

**The Impact of Tax Incentives on Charitable Giving:
A Social Analysis¹**

by

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Introduction

It has been about ten years since the nonprofit and voluntary sector was “discovered” and acquired recognition as a significant component of Canada’s social order. For some of the organizations that constitute this sector, it has been a period of optimism, celebration of newfound visibility, and anticipation of increased resources and influence. But the experience for the great majority has been otherwise: a time of turbulence, struggle, and uncertainty. Over the past decade, there have been recurring discussion, and rising expectations, regarding the opportunities and potential for nonprofit and voluntary organizations to occupy a larger place in the panoply of social institutions; there has been little, though, in the way of reality-checking — that is, broad-spectrum assessment of the sector’s environment, its strengths and weaknesses, forces impinging on it, and the degree of match or mismatch among the expectations for it, its responsibilities, capabilities, and resources.

¹ These remarks draw on work done in collaboration with K. Selbee.

I have come to this view for numerous reasons, including a detailed study of voluntary organizations in Ontario several years ago under the auspices of the Nonprofit Sector Knowledge Base Project that I have been directing, and as a volunteer board member in an Ottawa nonprofit social services organization. This conference's deliberations on 'the new financial environment of nonprofit and voluntary organizations' can certainly contribute to assessing the state of the sector, and my hope is that it will eventually be one in an ensemble of deliberations that together provide a full picture of what's going on in the sector, what forces are affecting it, with what consequences, and how they are being dealt with.

First, A Few Words About The Charitable Giving Situation

Professor Brock asked me to outline some initial findings from a recent social analysis (as distinct from an economic analysis — I'll spell out why and how in a moment) an analysis of the effects of tax incentives on charitable giving, one of nearly 50 studies conducted to date by the Nonprofit Sector Knowledge Base Project that I mentioned a moment ago. Before doing this, I want to flag some salient facts about charitable giving in Canada that will provide a context for considering the influence of tax incentives. Listed in the following two frames on the screen, these facts indicate first that the currently stable donating rate (at 78%, unchanged in 2000 relative to 1997) and the 11 percent rise in total amount donated (to \$4.9 billion in 2000, likely an anomaly due in large part to the new policy concerning donation of publicly traded equities) obscure another reality: the majority of Canadians who make charitable donations are donating less, and less often, and a small proportion are claiming tax credits for those donations — currently only 25 percent of tax filers, down from 30% in 1990. Coupled with the recent 7 percent decline in giving by the cohort most able to give — university graduates, this along with the other long-term downward trends in giving suggests that charitable giving as a characteristic of our population is becoming less widespread, more concentrated among existing donors, and probably more uncertain.

Charitable Giving in Canada Currently

	<u>In 2000</u>	<u>Change Since 1997</u>
• rate of charitable giving	78%	unchanged
• total amount donated	4.9 billion	up 11%
• total number of annual donations	70 million	dn 5.4%
• annual number of donations per donor	3.7	dn 8%
• median donation	\$15	up 15%
• median annual \$ donated per donor	\$73	dn 4%
• median annual \$ donated per capita	\$40	dn 11%
• rate of donating among Canadians with a university degree	84%	dn 7%

Long-term Trends in Charitable Giving in Canada

- % of households reporting charitable donations has been declining since 1982
- charitable giving as % of disposable income has been flat for three decades
- charitable giving as % of total giving fell from 61% in 1969 to 34% in 1997
- slow ongoing decline in total donations to religious organizations: down from 74% of all charitable giving in 1969 to 64% in 1997
- donor fatigue and uneasiness about charitable fundraising are significant and rising

Looking at the financial conditions and experiences of organizations in the voluntary domain, the study of such organizations we undertook in Ontario several years ago revealed that the majority of nonprofit organizations have been experiencing ongoing changes in both the level and nature of the financial resources they receive. In the 5-year period between 1993 and 1997, two-thirds suffered income declines in Ontario. Government funding has shifted significantly to contracts for specific service provision and away from grants, and even their combined total has fallen. There is also increased variability and uncertainty of income, along with rising overhead costs due to funders' increased reporting and accountability requirements, large increases in costs of insurance and liability protection, and heightened standards of service or performance imposed by government. There is a deep and widespread resource crunch.

