for 1987 and 1988 were preannounced in the Tax Reform Act of 1986 (TRA86; P.L. 99-514), but by 1989 contributions had returned to their previous levels. Contributions following enactment of the 1993 tax increase fell rather than increased. The temporary increase in 2020 probably reflected a response to charitable needs during the pandemic; there was no change in tax rates. Thus, there is little in the historical record to suggest a significant response to changes in tax incentives.

Economists have employed a variety of statistical methods to try to formally estimate the effects of tax incentives on charitable giving. The effects can be measured by estimating a price elasticity, which is the percentage change in charitable contributions divided by the percentage change in tax price. Since increasing the price of giving will reduce the amount of giving (and vice versa), the price elasticity is a negative number. For example, if the elasticity is -0.7, a 10% increase in the tax price (1-t) will result in a 7% decrease in the amount of charitable contributions.

Itemized Deductions for Individual Charitable Contributions

Some early statistical estimates indicated that giving was very responsive to the tax rate. The temporary increase in individual charitable contributions following the 1986 tax revision, where lower tax rates were announced in advance, caused researchers to suspect that some of these estimated effects were due to transitory changes. The most common instance of this transitory effect would be when income fluctuated: the periods when income rises and individuals are in higher tax brackets would be the best time to concentrate charitable giving. Thus, some of the relationship between high tax rates and higher contributions reflected timing and would overstate the response (i.e., the elasticity) to a permanent tax change. Statistical estimates are also made more difficult because charitable giving responds to income, so that higher incomes lead both to higher charitable contributions and, in a progressive tax rate system, to higher tax rates.

Appendix A contains a review of studies of the price elasticity of charitable giving that control for transitory effects. The elasticities in those studies range from close to 0 to -1.2. The review of

that evidence points to an elasticity of around -0.5. That elasticity would imply that the percentage change in individual charitable contributions due to the 2017 tax revision (where the price rose by 7%) was a 3.5% decline in individual charitable contributions. For 2017, individual giving was $302.8 billion,[81] suggesting a decline in charitable contributions of around $11 billion as a result of the 2017 tax revision. With a current average tax rate for individual contributions of 15.2%, the tax price would rise by 9% if all charitable deductions were eliminated. These effects would be twice as large with an elasticity of -1.0. The National Council on Nonprofits has estimated a similar effect of the 2017 tax change for individual contributions, a decline in charitable giving of $13 billion or more.[82]

As a percentage of GDP, individual giving declined by about 5% from 2017 to 2018. Some of that decline might reflect a shift in giving from 2018 to later in 2017, to take advantage of the higher tax rates or the expectation of taking the standard deduction in the following year. Contributions as a percentage of GDP grew about 4% from 2016 to 2017.[83] Many other factors, however, influence giving as a percentage of GDP, and individual giving as a share of GDP in 2018 was about the same as in 2015. Individual giving as a percentage of disposable income ranged from 1.9% to 2.1% between 2014 through 2023, including both pre- and post-TCJA years.[84]

Statistical studies of charitable giving have largely relied on changes in tax rates among itemizers and not on the effect of itemizing, even though the incentive to switch to the standard deduction was a major effect of the TCJA affecting the tax price for most donors. A recent study focused on the effect of the TCJA on itemizers using a nontax panel data set that also provides information on the contributions of nonitemizers and thus examines the change in behavior effected by the loss of the charitable deduction.[85] This study found a permanent elasticity of -0.6 for this effect. It also found that there was virtually no effect on religious giving.

A Note on Floors, Ceilings, and Above-the-Line Deductions

P.L. 119-21 added a floor to itemized deductions of 0.5% of adjusted gross income, so that only amounts in excess of this floor can be deducted. The JCT projects this provision will gain revenue of about $7.1 billion in FY2027.[86] Floors should reduce the charitable deduction's revenue cost while having relatively little effect on the incentive to contribute because data show that most charitable deductions exceed the floor. Data from 2022, the most recent year available, indicate that the average charitable contribution for itemizers as a percentage of adjusted gross income is 4.6%. The share falls initially to a minimum of 3.6% at $2 million of adjusted gross income then rises to 6.4% for $10 million or more of adjusted gross income. A study by the Tax Policy Center found that 83% of taxpayers who donate (both itemizers and nonitemizers) give more than 1% of their income, although the share is smaller in the higher quintiles (63% in the top quintile and

[81] The Center on Philanthropy at Indiana University, *Giving USA 2024*.

[82] National Council of Nonprofits, "Tax Cuts and Jobs Act, H.R. 1: Nonprofit Analysis of the Final Tax Law," April 5, 2018, https://www.councilofnonprofits.org/files/media/documents/2023/tax-bill-summary-chart.pdf.

[83] The Center on Philanthropy at Indiana University, *Giving USA 2019*.

[84] The Center on Philanthropy at Indiana University *Giving USA 2024*.

[85] Xiao Han et al., *Tax Incentives for Charitable Giving: New Findings from the TCJA*, National Bureau of Economic Research, Working Paper 32737, July 2024, https://www.nber.org/system/files/working_papers/w32737/w32737.pdf. The estimate was -0.8 before accounting for the one-time shift from 2018 to 2017 in anticipation of the change.

[86] JCT, *Estimated Revenue Effects Relative To The Present Law Baseline Of The Tax Provisions In "Title VII – Finance" Of The Substitute Legislation As Passed By The Senate To Provide For Reconciliation Of The Fiscal Year 2025 Budget*, JCX-35-25, July 1, 2025, https://www.jct.gov/publications/2025/jcx-35-25/.

47% in the top).[87] In addition, the amount given by taxpayers under the ceilings is smaller within a given income class. Given these levels, the 0.5% floor under P.L. 119-21 is expected to have a limited effect on charitable giving.

The study also estimates that providing a universal deduction (a deduction available to all taxpayers) would cost $27.1 billion while inducing additional contributions of $8.7 billion (with a -0.5 elasticity), thus inducing 32 cents of contributions for each dollar of revenue. Allowing a universal deduction with a 1% floor would cost $9.7 billion and increase contributions by $6.5 billion, inducing 67 cents of contributions for each dollar of revenue loss. Thus, adding a floor to a universal deduction increases revenue by $17.4 billion but reduces charitable contributions by $2.2 billion, so that each dollar of revenue gained from adding the floor reduces contributions by 12.6 cents. Floors, therefore, create a better trade-off between the revenue effect and the consequences for contributions than ceilings.

P.L. 119-21 also added a deduction for nonitemizers with a $2,000 cap for joint returns and a $1,000 cap for other returns at a cost of $7.8 billion. Caps have the opposite effects from floors: they eliminate the marginal incentive for taxpayers contributing below the cap. The study estimated the effect of a significantly larger cap for nonitemizers, of one-third of the standard deduction. In 2019, the year of the simulation, the cap would be $8,133 and $4,066. This much larger cap, nevertheless, meant a revenue loss of $21 billion but an increase in contributions of 18 cents per dollar of revenue loss. This ratio would be smaller for the caps in P.L. 119-21, which were around 75% lower. Thus, the above-the-line deduction enacted in P.L. 119-21 would be expected to have a minimal effect on giving and be primarily a windfall for taxpayers. A study by Penn-Wharton estimated that the $300 cap enacted temporarily in the Cares Act would increase contributions by 5.5 cents per dollar of revenue loss.[88]

A Note on Beneficiaries of Charitable Tax Incentives

The 2017 tax revision and P.L. 119-21 eliminated many charitable deductions taken by middle- and upper-middle-income taxpayers, leaving a charitable tax incentive mostly claimed by high-income individuals. The TPC estimates that, in 2026, 92.4% of the benefit for charity will accrue to the top quintile (taxpayers with incomes of $217,100 or more), 85.6% will be received by the top 10% (taxpayers with incomes of $317,700 or more), 63.5% will be received by the top 1% (taxpayers with incomes of $1,141,900 or more), and 39.4% will accrue to the top 0.1% (taxpayers with income of $5,184,900 or more).[89]

Bequests

Empirical estimates of the price elasticities for bequests are also reported in **Appendix A**. These estimates also vary significantly, although the evidence suggests they are more responsive to taxes than inter-vivos contributions. In the following calculations, an elasticity of -2.0 is used.

