

THE CHARITABLE CONTRIBUTION DEDUCTION: HOW TAX POLICY
INFLUENCES DONOR BEHAVIOR

by

Amy Grace Koran

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Approved by:

Tammy Kowalczyk, Ph.D., Thesis Director

Jean DeHart, Ph.D., Second Reader

Sandra Vannoy, Ph.D., Walker College of Business Honors Director

Leslie Sargent Jones, Ph.D., Director, The Honors College

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ABSTRACT

The primary objective of this study was to determine how tax policy impacts donor behavior with respect to the charitable contribution tax deduction. In addition, the study examined the effect on giving to non-profit organizations through various proposals to change the benefit of the charitable contribution tax deduction. The best proposal was determined to be a deduction both advantageous to the taxpayers as an incentive to give financially to qualifying organizations and advantageous as a benefit offered by the government as a result of subsidization through tax policy. Through the use of a survey, I analyzed the motivating factors for individuals to give and the effect on giving expected by taxpayers through the proposed changes to the charitable contribution deduction. The study indicated that there was an overall lack of awareness of tax policy and also demonstrated that the perceptions about why one personally gives differs from what one perceives are the reasons that others give. Furthermore, my evidence supports the notion that tax policy may have some effect on giving, but it is ultimately dependent on the circumstances of the taxpayer.

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INTRODUCTION

The charitable contribution tax deduction is an available itemized deduction on the Form 1040, Schedule A. On this form, from line 16 to 19, information can be detailed about qualifying gifts to charity. Qualifying gifts are cash and noncash contributions made to organizations that have been approved by the Internal Revenue Service (IRS). Some examples of the types of organizations include churches and other religious organizations, non-profit charitable organizations, non-profit educational organizations, non-profit hospitals, and medical research organizations. The itemized deduction is a compilation of many different categories of expenses, including unreimbursed medical expenses exceeding a percentage of adjusted gross income, certain paid taxes, certain paid interest, and others. Each section contains its own complexities; but, for the purpose of my research, I have chosen to focus only on the charitable contribution tax deduction.

The context of this paper is primarily divided into two sections. The first section consists of the historical background of the deduction, which dates back to the War Revenue Act of 1917. The modifications and additions to the deduction are important to understand in order to further research the various proposals to modify and change the current deduction. The first section also contains a literature review where three proposals are analyzed and reviewed in relation to the effect that the change in the current deduction could have on the giving of individuals and the subsidization of the deduction by the government. The second section contains the research and survey that I have conducted to study how the deduction can incentivize the behavior of taxpayers. I have also briefly identified and explained the other incentives that encourage charitable giving.

Statement of the Problem

The charitable contribution deduction, while an incentive for taxpayers to give, also results in a decrease of government revenues due to the subsidization provided by the government to taxpayers who give to qualifying organizations. Many also consider the deduction to be an upside-down subsidy, since the deduction increases in relation to the taxpayer's marginal tax rate. The current deduction also directly opposes the progressive tax system allowing only taxpayers who itemize to include charitable donations as part of their deduction (Elson & Weld, 2011, p. 7).

Purpose of the Research

The purpose of this study is to evaluate how the charitable contribution deduction influences the giving behavior of taxpayers. Through an analysis of the various proposals made to modify the charitable contribution tax deduction, the best proposal for the charitable contribution deduction can be determined. The best proposal is one that is advantageous to the taxpayer as an incentive to give financially to qualifying organizations, yet also is one that does not result in excessive government subsidization and revenue loss.

Significance of the Study

This study is important as many non-profit and other qualifying organizations rely heavily on donations from individuals. These individuals, especially those in higher-income levels, are given a tax incentive that not only encourages giving financially, but also has the potential to increase the amount of donations. Tax policy makers must also carefully consider the impact of tax reform in regards to the charitable contribution tax deduction as new tax policy has the potential to impact charitable giving (Daniels, 2014). Lastly, I think it is important for non-profit organizations to understand the influence that tax incentives can

have on donations. The government also has a shared responsibility with non-profit organizations to provide for the unmet needs of society. In order to provide in the most efficient and effective ways to meet these needs, the government must work alongside non-profit organizations.

Research Questions

The first objective of the study was to gain a better understanding of the charitable contribution deduction. Through a historical review of the deduction, there can be a greater understanding of the way in which the deduction has evolved significantly and the way in which history has influenced the proposals for change to the deduction. The next objective was to evaluate the proposals that have been made to change the deduction and consider the impact that these proposals would have on charitable giving and on subsidization by the government. Next, the objective of the survey was to determine how the perceptions of taxpayers compared among the proposed changes to the deduction. The survey also evaluated taxpayer understanding of the current progressive tax system along with its deductions and credits. Another objective of the survey was to evaluate the attitude of taxpayers towards non-profit organizations and how these organizations meet the needs of society. Finally, the study was to assess the factors that motivate individuals to give to non-profit organizations and advise how the tax incentive to give can best be implemented through the charitable contribution tax deduction.

HISTORICAL REVIEW

The Origin of the Deduction

A short statutory provision originated in 1917, but now § 170 of the Internal Revenue Code thoroughly details the limitations and phase-outs of the deduction. According to Vada

Waters Lindsey (2003), the complexity of the highly detailed code is essential to maintain an equitable statutory scheme that encourages giving charitably while preventing tax abuse and fraud (p. 1058). The Economic Recovery Act of 1981 temporarily allowed individuals, whether taking the itemized deduction or the standard deduction, to claim the charitable contribution deduction. This change was only temporary though, and taxpayers with the standard deduction were unable to also take the charitable contribution deduction with the Tax Reform Act of 1986.

Christopher M. Duquette (1999) demonstrates that the above-the-line deduction permits a reasonable estimation of the responsiveness of non-itemizer giving related to tax incentives. The responsiveness of non-itemizer giving as a result was then compared to the giving of itemizers (p. 195). Overall, the charitable contribution tax deduction can still be claimed by those it was first created it for—taxpayers with higher-income levels who take the itemized deduction. As a result, lower-income taxpayers that take the standard deduction are unable to receive government subsidization for their charitable contribution. This limitation of the deduction will be discussed later as it directly weakens the progressive tax system by allowing only higher-income taxpayers to claim the deduction.

Historical Review: 1917-1962

Since the history of the charitable contribution is filled with complexities, this historical review outlines some of the amendments made by Congress to provide sufficient detail to illustrate how the deduction has evolved over time. The historical review provides insight into how the deduction has transformed over the years and how certain elements of the deduction as written in the code have survived over the life of the charitable contribution deduction. The deduction dates back to the debut of the War Revenue Act of 1917. President

Wilson signed the War Revenue bill to raise revenue during World War I. The bill was designed to raise annually over two and one half billion dollars exclusively for war purposes, which were over and above ordinary revenues (Blakey, 1917, p. 791). In order to keep charities in operation, a deduction was made for taxpayers who made contributions or gifts within the year to certain qualifying charitable organizations. Due to the heavy taxation on incomes and estates, private funds that certain organizations heavily depend on had the potential to be threatened. The threat was that higher-income donors would be unable to give of their surplus income due to heavy war taxation. According to Joseph J. Thorndike (2012), the war was crucial to the deduction because the proposal of the deduction failed in peacetime and gained traction only when war taxes underscored the issue (p. 2). The beginning history of the deduction alludes to the fact that the deduction was purposed to incentivize financial giving to worthy organizations. Taxes in the United States were evolving and with the passing of the War Revenue Act, Congress stepped in to encourage and motivate giving to charitable organizations that fulfilled the unmet needs in society.

The first major change to the charitable contribution deduction was made with the passing of the Revenue Act of 1938 when the amount of the charitable contributions was limited to the amount of contributions made by the taxpayer during the course of the taxable year. This provided uniformity for the deduction as taxpayers could only offset tax for the year in which they also made charitable donations. Over the next decade, a ceiling was added, and the adjusted gross income measurement replaced the net taxable income measurement. The 15% ceiling of adjusted gross income (AGI) of the Individual Income Tax Act of 1944 was replaced with the 20% ceiling of AGI in 1952. In 1954, Congress

renumbered the charitable contribution deduction provisions to the current § 170 of the Internal Revenue Code.

The 1950s and 1960s were an active time for the charitable contribution deduction. The ceiling was once again increased from 20% of AGI to 30%, except the additional 10% was limited to direct donations to certain types of charitable organizations, such as churches, educational institutions, and hospitals. These particular changes to the deduction were put in place to encourage donations to certain organizations that were facing rising operating costs. This was the first time that Congress directed charitable giving through subsidizing certain donations more than others (Lindsey, 2003, p. 1063). Under a 1962 amendment, Congress included foundations for colleges and universities to the non-profit organizations that were eligible for the additional 10% ceiling added to 20% of AGI deduction. Two years later, Congress agreed to make more organizations eligible for the additional 10% ceiling.

Historical Review: 1969-1993

The Tax Reform Act of 1969 was founded on the beliefs of the members of the House of Representatives and the Senate that taxpayers with the highest gross income were able to use tactics of tax avoidance and as a result not pay enough tax to successfully maintain the progressive tax structure (Lindsey, 2003, p. 1064-1065). The belief was that higher income taxpayers adjusted their behavior merely to increase itemized deductions to reduce their overall tax liabilities. A question should be asked about this conclusion and it is one of the questions that I will further discuss: How can one differentiate if a taxpayer is merely just attempting to lower his or her tax liability or if the taxpayer is concerned with furthering economic objectives? Another idea that must be considered is if it is possible for the taxpayers to accomplish both of these objectives with equal concern. Although the deduction

was first created to incentivize taxpayers, as with most of the tax code, deceiving tactics forced Congress to increase the complications surrounding the deduction in hopes to limit tax abuse and fraud. The question asked above is one that is important to consider as taxpayers today evaluate how the charitable contribution tax deduction will increase the itemized deduction to decrease tax liability, but taxpayers also give faithfully to organizations in order to help those in need.

