The Most Generous Nation in the World?
A Critical Analysis of the Charitable Contribution Deduction in the United States' Internal Revenue Code

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Introduction

The charitable contributions deduction is a feature of the tax code introduced in 1917 that allows individual tax filers to deduct charitable contributions of money and property to designated organizations from their taxable income. The deduction is consistently "among the top 10 to 15 federal tax expenditures in terms of its revenue cost" and it has been estimated that the five-year revenue cost to the federal government from 2010 to 2014 of the deduction was around $246 billion.[1]

Despite its cost, people often support the charitable contribution deduction by pointing to the oft-quoted statement, "America is the most generous nation on Earth," and justify philanthropy on the belief that it is redistributive, resulting "in the lessening of inequality between rich and poor, either through direct transfers from the rich to the poor or through efforts to improve structural conditions so that the poor will no longer need to rely on charity for basic sustenance."[2] While Americans do give the most, many do not realize that what counts as giving to charity can include donations to religious organizations, elite private schools, and art museums. If our goal for charity is to promote equality with the maximum possible redistribution to those whose needs might otherwise go unmet, then the charitable contribution deduction fails to achieve this goal.

First, while many assume that a significant portion of private giving is going towards programs that provide basic needs such as food pantries and homeless shelters, the human services sector receives only around 12 percent of total donations annually. Second, I create a hypothetical counterfactual scenario in which the deduction is eliminated and that money is

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[1] Joseph J. Cordes, "Re-thinking the deduction for charitable contributions: Evaluating the effects of deficit-reduction proposals," *National Tax Journal* 64, no. 4 (2011): 1001.
[2] Rob Reich, *Just giving: Why philanthropy is failing democracy and how it can do better* (Princeton: Princeton University Press, 2018), 68-69.

instead taxed; I conclude that the deduction generates less money for pressing needs than if the additional tax revenue resulting from the elimination of the deduction was partially allocated to federal social safety net programs, such as means-tested programs.

Finally, if the goal of the deduction is to promote equality through redistribution, then some features of the subsidy contradict this goal. Some defenders of the deduction point to pluralism as a rationale, but the distribution of charitable dollars to the human services sector, 12 percent of giving, suggests that allowing people to express their preferences does not efficiently direct money towards those whose needs may go unaddressed without public or private help. Furthermore, the upside-down nature of the subsidy gives an unfair advantage to the affluent, amplifying the voice of those with privilege. We should thus eliminate the charitable contribution deduction in the pursuit of maximizing revenue going towards helping to address unmet basic human needs.

I. Background of the Charitable Contribution Deduction

How does the deduction work?

When taxpayers file their taxes, they do not have to pay income tax on all of their income in a given year. All tax filers are able to take a deduction that reduces their "taxable income" and can do so in one of two ways: by taking the standard deduction or by itemizing and taking the personal deduction.[3] The standard deduction is the deduction that anyone who files their taxes is eligible to claim and does not require any documentation of expenses. If filers choose to instead itemize their deductions, they list expenses that the IRS permits people to take deductions for

[3] Taxable income is the amount of income on which a taxpayer pays taxes in a given year.

such as property taxes and charitable contributions on their tax form. Tax filers tend to choose whichever deduction that results in a lower taxable income.

The charitable contributions deduction works by allowing people to subtract charitable contributions to IRS-recognized charitable organizations from their taxable income if they itemize. The United States' tax code uses marginal tax rates, meaning that taxpayers pay a lower rate on the first $9,525 of their income and then on income they make above that threshold, the tax rate gets increasingly higher. There are currently seven tax brackets with increasing rates.[4] Because we use marginal tax rates, a deduction reduces the amount of income in the highest tax bracket for taxpayers, thus reducing the amount of income at which they have to pay the highest tax rate. Each dollar you donate is tax-exempt, so you avoid paying taxes on that dollar. The deduction effectively creates a subsidy the size of your marginal tax rate for your donation because each dollar donated reduces the amount of income you have to pay taxes on; if you were to have to pay taxes on that dollar, the amount you owe would be calculated using your highest marginal tax rate. To be clear, giving still reduces taxpayers' after-tax income by more than just paying taxes, but the deduction allows them to donate at a lower price. The lower price comes from the fact that the government is essentially matching each donation at the percentage of the taxpayer's highest tax rate, since it is forgoing revenue on the donated amount at the rate at which it would have been taxed.

Due to the progressive nature of our tax rates, those with higher incomes have the highest tax rates, which means that when donating, they receive the greatest subsidy. This structure creates an upside-down effect where the deduction is more favorable and the subsidy is greater the higher income bracket you are in.[5] This feature of the deduction, along with the fact that it is

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[4] See Appendix D for the tax brackets and associated tax rates.
[5] Reich, *Just giving,* 76-77.

only available to those who itemize their deductions, makes it disproportionally utilized by and favorable towards the wealthy.

The Charitable Contributions Deduction, 1917-2017

Before the Tax Cuts and Jobs Act of 2017, the charitable contribution deduction had the following features:

- "You may deduct charitable contributions of money or property made to qualified organizations if you itemize your deductions"[6]
- "You may deduct up to 50 percent of your adjusted gross income, but 20 percent and 30 percent limitations apply in some cases"[7]
    - "The 50 percent limitation applies to (1) all public charities, (2) all private operating foundations, (3) certain private foundations that distribute the contributions they receive to public charities and private operating foundations within 2-1/2 months following the year of receipt, and (4) certain private foundations the contributions to which are pooled in a common fund and the income and corpus of which are paid to public charities"[8]
- "Contributions to charitable organizations may be deducted up to 50 percent of adjusted gross income computed without regard to net operating loss carrybacks"[9]
- "If the aggregate of such contributions exceeds the limitation of [30 percent of the taxpayer's contribution base for the taxable year or the excess of 50 percent of the

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[6] "Charitable Contribution Deductions," Internal Revenue Service, December, 21 2019. https://www.irs.gov/charities-non-profits/charitable-organizations/charitable-contribution-deductions
[7] "Charitable Contribution Deductions."
[8] Ibid.
[9] Ibid.

taxpayer's contribution base for the taxable year over the amount of charitable contributions allowable], such excess shall be treated …in each of the 5 succeeding taxable years."[10]

The Charitable Contributions Deduction, Post TCJA

The Tax Cuts and Jobs Act of 2017, signed into law by President Trump, included changes to the tax code that directly changed the charitable contributions deduction and changed incentives around the deduction in the following ways.

- TCJA doubled the amount of the standard deduction, the deduction that filers receive if they do not itemize their taxes, to $12,000 for singles and $24,000 for joint-filers which is expected to significantly reduce the number of taxpayers that itemize and thus are eligible to receive the charitable contributions deduction.[11]
- In addition, the limitation for the deduction was raised to 60 percent of adjusted gross income for cash contributions.[12]
- TCJA also cut the tax rate for most income brackets, which affects the "price" of giving since the deduction is based on your tax rate. According to the Speaker of the House at the time, Paul Ryan, the stated motivation for the TCJA was to simplify the tax process for taxpayers.[13]

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[10] "26 U.S. Code § 170 - Charitable, Etc., Contributions and Gifts," Legal Information Institute, Cornell Law School, Accessed March 29, 2020. https://www.law.cornell.edu/uscode/text/26/170.

[11] "How Did the TCJA Affect Incentives for Charitable Giving?" *Key Elements of the U.S. Tax System,* Tax Policy Center, https://www.taxpolicycenter.org/briefing-book/how-did-tcja-affect-incentives-charitable-giving.

[12] "Publication 526 (2019), Charitable Contributions." Internal Revenue Service, March 25, 2020, https://www.irs.gov/publications/p526.