[87] C. Eugene Steuerle et al., *Designing an Effective and More Universal Charitable Deduction*, Urban-Brookings Tax Policy Center, March 17, 2021, https://www.urban.org/sites/default/files/publication/103824/designing-an-effective-and-more-universal-charitable-deduction_1.pdf

[88] Penn-Wharton Budget Model, "New Charitable Deduction in the CARES Act: Budgetary and Distributional Analysis," March 27, 2020, https://budgetmodel.wharton.upenn.edu/issues/2020/3/27/charitable-deduction-the-cares-act.

[89] Urban-Brookings Tax Policy Center, Tax Benefit of the Itemized Deduction for Charitable Contributions, Table T25-0298, September 11, 2025, https://taxpolicycenter.org/model-estimates/t25-0298-tax-benefit-itemized-deduction-charitable-contributions-expanded-cash.

It is difficult to determine the effect of the changes in the exemption since the enactment of the TCJA because the share of bequests reported on estate tax returns differs substantially from the share represented by taxable returns (30%) and the share represented by all returns (53%). Some returns that would have been taxable without the charitable deduction but are not taxable without the deduction benefit from the incentive. In addition, a much smaller share of taxable estate returns would fall below the exemption for taxable returns. Assuming that the share with an estate of less than $20 million would no longer be subject to the estate tax, that share is 92% for taxable returns, indicating 2.4% of bequests would lose the tax incentive (8% of 30%). For all estates the share is 74%, which suggests 13.8% of bequests would lose the benefit of the charitable deduction (26% of 53%).

The tax price increase for those estates affected beginning with the TCJA is 66%. Such a large price increase does not permit the use of a point elasticity estimate, so the underlying exponential formula is used, leading to a reduction in affected estates of 64% with an elasticity of -2.0.[90] These calculations produce a range of percentage reductions in total bequests of 1.5% (0.64 times 2.4%) to 8.8% (0.64 times 13.8%). Bequests were $42.7 billion in 2023,[91] suggesting a decline in bequests ranging from $0.6 billion to $3.5 billion. This same methodology can be used to estimate the effect on bequests of either eliminating the charitable deduction or repealing the estate tax, which would result in a further reduction of $7.5 billion to $10.7 billion.[92] These estimates depend, however, on the elasticity. Excluding the one study that found no effect, the smallest elasticity estimated (-0.6) would result in an effect 30% smaller, and the largest (-3.0) would result in an effect 22% larger than these amounts.

The National Council on Nonprofits has estimated a decline in bequests of $4 billion as a result of the TCJA.[93] Because bequests vary considerably from year to year (and can be affected by very wealthy decedents as well as economic factors), examining changes from the previous year provides a limited amount of information.

Corporate Giving

As noted above, some theories of corporate giving suggest that taxes do not affect a decision that is made for purposes of maximizing profits by generating advertising and goodwill. Empirical studies of the response are limited, dated, and quite mixed, including findings of large responses, small responses, no responses, and responses that are positive rather than negative.[94] All of these findings make estimated effects on giving responses difficult to determine, although the corporate rate cut in 2017 substantially increased the tax price (by 22%) to the extent giving provided a benefit to managers. Corporate giving constituted the smallest share of total giving, amounting to $20.1 billion in 2018; therefore, the effects of the TCJA on overall corporate giving are likely small.

---

[90] The formula for the ratio of post-tax change contributions to prior ones is (1-t)^E, where E is the absolute value of the price elasticity. The specific calculation with a 40% tax rate is 0.6^2, which is 0.36, indicating a decline in contributions of 64%.

[91] The Center on Philanthropy at Indiana University, *Giving USA 2024*.

[92] The $7.5 billion is 0.30 times 0.92 times 0.64 times $42.7 billion, and the $10.7 billion is 0.53 times 0.74 times 0.64 times $42.7 billion.

[93] National Council of Nonprofits, "Tax Cuts and Jobs Act, H.R. 1: Nonprofit Analysis of the Final Tax Law," April 5, 2018, https://www.councilofnonprofits.org/files/media/documents/2023/tax-bill-summary-chart.pdf.

[94] This literature is summed up in Robert Carroll and David Joulfaian, "Taxes and Corporate Giving to Charity," *Public Finance Review*, vol. 33, no. 3 (May 2005), pp. 300-317. The Carroll and Joulfaian study found very high elasticities, but they were based on personal tax rates and included Subchapter S Corporations that are taxed as partnerships under the personal tax. They also did not control for transitory effects.

Corporate giving as a percentage of pretax profits has declined slightly from 1983 to 2003 and has since remained fairly constant at around 1%.[95] For 2021, charitable giving as a share of taxable income was 1.4%.[96] Because of this relatively low level, a floor of 1% is likely to have a significant effect on eliminating the subsidy for charitable contributions. One study estimates a decline of $4.5 billion, which is 13% of the 2021 figure of $34.7 billion but a somewhat smaller share of projected 2025 giving.[97] This study uses a price elasticity of -1.8.

As with other data, the aggregate data do not show a large decrease in corporate giving after the reduction of the corporate tax in 2018 from 35% to 21%, implying a 22% increase in the tax price (equal to (1-0.21)/(1-0.35)). With a -1.8 elasticity, the rate reduction would have reduced giving by 39%. Tax deductions as a share of corporate profits increased from 0.9% in 2016 to 1.0% in 2019. The shares for 2017 and 2018 could have been affected by shifting contributions out of 2018 and in to 2017, so comparing 2016 to 2019 avoids that complication.

Policy Options

Some proposals to revise the tax treatment of charitable giving are aimed at increasing the incentive to give or changing the distribution of incentives across donors, while others are aimed at what may be perceived as abuses.

Options Related to Tax Incentives for Charitable Giving

Deduction for Nonitemizers

As mentioned previously, tax incentives for giving are largely confined to higher-income households because these taxpayers are more likely to itemize their deductions (largely deductions for state and local taxes, mortgage interest, and charitable contributions), which tend to rise with income, or choose the standard deduction of a fixed dollar amount. This concentration of tax benefits on higher-income individuals also tends to favor the charities they favor, such as those pertaining to health, education, and the arts, while disfavoring religion and charities aimed at human services. The concentration of charitable giving incentives to those with higher incomes has increased as a result of the 2017 tax revision.

P.L. 119-21 allowed a deduction for nonitemizers (often termed an *above-the-line deduction*, reflecting its position on the tax form) with a limit of $2,000 for a joint return and $1,000 for a single return, estimated by JCT to cost about $8 billion in FY2026. As with past legislation, this provision is capped, but is a permanent provision of the tax law.

These deductions have been allowed several times in the past or proposed in legislation but have generally been limited in some way by partial deductions, caps, and being temporary. Nonitemizers were able to claim a deduction for charitable contributions in the early 1980s. A temporary charitable deduction for itemizers was adopted in the Economic Recovery Tax Act of 1981 (P.L. 97-34), initially allowing a deduction for 25% of contributions in 1982-1984, 50% in

[95] The Center on Philanthropy at Indiana University *Giving USA 2024*.

[96] IRS, Statistics of Income, "Corporation Income Tax Returns Line Item Estimates," https://www.irs.gov/statistics/soi-tax-stats-corporation-income-tax-returns-line-item-estimates-publication-5108.

[97] Ernst and Young, *Reduction in Corporate Charitable Giving Resulting From the Proposed 1% Floor*, June 2025, https://independentsector.org/wp-content/uploads/2025/06/Ernst-Young-Study-on-1-Floor-on-Corporate-Charitable-Donations.pdf

1985, and a full deduction in 1986, with the provision then expiring. The deduction was also capped in the first three years, at $100 in the first two years and $300 in the third year.

