Tax Reform Will Affect Your Charitable Giving

In April, the Trump administration released the president’s tax-reform proposal (see: Explainer: What you should know about President Trump’s tax reform plan). The plan was merely an outline and was short on details. Republicans in Congress, though, have released proposals that include three major policy changes: 1. increasing the value of the standard deduction to $11,000 for individuals and $22,000 for married couples, 2. extending the charitable tax deduction to non-itemizers and 3. decreasing the highest marginal tax rate to 35 percent.

Because changes to tax policy affects charitable and religious giving, the Indiana University Lily Family School of Philanthropy conducted a study to estimate the impact of the proposed 2014 Tax Reform Act.

This study examined the effects of proposed policy changes on charitable contributions and government tax revenue and examined various combinations of three major policy changes. Some key findings from the study include:

1. The current proposals, which include an increase in the standard deduction and a decrease in the top marginal tax rate, would have a negative effect on charitable giving, with giving decreasing between $4.9 and $13.1 billion (-1.7 percent to -4.6 percent).
2. Expanding the charitable deduction to non-itemizers, as a stand-alone provision, increases total giving by between 1.3 percent and 4.3 percent and has a negligible effect on total tax revenue (decrease by percent to percent).
3. Combined with current tax reform proposals, expanding the charitable deduction to non-itemizers more than

offsets the charitable giving lost by other tax reform proposals and increases giving by 0.4 percent to 1.7 percent. Increasing the standard deduction has a negative effect on charitable giving for both religious congregations and other charities but a larger negative effect on giving to congregations than on giving to other charities.

4. All policies proposed have a negative effect on federal tax revenue: expanding the charitable deduction to non-itemizers alone has the smallest effect on tax revenue decreasing revenue by .4 percent to .5 percent and all three proposals combined have the largest effect on tax revenue decreasing revenue by an estimated 3.8 percent.

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