[13] Erica York and Alex Muresianu, "TCJA Simplified Tax Filing Process for Millions of Households," Tax Foundation, March 8, 2019, https://taxfoundation.org/the-tax-cuts-and-jobs-act-simplified-the-tax-filing-process-for-millions-of-americans/ ; I have yet to come across justifications specifically for the increased limitation for the deduction.

To illustrate the features of the deduction in 2017 and 2018 and how the changes impact a taxpayer, consider the following hypothetical examples.

2017	
Anna: Gross Income of $100,000	Brian: Gross Income of $40,000
Imagine a tax filer, Anna, with $100,000 in gross income in 2017.[14] Anna decides in 2017 that she would like to donate $50,000 to Habitat for Humanity, a recognized 501(c)(3) organization. When filing her taxes, she can decide to take the standard deduction, which in 2017, was $6,350 for a single filer and $12,700 for a married couple.[15] Or, she can choose to itemize her deductions. If Anna itemizes her deductions, she can claim a charitable contribution deduction up to $50,000 since the tax code dictates that she may deduction up to 50 percent of her adjusted gross income of $100,000. If Anna were to not claim any deductions and take the standard deduction, her taxable income would be $93,650 and she would expect to pay around $19,204 in taxes under the different marginal tax rates. However, since she donated $50,000 to Habitat for Humanity, she is able to deduct this amount from her taxable income, meaning that she would now only pay taxes on $50,000. Her tax liability would then be around $8,239.	Imagine a tax filer, Brian, with a gross income of $40,000 in 2017. Brian decides in 2017 that he would like to donate $7,000 to Habitat for Humanity, a recognized 501(c)(3) organization. As a single filer, he can take the standard deduction of $6,350 or choose to itemize his deductions. If Brian itemizes his deductions, he can claim a charitable contribution deduction up to $20,000 (50 percent of his gross income). If Brian takes the standard deduction, his taxable income is $33,650 and he can expect to pay around $4,581 in taxes. However, since Brian decides to donate $7,000 to Habitat for Humanity, he chooses to itemize and reduces his taxable income to $33,000. He can thus expect to pay around $4,484 in taxes.
2018	
Anna: Gross Income of $100,000	Brian: Gross Income of $40,000
Based on the changes to the charitable contribution deduction under the TCJA, Anna could now deduct up to $60,000 in charitable contributions. If she were to pay taxes on her gross income of $100,000 and take the standard deduction, she would expect to pay	In 2018, Brian has a gross income of $40,000. He would like to again donate $7,000 to Habitat for Humanity. As a single filer, he can take the increased standard deduction of $12,000 or choose to itemize and deduct the $7,000 he donates to Habitat.

[14] Gross income is your income in a given year.
[15] "What is the standard deduction?," *Briefing Book,* Tax Policy Center, Urban Institute & Brookings Institution, https://www.taxpolicycenter.org/briefing-book/what-standard-deduction

around $15,410 in taxes. Her tax liability is lower in 2018 than 2017 because tax rates were cut and the standard deduction is higher. If she chooses to donate $50,000 to Habitat to Humanity as she did in 2017, she would reduce her taxable income by $50,000 and the remaining $50,000 would be taxed, resulting in her paying roughly $6,940 in taxes.	If Brian takes the standard deduction, his taxable income would be $28,000 and he can expect to pay around $3,170 in taxes. If he itemizes, his taxable income would be $33,000 and he can expect to pay $3,770 in taxes. It would thus be advantageous for Brian to take the standard deduction in 2018 as it would save him $600 in taxes.

It is worth noting that the charitable contributions deduction is only available to tax filers who itemize their deductions instead of taking the standard deduction. Before the TCJA, around 30 percent of tax filers were estimated to itemize their deductions.[16] Due to the increase in the standard deduction, it is estimated that only around 10 percent of tax filers will itemize their deductions.[17] This estimation is based on the assumption that some tax filers itemized because the deduction they could receive by doing so fell somewhere in the range of $6,350 (the 2017 standard deduction amount) and $12,000 (the 2018 standard deduction amount), such as Brian in the example above. Therefore, in 2017, it would be advantageous to itemize but not in 2018. Historical data regarding tax filers indicates that those with higher incomes tend to be those that also itemize because they tend to spend more or accumulate more expenses for which they could take deductions, likely causing their total deduction from itemizing to be greater than the standard deduction.

The History and Justifications of the Charitable Contributions Deduction

[16] Reich, *Just giving*, 78.
[17] "What Are Itemized Deductions and Who Claims Them?" *Briefing Book,* Tax Policy Center, Urban Institute & Brookings Institution, www.taxpolicycenter.org/briefing-book/what-are-itemized-deductions-and-who-claims-them.

Before analyzing how the deduction incentivizes giving today, it is worth understanding the motivations and justifications for the deduction, beginning with why it was initially added to the tax code. The charitable contributions deduction was incorporated into the Internal Revenue Code in 1917 under the War Revenue Act of 1917 for "contributions or gifts…for religious, charitable, scientific, or educational purposes, or to societies for the prevention of cruelty to children or animals" with a limit of 15 percent of the taxpayer's taxable income.[18] To pay for World War I, the U.S. Congress raised the top tax rate drastically to 67 percent; the charitable contributions deduction was thus added "not to *encourage* the wealthy to give their fortunes away… but to *not discourage* their continued giving in light of a larger tax bill."[19] The Senator who proposed the deduction did so "not because he thought it was wise public policy to change the 'price' of charitable contributions via a subsidy but because of worries that reduced after-tax income of the very rich would end their philanthropy, shifting the burdens the philanthropists had been carrying on the backs of a wartime government."[20] Thus, the original purpose of the deduction was to maintain levels of charitable giving rather than create an additional incentive because without it, the government would have to spend more. It is evident that Congress viewed philanthropic giving as a substitute to public spending. A report from the House of Representatives in 1938 explicitly states that "the exemption from taxation of money or property devoted to charitable or other purposes is based upon the theory that the Government is compensated for the loss of revenue by its relief from financial burden which would otherwise have to be met by appropriations from public funds, and by the benefits resulting from the

[18] Gabrielle Fack and Camille Landais, eds. *Charitable giving and tax policy: a historical and comparative perspective*. Oxford University Press (2016): 3-4.
[19] Nicolas J. Duquette, "Founders' Fortunes and Philanthropy: A History of the U.S. Charitable-Contribution Deduction," *Business History Review* 93 (Autumn 2019): 558.
[20] Duquette, "Founders' Fortunes and Philanthropy: A History of the U.S. Charitable-Contribution Deduction," 558.

promotion of the general welfare."[21] This report suggests that the government believed philanthropy was funding programs and causes that the government would need to if philanthropic funding ended, implying that if the government did tax the money and property devoted to charitable purposes, it would be spending the revenue on similar programs.

The government initially appears to view philanthropic spending as interchangeable with public spending, and the deduction was later supported on the grounds that it is "treasury neutral" – meaning that the deduction incentivizes more dollars in giving than the federal government is losing in tax revenue from providing the deduction.[22] A goal of treasury neutrality suggests that an underlying goal of the deduction is to maximize the amount of money going towards charitable programs, whether through public or private funding. This purpose of the deduction, encouraging giving to charity in lieu of government spending for social welfare, has shaped or been shaped by the U.S.'s approach to the social safety net. The U.S. relies less on direct government programs and more on charitable contributions than other countries in the Organization for Economic Cooperation and Development, an intergovernmental economic organization including Australia, Denmark, Japan, and the United Kingdom; government social spending was 16.2% of American GDP while the average of OECD countries' government social spending was 19.2% of GDP.[23]

Beginning in 1969, the justification for the deduction – that charitable giving reduced the need for government spending because charitable giving and government spending were substitutes – was questioned and a more economics-oriented lens was adopted to justify it.[24]

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[21] Ibid., 559.
[22] Ibid., 573.
[23] Gabrielle Fack and Camille Landais, eds. *Charitable giving and tax policy: a historical and comparative perspective*. Oxford University Press (2016): 35.
[24] Ibid., 572.