Over time, policymakers have continued to propose policies that would extend charitable tax benefits to all taxpayers, either by allowing a deduction for nonitemizers or by replacing the itemized deduction with a credit available to all taxpayers.[98] S. 317 (Lankford) and H.R. 801 (Moore) would allow an above-the-line deduction with a ceiling of one-third of the standard deduction, a significantly higher ceiling than in P.L. 119-21 (over $10,000 for a single individual) that would probably affect only a limited number of taxpayers. An alternative would be to allow a credit which would have an equal incentive across incomes.

Using the Penn-Wharton Budget Model, the Indiana University Lilly Family School of Philanthropy estimates a nonitemizer deduction would cost between $14.4 billion and $16.1 billion in 2020 (see **Table 5** for a summary of the revenue and charitable giving effects of the policy options evaluated in the study).[99] To compare to the current capped deductions, the cost of an uncapped deduction in 2026 would have been around $20 billion, extrapolating the growth between 2020 and 2024 to 2026.[100] Thus an uncapped deduction would cost around an additional $12 billion today. They consider an above-the-line deduction and an alternative of a credit for nonitemizers. They also examine proposals with caps. Building on the Open Source Policy Center's Tax Calculator, Brill and Choe estimated such a change would cost $25.8 billion at 2018 levels (the revenue and charitable giving effects of the policy options in the study are summarized in **Table 6**).[101] They also consider replacing the itemized deduction with a tax credit for all taxpayers with and without floors

These studies also estimated the effect of the proposals on charitable giving. One concern is whether further encouraging charitable contributions is an efficient way of achieving the benefits such charitable giving might bring. In general, if the price elasticity of giving is less than 1.0, the induced charitable giving will be less than the revenue cost, and more charitable giving could be obtained by making direct expenditures. If the elasticity is greater than 1.0, charitable giving will be greater than the revenue loss. (This argument also applies to existing charitable deductions.)

[98] Under this proposal, the deduction would be limited to one-third of the standard deduction that was allowed at that time.

[99] The range in estimates reflects different assumptions about how taxpayers respond to tax incentives for charitable giving. Ten-year revenue estimates are also given to provide additional information on longer-term costs and potential for induced charitable giving. Note that this period includes years after 2025, when most of the individual provisions of the TCJA expire, and more taxpayers would be itemizing deductions and thus claiming the charitable deduction. See The Indiana University Lilly School of Philanthropy, *Charitable Giving Tax Incentives: Estimating Changes in Charitable Dollars and Number of Donors Resulting From Five Policy Proposals*, 2019, http://hdl.handle.net/1805/19515; and John Ricco and Mariko Paulson, *Policy Options to Increase Charitable Giving Using Tax Incentives*, Wharton School at the University of Pennsylvania, June 24, 2019, https://budgetmodel.wharton.upenn.edu/issues/2019/6/24/policy-options-to-increase-charitable-giving-using-tax-incentives.

[100] Individual charitable giving grew from $324 billion to $392 billion, according to Giving USA. That annualized growth extended to 2026 would suggest a growth of 33% from 2020 to 2026, which, applied to the midpoint of $14.4 billion and $16.1 billion, yields a total of around $20 billion.

[101] Alex Brill and Derick Choe, *Charitable Giving and the Tax Cuts and Jobs Act*, AEI Economic Perspectives, June 2018, http://www.aei.org/publication/charitable-giving-and-the-tax-cuts-and-jobs-act/.

Table 5. Revenue Loss and Induced Charitable Giving in Various Policy Scenarios: Indiana University Study/Penn-Wharton Budget Model

(in billions of dollars)

	Projected Revenue Loss		Estimated Increase in Charitable Giving	
	2020	**2020-2029**	**2020**	**2020-2029**
Nonitemizer Deduction				
Static	-14.4	-169.3	—	—
Low Elasticity	-15.0	-176.6	8.4	77.5
High Elasticity	-15.5	-183.1	16.8	154.7
Income-Based Elasticity	-16.1	-192.0	24.9	253.0
Enhanced Nonitemizer Deduction (With Double Deduction for Lower Income Returns)				
Static	-15.9	-191.0	—	—
Low Elasticity	-16.6	-200.5	9.2	86.1
High Elasticity	-17.3	-208.7	18.3	172.2
Income-Based Elasticity	-18.2	-221.2	27.7	287.6
Nonrefundable 25% Nonitemizer Credit				
Static	-20.6	-238.4	—	—
Low Elasticity	-21.9	-254.0	11.4	104.0
High Elasticity	-23.2	-266.9	22.8	208.0
Income-Based Elasticity	-24.6	-285.9	35.1	349.2
Nonitemizer Deduction with Cap of $8,000 for Joint Returns and $4,000 for Other Returns				
Static	-13.1	-154.4	—	—
Low Elasticity	-13.8	-163.4	5.6	52.3
High Elasticity	-14.4	-171.1	11.2	104.5
Income-Based Elasticity	-14.8	-179.6	16.6	172.3
Nonitemizer Deduction with AGI Floor of 1%				
Static	-11.7	-138.5	—	—
Low Elasticity	-12.3	-145.1	7.9	73.2
High Elasticity	-12.8	-151.0	15.9	146.4
Income-Based Elasticity	-13.4	-159.4	23.7	241.0

Source: The Indiana University Lilly School of Philanthropy, *Charitable Giving Tax Incentives: Estimating Changes in Charitable Dollars and Number of Donors Resulting From Five Policy Proposals*, 2019, http://hdl.handle.net/1805/19515; and John Ricco and Mariko Paulson, *Policy Options to Increase Charitable Giving Using Tax Incentives*, Wharton School at the University of Pennsylvania, June 24, 2019, https://budgetmodel.wharton.upenn.edu/issues/2019/6/24/policy-options-to-increase-charitable-giving-using-tax-incentives.

Notes: The "low" tax price elasticity is -0.5. The "high" tax price elasticity is -1.0. The "income-based" elasticity is -2.236 for tax units under $50,000 in 2017 AGI, -1.49 under $100,000, and -1.182 over $100,000.

Brill and Choe used a unitary elasticity (an elasticity of -1.0) in their study, but found a smaller increase in charitable contributions ($21.5 billion) than the lost revenue (the absolute value of lost revenue) when evaluating an above-the-line or nonitemizer deduction. Presumably some additional revenue beyond the amount of induced giving is lost because some itemizers would move to the standard deduction, causing a loss of revenue unrelated to the charitable incentive. (Even very-high-income individuals who had no mortgages might be better off moving to a standard deduction because of the $10,000 cap on state and local tax deductions; the standard deduction for a married couple is $24,000).

Table 6. Options to Increase Charitable Giving and the Associated Revenue Loss: Brill and Choe/Open Source Policy Center's Tax Calculator

(in billions of dollars)

	Projected Revenue Loss, 2018	Estimated Increase In Charitable Giving, 2018
Nonitemizer Deduction	-25.8	21.5
Nonitemizer Deduction with Floor of $1,000 for Joint Returns, $500 for Other Returns	-14.6	19.1
Nonrefundable 25% Credit for All	-31.1	23.3
Nonrefundable 25% Credit with Floor of $1,000 for Joint Returns, $500 for Other Returns	-15.4	20.0

Source: Alex Brill and Derick Choe, *Charitable Giving and the Tax Cuts and Jobs Act*, AEI Economic Perspectives, June 2018, http://www.aei.org/publication/charitable-giving-and-the-tax-cuts-and-jobs-act/.

Note: The price elasticity of charitable giving is assumed to be -1.0.

The Indiana University study looks at giving under a "low-elasticity" scenario (an elasticity of -0.5), a high-elasticity scenario (an elasticity of -1.0), and an income-based elasticity scenario. The increase in giving in 2020 under each scenario was $8.4 billion, $16.8 billion, and $24.9 billion, respectively. Under the low-elasticity scenario, an above-the-line deduction for giving would reduce revenues by $15.0 billion in 2020, while generating $8.4 billion in additional charitable giving. Under the high-elasticity scenario, the revenue reduction in 2020 is estimated at $15.5 billion, with additional charitable giving estimated at $16.8 billion.[102] In the income-based elasticity scenario, the revenue reduction in 2020 is $16.1 billion, while additional charitable giving is $24.9 billion in 2020.[103] Thus, if elasticities are less than 1.0, as the survey of studies accounting for transitional effects in **Appendix A** indicates, charitable deductions would likely be smaller than the revenue cost.