Also in 1969, Congress began slowly lowering the unlimited maximum deduction and also raised the ceiling from 30% of AGI to 50% of AGI (Weiss, 1970, p. 981). Once again, Congress expanded the list of qualifying organizations for the deduction. The period from 1982-1986 marks an interesting time for the charitable contribution deduction and one that might be worth considering as viable research towards offering the deduction to all taxpayers to incentivize charitable giving. In 1981, Congress amended the tax code to allow for all taxpayers to claim the deduction (Auten, Cilke, & Randolph, 1992, p. 267). The hope was for charitable giving to increase. With the government's subsidization of the increased charitable giving, the hope was also that the government could in turn spend less on its services because these services and needs would be provided for and met by the growing non-profit sector. Taxpayers were permitted to claim a certain percentage of an allowable dollar cap for the deduction, but ultimately Congress discontinued the allowance of non-itemizing taxpayers to claim the deduction in 1986. This proposal previously allowed by Congress will be revisited as one of the proposals I have evaluated as a means to promote more charitable giving.

Documentation of charitable giving had overall been relatively weak until 1993. There was a growing concern that the deduction could be claimed, tax liability could be countered, and a taxpayer could be actively deceiving the government without any

documentation of charitable contributions. In 1993, Congress passed the Omnibus Budget Reconciliation Act. This act was designed to require a higher degree of documentation by taxpayers relating to their contributions to qualifying organizations. The first change to § 170 was the disallowance of a deduction for any charitable contribution of over \$250 without proper written substantiation of the transaction. This dollar amount changed to \$250 from \$2000, which was the previous allotted amount that required some form of documentation. The second change was more documentation was required by the organizations themselves. The new requirement for the organizations was to provide supporting documentation of all contributions made over \$75.

In 1997, Congress once again allowed for a broader definition of qualifying organizations and contributions, including education supplies such as computer technology and equipment that meets the needs of elementary and secondary education. This is just one simple example that illustrates how Congress wanted to further promote giving. As technology was advancing, Congress broadened its definition of an acceptable contribution.

The Charitable Contribution Deduction Today

While the deduction has evolved and grown in complexities over the past century, the charitable contribution is fairly easy to compute with the correct information on the Form 1040, Schedule A. One major setback is that some donors lack proper substantiation to take the deduction and others are unaware of what may qualify as a proper contribution to a qualifying organization approved by the IRS. Financial donations have simple guidelines, while donations of goods and belongings are much more complex. The general guideline is that the deductible amount is only the amount that exceeds the fair market value of the benefit received. As mentioned previously, proper written documentation from the

organization is required for gifts of \$250 or more. An additional form, Form 8283, must be completed on an individual's income tax return to provide a higher level of detail about the contribution. This form allows for noncash charitable contributions greater than \$500 to be deducted with proper substantiation.

REVIEW OF LITERATURE

Introduction to Past Studies

The deduction for charitable giving has been thoroughly researched in hopes to find the most beneficial tax treatment. Through each revision to the Code, Congress has carefully examined the potential impact on the charitable giving of taxpayers, analyzed the lifeblood of funding for most local, national, and global non-profit organizations and other qualifying organizations, and reviewed the potential impact on the government subsidization of charitable giving. The ideal deduction is one that promotes the charitable giving of individuals to the highest degree while maintaining the least financial burden on the government. I have analyzed many past studies involving options for changing the tax treatment of charitable giving. There are many different proposals that I have analyzed and reviewed, but I have selected three different proposals from various studies previously conducted. The proposals are all centered on the idea that the deduction should be considered based on the concerns of cost, equity and overall efficiency and effectiveness. While there are many different areas that could be affected with each new proposal, the studies focused on the change on the level of donations, costs to the federal government, and distribution of tax benefits by various income groups. A major complexity as discuss above in the historical review of the deduction is that the tax benefit varies with the adjusted gross income of each taxpayer; therefore, the tax savings of the deduction vary from taxpayer to taxpayer. Athiphat

Muthiatacharoen and Seth Giertz (2011) explain, “At current level of charitable giving, the cost of the deduction-measured as additional revenues that could be collected if the deduction was eliminated-will total about \$230 billion between 2010 and 2014, according to the Joint Committee on Taxation” (p. VII). In this study, through the examination of three different proposals, I attempt to explain why the government continuously chooses to forego the lost tax revenue and provides an incentive for charitable giving. With each proposal I studied the impact on charitable giving and the subsidization of the government in order to evaluate if the government is able to incentivize charitable giving while maintaining an adequate source of tax revenue.

Proposal 1: Retain Current Deduction, Create New Floor

The first proposal I considered is to maintain the same deduction that is offered, but to add a floor in which giving must exceed to be deductible as an itemized deduction. The fixed donation floor has been researched in at least two different ways, first using specific fixed-dollar amounts and secondly as a certain percentage of adjusted gross income. According to Muthiatacharoen and Giertz (2011), this proposal resulted in a decrease in government subsidization and a decrease in charitable giving. An important note is that the charitable donations did not decrease as much as the government spending (Muthiatacharoen and Giertz, 2011, p. 9). This can be simply explained through the floor that was created, regardless of the amount chosen for a floor. Higher-income taxpayers who give exceeding the floor will still be incentivized to donate financially and receive a larger itemized tax deduction. In addition, creating the price floor will reduce the required subsidy by the government for people that would have given regardless of the tax incentive. I will later look more extensively into the motivating influential factors for people to give to charities. This is

an important consideration for policy-makers when analyzing the results of the proposals to the charitable contribution deduction. If the deduction for charitable contributions was simply taken away, donations would not cease entirely because there are other primary motivating factors that individuals have to give.

In the study conducted by the Congressional Budget Office, a fixed dollar floor allowed itemizers to deduct charitable giving in excess of \$500 for a single taxpayer and \$1,000 for joint filers. The results of this floor were predicted to decrease donations made annually by \$0.5 billion and led to a decrease in federal tax subsidy of \$5.5 billion (Muthiatacharoen and Giertz, 2011, p. 9). The amount further decreased when the floor was made a percent of adjusted gross income, such as 2%. Even with the additional floor requirement, taxpayers would overall still have incentive to give and the benefits of higher-income taxpayers would remain mostly unchanged. The floor may have the potential to impact the amount that people give. For example when the price floor is \$1,000 for joint filers, a joint filer who gives \$3,000 per a year and is in the 25% tax bracket with \$100,000 will only receive tax savings of \$500 instead of tax savings of \$750 prior to the implementation of the floor. This proposal overall maintains the incentive for higher-income taxpayers who donate generously to receive the tax benefit, but eliminates the tax benefit for taxpayers who give in amounts that do not exceed the price floor. The assumption is that without the tax incentive donations that do not exceed the price floor will still be made, therefore eliminating unnecessary subsidization by the government for these donations.

Proposal 2: Allow All Taxpayers to Take the Deduction

The second proposal I considered has already been implemented into the code temporarily and then discontinued. The proposal is to allow all taxpayers to take the

charitable deduction regardless of whether they choose to take the standard deduction or itemized deduction. The Economic Recovery Act of 1981 temporarily allowed non-itemizers to claim a deduction for charitable deductions as an above-the-line deduction. This type of deduction is preferred by most taxpayers because it directly reduces adjusted gross income resulting in less taxable income. The provision was entirely phased out by 1986. For the first 3 years of the phase-in period, there were strict dollar amounts allowed, then 50% of all donations and 100% of all donations were deductible in the 4th and 5th years respectively. The allowance for all taxpayers to claim the deduction increased the incentive to give and donations increased, but the government subsidies also significantly increased much more than the donations. Based on information provided by the Congressional Budget Office, if non-itemizers were able to take an “above-the-line” deduction for charitable contributions, then the effect would be an estimated increase of donations by \$2 billion and increase of tax subsidy by \$5.2 billion. Of the \$5.2 billion, an estimate \$3.2 billion would go to subsidize existing contributions by non-itemizers (Muthiatacharoen and Giertz, 2011, p. 15).

Additionally, the proposal could result in some itemizers switching from itemizing deductions to choosing the standard deduction if it exceeded their non-charitable deductions. Congress presumably disallowed all taxpayers from taking the above-the-line deduction for charitable contributions due to the increased government subsidization of charitable giving. Tax revenues decreased since all taxpayers could deduct charitable contributions from adjusted gross income resulting in lower taxable income. The temporary allowance for all taxpayers to take the deduction did significantly increase charitable giving, but the motivating factors behind the charitable giving are difficult to predict (Robinson, 1990).

Proposal 3: Replace the Deduction with a Credit

The third proposal offered by the Congressional Budget Office is to offer a nonrefundable credit to taxpayers. A nonrefundable credit would offer the same subsidy to all taxpayers who could fully claim the credit in comparison with the currently offered subsidy that differs based on the taxpayer's marginal tax rate. This option differs from the others in the way that it could potentially decrease the amount of subsidy offered to higher-income taxpayers, depending on the amount of the credit. If the credit offered was a 25% nonrefundable credit as is the credit that was proposed by the Congressional Budget Office, then taxpayers with a marginal tax rate greater than 25% would most likely have a decrease of after-tax savings with charitable donations. In turn, lower-income and middle-income taxpayers who face marginal tax rates of 25% or less will receive more of the benefit. The potential impact of a nonrefundable credit would affect many different areas. Some taxpayers would be advantaged to switch from the itemized deduction to the standard, and as mentioned previously, higher-income taxpayers would lose some of the current tax incentive to give more of adjusted gross income. The Congressional Budget Office estimates that with a 25% nonrefundable credit offered that total contributions would increase by \$2.7 billion and the tax subsidy would also rise by \$7.1 billion (Muthiatacharoen and Giertz, 2011, p. 18).