Whether the deduction was in fact treasury neutral became more important and rather than viewing the deduction in a positive light, the deduction was seen as "another subsidy program that happened to be implemented through the tax system" and as a "burden to the government."[25]

In response to this more critical perspective on the deduction, additional motivations for why we should subsidize charity have been set forth to justify the deduction's existence, supplementing the original motivation that charitable giving reduces the government's share of spending on programs. These motivations focus on efficiency in the private sector, "the efficiency theory," and on providing people the autonomy to allocate their money as they deem best, "the pluralism theory." The efficiency theory centers on the fact that some believe that giving to private organizations allows for experimentation and more creative solutions to problems in society. The pluralism theory focuses on how the deduction helps to counter government power by providing taxpayers with influence over where government expenditures, in the form of a subsidy, are spent.[26] This view is based on the fact that in a democratic society, the median voter gets to decide the level of public goods supported by government expenditure. Therefore, the subsidy resulting from the nature of the deduction allows for individuals with other preferences to direct some government spending towards their desired organizations and public goods.[27]

III. Methodology

To investigate whether the tax code should have the charitable contributions deduction, I analyze the effectiveness of the deduction by considering the following thought exercise:

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[25] Ibid., 574-575.
[26] Miranda Perry Fleischer, "Equality of Opportunity and the Charitable Tax Subsidies," *Boston University Law Review* 91 no. 2 (March 2011): 610.
[27] Fleischer, "Equality of Opportunity and the Charitable Tax Subsidies," 611.

suppose that instead of providing the charitable deduction, the government taxed charitable contributions and then dedicated a portion of the funds to means-tested programs. This exercise allows us to compare which scenario generates the most funds for programs that work to meet basic needs through the public and private sector. Thus, I present actual levels of giving under the existence of the charitable contribution deduction in 2017 and 2018. I then create a hypothetical scenario for 2017 that predicts how much money would have gone towards these programs if the deduction had been eliminated in Scenario 1. I repeat this exercise for 2018, presented in Scenario 2. Using a counterfactual allows us to imagine what would happen if the deduction did not exist and provides a basis for comparison. The crux of my analysis will rest on which structure of our tax code – including the deduction or eliminating it – promotes the most dollars allocated towards meeting unmet need and maximizing well-being through a combination of private giving to the human services sector, the sector of charitable giving most aligned with this goal, and the government programs most aligned with this goal, means-tested programs. I focus on revenue maximization because stated justifications from the government tend to rely on the assumption that charitable giving reduces the need for government spending towards similar programs and that the deduction is treasury neutral. We can thus see if this is actually the case by examining whether the deduction is treasury neutral and comparing the forgone tax revenue to private giving to the human services sector.

While the charitable contribution deduction has been in place since 1917, I am focusing on 2017 and 2018, before and after the passage of the TCJA. Since the TCJA was implemented so recently, there is only one year of tax returns filed under the new guidelines and IRS data on these returns is only beginning to be released. However, I plan to utilize data that has been released to date along with expectations and projections of the TCJA's effect when creating the counterfactual for 2018, Scenario 2. Specific data metrics I will use to create the comparison will be: 1) the percent of taxpayers who take the deduction at different tax brackets; 2) the size of the subsidy; and 3) the percentage breakdown of those who donate and those who receive the deduction for donating versus those who do not.

It is central to my research to understand how people's giving behavior might change under the alternative structure of incentives for charitable giving. I will use estimates of the "price elasticity of giving" (PEG) to quantify how giving behavior changes. The PEG is an economic percentage used to measure how responsive or sensitive people are to changes in a price subsidy. It measures the percent change in giving we would expect to see as a result of a one percent change in the price of giving. Another way to think of it is how your spending would change if the price of a good went up. For example, if your favorite chocolate bar typically costs $3 and suddenly begins to cost $5, you may choose to buy less of it. With the PEG, the good is your giving. While there is no consensus on an exact figure in the existing literature, published analyses by government agencies such as the Congressional Budget Office about different structures of the charitable contribution deduction typically run the scenarios using two price elasticities of giving: -1.0 and -0.5. A price elasticity of -1.0 means that for each percent increase in price of the subsidy, the percentage change in donations will be a decrease of the percentage change in price. A price elasticity of -0.5 means that for each percent increase in the price of the subsidy, the percent change in donations will be a decrease of half of the percent change in price. For example, if you have a marginal tax rate of 25 percent and the deduction is eliminated, the price of the subsidy increases from $0.75 to $1.0, or 33 percent. Under a price elasticity of -1.0, donations would fall by 33 percent. Under a price elasticity of -0.5, donations would fall by 16.5 percent. These elasticities provide a range in which the true elasticity likely lies.

Considering the price elasticity of giving in my methodology is important because we should understand whether giving would be reduced if the incentives to give were changed to maximize revenue. For instance, if the deduction was eliminated, some people who were donating solely because they wanted to reduce their taxable income may choose not to donate. To be clear, these people are not saving money by donating but donating for them is cheaper because part of their donations are subsidized through the deduction. If people choose not to donate or choose to donate less, we would then have to consider whether the presumed drop in giving towards charity would be an acceptable cost to having greater total revenue going towards programs that promote well-being and opportunity. To be sure, there are limitations to solely relying on the price elasticity of giving to evaluate different structures of charitable giving incentives. After all, people's giving behavior is not only influenced by the subsidy. Other factors can shape their giving behavior. For instance, the current state of the economy, people's personal attitudes toward giving in general, as well as their passion for a particular issue or organization may impact their charitable donations. I recognize that this is a limitation of using the price elasticity of giving in my analysis but believe that following government agencies' example and providing a range can still enable a good initial comparison of different structures of the deduction.

IV. Quantitative Analysis

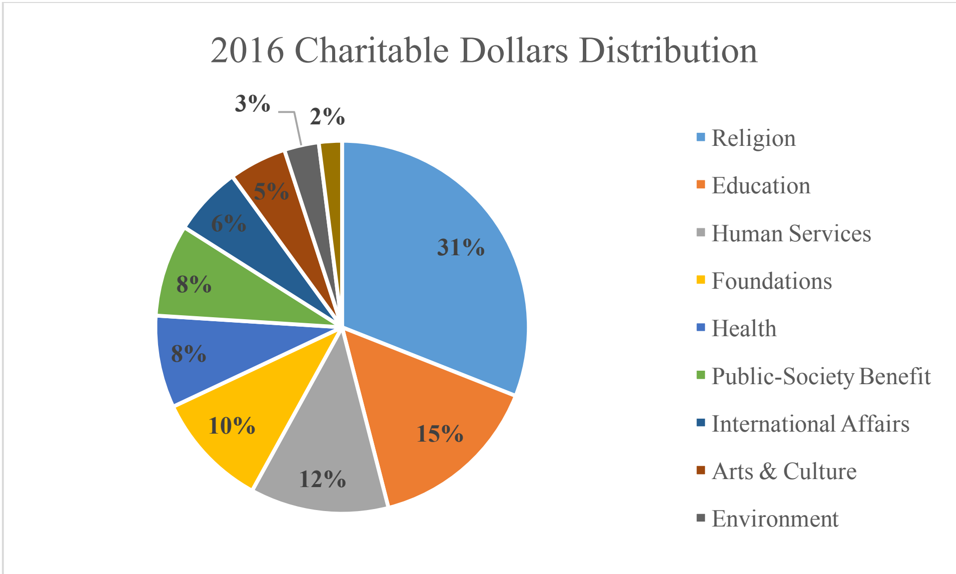
How are charitable giving dollars allocated across different sectors?