[102] Looking at 2020, under the high-elasticity scenario, a nonitemizer deduction would appear to generate more charitable giving than is lost in revenue. However, over the 10-year budget window, lost revenue would exceed induced charitable giving.

[103] These elasticities were -2.236 for incomes less than $50,000, -1.49 for incomes of $50,000 to $100,000, and -1.182 for incomes above $100,000. These elasticities were independently estimated from the Panel Study on Income Dynamics, and showed higher elasticities for lower incomes. These estimates were much larger than those reported in **Appendix A** and probably reflected the lack of control for transitory effects. One study of the 1986 data on nonitemizers estimated that the price response for nonitemizers was less than for itemizers, although this study was not able to address transitory effects. See Christopher M. Duquette. "Is Charitable Giving by Non-Itemizers Responsive to Tax Incentives? New Evidence," *National Tax Journal*, vol. 52, no. 2 (June 1989), pp. 195-206.

In evaluating the trade-off between revenue loss and charitable contributions, the charitable contributions from an above-the-line deduction would tend to go to charitable causes favored by lower- and middle-income taxpayers. These include religion, youth and family services, community improvement, and directly providing basic necessities. If the desired objective is to increase resources devoted to some of these activities, additional resources could be provided directly by the federal government, instead of induced via charitable giving incentives (which result in a loss in federal revenue).

The Indiana University study also looks at a scenario that would provide an enhanced nonitemizer deduction. In this policy, single filers with less than $20,000 in income ($40,000 for joint filers) would be able to deduct 200% of their charitable contributions. Taxpayers making less than $40,000 ($80,000 for joint filers) would be able to deduct 150% of their contributions. Under this policy, revenue losses would be between $15.9 billion and $18.2 billion in 2020, depending on the elasticities assumed. Charitable giving would increase by an estimated $9.2 billion to $27.7 billion, with the rise in giving greater than the loss in revenue in both the high-elasticity and income-based-elasticity case.[104] This policy would tend to encourage additional giving by lower-income taxpayers.

Adding an unlimited deduction for nonitemizers (or replacing the existing itemized deduction with a credit, as discussed below) would increase the complexity of the tax code for the individuals now taking the standard deduction. Charitable deductions require various types of substantiation and recordkeeping, and it is difficult for the IRS to monitor these contributions, especially with respect to small contributions where audit and investigation by the IRS are not cost effective. Charitable deductions are among the items with no third-party reporting, which makes enforcement more costly and difficult.

Allowing a charitable deduction or credit to be taken regardless of whether a taxpayer itemizes or takes the standard deduction would further increase the share of taxpayers who take the standard deduction rather than itemizing deductions. The remaining major itemized deductions are state and local taxes and mortgage interest. Such a move would, for example, reduce the tax incentives for owner-occupied housing even further than the effects of the 2017 tax revision.

A Tax Credit for Charitable Giving

An alternative to a nonitemizer deduction is to provide for a nonrefundable tax credit. It could either be as a substitute for or an addition to the current itemized deduction. Both the Indiana University and Brill and Choe studies estimate revenue effects and increased charitable contributions for a 25% credit. Indiana University considers a credit as an addition to the current itemized deduction, with an estimated revenue cost in 2020 of $20.6 billion to $24.6 billion, depending which elasticity is assumed.[105] Brill and Choe consider a 25% credit that replaces the current itemized deduction, costing $31.1 billion at 2018 levels.

Brill and Choe estimate the credit would (at their assumed -1.0 price elasticity) increase charitable giving by $23.3 billion. The Indiana University study estimates increased contributions in 2020 of $35.1 billion for the higher income-based elasticities, $22.8 billion for the elasticity of -1.0, and $11.4 billion for an elasticity of -0.5.

[104] Over the 10-year budget window, the rise in charitable giving would exceed the revenue loss only in the case where income-based elasticities were assumed under the enhanced nonitemizer deduction policy option.

[105] The 10-year revenue estimates in the Indiana University study include years 2026 through 2029, after most of the TCJA's individual income changes expire. The cost of a 25% charitable giving credit for nonitemizers is lower in these years, when more taxpayers would be itemizing deductions.

The induced contributions associated with the elasticities of -1.0 and -0.5 are smaller than the revenue losses and raises the basic concerns about the tradeoff between revenue loss and contributions. If the credit replaced the itemized deduction, it would shift more of the incentive to lower- and middle-income individuals by creating the same tax price for all taxpayers and thus to their preferred beneficiaries. Expanding the scope of the benefit for charitable contributions would, like a deduction, tend to increase complexity in compliance and tax administration and reduce the incentive for home ownership by reducing the number of itemizers.

If a credit substituted for the itemized deduction, it would be possible to set the credit so as not to lose revenue while equalizing the treatment of the charitable contribution incentive across taxpayers. For example, in a 2011 report by the Congressional Budget Office (CBO), an option of a 15% credit was considered, which, compared to a 25% credit, would have cost $20.4 billion less in 2006 dollars, and a larger amount at current income levels.[106]

In the 116th Congress, Senator Jeanne Shaheen and Representative Chris Pappas introduced the Supporting Charitable Institutions Act of 2020 (S. 3525/H.R. 6325), which would have allowed a new tax credit for cash contributions made during 2020 to organizations supporting coronavirus disease relief efforts. The credit would have been limited to 24% of contributions, not to exceed $4,000 for individuals ($6,000 for heads of household or $8,000 for married taxpayers filing jointly).

As an alternative to moving to a universal credit, the tax rate at which deductions are allowed could be capped, which would reduce the incentive for high-income taxpayers. For example, the Obama Administration's FY2010 and FY2011 budgets proposed limiting the value of itemized deductions to 28% (a rate below the 35% top individual income tax rate at the time).[107]

Modifying Charitable Giving Incentives: Caps and Floors

As noted earlier, a cap for a deduction could be inefficient, as the cap eliminates the incentive for those who contribute amounts above the cap while still resulting in a revenue loss. A more efficient charitable incentive would be to eliminate the cap for the above-the-line deduction and offset the revenue cost with a higher floor. The charitable incentive could also be made more efficient with a higher floor.

A floor could also be set at a dollar amount, which would favor higher-income taxpayers relative to lower-income taxpayers. A higher floor could be considered, as charitable deductions on itemized returns were 4.6% of adjusted gross income, and would be larger if calculated as a percentage of income of contributors (about 80% of itemized returns reported contributions).[108] In considering a percentage of income versus a dollar floor, a dollar floor would be more transparent and serve the purpose of excluding deductions for minor contribution amounts, but the percentage-of-income floor would be more efficient because it could provide a meaningful floor for wealthy taxpayers.

[106] Congressional Budget Office, *Options for Changing the Tax Treatment of Charitable Giving*, May 2011, https://www.cbo.gov/sites/default/files/112th-congress-2011-2012/reports/charitablecontributions.pdf.

[107] See, for example, Department of the Treasury, *General Explanations of the Administration's Fiscal Year 2016 Revenue Proposals*, February 2015, https://home.treasury.gov/system/files/131/General-Explanations-FY2016.pdf.

[108] IRS, Statistics of Income, "Table 2.1," https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income.

Charitable Giving and Disaster Relief

As noted previously, in the past Congress has passed legislation eliminating the percentage-of-AGI limit for charitable contributions made for disaster-relief purposes following certain disaster events.[109] Currently, the Hurricane Helene and Milton Tax Relief Act of 2025 (H.R. 140, Buchanan) would provide this 100% limit for Hurricanes Helene and Milton.

Gifts of Appreciated Property

Gifts of appreciated property, as noted above, receive a double benefit: a deduction for the fair market value and an exclusion of the gain from tax. These benefits also create an incentive to overvalue a gift so as to maximize the value of the charitable deduction. Charities may also incur costs to maintain or sell the property and may not even want the contribution but will accept it so as not to antagonize a wealthy donor.