Joseph J. Cordes also suggests the substitution of a charitable credit for the charitable tax deduction. He elaborates that a more fiscally realistic policy change would involve replacing the current charitable deduction with a flat-rate tax credit of equal yield (p. 196). He proposes the credit in two different ways. The first is a flat-rate tax credit only available to those who itemize charitable deductions and the second is a credit available to all taxpayers regardless of itemization status. Cordes concludes that the current charitable tax

deduction may be “Pareto-superior” if one assumes that giving is altruistic and the objective of the tax incentive is to incentivize charitable giving while maintaining or decreasing the amount of government revenue loss (p. 202).

THEORIES AND RATIONALES

John D. Colombo (2000) introduces the idea that when considering the theory behind the charitable contribution deduction that one ought to also consider administrative practice. The idea behind coupling these two elements is rooted in the fact that the Internal Revenue Service and others who enforce the tax code must implement theory in order to collect taxes (p. 7). It is important to consider why donations made to qualifying organizations are treated with a certain kind of exemption from taxation. Colombo states, “If the deduction is a co-subsidy for organizations that ‘do good things’ for society, than an analysis of which economic transfers from individuals to exempt organizations should be deductible might well begin with an assumption that all such transfers, even purchases, should qualify for deductibility” (p. 7).

Rationale Behind the Deduction

Income tax laws regardless of the intention impact human behavior. The laws that are made to allow for certain tax benefits encourage certain behaviors and tax penalties or disallowances discourage certain behaviors. One of the major issues with incentivizing good behavior is that the same incentive can also allow for taxpayers to merely participate in the behavior in order to decrease their tax liability. In terms of the charitable contribution, while organizations still benefit from the donations that are given to avoid tax liability, the subsidization of this behavior comes at the expense of the government. However, it is important to keep in mind that the work of the organizations that receive the donations of

taxpayers has the potential to decrease the amount of government assistance to those served by the qualifying organizations. Therefore, the way that the government provides can change from funding government assistance programs to funding the subsidization of charitable contributions. Ultimately, the government hands over some responsibility to its citizens to partly determine the pressing needs of society. This is ideal for when immediate needs arise because taxpayers can immediately donate, but it is more difficult for the government to shift its social assistance programs.

Identification of Tax Benefits with Similar Rationale

There are a number of available tax benefits that contain a similar rationale to the rationale found in the charitable contribution deduction. I have chosen to briefly focus on the child adoption credit and residential energy efficiency property credit to illustrate one way in which the rationale behind certain tax credits can be analyzed and understood.

The adoption tax credit was first introduced in 1997, much later than the charitable contribution deduction. It was later revised in 2001 with the passing of the Economic Growth and Tax Reconciliation Act (Pippin, 2010, p. 46). The primary purpose behind the adoption tax credit is to eliminate the financial burden that families are often faced with when they go to adopt a child or children. The credit is designed to cover adoption-related expenses and, as of 2014, a maximum of \$13,190 of expenses could be offset with a nonrefundable credit (Galletta, 2014, p. 17). The credit is designed to encourage more adoptions by enabling more families to afford adoption (Kanoy, 2010, p. 206). The tax credit serves as an incentive for families that are considering adoption, but may not have adopted due to the significant cost of the adoption process.

According to Kanoy (2010), the Treasury and Congress identify tax provisions, such as the adoption credit, as tax expenditures (p. 214). Expenditures such as the charitable contribution and the adoption credit can be categorized as foregone revenue (Kanoy, 2010, p. 215). These tax expenditures can also be categorized as tax incentives because these provisions induce a certain behavior in response to the monetary benefit (Chirinko, 1992). The adoption tax credit merely shifts the funding of the government from government-sponsored programs to tax expenditures that may be viewed as mere substitutes for direct government assistance programs. Kanoy gives the example of how a government sponsored program that offers families post-adoptive care, free counseling, and direct cash assistance can be replaced by the adoption tax credit (p. 215).

The residential energy efficiency property (REEP) tax credit was designed to encourage energy saving improvements in a taxpayer's current residence or other residence. Kenton Swift states that the REEP credit detailed in IRC § 25D can be applied to expenditures for solar water heating and solar electric systems installed in a residence, although the residence does not have to be the principal residence of the taxpayer (p. 54). A credit can be taken for 30% of all qualified energy efficient expenditures made throughout the year. This credit can encourage and reward purchasing or remodeling a home with energy initiatives in mind. The credit has existed in various forms since 2005, but the most recent change to the credit came in 2009 with the American Recovery and Reinvestment Act. This tax credit is offered as a nonrefundable credit and its purpose is to encourage taxpayers to purchase energy efficient property. Since most energy-conscious property comes with a high price tag, the credit is designed to help motivate taxpayers to still make the large capital investment in the energy efficient property and remodeling. If the taxpayers opt to receive the

tax credit, the overall investment cost is lowered, therefore reducing the payback period of the property (Bourgeois, Breaux, Chiasson, & Mauldin, 2010, p. 24). I have chosen to only briefly discuss the residential energy efficiency property tax credit on a federal level, but it is important to note that many different state and local governments also offer incentives.

The adoption tax credit and residential energy efficiency property credit help incentivize taxpayers for certain behaviors that often require a large initial investment. While the charitable contribution deduction does not require a large initial investment parse, it does require a large amount of contributions in order for taxpayers to choose the itemized deduction over the standard deduction. Therefore, there is a similar rationale involved with the adoption tax credit, residential energy efficiency property credit, and the charitable contribution deduction. It is important to note that the motivating factors for these behaviors may differ, but for each situation the potential of the tax benefit from the government encourages the behavior.

Motivating Factors for Taxpayers

Motivation is often defined as an act or a process that causes someone to do something. Rationale, on the contrary, is defined as the reason or explanation for something. While there are many different motivating factors to donate to charities, a common cited factor is altruism (Rotemberg, 2014). Altruism is centered on the idea that one cares about the well being of others and wishes to improve the lives of others. Individuals will give to others and wish to improve upon the lives of others. If altruism were the solely motivating factor to give financially to organizations, then tax incentives would not be needed because donors would be indifferent when making decisions on giving. According to Michelle Yetman and Robert Yetman (2013), purely altruistic donors are not concerned with the after-

tax cost of giving; instead, the concern is only with how much a charity receives. Ultimately, donations to non-profits by purely altruistic donors will be tax-price elastic (p. 1073).

The strongly confronting argument that is always found close to the idea of altruism is that human beings act for their own self-interest and cannot be motivated solely by altruism. For example, if an individual makes a generous donation to a non-profit organization, then he or she will want to be recognized in some way. It is because of this that many buildings are renamed in honor of the donor that enabled the project to be completed and many charity events are known by the sponsor of the event.

There are many driving factors that motivate the behaviors mentioned above, such as adoption or financial giving to non-profit organizations. The factors that often surround charitable giving are passion for a cause, personal experience with an organization, religious beliefs, and simply to give back. These factors have the potential to motivate an individual to give. At the same time, the same factors can influence which charity or organizations thrive and find success because highly motivated donors will give to the organizations that best align with their motivating factors.

The Progressive Tax System

Since the first implementation of income taxes with the 1913 Income Tax Act, the United States has maintained a progressive income tax system. The progressive income tax system distributes the tax burden based on Adjusted Gross Income (AGI). The system is based on the principle that the taxpayers with the highest ability-to-pay will pay the most tax. The statutory rules of the charitable contribution deduction directly oppose the progressive tax structure as the deduction is denied to the taxpayers who opt to take the standard deduction and is given to the taxpayers who take the itemized deduction (Wodon, Alleyne,

Cong, Mulusa, & Niemi, 2014). Overall, the charitable contribution as an itemized deduction creates an upside-down subsidy. The subsidy is given in the greatest amounts to taxpayers in the highest marginal income tax brackets and is denied to lower-income taxpayers who choose to take the standard deduction. The standard deduction is offered in different amounts depending on filing status, but for 2014 the deduction offered was \$6,200 for single taxpayers, \$9,100 for head of household taxpayers, and \$12,400 for married filing jointly taxpayers. The deduction is set to increase with inflation and increases approximately \$100-\$200 dollars each year. The taxpayer will generally only choose to take the itemized deduction if the compilation of expenses of the taxpayer that qualify for the itemized deduction exceed the amount of the standard deduction. The itemized deduction includes the following: medical and dental expenses exceeding 10% of AGI (or 7.5% of AGI if born prior to January 2, 1950), taxes paid such as state income tax and personal property taxes, interest paid such as home mortgage interest and points, home mortgage insurance premiums, and investment interest, gift to charity such as cash or check donations and noncash contributions of publicly traded securities or material goods, casualty and theft losses, and other miscellaneous deductions such as unreimbursed job expenses. Congress has approved specific deductions to not only motivate particular behaviors, such as owning a home, but has also made available assistance through the deduction to protect from hardship due to excessive expenses, such as medical and dental expenses exceeding the percentages of AGI mentioned above.

As part of the itemized deduction, the charitable contribution has limitations to its deductibility. Linda Campbell (2012) explains how the limitations on charitable contribution deductions are complex and require substantiation due to tax abuse and tax fraud relating to

the previous deduction (p. 58). The limitations on the deduction can be broken down given the amount of giving as a percentage of adjusted gross income. For example, if giving is 20% or less of AGI, then no limit considerations are given. There are also certain limitations based on the type of organization. Limitations are given depending on the type of qualifying organization, mostly between 50% limit charities and 30% limit charities. For 50% limit charities, giving that does not exceed 50% of the taxpayer's AGI for the taxable year and giving that does not include capital gain properties is allowed. If an organization does not qualify for this category, quite often it falls in the 30% limit charities category. These types of gifts allow for a deduction as long as giving does not exceed 30% of the taxpayer's AGI and the giving does not include capital gains properties. In the 50% limit charity category, capital gain properties are limited to 30% of the taxpayer's AGI; but in the 30% limit charity category, these properties are limited to 20% of AGI. Most donations that exceed the limit may be carried over to the subsequent tax year and can be carried forward for a maximum of five years.

