PHILANTHROPY DOES SUCH A POOR JOB OF *channeling money to the needy that it would not be difficult for government to do better.*

may contribute to inequality is that the wealthiest people garner the largest tax advantages for philanthropy, and the poorest the smallest – what is known as an "upside-down effect." Because the amount of the charitable deduction is based on the percentage at which one is taxed, those in the highest tax bracket (35 percent in 2005) receive the largest deduction, and those in each lower tax bracket receive an increasingly smaller deduction. In other words, "the opportunity cost of virtue falls as one moves up the income scale," as two scholars wryly noted.[19]

As a result, identical donations to identical recipients are treated differently by the state depending on the donor's income. A $500 donation by the person in the 35 percent bracket costs the person less than the same donation to the same place by the person in the 10 percent bracket. Because the same social good is ostensibly produced in both cases, the differential treatment appears unjust. If anything, lower-income earners would seem to warrant the larger subsidy and incentive.[20]

Both of these features of the tax code benefit the well-off, either excluding nonitemizers (who tend to have less income than itemizers) from the benefit of a deduction, or giving poorer itemizers smaller subsidies for their donations. This is so because the tax code, as applied to charitable and philanthropic donors, arbitrarily discriminates between individuals on the basis of a characteristic – status as itemizers or tax bracket position – that is unrelated to the purpose of the tax incentive in the first place.

Would Americans Make Charitable Donations Without Tax Incentives?

Tax incentives may not be as vitally important to giving as researchers and policymakers originally thought. Classic studies on how changes in tax incentives impact donors' giving in the following year found rather substantial effects: A 50 percent increase in the price of a donation – that is, the amount of money donors give minus the amount they receive as income tax deductions – decreased donations by up to 125 percent.[1]

These short-term studies, however, failed to take into account the fact that donors often return to their original levels of giving once they get used to new tax laws. More recent studies that take a longer view find that tax incentives play a smaller role in motivating charitable donations, with a 50 percent increase in the price of donations decreasing charitable contributions over the next two to three years by as little as 25 percent.[2]

How much tax incentives matter also depends on who donors are. High-income donors seem to be more responsive to tax incentives than low-income donors. Economist Laura Tiehen, for example, reports that over 50 percent of donors with incomes over $100,000 cite tax incentives as a motivation to give, while only about 30 percent of donors with incomes under $50,000 cite tax incentives as a motivation to give.[3]

Some organizations are more affected by changes in the tax code than others. Charitable giving to educational institutions and hospitals is quite sensitive to policy changes, reports Martin Feldstein, a professor of economics at Harvard University.[4] He estimates that if income tax deductions for charitable contributions were eliminated altogether, contributions to educational institutions and hospitals would drop 40 percent to 65 percent. In contrast, religious organizations are minimally influenced by tax incentives. Feldstein speculates that eliminating tax deductions would reduce giving to them by only 7 percent to 13 percent. *–Rob Reich*

1 Boskin, M.J. & Feldstein, M. *Effects of the Charitable Deduction on Contributions by Low and Middle Income Households: Evidence From the National Survey of Philanthropy* (1978).
2 Barrett, K.S., McGuirk, A.M., & Steinberg, R. "Further Evidence on the Dynamic Impact of Taxes on Charitable Giving," *National Tax Journal* 50 (1997): 321-334.
3 Tiehen, L. "Tax Policy and Charitable Contributions of Money," *National Tax Journal* 54 (2001): 707-723. Retrieved Aug. 28, 2005, from http://ntj.tax.org/.
4 Feldstein, M. "The Income Tax and Charitable Contributions: Part II – The Impact on Religious, Educational, and Other Organizations," *National Tax Journal* 27 (1975): 209-226.