Several options could be considered for gifts of appreciated property. First, only contributions made in cash could be deductible, which would force the taxpayer to sell the property and then donate the proceeds to charity (thus incurring a capital gains tax and valuing the deduction at market value). A similar approach would be to allow a deduction equal to the basis in the property (usually, the amount originally paid for it). Taxpayers might still donate property with little appreciation, but that approach would also eliminate the double benefit and address the valuation issue. One difficulty with this option is that it would require either a loss of deduction or limit the optimal recipient in cases where the property was particularly desired to be used by the recipient, such as a contribution of a work of art to a museum.

An option that would eliminate the double benefit but not address the valuation problem would be to allow the contribution of appreciated property but to tax the appreciation as if it were a realized capital gain. This approach would address the problem of donating an artwork to a museum.

The Tax Reform Act of 2014 (H.R. 1) had provisions aimed at limiting the problems attached to valuation. The deduction would have been limited to basis except for property related to the purpose of the charitable institution, certain property receiving special treatment such as conservation easements, and publicly traded stock as long as it was no more than 10% of the total shares.

Another option is to allow a deduction only for the amount that the charity receives from a sale. One analyst has suggested (presumably to address property used by the charity) that the deduction be limited to the lesser of the benefit from sale, or the donor's tax basis plus one-half of the untaxed appreciation.[110]

There are proposals to address concerns about inflated values of easements that may be associated with the use of syndicated partnerships to donate conservation easements. One proposal would limit the value of these deductions to 2.5 times the partnership adjusted basis (the Charitable Conservation Easement Program Integrity Act of 2019, introduced by Senator Steve Daines [S. 170] and Representative Mike Thompson [H.R. 1992]).[111]

[109] Additional discussion related to tax incentives for charitable giving to support disaster relief can be found in CRS Report R45864, *Tax Policy and Disaster Recovery*, by Molly F. Sherlock and Jennifer Teefy.

[110] Roger Colinvaux, "Fixing Philanthropy: A Vision for Charitable Giving and Reform," *Tax Notes*, March 4, 2019, pp. 1007-1015 (hereinafter Colinvaux, "Fixing Philanthropy").

[111] CRS Insight IN11141, *Charitable Conservation Contributions: Potential for Abuse?*, by Molly F. Sherlock.

Charitable Mileage Rate

Charitable organizations can reimburse volunteers (without income tax consequences) for miles driven for charitable purposes. Nontaxable reimbursements by charities can be made up to the charitable mileage rate of 14 cents per mile. This rate was set in 1997, and has not been adjusted since. The IRS has the authority to adjust the business mileage rate (70 cents per mile for 2025) and the medical and moving expense mileage rate (21 cents per mile for 2025).[112] The charitable mileage reimbursement rate is set in statute.

Proposals have been made over the years to make the charitable mileage rate the same as the business rate; in the 119th Congress, H.R. 1582 (Stauber) and S. 1177 (Kloubuchar), the Volunteer Driver Appreciation ACT, would make that change. A more targeted proposal—S. 895 (King), the Delivering Elderly Lunches and Increasing Volunteer Engagement and Reimbursements (DELIVER) Act of 2025—would raise the standard charitable mileage rate for delivery of meals to homebound individuals who are elderly, disabled, frail, or at risk.

Increasing the charitable mileage reimbursement rate could encourage charitable activity, such as meal delivery, and help adjust for the increase in the cost of automobile use since the late 1990s. A concern with increasing the charitable mileage rate, particularly with increasing it to match the business mileage rate, is that a higher rate could overcompensate volunteers for their automobile-related expenses (i.e., allow taxpayers to take a deduction that exceeds actual driving/vehicle use costs). The business mileage rate is intended as a simplified alternative to calculating actual costs including items such as depreciation and insurance. Individuals are not allowed to deduct these costs.

Proposals Relating to Tax-Exempt Organizations

Some proposals relate to the treatment of the charitable organizations.[113] Certain types of tax-exempt or charitable organizations may have specific or additional requirements.

DAFs, Endowments, and Foundations (Nonactive Charities)

Several policy options are related to entities that receive charitable contributions, but do not immediately use these contributions for a charitable purpose. These entities include DAFs, supporting organizations, and university endowments. One option could be to subject these organizations to rules similar to private foundations and Type III Non-FISO supporting organizations, and require a minimum payout. Another option is to require all funds in a DAF account to be distributed within five to seven years.

A proposal has been made to not allow foundations to make donations to DAFs, or require that if they do, the funds be spent immediately and with full disclosure. This option might address the concern that DAFs can be used to avoid transparency that is otherwise required of private foundations. The New York State Bar Association (NYSBA) Tax Section, commenting on an advance version of Treasury Notice 2017-73, addressing certain issues relating to DAFs, suggested that foundations could give to DAFs if the DAFs agree to distribute the funds

[112] Internal Revenue Service, "IRS Issues Standard Mileage Rates for 2019," press release, December 14, 2018, https://www.irs.gov/newsroom/irs-issues-standard-mileage-rates-for-2019.

[113] A number of these proposals are discussed in Colinvaux, "Fixing Philanthropy."

immediately. The NYSBA also recommends applying the same rules as applied to foundations in cases where a pledge is made and DAF distributions satisfy it.[114]

H.R. 2891 (Smith), the IRA Charitable Rollover Facilitation and Enhancement Act of 2025, would allow IRA rollover contributions to charity to go to DAFs (generally, these contributions must go to public charities but cannot go to supporting organizations or DAFs).

Although P.L. 119-21 increased the excise tax on investment earnings of private colleges and universities, other policy options that relate to university endowments might be considered. These could include payout requirements, or measures to address offshore sheltering of earnings from the UBIT.

The House version of P.L. 119-21 would have increased the 1.39% excise tax on the net income of private foundations for large foundations: 2.78% for foundations with assets over $50 million, 5% for foundations with assets over $250 million, and 10% for foundations with assets over $5 billion. This provision was not included in P.L. 119-21 as enacted.

Tax-Exempt Hospitals

A nonprofit hospital applying for, or seeking to maintain, tax-exempt status as a "charitable" organization under IRC Section 501(c)(3) must meet the "community benefit standard." Broadly, and as previously discussed, this standard requires the hospital to show that it has provided benefits that promote the health of a broad class of persons to the community. One way hospitals can demonstrate that they have met the community benefit standard is by providing charity care.[115] The potential for increased coverage of health care for low-income individuals in the Affordable Care Act may have reduced the need for charity care and has raised questions about the need for the tax benefits for nonprofit hospitals.[116] Disallowing tax-exempt bond financing was an option discussed during debates leading up to the 2017 tax revision. In addition, concerns have been raised about the enforcement of the community benefit standard.[117]

UBIT Provisions Adopted in the 2017 Tax Revision

Some proposals reconsider the UBIT provisions adopted in the 2017 tax revision (P.L. 115-97).[118] One proposal would eliminate the separate business calculation of the UBIT (see the Nonprofit

[114] See New York Bar Association Tax Section, *Report on Notice 2017-73*, February 28, 2018, https://nysba.org/wp-content/uploads/2025/03/1390-Report.pdf?srsltid=AfmBOorILM9Ezb88gzoltz19P8Yzz0nDihOV5az3iHdeLuAkiaihUiPd. IRS Advance Notice 2017-73 dealt with situations where original donors received a benefit from funds contributed through DAFs (such as tickets to events), where the DAF contribution satisfied a pledge, and the ability of organizations that would otherwise be private foundations to qualify as public charities by having large donors make their contributions through DAFs. Notice 2017-73 is at https://www.irs.gov/pub/irs-drop/n-17-73.pdf.

[115] See CRS In Focus IF10918, *Hospital Charity Care and Related Reporting Requirements Under Medicare and the Internal Revenue Code*, by Marco A. Villagrana et al.

[116] There remain, however, questions about the hospitals' provision of charity care. Some have argued that hospitals set artificially high prices, and when they lower the price for uninsured patients it is considered charity care. Dan Diamond, "GOP Fails to Pressure Hospitals on Community Benefits," *Politico*, December 21, 2017, https://www.politico.com/story/2017/12/21/gop-congress-tax-reform-nonprofit-hospitals-252841, quoting Laurel Prussing, former mayor of Urbana, Illinois.