It is important to consider the tax incentive effect and donor preference effect when studying the effectiveness of charitable giving of the current deduction. While there are limitations dictated by Congress through the tax code, there are also self-limitations created by taxpayers that I would like to discuss. Yetman and Yetman (2013) refers to the conditions necessary in order for donors to respond to tax incentives as the "tax incentive effect" and "donor preference effect" (p. 1073). The charitable contribution deduction creates a strong tax incentive effect for taxpayers who itemize deductions and pay taxes at high marginal tax rates. The tax incentive effect is proportional to a donor's taxable income. The donor preference effect refers to how a donor considers the tax incentive to give when making

donation decisions. This effect is difficult to measure because some donors maybe implicitly consider the tax incentive while other donors explicitly make donation decisions based on the tax incentive.

It is important to note that there are situations that transcend the tax incentive effect and donor preference effect. Examples of these situations include the national tragedy of terrorist attacks of September 11th, 2011 and national disasters such as Hurricane Katrina in 2005. In these types of situations, giving accelerates due to social media and other forms of technology and communication. It is important to note that the majority of giving in response to these events does not normally contain a high tax incentive effect. While some donors who itemize deduction may include their donations made in response to events that demanded immediate need and financial support, it is more often the case that donations are made as an altruistic measure to help those in need.

METHODOLOGY

Objectives

The purpose of the study was to determine how the responses of taxpayers compared among the proposed changes to the deduction, evaluate the understanding of taxpayers of the progressive tax structure and the attitude of taxpayers towards non-profit organizations, and assess the factors that motivate individuals to give. The research question that the study attempted to answer was how the tax incentive to give may best implemented through the charitable contribution tax deduction.

Participants

The focus population group of this study was adult taxpayers in the United States. A total of 115 individuals began the survey and I have chosen the 99 individuals who

completed the survey in its entirety to use as my participants. For gender, the responses were distributed 30.3% male, 68.7% female, and 1% of participants preferred not to answer. The age distribution of the participants included: 18-24 (28.6%), 25-34 (17.4%), 35-44 (10.2%), 45-54 (18.4%), 55-64 (11.2%), 65-74 (11.2%), 75+ (2%), and 1% of participants preferred not to answer. Total household income of the participants was fairly evenly distributed with less than \$24,999 (16.3%), \$25,000 to \$49,999 (17.3%), \$50,000-\$74,999 (17.3%), \$75,000-\$99,999 (10.2%), \$100,000-\$150,000 (13.3%), \$150,000 or more (12.2%), and 13.3% of participants preferred not to answer.

Instrument

The method used to collect data was the online survey software, Qualtrics. I chose to distribute the questionnaire using web-based self-completion survey software because my focus population group could be reached best through this method. The ease of access to the survey was the primary reason that I selected web-based self-completion survey software. Through the means of several different avenues on social media, the questionnaire was distributed among individuals around the country.

While the method of collecting data through an online survey software did promote ease of access, additional security measures had to be taken to ensure the privacy and accuracy of the participants and results. First, the survey provided true anonymity of all participants since no identifiable data was collected, such as IP addresses, email addresses, or any other information that could identify the participant. Secondly, the survey was administered through https encryption. In addition, the questionnaire was distributed through an anonymous survey link and a tag was added to the survey to prevent indexing by search engines. The anonymous link was posted and shared on social media, such as Facebook.

Procedure, Time Frame, and Design

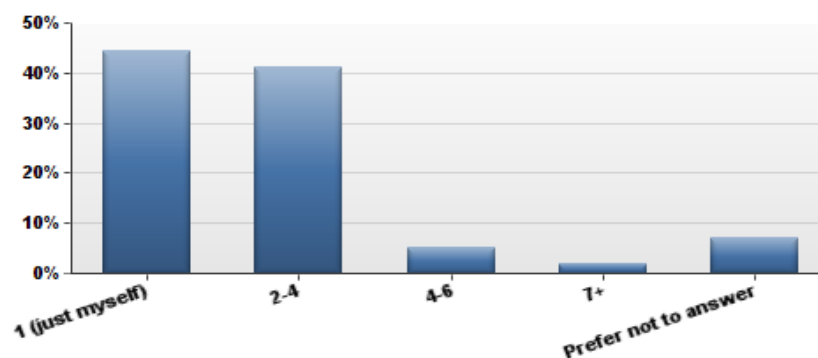
The questionnaire was made available on the online survey platform, Qualtrics, on Thursday, March 19, 2015. The questionnaire was closed on Wednesday, March 25, 2015. The questionnaire that was made available can be found in Appendix A. The survey took approximately 5 minutes to complete and participants were able to begin the survey, stop at anytime, and come back to complete the survey. Participation was entirely voluntary and no identifiable data was collected about the participants.

Demographic

The participants in the study were asked to provide information about their gender, age, total household income, and the number of personal exemptions claimed on their last tax return. The number of personal exemptions claimed was asked of participants to give insight of not only the size of the family of a taxpayer, but also the amount that can be deducted from adjusted gross income to arrive at taxable income for the taxpayer. The majority of participants (43.9%) were single taxpayers that claimed one personal exemption. Another larger percentage of participants (41.8%) claimed between 2-4 exemptions.

Chart A: 1

**Exemptions Claimed By Taxpayers
(percentage by response choice)**



Assumptions

The first assumption made is that participants understood the questions clearly, read the questions carefully, and answered the questions truthfully. The assumption has also been made that the survey has measured what it has intended to measure with validity and accuracy. For questions that presented different scenarios that proposed a change to the charitable contribution tax deduction, taxpayers were assumed to not assess the situation personally, but instead to answer the question based on the overall effect on contributions. The assumption has been made that when asked to assess the various proposals to change the deduction that taxpayers answered to the best of their knowledge what the overall effect would be on charitable contributions.

Scope and Limitations

One major limitation of the survey is that the sample size is small. With a small sample size, the sample may not be representative of the population. In addition, due to limitations in the timing of the distribution of the survey, the survey was distributed through social media websites; therefore, the participants may lack financial diversity. Finally, due to the method of distribution through a Qualtrics survey software link to the web survey, the sample may not be completely random and/or may suffer from self-selection bias.

RESULTS**Descriptive Statistics**

Descriptive statistics were computed and analyzed from the responses gathered. These statistics included responses about tax return preparation, giving to charitable organizations, volunteering with non-profit organizations, taking the itemized deductions or standard deduction, having proper documentation for the deductible contributions made to charitable organizations, and taking tax credits. (See Column Charts B:1-6). Among the

taxpayers who completed the questionnaire, many (39.4%) use a tax preparation service to file taxes. Most taxpayers donate to between 1-4 or 5-9 charitable organizations on a yearly basis. Of the participants, 49.5% took the itemized deduction. Of those who itemized deductions, most deducted all possible contributions. Some who itemized deductions were unable to deduct all contributions due to lack of proper documentation. Participants were also asked about tax credits. The highest percentage of taxpayers (46.9%) did not qualify for tax credits, but those who did qualify (33.7%) took their qualifying tax credits.

Chart B: 1

**Responses to Question: “Who prepares your tax return?”
(percentage by response choice)**

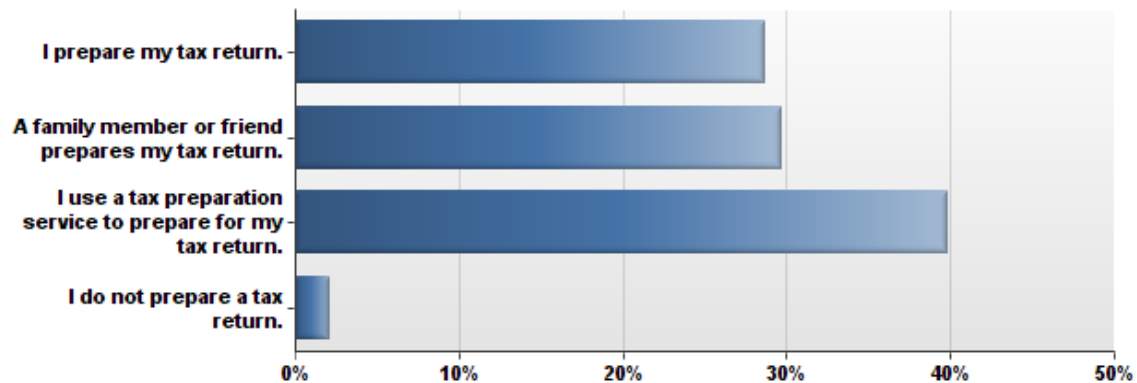


Chart B: 2

**Responses to Question:
 “In a given year, to how many organizations do you make charitable donations?”
 (percentage by response choice)**

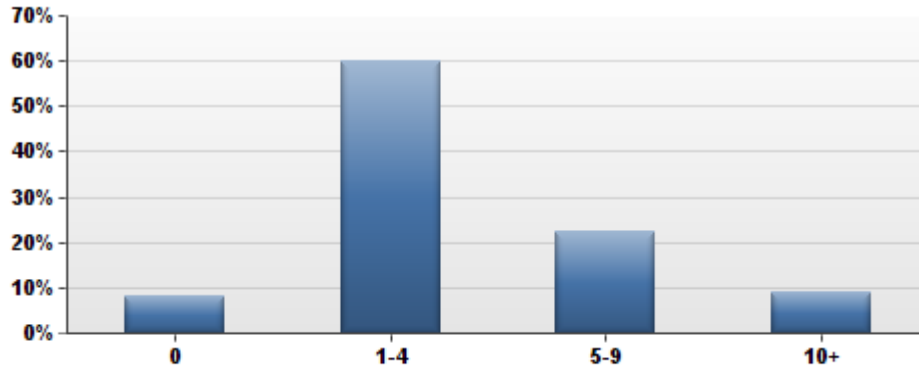


Chart B: 3

**Responses to Question: “Do you currently volunteer your time at a non-profit organization?”
 (percentage by response choice)**