Assessing the Impact of Tax Incentives

It was against this background that we undertook an analysis of how Canadians currently view and respond to the availability of tax credits for charitable donations, in order to assess the impact that an increase in tax credits might have on giving and thence on the nonprofit sector.

There has been a plethora of economic studies of tax effects on charitable giving, with widely varying results; income and price elasticities span a very wide range, for example. Naturally, a common and basic element in all these studies is the assumption that charitable giving behaviour rests on explicit deliberation by individuals, who use essential available information in a self-benefit-maximizing calculus of choice – the classic homo economicus. As well, these studies take account of relatively few characteristics other than economic ones. Our study differs quite fundamentally from the conventional form in these two respects: it recognizes the influence of a large set of social, demographic, and economic traits and forces on donation decisions by individuals, and it also explicitly addresses the decision-making underlying charitable giving empirically rather than by inference and acknowledges that diverse and not necessarily "rational" forms of social reasoning are used in making such choices and decisions. Our analysis utilizes data from the National Survey of Giving, Volunteering and Participating

conducted by Statistics Canada in November of 2000, in which nearly 15,000 individuals were interviewed of whom seventy-eight percent had made charitable donations in the preceding 12 months. Among the survey's questions, three were pertinent to decisions about charitable giving:

- "The reason that you make charitable donations is because the government will give you a credit on your income taxes", with agree/disagree response categories.
- "Will you or someone else in your household be claiming a tax credit for charitable contributions?", with yes/no response categories.
- "Would you contribute more if the government gave you a better tax credit for your donations?", with yes/no response categories.

After considering the pattern of responses to these questions, our analysis strategy was to construct regression models that would account for individuals' behaviours in terms of their social and economic characteristics.

What we found was truly fascinating because it differed so sharply from the prevailing social science-based picture of donative behaviour.

First, nearly nine of every ten (87%) givers stated they did not donate because of the tax credit, and these individuals accounted for 81 percent of all dollars donated. Secondly, one-half (49%) neither donated because of the tax credit nor intended to claim a tax credit for their donations. In fact, of the 13 percent who stated they donated because of the tax credit, four in ten would not be claiming a tax credit! I think the most telling number is this one: a mere 7.7 percent of all givers did so because of the tax credit *and* intended to claim that credit. These and other facts make it abundantly clear that much of charitable giving behaviour is neither carefully reasoned nor guided by concern for consistency. There is nothing pejorative about this; it is simply a fact, although one sharply at odds with prevailing economic doctrine. What we see for the majority of givers is a disconnection between being influenced by the availability of tax credits when making the decision to give, and actually claiming tax credits. And third, at least half said they would *not* give more if there were a larger tax credit. (Tables appended to the electronic text of my remarks provide additional statistics.)

Disappointingly, the statistical modelling of the characteristics of individuals giving the different types of response to the three questions that we undertook did *not* provide a reliable trait profile for givers who say they donate due to availability of tax credits, nor for those who say they would give more if there were a greater tax credit; this means that the variables measured in the survey and available in the data derived from it are not the ones that identify or differentiate these people. On the other hand, regression modelling *does* provide an effective trait profile for those who say they would claim the tax credit on their income tax returns, with a quite respectable 31 percent of the total variation accounted for. The most strongly influential traits --- that is, those producing the largest percentage change in the odds (shown in brackets for each trait) were, in descending order:

- having high total giving (290%)
- having relatively high household income (158%)
- being civically active (72%)
- being retired or not employed (60%)
- having a professional occupation (55%)
- being a Protestant or Other Religion (42%)