To begin to answer the question of whether the charitable contribution deduction enables us to address societal needs sufficiently, we must decide which charitable contributions do work to address societal need. Lester M. Salamon writes that "of all components of the nonprofit or charitable sector, none might be expected to adhere more closely to the dictionary definition of 'charity' as 'generosity to the poor' (Random House Dictionary, 1978, 154) than the social service or human service component."[28] At the federal level, social services are activities and organizations that support the following goals: economic self-support, self-sufficiency, protective care for children or adults, prevention of institutionalization, and provision of services to help people in institutions.[29] When the private sector defines social services, it "includes agencies that provide direct income and other material support, individual and family services, day care, residential care (except for nursing homes), job training, mental health and addiction services, nonhospital health care, as well as agencies that engage in community organizing, advocacy, or community development, including research and public education."[30] With this definition in mind, the human services sector may be looked upon as the sector that most closely directly aligns with addressing societal need because it encompasses efforts to provide basic needs.

We can now consider how charitable giving dollars are allocated across different sectors. Based on data collected by the IUPIU Lilly Family School of Philanthropy and the Giving USA Foundation, the following charts show how charitable donation dollars have been distributed over the past three years for which tax data is available:

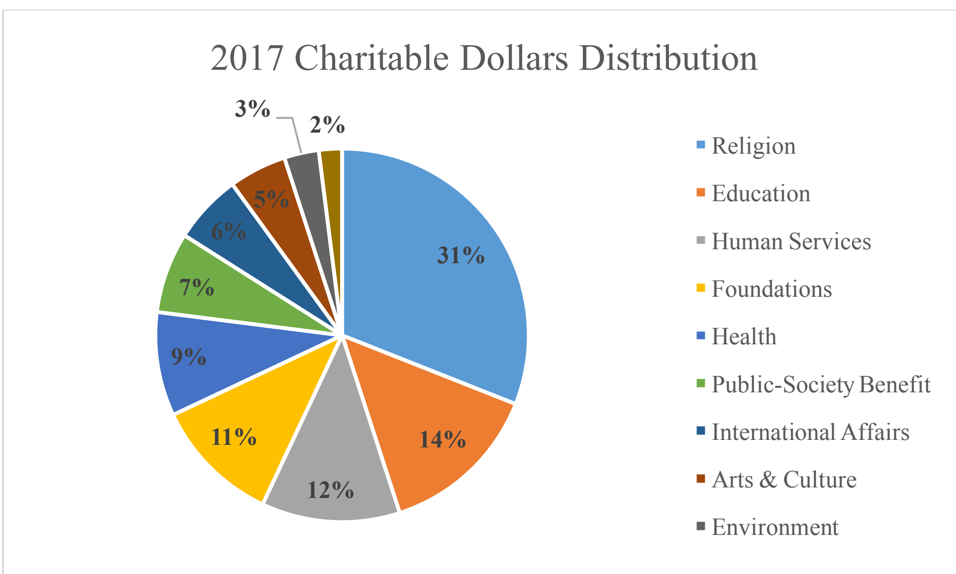
[28] Charles T. Clotfelter., eds, *Who benefits from the nonprofit sector?* (Chicago: The University of Chicago Press, 1992), 134.
[29] Clotfelter, *Who benefits from the nonprofit sector?*, 136.
[30] Ibid., 136.

Figure 1: 2016 Distribution. Source: Giving USA Foundation, "Giving USA 2017."



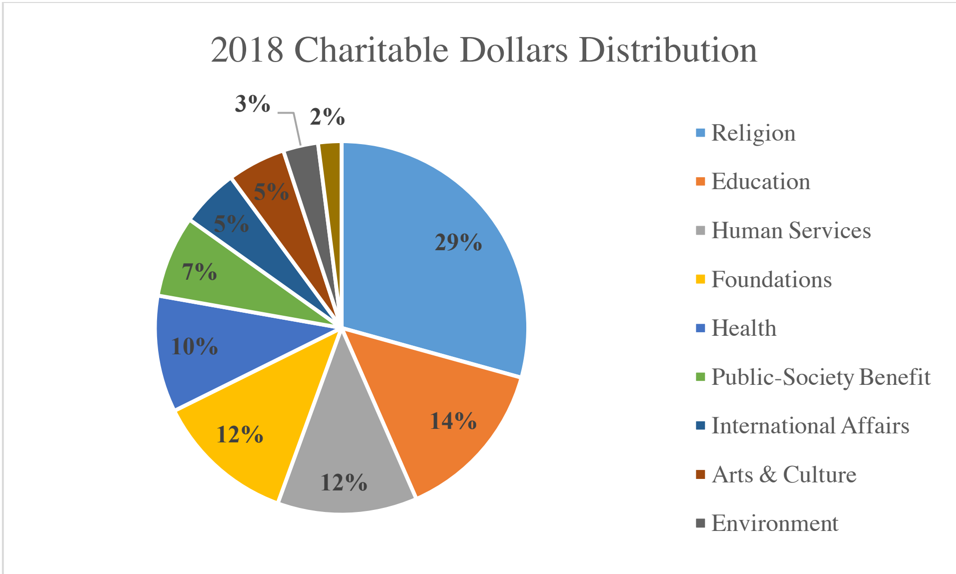
Here, we can see the breakdown of total giving in 2016 across different sectors. The largest sector is religion, which received 31 percent of all charitable dollars. The human services sector received 12 percent of all charitable contributions.

Figure 2: 2017 Distribution. Source: Giving USA Foundation, "Giving USA 2018."



In 2017, we see again that 12 percent of all charitable dollars was allocated to the human service sector in this breakdown of total giving across different sectors.

Figure 3: 2018 Distribution. Source: Giving USA Foundation, "Giving USA 2019."



Lastly in 2018, the human services sector again receives 12 percent of all charitable dollars given.

Based on these charts, it is evident that the majority of charitable contributions do not go directly towards organizations or programs that fundamentally address basic needs. From 2016 through 2018, the human services sector consistently received 12% of total dollars given. Thus, before and after the Tax Cuts and Jobs Act of 2017, the percentage of giving to human services remained the same. It is notable that religion declined as a percentage of contributions over the same time period because it shows how a change in the tax code can influence which charitable sectors are being subsidized. While the decline in religious giving may be due to societal trends, it is likely connected to the fact that less people at low and middle-income levels itemized their deductions due to TCJA's higher standard deduction because these income levels tend to give more heavily to religious organizations. It is estimated that only around 10% of tax filers itemized their deductions following the passage of TCJA, and thus the sector breakdown differences between 2017 and 2018 can be seen as how patterns of giving change when giving is increasingly decided by those with higher incomes.

What does government spending on similar programs look like?

Means-tested programs funded by the federal government include health care programs such as Medicaid and Children's Health Insurance Program and income security programs such as SNAP and earned income and child tax credits. These programs work to address societal need, similar to the human service sector as defined in charitable giving. In 2017, the federal government spent a total of $4 trillion and $728 billion of that amount was dedicated to means-tested programs.[31] Therefore, around 18.2% of the federal government's budget was allocated to these programs. In 2018, the federal government spent $4.1 trillion and $747 billion went to means-tested programs, representing 18.22% of total spending.[32] For a point of reference, in 2018, total charitable giving by foundations, bequest, corporations, and individuals was $427.71 billion, which is around $320 billion less than what the government spent on means-tested programs alone. When considering the charitable contributions deduction and how it allocates tax expenditures through the deduction, we need an accurate comparison point of government spending. By only focusing on means-tested programs, we can standardize government spending to that spent on programs similar to those supported by the human services sector and compare the spending levels.