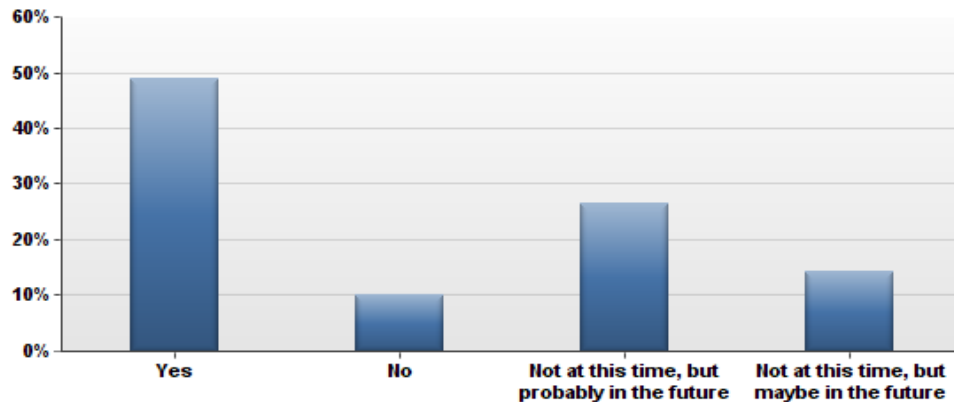


Chart B: 4

**Responses to Question: “Did you itemize your deductions on your last tax return?”
(percentage by response choice)**

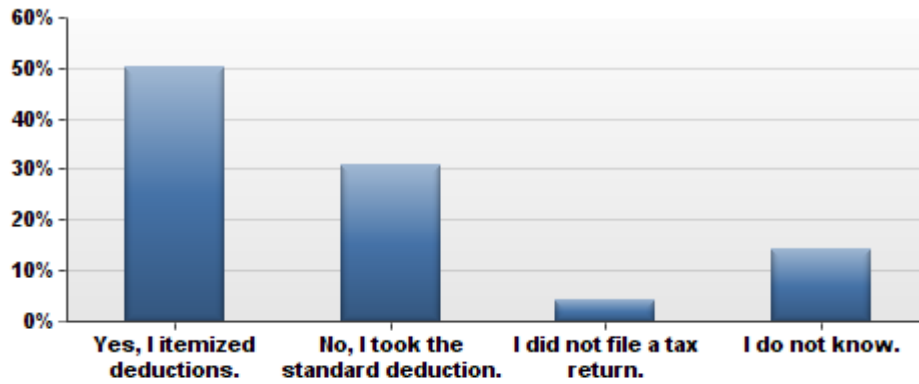


Chart B: 5

**Responses to Question: “If you did itemize your deductions, did you deduct all of your contributions to qualified charitable organizations?”
(percentage by response choice)**

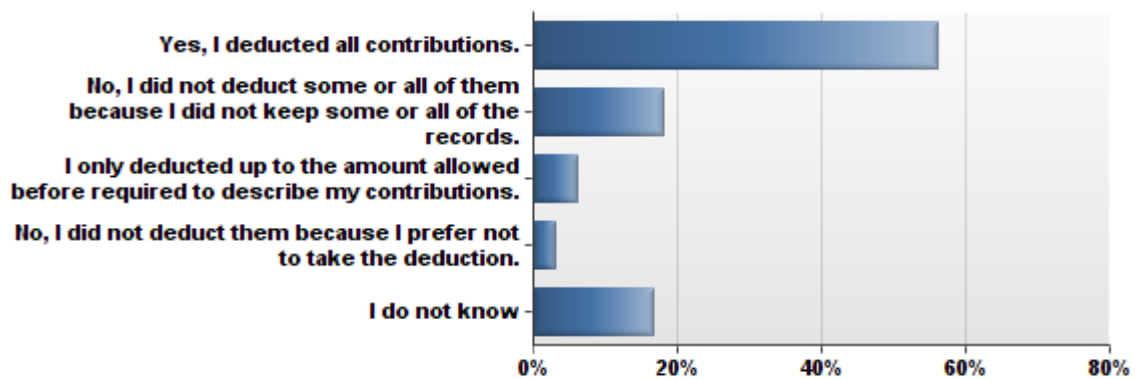
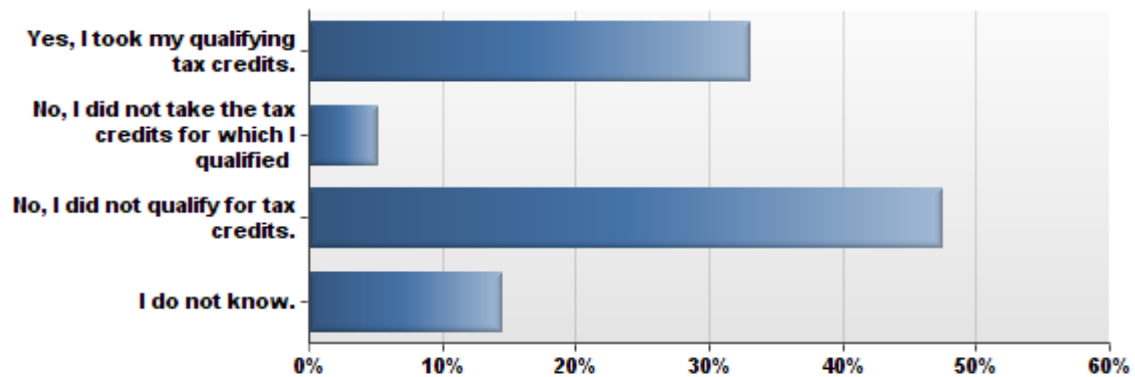


Chart B: 6

**Responses to Question: “Did you take tax credits on your tax return?”
(percentage by response choice)**



Analyses of Understanding/Awareness

The survey involved asking participants information about overall understanding of the charitable contribution, the itemized tax deduction, tax credits, and the effectiveness of non-profit organizations. The following chart depicts the response to the statement, “Please rate your understanding of the following: how charitable contributions to non-profit organizations can affect your tax return.”

Table C: 1

Understanding of the Impact of Charitable Contributions

Response Option	Number of Respondents
1-Weak Understanding	9
2	9
3	22
4	29
5- Strong Understanding	30

The mean of the responses was 3.63, which indicates that most participants have more than a weak understanding and more than a somewhat weak understanding of the impact of charitable contributions on a tax return. The following chart depicts the response to the statement, “Please rate your understanding of the following: itemized tax deductions, including their limitations and phase-outs.”

Table C: 2

Understanding of Itemized Tax Deductions

Response Option	Number of Respondents
1-Weak Understanding	20
2	23
3	21
4	21
5- Strong Understanding	14

The average response was 2.86 indicating a potentially weaker understanding of itemized tax deductions in comparison to the impact of charitable contributions. Since the average response is close to 3, this indicates that participants indicated neither a weak understanding nor a strong understanding of itemized deductions. The following chart depicts the response to the statement, “ Please rate your understanding of the following: tax credits, including the necessary qualifications and the exceptions to these qualifications.”

Table C: 3

Understanding of Tax Credits

Response Option	Number of Respondents
1-Weak Understanding	20
2	18
3	21
4	23
5- Strong Understanding	16

The average response for participants was a 2.97, which indicated that for the understanding of tax credits there was neither a weak understanding nor a strong understanding. The following chart depicts the response to the statement, “How well do you think non-profit organizations provide for the needs of society?”

Table C: 4

Provision by Non-Profit Organizations to Meet the Needs of Society

Response Option	Number of Respondents
1-Not Very Well	0
2	6
3	28
4	37
5- Very Well	28

The mean of the responses was 3.88 when participants were asked how well non-profit organizations provided for the needs of society. Overall, 65 of the participants selected a 4 or 5 response, indicating that the overall feeling towards non-profit organizations is that they provide and meet the needs of society. Not one participant selected that non-profit organizations do not provide very well to meet the needs of society.