[117] See GAO, *Tax Administration: IRS Oversight of Hospitals' Tax-Exempt Status*, GAO-23-106777, April 26, 2023, https://www.gao.gov/products/gao-23-106777; Dan Diamond, "GOP Fails to Pressure Hospitals on Community Benefits," *Politico*, December 21, 2017, https://www.politico.com/story/2017/12/21/gop-congress-tax-reform-nonprofit-hospitals-252841; and Travis F. Jackson, "Congressional Scrutiny of Charitable Hospitals Likely to Return," *Tax Notes*, July 2018, pp. 45-50.

[118] These provisions affecting UBIT are discussed in Colinvaux, "Fixing Philanthropy."

Tax Relief Act of 2019; H.R. 3323). Requiring that unrelated business taxable income be computed separately for each trade or business activity treats nonprofits differently from for-profit businesses, and it complicates administration and compliance because of the difficulties of classifying businesses. This provision may have been motivated by concerns about improper allocation of expenses across 501(c)(3) colleges' and universities' unrelated business activities. A 2013 IRS compliance report found that some colleges and universities were misallocating expenses between nonprofit and for-profit activities (which was already disallowed) and underpaying UBIT.[119] The Preserve Charities and Houses of Worship Act (S. 1282), introduced by Senator Ted Cruz, and the Nonprofits Support Act (H.R. 513), introduced by Representative Michael Conaway, also proposed repealing this provision.

The change in the 2017 tax revision that subjected transportation benefits for employees to the UBIT was criticized and ultimately repealed in the Taxpayer Certainty and Disaster Tax Relief Act, enacted as Division Q of the Further Consolidated Appropriations Act, 2020 (P.L. 116-94). This change resulted in a revenue loss of $1.9 billion for FY2020-FY2029.[120]

Administrative Reforms

Several proposals have been made to provide administrative reforms. One such proposal is to require electronic filling of 990 forms. This proposal was included in the CHARITY Act of 2019.

Another proposal, considering the task of monitoring a large number of charities, would be to provide more funds to the IRS or even to create a separate regulatory authority, given that the IRS is a revenue collection agency, not a nonprofit regulator. For that reason the IRS has few incentives to devote resources to enforcing the rules regarding nonprofits.[121]

[119] Internal Revenue Service, *College and Universities Compliance Project Final Report*, May 2, 2013, http://www.irs.gov/pub/irs-tege/CUCP_FinalRpt_050213.pdf.

[120] Joint Committee on Taxation, *Estimated Budget Effects of the Revenue Provisions Contained in the House Amendment to the Senate Amendment to H.R. 1865, the Further Consolidated Appropriations Act, 2020 (Rules Committee Print 116-44)*, JCX-54-19R, December 17, 2019.

[121] These administrative reforms are discussed in Colinvaux, "Fixing Philanthropy."

Appendix A. Evidence on Elasticities for Charitable Giving

Lifetime (Inter-Vivos) Giving

Table A-1 reports the results of seven different studies (with a number of specifications that attempt to measure both permanent and transitory effects of changes in price and income on charitable giving).[122] Two of these studies (Bakija 2000, and Bakija and McClelland 2002) also provided some critiques of other studies and some sensitivity analysis that is useful in understanding the studies and their strengths and weaknesses. Results that are not statistically significant have an asterisk. Lack of statistical significance means that, although a relationship that most closely fits the data is estimated, there is such deviation from that relationship in the observations that there is not a clear causal effect. Estimates that are not statistically significant are usually, although not always, associated with very small values that are close to zero.

While the studies differ in methodology, as discussed below, one difference is the type of data used. Tax return data are available for general use only to researchers in the Department of the Treasury and the JCT. (The Congressional Budget Office [CBO] has access to taxpayer data but must have uses approved by the JCT.) The data on giving and tax rates are probably superior in these studies and contain a larger sample of high-income taxpayers; however, such research cannot be replicated or subjected to any sensitivity analysis by others. Other researchers have to use public-use data constructed from other sources. Of the seven studies in **Table A-1** four (Randolph 1995, Auten et al. 2002, and Bakija and Heim 2008 and 2011) used taxpayer data, and all had as authors or coauthors a Treasury employee. The Bakija and McClelland (2002) study, with a CBO coauthor, included a sensitivity analysis for the Auten et al. study, but used a public-use file, not the tax data. The other two studies also used a public-use file.

Many of the studies listed below report multiple results using different specifications and, in general, an attempt is made to report the results that appear to be preferred by the author(s). In the case of the Bakija and Heim (2011) report, the preferred estimate for the permanent elasticity is associated with variations in the state tax rate, and estimates from other specifications (such as allowing coefficients to vary across incomes) are even larger (see the discussion of that study).

For comparison with this table and to illustrate the importance of dealing with transitory effects, Bakija and McClelland (2002), who presented a range of strategies, also estimated a standard pooled cross-section estimate, the type that had been done prior to the evidence shown by the 1980s tax cuts that did not deal with transitory effects. That estimate showed results that are typical of past cross-sectional studies, a price elasticity of -1.22 and an income elasticity of 0.84.

[122] The studies are William Randolph, "Dynamic Income, Progressive Taxes, and the Timing of Charitable Contributions," *The Journal of Political Economy*, vol. 103 (August 1995), pp. 709-738; Kevin Stanton Barrett, Anya M. McGuirk, and Richard Steinberg, "Further Evidence on the Dynamic Impact of Taxes on Charitable Giving," *National Tax Journal*, vol. 50 (June 1997), pp. 321-334; Jon Bakija, "Distinguishing Transitory and Permanent Price Elasticities of Charitable Giving with Pre-Announced Changes in the Tax Law," October 2000, Mimeo; Gerald E. Auten, Sieg Holger, and Charles T. Clotfelter, "Charitable Giving, Income and Taxes: An Analysis of Panel Data," *American Economic Review*, vol. 92 (March 2002), pp. 371-382; Jon Bakija and Rob McClelland, "Timing vs. Long-Run Charitable Giving Behavior: Reconciling Divergent Approaches and Estimates," December 2004, Mimeo; Jon Bakija and Bradley Heim, *Does Charitable Giving Respond to Incentives and Income? Dynamic Panel Estimates Accounting for Predictable Changes in Taxation*, National Bureau of Economic Research Working Paper 14237, August 2008; Jon Bakija and Bradley Heim, "How Does Charitable Giving Respond to Incentives and Income: New Estimates From Panel Data," *National Tax Journal*, vol. 64, no. 2, part 2 (June 2011).

In general, the theoretical expectation is that transitory price effects are large and transitory income effects are small (due to the permanent income hypothesis or consumption smoothing). Price elasticities and income elasticities in cross-section studies are a combination of permanent and transitory effects. Thus, a lower permanent price elasticity and a higher permanent income elasticity would be expected than those observed in cross-section studies. Only two studies, Randolph (1995) and Bakija and Heim (2008) find these results, and the Bakija and Heim income elasticity is only marginally higher.

Table A-1. Elasticities from Studies that Accounted for Transitory Effects

Study	Permanent Price Elasticity	Transitory Price Elasticity	Permanent Income Elasticity	Transitory Income Elasticity
Randolph (1995): Giving Weighted	-0.51	-1.55	1.14	0.58
Unweighted	-0.08*	-2.27	1.30	0.09
Barrett et al. (1997)	-0.47	-1.18	0.495	—
Bakija (2000)	-0.29*	-1.15	0.44	0.79
Auten et al. (2002): 1980-1983 Data	-0.79	-0.52	0.40	0.45
1980-1987 Data	-1.26	-0.61	0.49	0.49
1980-1992 Data	-1.26	-0.40	0.87	0.29
Bakija and McClelland (2002): Basic	-0.24	-0.40	0.72	0.02*
Using Tax Reform Instruments	-0.29*	-0.56	0.27*	-0.06*
Basic with Lagged Variables	-0.75	-0.50	0.40	0.14
Tax Reform Instruments, Lagged Variables	-0.74	-0.66	0.04*	0.11*
Auten et al. (2002) Method; with Foresight	-0.64	-0.34	0.55	0.12
Bakija and Heim (2008): Aggregate	-0.70	-0.47	0.91	0.25
<$200,000	-0.147*	-0.500	0.104	0.301
>$200,000	-0.654	-0.589	0.783	0.271
>$500,000	-0.483	0.730	0.608	0.301
>$1,000,000	-0.493*	0.557	0.916	0.320
Bakija and Heim (2011): State Tax Rate	-1.16	-0.85	0.51	0.34
Federal Tax Rate	-0.35	-0.61	0.51	0.34
Federal and State Combined Tax Rate	-0.61	-0.60	0.60	0.32

Source: See text for discussion of studies.