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[31] Barry Blom, *Federal Mandatory Spending for Means-Tested Programs, 2009 to 2029*, Congressional Budget Office, June 2019, www.cbo.gov/system/files/2019-06/55347-MeansTested.pdf.
[32] Blom, *Federal Mandatory Spending for Means-Tested Programs, 2009 to 2029.*

What has giving to human services and spending on means-tested programs looked like with the charitable contribution deduction?

For the purposes of analysis for this paper, I will focus primarily on contributions by individuals and exclude giving by foundations, corporations, and bequest when comparing giving to human services and spending by the federal government on means-tested programs.

Actual Levels of Giving in 2017

Total charitable giving by individuals, foundations, corporations, and bequest in 2017 was $410.02 billion, and human service giving was $49.2 billion.[33] Giving by individuals represented 70 percent of total giving, or $287.014 billion dollars.[34] While I do not know the percentage of individual giving allocated to the human services sector, since the human services sector received 12 percent of total giving, I assume that at the individual level, it also received around 12 percent for the sake of this thought experiment. If so, then individual giving to the human service sector would amount to $34.44 billion. Since the federal government spent $728 billion on means-tested programs in 2017, the combination of individual giving to the human service sector and federal spending on means-tested programs was approximately $762.44 billion.

Actual Levels of Giving in 2018

Total giving in 2018 was $427.71 billion, and total human service giving was $51.32 billion.[35] In 2018, giving by individuals fell below 70% to 68% for the first time in at least 50 years, amounting to $290.84 billion donated by individuals.[36] Using the same allocation towards the human service sector of 12 percent, individual giving to this sector would be $34.90 billion.

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[33] "Giving USA 2018," *Giving USA Foundation,* IUPUI Lilly Family School of Philanthropy.
[34] "Giving USA 2018"
[35] "Giving USA 2019," *Giving USA Foundation*, IUPUI Lilly Family School of Philanthropy.
[36] "Giving USA 2019"

In the same year, the federal government spent $747 billion on means-tested programs, so the sum of individual and federal spending on programs to address societal needs is $781.90 billion.

How did the TCJA affect the deduction?

The Tax Cuts and Jobs Act of 2017 effectively removed the incentive for charitable giving for some tax filers by making it more advantageous for some households to take the now-doubled standard deduction instead of itemizing their deductions. While total charitable giving rose 0.7 percent in nominal dollars to $427.71 billion in 2018, total charitable giving actually declined 1.7 percent when adjusted for inflation.[37] While this decline may not be causal, this statistic prompts consideration as to how important the charitable contribution deduction is to people when they are making decisions about donating. Based on some anecdotal evidence, some taxpayers have decided to "bunch" their giving, meaning that they will combine giving that they used to donate annually into one year and then take the standard deduction in other years.

What would giving to human services and spending on means-tested programs look like if the charitable contribution deduction was eliminated from the tax code?

Assumptions

When discussing potential changes to the charitable contribution deduction, an alternative could be that the deduction was eliminated entirely from the tax code and that money was instead taxed by the federal government, thus generating further tax revenue. The federal government

[37] Giving USA. "Giving USA 2019: Americans Gave $427.71 Billion to Charity in 2018 amid Complex Year for Charitable Giving." *Giving USA Foundation*, IUPUI Lilly Family School of Philanthropy, 18 June 2019, https://givingusa.org/giving-usa-2019-americans-gave-427-71-billion-to-charity-in-2018-amid-complex-year-for-charitable-giving/

could then apportion this additional revenue to means-tested programs at the same percentage level it already receives in the federal budget, around 18 percent.

In order to create the counterfactual scenarios, I had to make assumptions based on available data on tax filer history. According to data published by the Tax Policy Center and Giving USA annual reports, over the past nine years, an average of 81 percent of total individual giving qualifies as itemized charitable contributions.[38] This means that 81 percent of individual giving came from individuals who itemized their charitable contributions and thus can qualify as being potentially incentivized by the charitable contribution deduction to give. To estimate how much tax revenue the government would generate if it eliminated the deduction, I calculate the weighted average tax rate of tax filers who claim the deduction. Data published by the Joint Committee on Taxation uses 2017 income levels and 2018 rates to show the distribution by income class of those claiming the charitable contribution deduction, from which I estimated a weighted average tax rate for 2017 and 2018.[39] Since the tax brackets and tax rates changed between these years due to the TCJA, the weighted average tax rates are different. In addition, the income levels published by the Joint Committee on Taxation do not align with either year's income brackets for different tax rates, so I had to use estimates at times.[40]

Even if the deduction is eliminated from the tax code, charitable giving by individuals would not fall to zero. Individuals do not solely give because of the tax deduction, evidenced by the fact that around 19 percent of individual charitable giving is given by those who do not claim a deduction for it. To evaluate what individual giving would look like without the deduction, existing studies utilize the price elasticity of giving. Government agencies such as the

[38] See Appendix A: Percent of Total Giving that was Itemized.
[39] For further information on the calculation, see Appendix B.
[40] To see the breakdown of the distribution of the deduction and the 2017 and 2018 tax brackets, see Appendices B, C, and D.

Congressional Budget Office use price elasticities of -1 and -0.5 when running analyses of the charitable contribution deduction and alternative ways to structure the incentive, so I also use these two elasticities when modeling the decline in individual giving when the deduction is eliminated.

Scenario 1: 2017 Counterfactual

In 2017, individual giving was $287.01 billion. If 81 percent of this amount was itemized, then around $232.48 billion was donated by people who took a tax deduction for their charitable contributions. With the data from the Joint Committee on Taxation and the 2017 income and tax brackets, I calculated the weighted average tax rate for those who itemized for the charitable contribution deduction to be 33.69 percent.[41] If the deduction were to be eliminated, then the federal government would tax the $232.48 billion of previously tax deductible charitable contributions at this rate, generating $78.33 billion in additional tax revenue. If 18 percent of this amount was allocated towards means-tested programs, they would receive an additional $14.26 billion in federal funding.

Without the deduction, the subsidy for giving would be zero, instead of each filer's tax rate. For example, for a person in the highest tax bracket in 2017, 39.6 percent, the net cost of donating $1 when there is a deduction is $0.604.[42] The net cost is the tax rate subtracted from one because itemizers can reduce the amount of income they pay taxes on by donating and effectively avoid paying taxes on each dollar that they donate (up to a certain limit). Donating thus reduces a person's tax liability. When there is no deduction, the net cost of donating $1 would be $1; the price of giving is one. This change in price of giving would presumably change the amount that people give.

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[41] See Appendix B for further information on its construction.
[42] Reich, *Just giving*, 79.

Using the weighted average tax rate calculated for 2017, the average price of giving was $0.66[43] for each dollar donated. To calculate how much giving would fall, I found the percentage by which donations would change when the price elasticity of giving was -1. The percent change in donations would be an approximately 50.81 percent decrease under these circumstances. In 2017, that would mean people would have given $118.13 billion less in charitable contributions, and individual giving would have totaled $168.89 billion. This figure is a 41.16 percent decrease in actual individual giving that year. If we assume a price elasticity of -0.5, people would have given $59.06 billion less in charitable contributions and individual giving would total $227.95 billion, a 20.58 percent decrease from actual levels of individual giving.

