



Summary of Research on Charitable Giving and Estate Tax Changes

Two recent reports have further documented how the estate tax has the effect of encouraging charitable giving, and the amount of contributions that would be lost if the estate tax is repealed. The following summary provides excerpts from the two reports and specific data for the impact of repeal on Minnesota. The estate tax is paid by less than 2% of taxpayers, since it only applies to estates with more than \$2 million for a married couple.

Since 1916, the United States has imposed a tax on the estates of the wealthiest individuals. The 2001 tax cut reduces the estate tax over time, and then repeals it as of 2010, only to reinstate it in 2011. Because politicians are unlikely to allow this pattern of changes to occur, estate tax reform will return to the policy agenda in the near future. One of the most important issues in assessing reform options is the impact on charitable giving. The estate tax encourages charitable giving at death by allowing a deduction for charitable bequests. It also encourages giving during life, as explained below. But the tax reduces charitable gifts by reducing the amount of wealth decedents can allocate to various uses.

Jon Bakija and William Gale, “Effects of Estate Tax Reform on Charitable Giving,” Brookings Institution, June 2003.

New research by Brookings Institution economists Jon Bakija and William Gale shows that the existence of the estate tax creates a powerful incentive for charitable giving. The study produced the following findings:

- **Without the estate tax, charitable giving in 2001 would have been reduced by about \$10 billion** — an amount “equivalent to the total grants currently made by the largest 110 foundations in the United States.”
- **The estate tax increases the amount of charitable contributions**, particularly among the largest estates, because these donations are fully deductible and thus act to reduce estate taxes. In 2001, for example, the latest year for which these IRS data are available, estates contributed \$16.2 billion to charities. Taxable estates of more than \$20 million gave \$6.8 billion of this total, averaging \$23 million in donations per estate.
- **Eliminating the estate tax would affect charitable giving by reducing both charitable bequests at death and charitable donations made during a person’s life.** Charitable contributions made during life have a comparable effect to charitable bequests made at death in terms of reducing the size of taxable estates. Bakija and Gale conclude that repeal of the estate tax would reduce incentives for wealthy individuals both to make charitable gifts during their lifetimes and to make charitable bequests at death.
- **Repeal of the estate tax would reduce charitable bequests at death by between 22 percent and 37 percent.** Bakija and Gale estimate that if the estate tax had been repealed in 2001, bequests at death would have been reduced by \$3.6 billion to \$6.0 billion.

The portion of an estate that is *exempt* from the estate tax is scheduled to rise from \$1 million today to \$3.5 million in 2009 (\$7 million for a couple), and in 2010 the estate tax will be repealed. The repeal remains in place for only one year, because the tax cuts enacted in 2001 sunset at the end of 2010.

Permanently eliminating the estate tax would remove a powerful incentive for charitable giving both at death and during life. Retaining the estate tax at a higher exemption level, such as the exemption level that will be reached in 2009 under current law, would maintain an important tax incentive for large estates to make charitable contributions while eliminating the tax on smaller estates currently subject to the tax.

The full report is available at: http://www.urban.org/UploadedPDF/310810_TaxPolicy_6.pdf.

John S. Irons, “The Estate Tax and Charitable Giving: State-by-State Analysis”, OMB Watch, September 2003.

The following tables are excerpts from the Irons’ State-by-State analysis and show the results that apply to Minnesota. This research estimates that the total loss of annual giving and bequests in Minnesota would be \$196.7 million (based on 2001 data). Based on this data, the average loss per charity in Minnesota would be \$33,708 per year.

**Table 1. State Impact of the Estate Tax Repeal on Charitable Bequests
(2001, Dollars in Millions)**

State	Number of Organizations (filing IRS Form 990 in 2000)	Total Bequests	Loss in Bequest Giving (Range)	Total Loss (Annual Giving plus Bequests)
US Totals	246,112	\$16,200.00	\$3,564 - \$5,994	\$9,558
Minnesota	5,834	333.3	73.3 – 123.3	196.7

**Table 2. State Impact of Estate Tax Repeal on Charitable Bequests
(Ranked by Loss per Filing Charity in 2001)**

Rank	State	Number of Organizations (filing IRS Form 990 in 2000)	Loss in Annual Giving and Bequests (Millions)	Loss per Filing Charity
US Totals		246,112	\$9,558	\$38,836
20	Minnesota	5,834	197	33,708

The full report is available at:

http://www.ombwatch.org/budget/pdf/ETCharitable_state_final_oct2003.pdf