Three considerations help to understand these patterns of tax credit behaviour. One is to recognize the main, strongly differing types of people who make charitable donations: “incidental givers” (who make relatively few, unplanned, small donations each year, most usually in response to a solicitation), “committed givers” (who make repeated, often planned and unsolicited donations annually), and “significant event” givers who donate an exceptional, very large, usually single amount in a given year. A second factor to recognize is that giving to religious organizations, and the people who practice this, differ fundamentally from non-religious giving and givers. Typically for them, giving rests on commitment to a set of principles and beliefs which takes little or no account of utility maximization, and occurs repeatedly across the year as people contribute in a planned and periodic fashion to their faith community. And last, it is appropriate to distinguish between the proportion of individuals who are responsive to tax credits and the proportion of donated dollars these people give. Expressed differently, individuals who

claim tax credits contribute a larger proportion of total donated funds than their proportion of the population. This is because nearly all of the small number of individuals who donate very large annual amounts claim their tax credits. This is part of the 'civic core' phenomenon we have documented --- the 8 percent of Canadians who account for about half of all giving and volunteering. We can see the overall effects of these factors when we examine giving patterns of Canadian donors by their household income decile; we observe that religious giving occupies a progressively smaller proportion of giving in higher income households and among givers who take tax credits into account in their giving decisions, while responsiveness to tax incentives rises progressively with greater income.

So To Summarize and Conclude

Charitable donors are a heterogeneous, significantly varied population, in terms of numerous social and economic characteristics as well as in the forms their donative behaviours take. For significant numbers of them, decisions to give are not made in a carefully deliberated fashion and for others who do make their decisions deliberately, considerations about minimizing the amount of tax paid to the public treasury play little or no role. We can conclude that increased tax credits would likely affect only a small minority of donors, but a larger (though still relatively small) proportion of all donated dollars. The implication here is that for the great majority, by which I mean nearly all but “significant event” donors, an increase in the tax credit could not be counted on to make a general difference in revenues in the nonprofit sector from donations and tax-credit fundraising. And it is unlikely any increase in revenues from donations would be evenly distributed, either geographically or in terms of types of organizations; we can surmise that those organizations with significant public profile and status and active in such fields as health, children's services or education would more likely be the recipients of increased giving. It may well be that it is the particular structure or mechanism of tax benefits for significantly large charitable donations (such as the 50 percent reduction in capital gains tax on donations of equities) and/or the targeting of high-giving, “significant event” donating constituencies, that would make a greater difference than a general increase in tax credits.

I would like to close with some observations of a different kind than in the foregoing. I believe a large part of donating behaviour is an important but indirect indication of Canadians' feelings and perceptions regarding the social contract --- the connection between their social responsibility as individuals and contributing to collective wellbeing, between themselves and their surrounding public institutions (including nonprofit and charitable organizations). If this connection is weakening or diminishing, as long term trends appear to indicate, then incremental improvements to the tax cost of charitable giving may be of less consequence in the long run than we might hope. And last, I think we can say without fear of contradiction that the principal challenge and source of tension for the nonprofit sector today is the disjunction between the elevated ideals and expectations about the strengths and capabilities that it possesses on the one hand, and the resources it commands to meet those expectations on the other. While the sector's strategy to cope with this tension has focused on seeking remedy for its resource deficit, it seems to me that quantum change there is rather unlikely; perhaps the strategy ought to consider greater efforts to inform the public and its expectations as to what the sector can do within the limits of what it has and is.