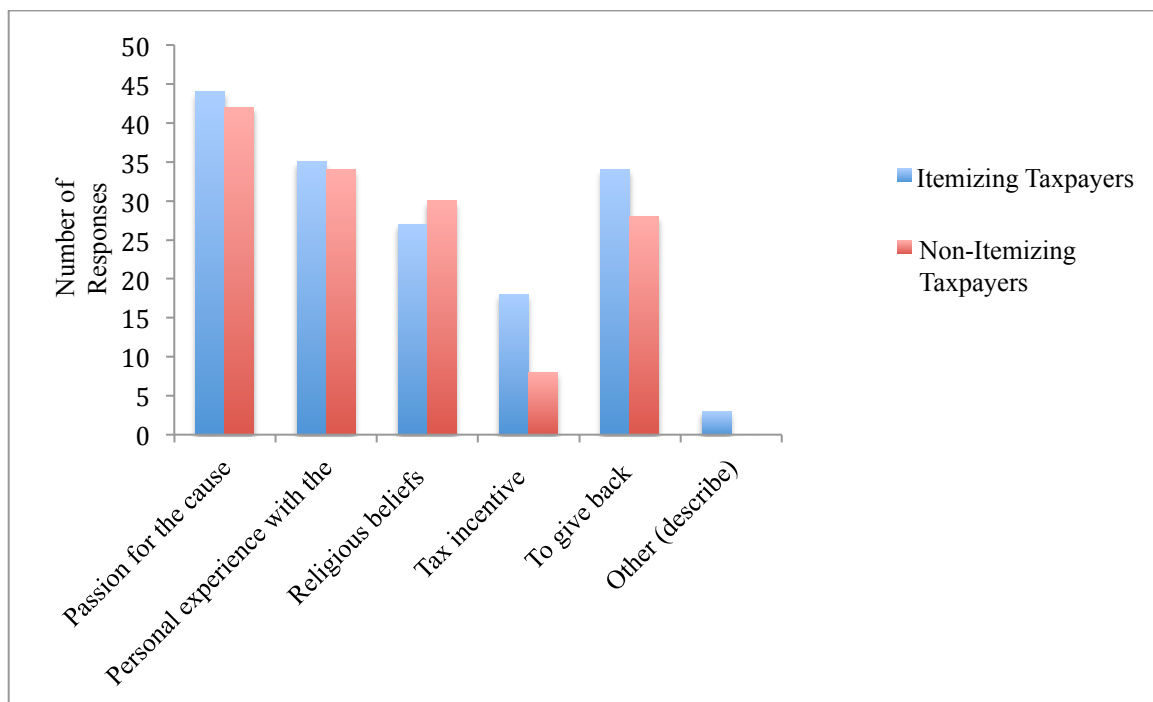
Analyses of Motivating Factors

It is impossible to discuss how the charitable contribute deduction motivates taxpayers to give without at least mentioning that there are other prominent motivating factors as to why people donate financially to non-profit organizations. I asked participants to select any of the following motivating factors that play a role in financial giving: passion for the cause, personal experience with the organization(s), religious beliefs, tax incentive, to give back, and other. (See Chart D: 1) For other, participants were given an opportunity to

provide a written response. I received 3 written responses including to promote change, due to research on the non-profit organization, and due to the fact that the participant's mother had a debilitating disease. Besides these factors listed under other, the motivating factor of a tax incentive was the least selected response in comparison to the other responses. Personal experience with the organization(s) and passion for the cause were the leading motivating factors to give. (See Chart D: 1)

Chart D: 1

Motivating Factors of Itemizing Taxpayers vs. Non-Itemizing Taxpayers

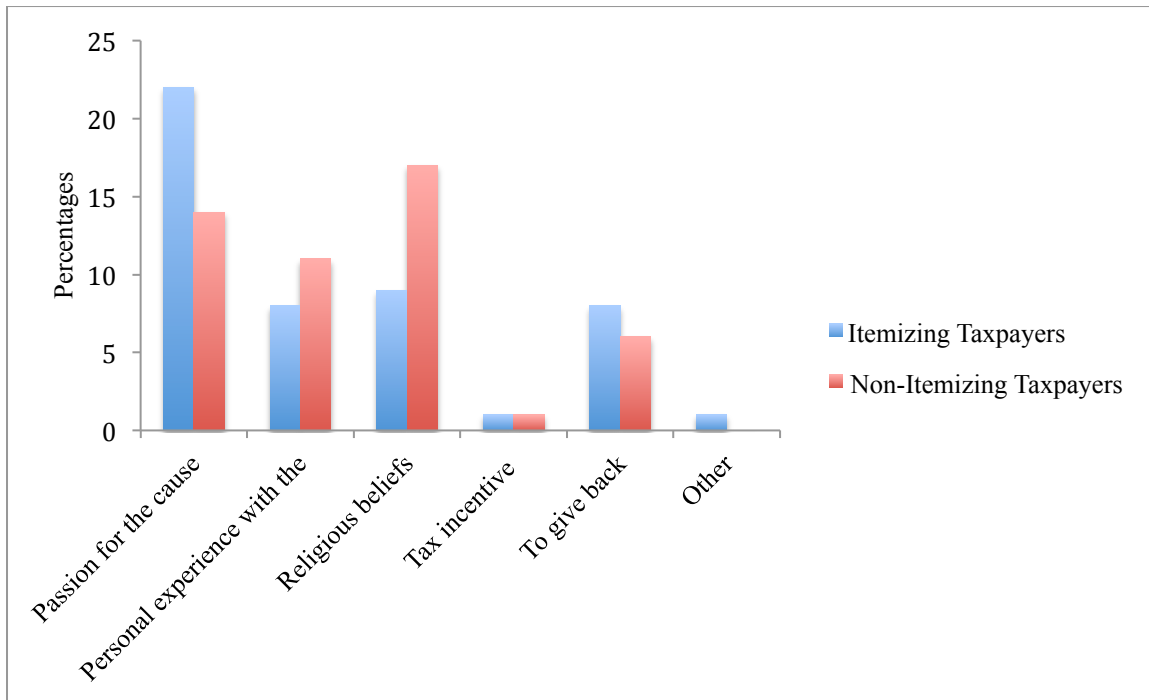


Participants were asked to choose the most important of the motivating factors and the results demonstrate that passion for the cause was the top-motivating factor (37.4%) when itemizing and non-itemizing participants responses were combined. Other highly ranked motivating factors were religious beliefs (26.3%) and personal experience with the

organization(s) (19.2%). Only 2% of participants indicated that tax incentive was their most important motivating factor to give.

Chart D: 2

Top Motivating Factor of Itemizing Taxpayers vs. Non-Itemizing Taxpayers



It is important to make the distinction between the responses among taxpayers who itemized and taxpayers who did not itemize. For those who itemized (49 individuals) when asked to select all of the factors that apply as motivation to donate financially to non-profit organizations, passion for the cause was selected 44 times, personal experience(s) with the organization was selected 35 times, to give back was selected 34 times, religious beliefs was selected 27 times, and tax incentive was selected 18 times. Taxpayers selected that passion for the cause was the most important factor selected (44.9%) followed by religious beliefs (18.4%). The remainder of the participants (50) are those who did not itemize and either took the standard deduction (31), did not file a tax return (4), or did not know (15). Of these

participants, the most important motivating factor selected was religious beliefs (34%), passion for a cause (30%), and personal experience(s) with the organization (22%). (See Chart D: 2)

Analyses of the Effect of Change to the Deduction

Participants of the survey were also presented with 3 different proposals of change to the current charitable contribution deduction. The first proposal asked taxpayers about the effect on the charitable contribution to non-profit organizations if individuals were unable to take the itemized deduction for contributions made to qualifying organizations (see Chart D: 3).

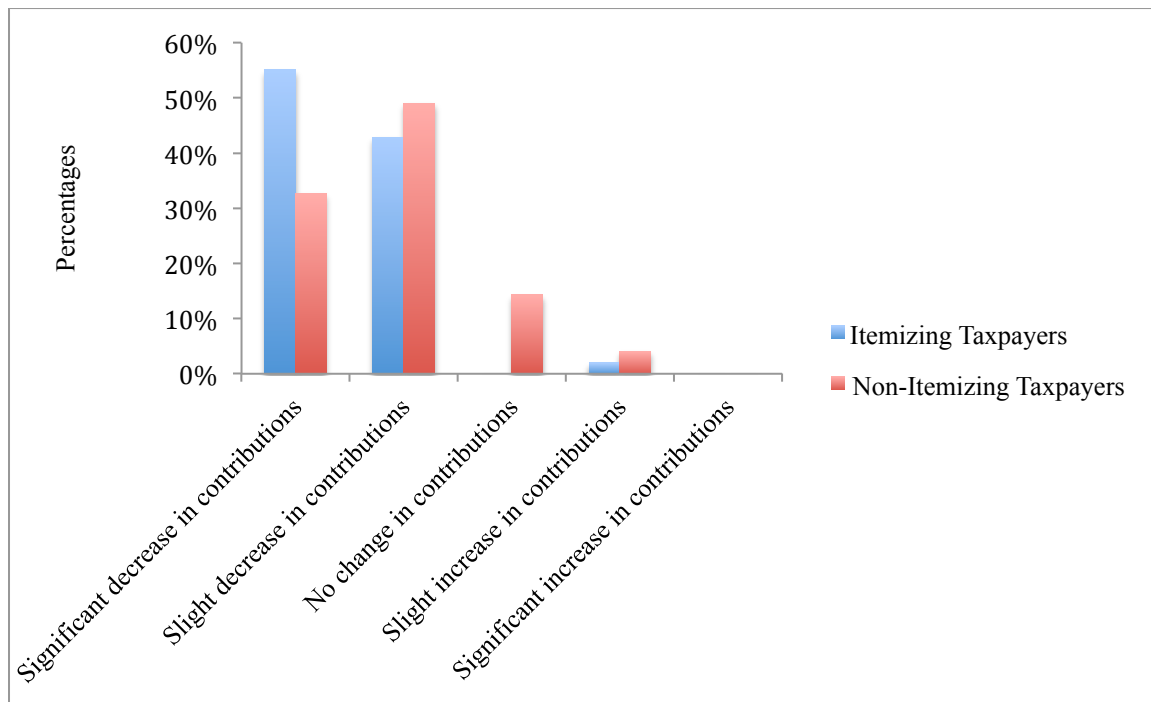
The overwhelming consensus among taxpayers was that without the itemized deduction, there would be either a significant decrease in contributions or slight decrease in contributions. This indicates a contradiction, taxpayers answered in response to the removal of the itemized deduction that the overall effect would be a decrease in donations, but did not acknowledge that tax incentive was a strongly motivating factor to give to non-profit organizations. Therefore, when assessing how others give, taxpayers assume that tax incentive is a strong motivation. In contrast, when taxpayers answer about their own personal incentives, tax incentive is rarely given as a strong motivating factor.

The consensus to this question was very similar for taxpayers who itemize and non-itemizers. For those who itemized deductions, 98% selected either a significant decrease or slight decreases in contributions. For those who did not itemize deductions, 82% selected the effect on charitable contributions would significantly decrease or slightly decrease due to no itemized deduction offered. Regardless of whether a taxpayer personally benefits from the

charitable contribution deduction, their perceptions about what motivates others to give appear to be the same.