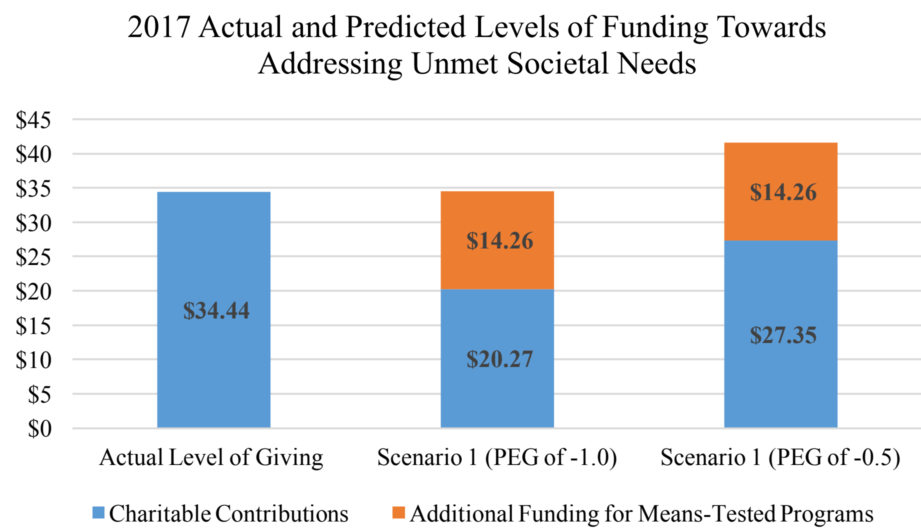
Although individual giving would decline with the elimination of the deduction, allocating 12 percent of the estimated levels of continued individual giving in this scenario to the human service sector would generate between $20.27 billion and $27.35 billion assuming a PEG of between -1.0 and -0.5. If the level of individual giving to the human service sector is combined with the additional funds that means-tested programs would receive from the additional tax revenue, a total of $34.52 billion would go towards addressing societal needs under the price elasticity of -1.0 and $41.61 billion under the elasticity of -0.5. Both of these figures are greater than the actual amount that went towards human services from individuals in 2017 under the charitable contribution deduction: $34.44 billion.

The chart below visually compares the different levels of money that could go towards programs that seek to assist those with unmet need. The left column is the amount donated by individuals to the human services sector in 2017. The middle column shows the hypothetical total amount of funds towards programs that seek to assist those with unmet need if the

[43] 1 – 0.3369 (the weighted average tax rate).

deduction were eliminated, combining the additional funds that means-tested programs would receive and predicted charitable giving assuming a PEG of -1.0. The right column demonstrates the hypothetical amount of funds towards these programs but under the assumption of a PEG of -0.5. As stated in my Methodology, it is likely that the true PEG is within this range, and thus eliminating the deduction would likely generate a level of funding somewhere between the middle and right columns in the below graph.

Figure 4: Actual Levels of Charitable Giving in 2017 vs. Scenario 1



<u>Scenario 2: 2018 Counterfactual</u>

Even with the overall decline in giving (inflation adjusted) in 2018, we can perform a similar analysis to compare projected additional tax revenue from eliminating the charitable contributions deduction for all taxpayers with the current level of giving to human service organizations under the existing deduction. Analyzing both years instead of just one enables a broader picture to be formed and shows the implications of some modifications to the charitable contribution deduction and other aspects of the tax code that influence whether people use the deduction because the tax code changed in between 2017 and 2018 with TCJA. Since the Internal Revenue Service has only just begun to release data from 2018 filings, I do not have the same breakdown of filers across different income brackets as was published for 2017 by the Joint Committee on Taxation. However, estimates by the Tax Foundation suggest that low and middle-income brackets are those that are the most likely to no longer itemize; the foundation estimates that the "number of itemizers will fall by 75% for those with income between $20,000 and $30,000 and 74% for those with income between $30,000 and $40,000."[44] These estimates suggest that high-income taxpayers will be increasingly those who take advantage of itemizing and therefore the charitable contribution deduction. I used these estimates to adjust the 2017 distribution by income class of the charitable contribution deduction and used the 2018 tax brackets[45] to generate a weighted average tax rate for those who took the deduction in 2018 of 34.40 percent.

In 2018, individual giving totaled $290.84 billion and around $235.58 billion came from filers who took the deduction.[46] The government would collect an additional $81.04 billion in revenue if it taxed the amount that itemizing filers were donating at the weighted average tax rate; means-tested programs would be allocated an additional $14.77 billion.

Assuming a weighted average tax rate of 34.40 percent, the elimination of the deduction would increase the price of giving from $0.656 to $1 for each dollar donated. The higher price of giving would mean that people are incentivized to give less and under a price elasticity of -1.0 (-0.5), individual giving would fall to $167.31 billion ($229.07 billion). If roughly 12 percent of the new level of individual giving went to the human service sector, the sector would receive $20.08 billion ($27.49 billion) if the price elasticity was -1.0 (-0.5). Thus, in this scenario, a total of between $34.84 billion, the sum of the additional funding to means-tested programs and

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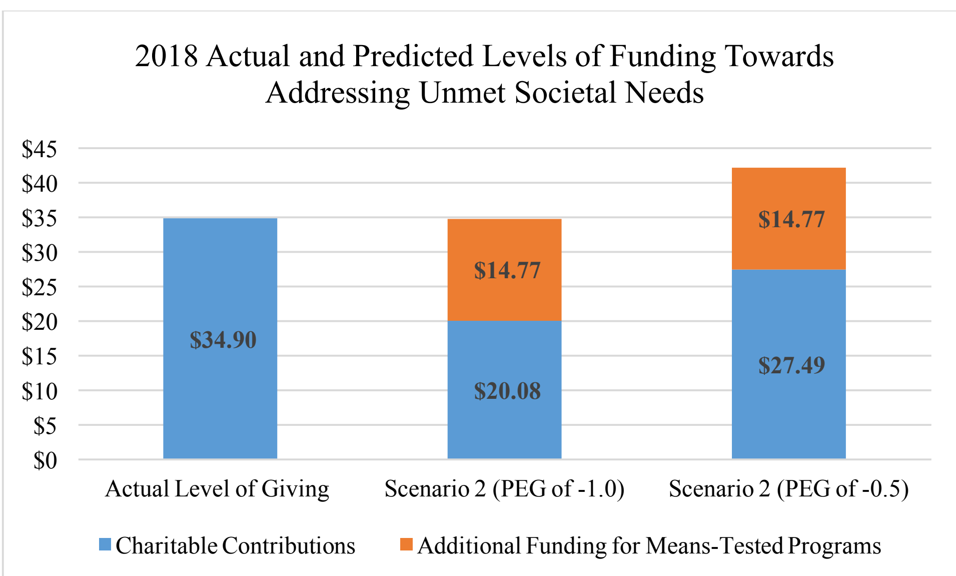
[44] York and Muresianu, "TCJA Simplified Tax Filing Process for Millions of Households," *Tax Foundation*.
[45] See Appendix D, 2018 Income Levels and Associated Tax Brackets.
[46] 81% of total individual giving (81% comes from the average between 2009-2017); see Appendix A.

individual giving to human services, and $42.25 billion would go towards addressing societal need. Around $34.90 billion was actually donated to the human service sector by individuals in 2018. The lower bound of our estimate, the amount going towards means-tested programs and individual giving to human services if the PEG is -1.0, is less than the actual amount that was actually donated to the human service sector ($34.84 billion vs. $34.90 billion). However, a PEG of -1.0 is a conservative estimate and thus the predicted amount going to programs that address basic needs is likely greater than $34.84.