Table 1a

**"Donates Because of the Tax Credit" crosstabulated by "Will Claim Tax Credit"
for All Donors**

		Will claim a tax credit				
		No	Yes	Total		
Donates because of tax credit	No	row %	56.4	43.6	100.0	
		col %	90.4	83.2	87.1	
		% of Total	49.1	38.0	87.1	
		Sum of \$ given	953,067,898	2,954,525,381	3,907,593,279	
		% of All Donations	20	61	81	
		Mean annual donation	107	428	247	
		% religious giving	36	53	49	
		Giving as % HH income	0.21	0.62	0.43	
		Mean # Donations	2.9	4.9	3.7	
		Yes	row %	40.6	59.4	100.0
			col %	9.6	16.8	12.9
			% of Total	5.2	7.7	12.9
			Sum of \$ given	133,239,043	765,681,092	898,920,135
			% of All Donations	3	16	19
		Mean annual donation	140	550	384	
		% religious giving	40	48	47	
		Giving as % HH income	0.31	0.79	0.64	
		Mean # Donations	2.2	5.0	3.9	
	Total	row %	54.3	45.7	100.0	
		col %	100.0	100.0	100.0	
		% of Total	54.3	45.7	100.0	
		Sum of \$ given	1,086,306,941	3,720,206,473	4,806,513,414	
		% of All Donations	23	77	100	
		Mean annual donation	110	448	264	
		% religious giving	37	52	49	
		Giving as % HH income	0.22	0.65	0.45	
		Mean # Donations	2.8	4.9	3.8	
Pearson Chi-Square=		122.9				
p-value=		0.000				
Cramer's V=		0.106				

Table 1b

**"Donates Because of the Tax Credit" crosstabulated by "Will Claim Tax Credit Cross-classification"
for Religious Donors Only**

		Will claim a tax credit				
		No	Yes	Total		
Donates because of tax credit	No	row %	45.8	54.2	100.0	
		col %	89.9	82.5	85.7	
		% of Total	39.2	46.5	85.7	
		Sum of \$ given	344,712,049	1,576,861,123	1,921,573,171	
		% of All Religious \$	15	67	82	
		Mean annual donation	39	228	121	
		Religious Giving as % HH income	0.25	0.69	0.53	
		Yes	row %	30.8	69.2	100.0
		col %	10.1	17.5	14.3	
		% of Total	4.4	9.9	14.3	
	Sum of \$ given	53,060,240	367,410,916	420,471,156		
	% of All Religious \$	2	16	18		
	Mean annual donation	56	264	179		
	Religious Giving as % HH income	0.36	0.77	0.67		
	Total	row %	43.6	56.4	100.0	
	col %	100.0	100.0	100.0		
	% of Total	43.6	56.4	100.0		
	Sum of \$ given	397,772,289	1,944,272,038	2,342,044,327		
	% of All Religious \$	17	83	100		
	Mean annual donation	40	234	129		
	Religious Giving as % HH income	0.26	0.71	0.55		

Table 2a

"Donates Because of the Tax Credit" crosstabulated by "Will Claim Tax Credit"
for Second Income Decile Only

		Will claim a tax credit			
		No	Yes	Total	
Donates because of tax credit	No	row %	67	33	100
		col %	91	82	88
		% of Total	58	29	88
		Sum of \$ given	112,312,769	151,739,298	264,052,067
		% of All Donations	37	50	88
		Mean annual donation	109	293	170
		% religious giving	53	63	59
		Giving as % HH income	0.49	1.29	0.76
		Yes			
		row %	49	51	100
		col %	9	18	12
		% of Total	6	6	12
		Sum of \$ given	13,938,199	22,682,303	36,620,502
	% of All Donations	5	8	12	
	Mean annual donation	129	204	167	
	% religious giving	67	60	63	
	Giving as % HH income	0.57	0.93	0.75	
	Total				
	row %	65	35	100	
	col %	100	100	100	
	% of Total	65	35	100	
	Sum of \$ given	126,250,968	174,421,601	300,672,569	
	% of All Donations	42	58	100	
	Mean annual donation	111	277	170	
	% religious giving	55	63	59	
	Giving as % HH income	0.49	1.23	0.76	