Chart D: 3

Perceptions of the Effect of Proposal #1: No Itemized Deduction Offered



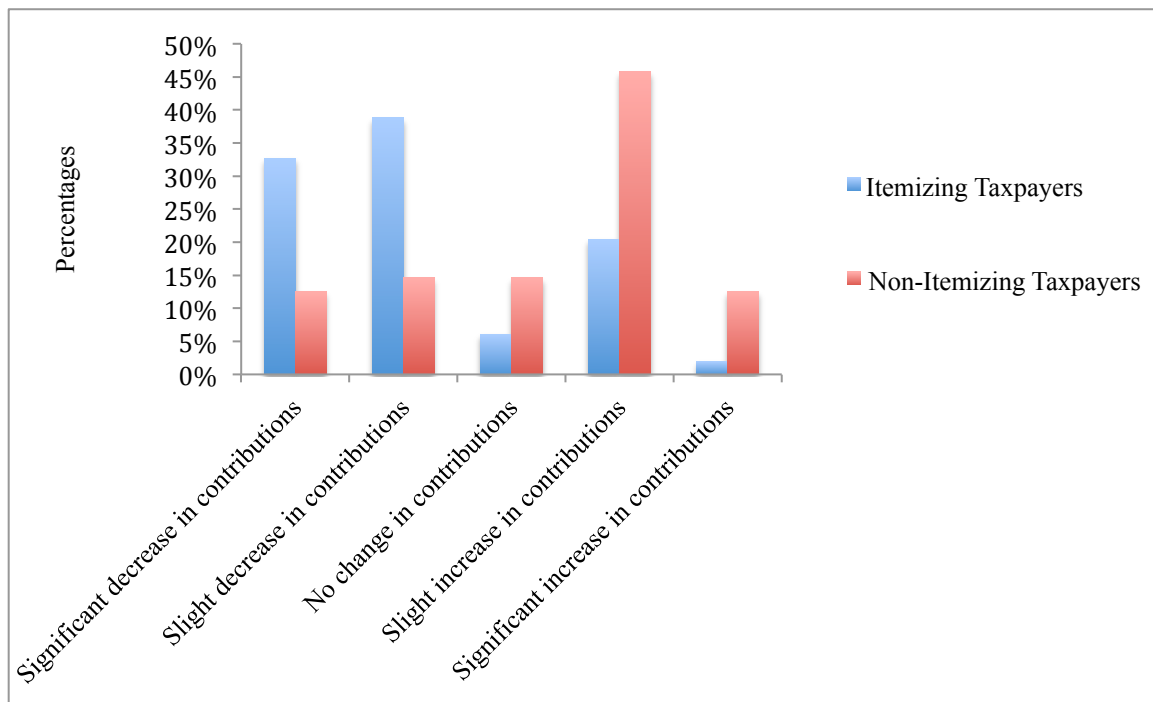
The second proposal suggested the replacement of the current itemized deduction with a tax credit of up to \$1,000. Participants were asked to consider what the effect would be on charitable contributions with this change. The results (see Chart D: 4) indicated that the responses from participants varied. Some participants selected that there would be a slight increase in charitable contributions (32.7%). Other participants selected that there would be a significant decrease in charitable contributions (22.4%) and even more participants selected that there would be a slight decrease in charitable contributions (27.6%).

For taxpayers who itemized deductions, the top effects chosen were significant decrease in contributions (32.7%), slight decrease in contributions (38.8%), and slight

increase in contributions (20.4%). These results indicated that most itemizing taxpayers predicted that the overall effect to a \$1,000 credit replacing the itemized deduction would result in a decrease of charitable contributions. For individuals who did not itemize deductions, the top effect selected was a slight increase in contributions (44.9%). This further indicates that those who do not itemize when given the opportunity to donate to qualifying organizations would most likely increase giving or begin to give as a result of the tax credit.

Chart D: 4

**Perceptions of the Effect of Proposal #2:
Current Deduction Replaced with \$1,000 Credit**



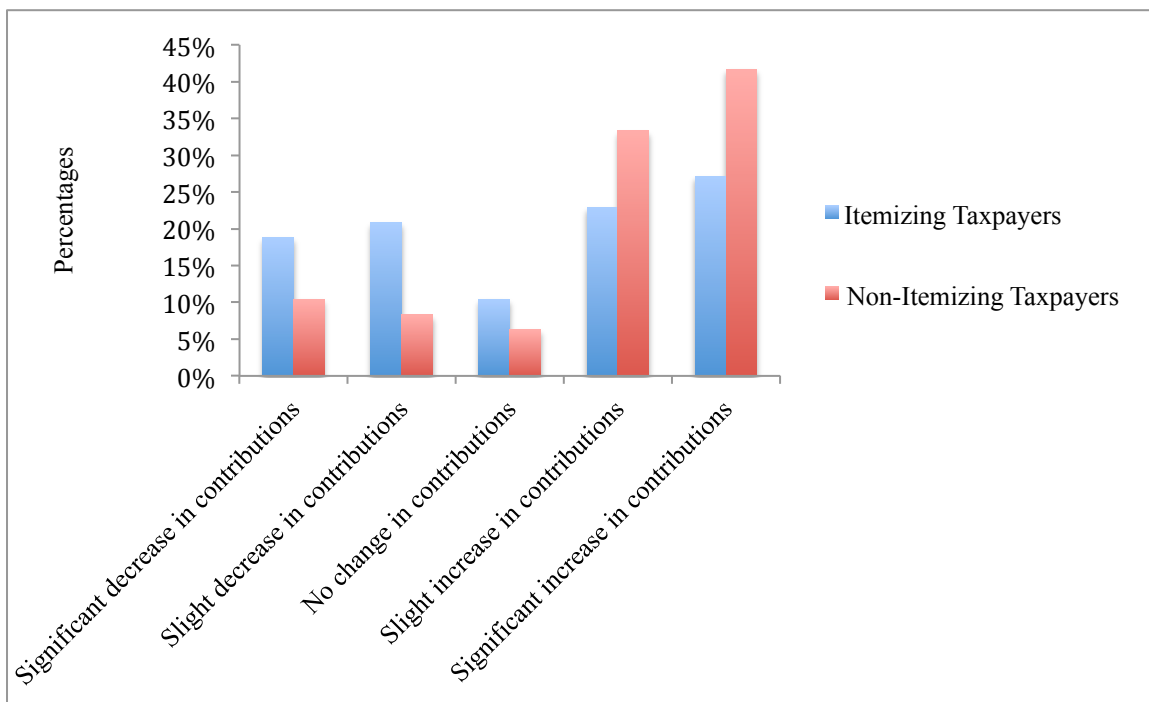
The third proposal suggested that the itemized deduction be replaced with a tax credit, but this proposal provides that the tax credit was to be offered in the amount of \$5,000 (see Chart D: 5). The results appear to be very different from the tax credit of \$1,000. The majority of participants selected either a significant increase in charitable contributions

(34%) or a slight increase in charitable contributions (27.8%). The responses to a tax credit of \$5,000 were not as diverse as the responses to a tax credit of \$1,000. The differing results could be due to the amount that taxpayers donate to non-profit organizations.

For taxpayers who took the itemized deduction, results were almost equally spread among all five options. As mentioned above, the differing responses would be directly related to the amounts that individuals donate to non-profit organizations and the amount of tax benefit that is received from those donations. Most participants who did not itemize selected that the overall effect on charitable contributions would be a slight increase in contributions (32.7%) or significant increase (40.8%). The results demonstrate that non-itemizers perceive that the effect on charitable contributions would increase when replacing the charitable contribution itemized deduction with a tax credit.

Chart D: 5

**Perceptions of the Effect of Proposal #3:
Current Deduction Replaced with \$5,000 Credit**



DISCUSSION AND CONCLUSION

Discussion

One of the primary goals of this study was to add to the existing body of literature and determine how the tax policy relating to the charitable contribution deduction impacts donor behavior. The study examined the awareness of taxpayers relating to certain tax policies, the motivating factors of individuals to give to non-profit organizations, and the effects on charitable giving with various proposals to change the tax policy related to the charitable contribution deduction.

Given the complexity of the Internal Revenue Code, taxpayers should be given the opportunity to understand more of the tax implications of certain behaviors, such as charitable giving. Awareness lacks of the deductions and credits that are available as part of the progressive tax system. Due to a lack of understanding and awareness of tax treatments by some taxpayers, allowable tax benefits are not always taken. Conversely, there some individuals that take advantage of favorable tax treatment to avoid tax liability at the expense of the government. Overall, participants indicated a favorable view of how non-profits provide for the needs of society. With increased awareness and understanding, relating to the charitable contribution deduction, taxpayers would have increased opportunity to claim the charitable contribution deduction. While government subsidization would increase with the increased claim to the deduction, government funded programs that meet similar needs to those needs support by non-profit organizations would have the potential to decrease if those needs were being met in society by non-profit organizations.

One of the most important findings from the survey was regarding the factors that motivate individuals to give. Since taxpayers have many different motivating factors to give,

it cannot be assumed that taxpayers will continue to give in the same capacity with or without the tax incentive to give. For the purpose of my research, I have identified the top motivating factors for individuals to give charitably and the most important of these factors. The top-rated factors that motivate financial giving include passion for the cause and personal experience with the organization(s). I asked the participants of the survey to select the most important motivating factor to give financially to non-profit organizations and only 2% selected tax incentive as the most important factor. Personal and cultural motivating factors play a large role in financial giving, but more favorable tax treatment through the charitable contribution deduction still gives financial incentive to donate to qualifying non-profit organizations. This is more clearly demonstrated through the various proposals that were offered in the survey and how participants respond to a change in the current charitable contribution deduction.