The chart below, Figure 5, illustrates the different levels of money that could go towards programs that seek to assist those with unmet need. The left column is the amount actually donated by individuals to the human services sector in 2018. The middle column shows the hypothetical total amount of funds towards programs that seek to assist those with unmet need if the deduction were eliminated, combining the additional funds that means-tested programs would receive and predicted charitable giving assuming a PEG of -1.0, while the right column demonstrates this amount under the assumption of a PEG of -0.5.

Figure 5: Actual Levels of Charitable Giving in 2018 vs. Scenario 2



Which scenario generates the most revenue for addressing societal need? Should the deduction be re-structured?

Based on the hypothetical scenarios where the deduction is eliminated, it is likely that more money would go towards addressing societal need than the actual amount that went to human services from individual giving in the given year. Even though individual giving would fall without the deduction, the additional funding that means-tested programs would receive from the new tax revenue would make up for this loss. A price elasticity of -1.0 is likely on the more extreme side as it would mean that the percentage change in giving would move exactly in tandem, but in the opposite direction, with the percent change in price. The true price elasticity of giving likely lies in between -0.5 and -1.0, so the true change in giving also lies in a range between the figures I presented previously. However, even in the more extreme cases where the price elasticity was -1.0, spending towards addressing societal needs was almost equal to if not greater than actual levels of giving when the deduction was eliminated. From a revenue generation standpoint, my analysis suggests that the federal government should eliminate the charitable contributions deduction from the tax code if its *sole* goal is to maximize the amount of money allocated towards addressing what I have labeled "societal need."

The original justification for the charitable contribution deduction when it was created was that it reduced the need for government spending. It is difficult to accurately assess whether the deduction achieves this, but the magnitude of government spending on means-tested programs compared to human service giving from individuals suggests that this may not be the case. In 2017, the government spent 21.14 times the amount that individuals gave to human services on means-tested programs. In 2018, this figure was 21.40 times. Individual giving to help provide basic needs is less than 5 percent of what the government spends. With respect to addressing basic needs, it does not seem that the magnitudes of spending between the government and individuals are comparable. However, this argument may hold for other sectors to which individuals contribute, such as to Arts & Culture, but investigating this is outside the focus of this paper.

Rather than justifying the charitable contribution deduction by claiming it is treasury neutral, we should instead evaluate the deduction on the basis of whether it provides the most money to addressing societal need. Why is it enough that the deduction may incentivize at least as much giving than it is costing the Treasury in revenue, when the contributions people are taking deductions on could instead be taxed and a greater amount of money could go towards helping the neediest and providing opportunity through public and private programs? Should we choose to adopt the goal of having the maximum impact on alleviating need, the deduction should be eliminated or re-structured. Unfortunately, based on the literature on the charitable contribution deduction, a complete elimination of the deduction is not the common alternative discussed, likely because it has been entrenched in the tax code for over 100 years.[47] Instead, different ways of structuring the subsidy are discussed. Hence, there appears to be an implicit understanding that incentivizing giving in some form is inherently "good." However, this understanding conflates incentivizing giving with the act of giving. While charitable giving is a positive behavior that we applaud in our society, people will still give without the charitable contribution deduction as an incentive. My analysis indicates that the levels at which people would continue to give, along with the additional federal tax revenue, could have a greater financial impact on supporting social service programs than the existing system.

[47] Colinvaux 2012, Cordes 2011, Fleischer 2011.

Why should we adopt revenue generation as a comparison metric?

My analysis has relied on monetary figures to compare and evaluate the effectiveness of the charitable contribution deduction. While monetary figures provide a standardized way to compare different programs, what we truly may care about when we ask the question, how are we meeting societal needs, is the impact or efficiency of these dollars. Is an additional dollar allocated to means-tested programs going to have a greater impact than an additional dollar going to a nonprofit organization falling under the human services sector? Those who support the deduction on the grounds of the efficiency theory believe so as they believe that the private sector is more efficient than government spending. Unfortunately, my survey of the literature has not uncovered a way to measure impact. Since different organizations and programs use different methods and serve people in different ways, a metric that quantifies the work of nonprofits has not been created. In an ideal scenario, we would be able to quantify the impact that nonprofits have and that means-tested programs have in a way that would enable us to compare them for their impact on society, rather than by the amount of funding these programs receive. Without such a way to measure impact, I have to rely on the existing alternative, which is funds allocated.

What if the government does not allocate part of the additional tax revenue from eliminating the deduction to means-tested programs?

One significant counterargument to the implementation of a revenue maximizing plan is that there is no guarantee as to how the government would spend the additional tax revenue it would collect without the deduction. If the government were not to allocate a portion of the funds towards means-tested programs, eliminating the deduction would reduce revenue for addressing unmet basic needs as giving would fall and there would not be increased government spending. In light of recent budget proposals by our current administration, it is a possibility that means-tested programs would not receive additional funding. While not all of the administration's proposals have been implemented, President Trump has signaled a lack of support for programs that address societal needs. His 2020 budget plan proposed to cut SNAP by $220 billion over the next ten years while making the program harder to access for around 90 percent of its participants, and it proposed to cut funding to maintain public housing by 60 percent and eliminate Housing Choice Vouchers for 140,000 households.[48] If it were the case that the government would not allocate the additional tax revenue to means-tested programs and similar federal programs, then the goal of revenue maximization may then be misguided and instead subsidizing charitable giving where individuals can choose how their funds are allocated may be best for addressing societal need. However, a commitment to allocating at least a portion of hypothetical tax revenue from eliminating the deduction is a policy solution that can be achieved through engagement in the political process.

V. Moral Side Constraint to Eliminating the Deduction

The Pluralism Rationale

Before recommending that the charitable contribution deduction be eliminated with the goal of maximizing revenue towards social services, we must consider the primary moral argument used to justify the deduction, the pluralism rationale. We also must consider whether revenue maximization is a permissible goal in the face of this rationale.

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[48] Richard Kogan et al, "Cuts to Low-Income Assistance Programs in President Trump's 2020 Budget Are Wide-Ranging," Center on Budget and Policy Priorities, May 15, 2019, https://www.cbpp.org/research/federal-budget/cuts-to-low-income-assistance-programs-in-president-trumps-2020-budget-are

The pluralism rationale for the charitable contribution subsidy rests on the principle that people should have a say in what public benefits to promote. Supporters of the pluralism rationale argue that the deduction allows people to express their preferences for how they want their money spent because taking the deduction essentially directs federal spending to charitable organizations of their choosing in the form of forgone tax revenue. Because people have a variety of preferences about the social goods they would like to support through government programs, the subsidy enables "individual taxpayers [to] determine which projects merit subsidies."[49] Fleischer compares a donation to a "vote" for a certain social good. Reich describes the alternative to having the charitable tax deduction under the pluralism rationale by explaining that if social goods were only funded through direct expenditures of tax dollars, then the median voter's preferences would dictate what public benefits are funded; therefore, the tax deduction is "an effort to stimulate all citizens to cast their own preferences, in the form of dollars, about their favored social goods into civil society, where the resulting funding stream is partly private (from the donor) and partly public (from the tax subsidy)."[50] The subsidy effectively allows individuals to direct some public spending towards their desired organizations. The pluralism theory is augmented by donative theory, which states that donations signal a social good that is valued by the public is being undersupplied by market and government forces.[51] Rather than maximizing revenue, the pluralism rationale suggests that we should maintain the deduction because it promotes funding towards programs that people actually value.