Table 2b

**"Donates Because of the Tax Credit" crosstabulated by "Will Claim Tax Credit"
for Fourth Income Decile Only**

		Will claim a tax credit		
		No	Yes	Total
Donates because of tax credit	No			
	row %	66	34	100
	col %	93	86	90
	% of Total	60	30	90
	Sum of \$ given	111,018,711	288,085,761	399,104,473
	% of All Donations	24	63	88
	Mean annual donation	83	425	199
	% religious giving	33	58	51
	Giving as % HH income	0.22	1.11	0.52
	Yes			
row %	49	51	100	
col %	7	14	10	
% of Total	5	5	10	
Sum of \$ given	6,781,697	50,017,333	56,799,030	
% of All Donations	1	11	12	
Mean annual donation	64	458	264	
% religious giving	44	59	57	
Giving as % HH income	0.16	1.20	0.68	
Total				
row %	65	35	100	
col %	100	100	100	
% of Total	65	35	100	
Sum of \$ given	117,800,409	338,103,095	455,903,503	
% of All Donations	26	74	100	
Mean annual donation	82	430	205	
% religious giving	34	58	52	
Giving as % HH income	0.22	1.13	0.54	

Table 2c

**"Donates Because of the Tax Credit" crosstabulated by "Will Claim Tax Credit"
for Sixth Income Decile Only**

		Will claim a tax credit		
		No	Yes	Total
Donates because of tax credit	No			
	row %	52	48	100
	col %	85	83	84
	% of Total	44	40	84
	Sum of \$ given	97,797,678	292,434,416	390,232,094
	% of All Donations	21	62	82
	Mean annual donation	110	357	228
	% religious giving	32	48	44
	Giving as % HH income	0.21	0.69	0.44
	Yes			
	row %	48	52	100
	col %	15	17	16
	% of Total	8	8	16
	Sum of \$ given	5,091,898	78,574,551	83,666,450
	% of All Donations	1	17	18
Mean annual donation	33	483	265	
% religious giving	34	32	32	
Giving as % HH income	0.06	0.92	0.51	
Total				
row %	52	48	100	
col %	100	100	100	
% of Total	52	48	100	
Sum of \$ given	102,889,577	371,008,968	473,898,544	
% of All Donations	22	78	100	
Mean annual donation	98	378	234	
% religious giving	32	45	42	
Giving as % HH income	0.19	0.73	0.45	

Table 2d

**"Donates Because of the Tax Credit" crosstabulated by "Will Claim Tax Credit"
for Tenth Income Decile Only**

		Will claim a tax credit		
		No	Yes	Total
Donates because of tax credit	No			
	row %	31	69	100
	col %	93	82	85
	% of Total	26	59	85
	Sum of \$ given	85,944,596	577,868,121	663,812,717
	% of All Donations	9	61	71
	Mean annual donation	201	612	484
	% religious giving	22	43	40
	Giving as % HH income	0.12	0.40	0.31
	Yes			
	row %	13	87	100
	col %	7	18	15
	% of Total	2	13	15
	Sum of \$ given	3,806,406	273,024,509	276,830,915
	% of All Donations	0	29	29
Mean annual donation	122	1,300	1,148	
% religious giving	23	42	42	
Giving as % HH income	0.08	0.86	0.76	
Total				
row %	28	72	100	
col %	100	100	100	
% of Total	28	72	100	
Sum of \$ given	89,751,002	850,892,629	940,643,632	
% of All Donations	10	90	100	
Mean annual donation	196	737	583	
% religious giving	22	43	41	
Giving as % HH income	0.12	0.48	0.37	

Table 3. Household Income Deciles of Charitable Donors, 2000

Decile	Income Range	Percent
1	\$6000 to 18,000	10.2
2	18,001 to 25,000	9.9
3	25,001 to 34,000	9.9
4	34,001 to 40,000	12.1
5	40,001 to 49,000	5.9
6	49,001 to 59,000	11.0
7	59,001 to 69,300	9.9
8	70,000 to 80,000	12.1
9	80,001 to 100,000	10.2
10	100,001 or more	8.7
	Total	100.0

Source: National Survey of Giving, Volunteering, and Participating, Statistics Canada.