Randolph (1995) was the first study to focus on the problem of transitory effects, and the technique used a 10-year panel that treated deviations from average income (and the resultant deviations from tax rates) as transitory. Permanent tax rates varied through changes in the tax law (and years around the 1981 and 1986 changes were excluded). This study allowed a long period of time to be transitory; therefore, it is possible that some of the permanent price and income effects are reflected in the transitory estimates, as the author acknowledges. Other studies tend to allow much shorter-term transitory effects, which might go too far in the other direction. Randolph's model allowed the price elasticity to vary by the share of giving, and he reports two measures: one unweighted with a price elasticity of -0.08, which is not statistically significant, and one weighted more heavily toward large contributors, which Randolph appears to prefer. The

results in the Randolph study are consistent in general magnitude with the expectations based on the aggregate data discussed in the text: a small permanent price elasticity, a large transitory price elasticity, an income elasticity of around 1.0, and a smaller transitory income elasticity.

Bakija (2000), who among other things replicates the Randolph results with public-use data, argues that the second weight, which yields an insignificant price elasticity, is more appropriate (although he criticizes other aspects of the model). In his own replications with public-use files he finds effects similar to Randolph's unweighted results but suggests the appropriate measure of the aggregate elasticity is evaluated over the full sample. These results are similar to Randolph's unweighted results: he also finds similar results for the elasticity when confined to incomes over $100,000.[123] Based on the specification he prefers and his replication, this approach basically finds no evidence of a permanent price response.

The Randolph study differs from the other studies in some important ways. By using average income over the panel as permanent income and estimating transitory effects based on deviations, it allows a broad scope for shifting over time, whereas other studies use shorter periods. This choice may be influenced by experience with capital gains realizations studies, where using short periods to control for transitory effects was not successful in producing reasonable results.[124]

Barrett et al. (1997) allow limited intertemporal shifting variation and also a lagged value of giving to deal with adjustment. They focus particularly on how quickly adjustment takes place, which they find to be very rapid. Their panel also does not include tax rate changes after 1986, which are an important exogenous source of variation. They find a lower price elasticity than a standard cross section, but also a small income elasticity. Like the other studies, this study includes individual fixed effects that are designed to control for heterogeneity among taxpayers (e.g., a taste for philanthropy, religiosity). (Randolph could not employ individual fixed effects because he used an average over the entire panel for permanent income, which was then indistinguishable from a fixed effect.) One drawback, however, of fixed effects, as Barrett et al. acknowledge, is that the fixed effect could also be picking up permanent income effects, and so suppressing the value of that elasticity. The Barrett et al. study also allowed a more limited scope for intertemporal substitution.

Auten et al. (2002) also use fixed effects and more limited intertemporal substitutions. As pointed out by Bakija and McClelland (2002), they also did not address known changes in the tax law (that is, 1986 was a higher-tax year than 1987, even though the high realizations in 1989 were associated with a preannounced drop in tax rates), which would tend to bias their price elasticities upward. This was a particular problem for panels that included 1986, and Bakija and McClelland reestimated their model using a public data file and found a much lower elasticity.

Bakija (2000) mainly contrasted his model with Randolph's by using legislated transitory changes in tax rates as the way to determine the transitory component of taxes. Bakija and McClelland base their analysis off Auten et al., and while they introduce a number of innovations, their main changes are to model expected tax changes and introduce adjustment lags.

---

[123] He finds a positive but insignificant permanent price elasticity of 0.322, a transitory price elasticity of -1.202, a permanent income elasticity of 1.188, and a transitory income elasticity of 0.195. For incomes over $100,000 he finds an insignificant permanent price elasticity of -0.155, a transitory price elasticity of -0.744, a permanent income elasticity of 0.611, and a transitory income elasticity of 0.145.

[124] For a discussion of some of these issues, see two reprinted CRS reports by Jane G. Gravelle: "Can A Capital Gains Tax Cut Pay for Itself," *Tax Notes*, vol. 48 (July 9, 1990), pp. 209-219; and "Limits to Capital Gains Feedback Effects," *Tax Notes*, vol. 51 (April 22, 1991), pp. 363-371. As these two reports taken together show, studies of capital gains realizations with short intertemporal effects continued to produce the high elasticities that appeared much larger than reasonable, given that realizations cannot exceed accruals.

Bakija and Heim (2008) use a panel approach with tax data, with fixed effects, with more limited substitution frameworks than Randolph, and with attention to expectations of tax changes. They characterize intertemporal substitution mainly through those preannounced tax changes and allow shorter substitution periods. The main source of determining the price elasticity is the difference in response across taxpayers who had different changes in their tax rates. They also examine separate estimates for higher-income individuals. They obtain different estimates depending on how they deal with fixed time effects (variables meant to control for changes that affect all observations in a given year), which cannot be introduced into the higher income levels because they are so closely correlated across the sample with legislated changes in tax rates. The first one they reported, which did not use fixed time effects but incorporated a time trend, is included in the assessment.[125]

Bakija and Heim (2011) is similar to their 2008 study but reports effects for using the state tax rate alone, the federal tax rate alone, and the combined federal and state rate. The authors believe the state tax rate provides a more reliable measure of response because state tax rates allow a comparison of people with the same income but living in different states, and thus is less likely to reflect the effects of omitted variables. The federal rate or combined rate (where the federal rate would dominate) captures the effects of changes in income and the effects of exogenous federal tax changes. The study also reports effects when coefficients of nonprice variables (i.e., other than the tax variables) differ across income, finding higher permanent price elasticities (a permanent elasticity of -1.53). When the study allows price elasticities to vary across income, there is some indication that elasticities increase with higher incomes, but some estimates are statistically insignificant (including estimates for some high-income individuals). Statistically significant estimates of -1.19 are found for the $200,000-$500,000 class and of -1.71 for the over $1 million class; but estimates for the other classes were not statistically significant.

Ultimately no study is perfect, and thus it is difficult to choose a central elasticity from among these. Excluding the high elasticities in Auten et al. for the panel that covers 1986 and that are likely overstated, the elasticities range from essentially 0 to 1.2. It seems likely that the unweighted Randolph estimate may be biased downward, but some others may be biased upward because of fixed effects or short periods for intertemporal substitution. In addition, the response to the 1986 tax revision suggests a higher transitory price elasticity than permanent price elasticity, and intuition would suggest that charitable giving is a luxury that would tend to have an income elasticity above 1.0. Only the Randolph study finds effects consistent with these expectations, suggesting an elasticity of around 0.5.

Error! Not a valid bookmark self-reference. reports the results of seven different studies that attempt to estimate both the price and wealth elasticities of charitable bequests. Although these studies find a diverse set of estimated elasticities, they reach two common general conclusions: (1) the price elasticity dominates the wealth elasticity and (2) charitable bequests, generally, respond elastically to changes in the tax price of bequests. The exception to this second conclusion is provided by Greene and McClelland (2001) and is likely explained by their focus on the portion of the tax price related to the exemption level.

[125] When they used time dummies for the higher-income sample, they got results much like cross-section results, suggesting they were identifying effects in a similar way.