Although some supporters of the charitable contribution deduction argue that the pluralism rationale justifies maintaining the deduction, I argue that this objective should be

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[49] Fleischer, "Equality of Opportunity and the Charitable Tax Subsidies," 613.
[50] Reich, *Just giving,* 130-131.
[51] Fleischer, "Equality of Opportunity and the Charitable Tax Subsidies," 614.

secondary to the goal of addressing unmet basic needs through revenue maximization for two reasons. First, the distribution of giving across different sectors of charity indicates that giving is not necessarily most efficient. Second, the nature of the subsidy gives an unfair advantage to the affluent.

When people take the deduction for charitable giving, there are a variety of different sectors to which they could have donated their money and thus have a say in public spending. Figures 1-3 illustrate the distribution of giving across the different sectors and reveal that people do not always allocate their money to programs that actually address societal need, meaning that the deduction may be subsidizing programs that do not need or should not qualify for tax-deductible status. An example would be the magnitude of giving to religious organizations. Religious organizations currently are tax-exempt and donations to them are eligible to be claimed as a charitable contribution. Religious giving consistently is the sector that receives the most in charitable contributions; in 2018, it received 29 percent of all charitable dollars and in 2017, it received 31 percent of all charitable dollars.[52] While religion is an important aspect to many people's lives, religious organizations spend most of the donations they receive on their own operations and do not necessarily address basic societal needs. Furthermore, religious giving tends to be fairly inelastic, meaning that many people who donate to religious organizations are not as sensitive to changes in the price of giving or the subsidy. Therefore, the elimination of the deduction would likely not substantially negatively impact the donations that religious institutions receive. One of the founding justifications of the deduction was to maintain levels of philanthropic giving because it was viewed as substitutable with public spending. However, the government would not fund religious organizations. The subsidy is thus directing federal funds

[52] "Giving USA 2018," "Giving USA 2019"

towards a sector that it would not otherwise fund, making the subsidy inefficient. Furthermore, while we may want to recognize the importance of giving people a voice, the fact that the human services sector only receives 12 percent of total giving means that much of the subsidy is going to less important social needs than those addressed by means-tested programs. It is ultimately more important to assist the worst-off in our society as that is a more urgent need than subsidizing other forms of charity, such as the daily operations of religious organizations.

In addition, people often display a local bias when they donate and tend to give to organizations in their area. It has been found that "the presence of a corporate headquarters in a city is associated with about $10 million in additional public contributions to local nonprofits each year" and the increasing giving is not from the corporations but from the wealthy corporate executives.[53] The American cities that receive the highest contributions relative to their population are Stamford, Boston, Raleigh-Durham, Washington, D.C., and New York, "brain hubs" in America while "cities with few headquarters and struggling local economies – arguably the ones that need charities the most – are the ones that attract the fewest contributions."[54] Public social service spending is based on eligibility rather than geography and is thus likely more equitable in terms of helping people across the nation rather than in a concentrated geographic area.

The pluralism rationale should also be discounted in favor of revenue maximization because the charitable contributions deduction does not treat donors equally and disproportionately favors the wealthy. If we want to use the deduction to give taxpayers a voice in what social goods to provide, then how do we justify the fact that the deduction is only

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[53] Enrico Moretti, *The New Geography of Jobs* (New York: Houghton Mifflin Harcourt Publishing Company, 2012), 118.
[54] Moretti, *The New Geography of Jobs*, 119.

available to those who itemize their taxes, representing around 30 percent of taxpayers?[55] This would mean that we are only giving 30 percent of taxpayers a voice in deciding what social goods are valuable. Itemization is a tax practice that is used primarily by taxpayers with taxable income above $153,000 and the deduction distorts the net cost of any charitable contribution between those who itemize and those who do not, and between people in different tax brackets.[56] Those in higher tax brackets have a lower cost of donating, so the wealthiest are able to amplify their preferences for spending. The subsidy is mainly benefiting the wealthiest and allowing the wealthiest to determine the government should subsidize, evidenced by the fact that in 2016, those "with incomes over $100,000 received 76 percent of the total $40.9 billion tax subsidy due to the charitable deduction, although they made just 57 percent of all donations."[57] Reich terms this phenomenon the "plutocratic bias in the subsidy."[58] The pluralism rationale appears to pit autonomy against helping those whose needs may go unaddressed. However, we must consider whether it is just for the affluent to have this form of autonomy that provides the privileged with more privilege and amplifies their preferences. Ultimately, the autonomy of the affluent is not more important than the well-being of human beings, so the deduction should be eliminated to generate as much revenue as possible to provide for those with unmet need.

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[55] Reich, *Just giving,* 120
[56] Reich, *Just giving,* 79
[57] Fack and Landais, *Charitable giving and tax policy: a historical and comparative perspective*, 46.
[58] Reich, *Just giving,* 123.

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Appendix

Appendix A: Percent of Total Giving that was Itemized

Year	Total Individual Giving	Itemized Charitable Contributions	Percent
2009	$227.41	$158.02	69%
2010	$211.77	$170.98	81%
2011	$217.79	$177.09	81%
2012	$228.93	$202.52	88%
2013	$286.65	$197.37	69%
2014	$258.51	$213.01	82%
2015	$264.58	$222.21	84%
2016	$281.86	$234.65	83%
2017	$287.01	$256.19	89%
		Average:	**81%**

Source: Giving USA annual reports and the Tax Policy Center, "Itemized Charitable Contributions (Constant Dollars), 1917-2017"

Appendix B: Distribution by Income Class of the Charitable Contributions Deduction at 2018 Rates and 2017 Income Levels

Charitable Contributions Deduction				
Money amounts in millions of dollars, returns in thousands				
Income Class	**Returns**	**Returns % of total**	**Amount**	**Amount % of total**
Below $10,000	3	0.02%	$(3)	-0.01%
10,000 - 20,000	23	0.14%	$3	0.01%
20,000 - 30,000	62	0.38%	$13	0.03%
30,000 - 40,000	149	0.91%	$43	0.10%
40,000 - 50,000	329	2.01%	$84	0.20%
50,000 - 75,000	1,667	10.20%	$572	1.40%
75,000 - 100,000	2,140	13.10%	$1,082	2.64%
100,000 - 200,000	6,600	40.39%	$5,170	12.61%
200,000 and over	5,367	32.85%	$34,021	83.01%
Total	16,339		$40,985	

Source: Joint Committee on Taxation - Table 3: Distribution by Income Class of Selected Individual Tax Expenditure Items at 2018 Rates and 2017 Income Levels

Note: I created the weighted average tax rates by multiplying the selected tax rate for each income class by the amount percent of total for the counterfactuals, Scenario 1 and 2. For

Scenario 2, I adjusted the amount column based on predictions from the Tax Foundation, multiplying the amount for income class $20,000 - $30,000 by 0.75 and for $30,000 - $40,000 by 0.74. These adjustments did not significantly alter the amount percent of total.

Appendix C: 2017 Tax Breakdown by Income, Rate, and Percent of Filers

2017 Tax Brackets		
Income	**Rate**	**Percent of filers**
< $9,325	10%	17.6%
$9,326 - $37,950	15%	34.7%
$37,951-$91,900	25%	18.4%
$91,901-$191,650	28%	3.8%
$191,651-$416,700	33%	1.5%
$416,701-$418,400	35%	0.1%
> $418,401	39.6%	0.7%

Source: The Tax Foundations, Tax Policy Center

Appendix D: 2018 Income Levels and Associated Tax Brackets

2018 Tax Brackets	
Income	**Rate**
< $9,525	10%
$9,525-$38,700	12%
$38,701-$82,500	22%
$82,501-$157,500	24%
$157,501-$200,000	32%
$200,001-$500,000	35%
> $500,000	37%

Source: The Tax Foundation