The survey also examined the perceptions of the expected effect of varying proposals to change the tax treatment of charitable giving. When simply asked about the effect on charitable giving if the itemized deduction is no longer offered, participants overwhelmingly selected that there would be either a significant decrease or slight decrease in charitable giving. On the contrary, when the proposal states that the current itemized deduction is replaced with a \$5,000 credit, many participants, especially participants who did not take the itemized deduction, selected that there would be a significant or a slight increase in charitable giving. This question is limited in its scope since information was not collected on the amount that each participant donates in a given year. It can be safely assumed that for participants who give less than or around \$5,000 that the tax credit of up to \$5,000 would be favorable tax treatment that has the potential to increase charitable donations. For example,

consider a taxpayer that donates \$4,250 to qualifying organizations throughout the year. To receive the full benefit of the \$5,000 credit, a taxpayer could donate an additional \$750 to qualifying organizations before year-end and receive a nonrefundable credit for the full amount (\$5,000) as a decrease to his or her tax liability. The difficulty of understanding the effect of a credit that would replace the current deduction is that the current charitable contribution deduction is part of the itemized deduction, a compilation of various deductions that will be taken if the deductions exceed the standard deduction, which varies based on filing status. A nonrefundable credit does have advantages to the taxpayer, since a credit is a dollar for dollar decrease to tax liability. A deduction is dependent on adjusted gross income level and marginal tax rate of the individual.

There were differing responses between itemizers and those who did not itemize deductions. These differences also indicated that the motivating factors given by taxpayers differed from how taxpayers perceived charitable giving would be affected when the itemized deduction was changed. For example, while taxpayers did not list tax incentive as a crucial motivating factor to give when the itemized deduction for the charitable contribution was taken away, almost all taxpayers selected that there would be a decrease in charitable contributions. In addition, when analyzing the results of the survey, taxpayers who itemized deductions were less in favor of the deduction being replaced with a credit, in comparison to non-itemizers who could have benefited from a credit being offered for charitable donations. It is important to note that this idea is one that was considered as a proposal, but ultimately the increase of government subsidization outweighed the growth of charitable contributions.

Conclusion

This study examined how tax policy influences the propensity to make charitable donations. Overall, increased understanding and awareness about the tax treatment of charitable giving could increase the effectiveness of the charitable contribution deduction. Exploratory results from a survey of 99 participants show some evidence to support the notion that tax policy may have some effect on giving, but giving is ultimately dependent on the circumstances of the taxpayer. The results of the survey indicate that taxpayers who itemize did not select tax incentive as a strongly motivating factor to give. Instead, taxpayers selected passion for a cause, personal experience with the organization(s), and religious beliefs as top motivating factors to give. However, taxpayers in general appear to believe that tax incentives are important to individuals other than themselves. The motivating factor of a tax incentive to give was demonstrated more prominently when taxpayers were asked to predicate the overall effect on giving when a new proposal replaced the itemized charitable contribution deduction. When taxpayers assessed the overall effect if the itemized deduction was taken away, the unanimous response was a decrease in giving. If tax incentive were truly not a motivating factor, giving would remain relatively constant with or without the itemized deduction. For the proposals that replaced the itemized deductions with a credit of \$1,000, non-itemizers selected that giving would increase, while itemizers selected a decrease in giving. When a large credit of \$5,000 was proposed, once again non-itemizers thought the overall effect on giving would increase, while itemizing taxpayers provide a range of responses.

Overall, when the responses of itemizing taxpayers and non-itemizing taxpayers are combined, there is a neutralizing effect. It is important to conclude that the responses by

itemizing taxpayers who receive tax benefit from the itemized tax deduction were expected to greatly differ from non-itemizing taxpayers who do not receive tax benefit from donations to non-profit organizations. Taxpayers responded differently when asked about what personally incentivizes giving in comparison with what the overall effect would be on giving due to a change in tax policy. The charitable contribution deduction does incentivize giving to some extent, but it is almost impossible to attribute the tax incentive to give as a dominant motivating factor. It is one factor that plays a role and the size of that role is ultimately dependent on what other motivating factors the taxpayer has to give.

Implications for Future Research

The current study had limitations that should be considered for future research. The small sample size of the survey may have impacted the validity of the results. A larger study would have helped gather a more robust set of results. In addition, it is difficult to assess the effect of the various proposals without understanding more about the taxpayer. With data that detailed the amount of charitable donations that taxpayers itemized, it would have been easier to understand how taxpayers would be affected with changes to the charitable contribution deduction. It is important to further consider the psychology of motivating factors that encourage taxpayers to give to non-profit organizations. I would also propose for future research to focus on the effect on charitable giving if tax benefits are allowable for certain types of giving pertaining to the current needs of society. An additional tax benefit, perhaps a tax credit, could offer incentives for taxpayers to give more to certain qualifying organizations.

Implications for Practice

The results of this study can be used by non-profit organizations to understand how individuals are motivated to give. The main example of this is indicated in the results of the survey. Participants indicated that personal experience with an organization(s) often motivates giving. Taxpayers can also view the results of this study to further their understanding and awareness of the charitable contribution tax deduction and the favorable tax treatment that exists for charitable giving under the Internal Revenue Code. In addition, the results of this study have summarized some of the current in-depth research of the proposals to change the tax treatment of charitable giving and the effect that a change would have on taxpayer behavior and government subsidization of this behavior.

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APPENDICES

Appendix A: Questionnaire

You are invited to participate in a research study about how financial incentives affect donor behavior, specifically the impact of the charitable contribution itemized tax deduction, the potential impact of a new charitable contribution tax credit, and the potential impact on taxpayer behavior if the itemized deduction for charitable contributions is removed. If you agree to be part of the research study, you will be asked to complete the following survey to the best of your knowledge. Participating in this study is completely voluntary. Even if you decide to participate now, you may change your mind and stop at any time. You may choose not to answer any survey question for any reason. If you have questions about this research study, you may contact Amy Koran at koranag@appstate.edu or Dr. Tammy Kowalczyk at kowalczykt@appstate.edu. The Appalachian State University Institutional Review Board (IRB) has determined that this study is exempt from IRB oversight.

- By continuing to the survey, I acknowledge that I am at least 18 years old, have read the above information, and agree to participate.

Survey Questions

Who prepares your tax return?

- I prepare my tax return.
- A family member or friend prepares my tax return.
- I use a tax preparation service to prepare for my tax return.
- I do not prepare a tax return.

In a given year, to how many organizations do you make charitable donations?

- 0
- 1-4
- 5-9
- 10+

Do you currently volunteer your time at a non-profit organization?

- Yes
- No
- Not at this time, but probably in the future
- Not at this time, but maybe in the future

Approximately how often do you volunteer at a non-profit organization?

- Once a week or more
- About 2 times per month
- About once per a month
- About 3-5 times per year
- Once a year or less
- Not applicable

Did you itemize your deductions on your last tax return?

- Yes, I itemized deductions.
- No, I took the standard deduction.
- I did not file a tax return.
- I do not know.

If you did itemize your deductions, did you deduct all of your contributions to qualified charitable organizations?

- Yes, I deducted all contributions.
- No, I did not deduct some or all of them because I did not keep some or all of the records.
- I only deducted up to the amount allowed before required to describe my contributions.
- No, I did not deduct them because I prefer not to take the deduction.
- I do not know
- Not applicable

What do you think the effect would be on charitable contributions to non-profit organizations if individuals were unable to take the itemized deduction for these contributions?

- Significant decrease in contributions
- Slight decrease in contributions
- No change in contributions
- Slight increase in contributions
- Significant increase in contributions

Did you take tax credits on your tax return? Tax credits reduce your tax liability dollar for dollar. Examples are the Child Tax Credit, American Opportunity Tax Credit, and the Child and Dependent Care Credit.

- Yes, I took my qualifying tax credits.
- No, I did not take the tax credits for which I qualified
- No, I did not qualify for tax credits.
- I do not know.

What do you think would be the effect on charitable contributions if the itemized deduction was replaced with a tax credit of up to \$1,000?

- Significant decrease in contributions
- Slight decrease in contributions
- No change in contributions
- Slight increase in contributions
- Significant increase in contributions

What do you think would be the effect on charitable contributions if the itemized deduction was replaced with a tax credit of up to \$5,000?

- Significant decrease in contributions
- Slight decrease in contributions
- No change in contributions
- Slight increase in contributions
- Significant increase in contributions

Please rate your understanding of the following:

	1 (Weak Understanding)	2	3	4	5 (Strong Understanding)
how charitable contributions to non-profit organizations can affect your tax return	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
itemized tax deductions, including their limitations and phase-outs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
tax credits, including the necessary qualifications and the exceptions to these qualifications	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Please rate your understanding of the following:

	1 (Not Very Well)	2	3	4	5 (Very Well)
How well do you think non-profit organizations provide for the needs of society?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

What motivates you to donate financially to non-profit organizations? Please check all that apply.

- Passion for the cause
- Personal experience with the organization(s)
- Religious beliefs
- Tax incentive
- To give back
- Other (describe) _____

What is the most important reason of those you selected above?

- Passion for the cause
- Personal experience with the organization(s)
- Religious beliefs
- Tax incentive
- To give back
- Other

What is your gender?

- Male
- Female
- Prefer Not to Answer

What is your age?

- 18-24
- 25-34
- 35-44
- 45-54
- 55-64
- 65-74
- 75+
- Prefer not to answer

How many exemptions did you claim on your last tax return?

- 1 (just myself)
- 2-4
- 4-6
- 7+
- Prefer not to answer

What is your total household income?

- Less than \$24,999
- \$25,000 to \$49,999
- \$50,000 to \$74,999
- \$75,000 to \$99,999
- \$100,000 to \$149,999
- \$150,000 or more
- Prefer not to answer

Thank you for the contribution of your time to complete the survey!

If you have questions about this research study, you may contact Amy Koran at koranag@appstate.edu or Dr. Tammy Kowalczyk at kowalczykt@appstate.edu.

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