Table A-2. Elasticities from Charitable Bequests

Study	Price Elasticity	Wealth Elasticity
Bakija, Gale, and Slemrod (2003)	-2.14	1.56
Joulfaian (2000)	-2.26	1.2
Boskin (1976)	-1.2	0.7
Clotfelter (1985)	-2.79	0.42
Greene and McClelland (2001)	-0.6	0.37
Barthold and Plotnick (1984)	No effect	0
Joulfaian (1991)	-3.0	0.23

Sources: Jon M. Bakija, William G. Gale, and Joel B. Slemrod, "Charitable Bequests and Taxes on Inheritances and Estates: Aggregate Evidence from across States and Time," *Papers and Proceedings of the Annual Meeting of the American Economic Association*, vol. 93, no. 2 (May 2003); David Joulfaian, "Estate Taxes and Charitable Bequests by the Wealthy," vol. 53, no. 2 (September 2000); Michael J. Boskin, "Estate Taxation and Charitable Bequests," *Journal of Public Economics*, vol. 5, no. 1-2 (January/February 1976); Charles T. Clotfelter, *Federal Tax Policy and Charitable Giving* (Chicago: University of Chicago Press, 1985); Pamela Greene and Robert McClelland, "Taxes and Charitable Giving," *National Tax Journal*, vol. 54, no. 3 (September 2001); Thomas Barthold and Robert Plotnick, "Estate Taxation and Other Determinants of Charitable Bequests," *National Tax Journal*, vol. 37, no. 2 (June 1984); and David Joulfaian, "Charitable Bequests and Estate Taxes," *National Tax Journal*, vol. 44, no. 2 (June 1991).

Appendix B. History of the Tax Treatment of Charitable Contributions and Organizations

Charitable Contributions

The charitable deduction was added by passage of the War Revenue Act of 1917 (P.L. 65-50). Senator Henry Hollis, the sponsor, argued that high wartime tax rates would absorb the surplus funds of wealthy taxpayers, which were generally contributed to charitable organizations.[126] The deduction was originally limited to individuals. A deduction for trusts and estates was added in the Revenue Act of 1918 (P.L. 65-254), and a deduction for corporations was added in the Revenue Act of 1936 (P.L. 74-740).

The deduction allowed in 1917 was limited to 15% of taxable income. Most of the revisions in the early tax law related to this limit. In 1944, it was changed to 15% of adjusted gross income. The corporate deduction was limited to 5% of income when introduced. In 1952, the individual limit was increased to 20%. The limit was increased to 30% in 1954, but the additional 10% had to go to specified charities (churches or religious orders, educational institutions, and hospitals). Thus, the 20% limit was retained for foundations and other charities. A carryover of unused deductions for two years was first allowed for corporations in 1954. In 1964, the carryover was increased to five years and extended to individuals.

The percentage limit on individual contributions to charities was increased to 50% by the Tax Reform Act of 1969 (P.L. 91-172) but was restricted to 30% for gifts of appreciated property. The percentage limit on corporate charitable contributions was increased to 10% of taxable income in the Economic Recovery Tax Act of 1981 (P.L. 97-34). The limit on contributions to private foundations was increased to 30% for cash contributions by the Deficit Reduction Act of 1984 (P.L. 98-369).

The Economic Recovery Tax Act of 1981 also allowed a temporary deduction for nonitemizers, but this provision was not extended by the Tax Reform Act of 1986 (P.L. 99-514).

Concerns about abuse led to provisions requiring greater substantiation of gifts. The Deficit Reduction Act of 1984 (P.L. 98-369) required written substantiation of contributions in excess of $2,000, and the Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66) lowered that amount to $250. The American Jobs Creation Act of 2004 (P.L. 108-357) increased reporting requirements for donors of noncash gifts.

The Pension Protection Act of 2006 (P.L. 109-280) provided for some temporary additional benefits (part of the "extenders") that were effective through 2007 at that time. The 2006 act also added restrictions on DAFs and certain supporting organizations. The 2006 law also tightened rules governing charitable giving in certain areas, including gifts of taxidermy, contributions of clothing and household items, contributions of fractional interests in tangible personal property, and recordkeeping and substantiation requirements for certain charitable contributions.

[126] A history of the charitable deduction can be found in Vada Waters Lindsey, "The Charitable Contribution Deduction: A Historical Review and a Look to the Future," *Nebraska Law Review*, vol. 81 (2003), pp. 1056-1096; and Nicolas J. Duquette, "Founders' Fortunes and Philanthropy: A History of the U.S. Charitable-Contribution Deduction," *Business History Review*, 2019, pp. 1-32. A history of the contributions of property can be found in Roger Colinvaux, "Charitable Contributions of Property: A Broken System Reimagined," *Harvard Journal on Legislation*, vol. 50 (2013), pp. 263-269. A history of the individual charitable contribution provision can be found at CRS Report R46178, *The Charitable Deduction for Individuals: A Brief Legislative History*, by Margot L. Crandall-Hollick.

Temporary charitable giving incentives were further extended through 2009 by the Economic Emergency Economic Stabilization Act of 2008 (P.L. 110-343), enacted in October 2008, and through 2011 by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312). Some provisions were extended through 2013 by the American Taxpayer Relief Act (P.L. 112-240). These provisions were made permanent in the Consolidated Appropriations Act (P.L. 114-113).

The 2017 tax revision, P.L. 115-97, increased the percentage-of-income limit for contributions of cash to public charities to 60% and eliminated the phase-out of itemized deductions on a temporary basis (through 2025).

The 2025 budget reconciliation law, P.L. 119-21, made several changes that affected individual and corporate charitable contributions. It limited the value of the individual deduction for high-income taxpayers to a marginal rate of 35%, thus reducing the value of the deduction for these taxpayers to 35 cents for each dollar of deduction rather than 37 cents. It also allowed an above-the-line deduction for taxpayers who do not itemize of up to $1,000 for single returns and $2,000 for joint returns beginning in 2026. It also limited deductions for itemizers to contributions above 0.5% of adjusted gross income and limited the tax rate at which itemized deductions are valued to 35% beginning in 2026. Corporations are also able to deduct charitable contributions, and P.L. 119-21 limited these deductions to 1% of taxable income.

Charitable Organizations

Corporations or associations organized for religious, charitable, or educational purposes were defined as exempt from tax in the original 1913 law establishing the income tax.[127]

These organizations could earn exempt income from activities related to their mission and also from unrelated business activities whose profits were used for the exempt purpose. The Revenue Act of 1950 (P.L. 81-814) established the unrelated business income tax (UBIT) on the income from commercial activities (other than on churches). The UBIT also applied to rents from real estate sale-leaseback arrangements that relied on debt finance.

The Tax Reform Act of 1969 (P.L. 91-172) defined private foundations, established a series of restrictions on them, imposed a 4% excise tax on their investment income (to share the cost of enforcement), and established a minimum payout requirement of 6% of assets to avoid a penalty. The 1969 legislation also expanded the UBIT to all tax-exempt organizations (including churches), and applied it to all debt-financed income. The Tax Reform Act of 1976 (P.L. 94-455) changed the minimum distribution requirement to 5% of assets. The Revenue Act of 1978 (P.L. 95-600) reduced the net investment income excise tax to 2%. The Deficit Reduction Act of 1984 (P.L. 98-369) exempted certain operating foundations from the excise tax and reduced the tax to 1% for foundations making improvements in their distributions. The 2017 tax reduction (P.L. 115-97) imposed an excise tax of 1.4% on investment income of certain private colleges and universities (excluding smaller ones), added certain fringe benefits (such as parking) to the UBIT base (repealed in P.L. 116-94), and required UBIT to be calculated separately for each business activity. P.L. 119-21 imposed higher taxes on the investment income of private universities and colleges with large per student endowments: 4% for endowments over $750,000 per student and 8% for endowments over $2 million per student.

[127] A detailed history of the treatment of the tax-exempt sector through 2007 can be found in Paul Arnsberger, Melissa Ludlum, Margaret Riley, and Mark Stanton, "A History of the Tax Exempt Sector: An SOI Perspective," *Statistics of Income Bulletin* (Winter 2008), https://www.irs.gov/pub/irs-soi/tehistory.pdf.

Author Information

Jane G. Gravelle
Senior Specialist in Economic Policy

Brendan McDermott
Analyst in Public Finance

Donald J. Marples
Specialist in Public Finance

Disclaimer