How the Tax Cuts and Jobs Act of 2017 Affects Charitable Contribution Deductions

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Abstract
The services and influences of nonprofit organizations, from local churches to national organizations such as United Way, are interwoven into the fabric of American culture. This study examines how the Tax Cuts and Jobs Act of 2017 (TCJA) is impacting charitable giving to nonprofit organizations. We use Internal Revenue Service Statistics of Income data on itemization and charitable contribution deductions to compare means stratified into nine income levels. We find that itemization and charitable contribution deductions decreased in most income levels when the TCJA went into effect. We discovered an anomaly of charitable contribution deductions increasing in the highest income level. Our findings highlight the unintended consequences of the TCJA's change to the standard deduction. Charitable contribution deductions suffered a significant decrease overall in 2018 tax returns. Repercussions of the effects of these results have implications for both tax policy and nonprofit operations.
Keywords: Charitable giving, income, nonprofit, tax deduction, TCJA.

I. Introduction

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (TCJA) was signed into law. This is the largest change in federal tax law since the Tax Reform Act of 1986. The TCJA may be remembered by some as having the mantra of taxpayers being able to file their tax returns on a postcard (Ways and Means Tax Cuts and Jobs Act, n.d.). For limited circumstances, such as a W-2 being the only source of income, the postcard promise holds true (Ways and Means Tax Cuts and Jobs Act, n.d.). However, for taxpayers who are not able to file their federal income tax return on a postcard, many other changes impact their filing practices. With any change comes uncertainty and the possibility of unintended consequences.

Lower tax rates for both individuals and businesses, a notably larger standard deduction, an expanded Child Tax Credit, a new 20% deduction for net income connected with the operation of a U. S. business, and generous increases in depreciation deductions are some of the key changes affecting taxpayers beginning in 2018 (Smith & Howard, 2018). Although many modifications were brought on by the TCJA, our research focuses on the changes around the standard deduction, specifically involving charitable deductions. Charitable giving plays a crucial role in the operation of nonprofit organizations as these organizations provide critical services in many communities. If donations decrease because of changes arising from the TCJA, many of these nonprofit organizations may be at risk of not providing valuable services. Thus, we specifically look to address the following question: Does the Tax Cuts and Jobs Act of 2017 (TCJA) impact taxpayers’ charitable giving?

Performing a brief review of the history of the standard deduction shows, originally, the federal income tax was designed to only tax the wealthiest class of Americans (Schrank, 2017). After World War II, the tax system expanded. This expansion resulted in transforming what was designed to be a class tax into a mass tax system (Schrank, 2017). In 1944, Congress created the standard deduction, sheltering a set amount of income from income tax (Schrank, 2017). The standard deduction allows taxpayers to deduct personal, or cost-of-living, expenses (Rupert & Anderson, 2019). The standard deduction is a presumptive element of the tax return (Slemrod & Yitzhaki, 1994).

Taxpayers can choose to use the standard deduction or to take an itemized deduction when preparing their tax returns (Slemrod & Yitzhaki, 1994). Itemized deductions for 2018, included medical and dental expenses, state and local taxes, home mortgage interest, investment interest, gifts to charity, casualty and theft losses, and other deductions, such as gambling losses (Schedule A (Form 1040)). Generally, only taxpayers with itemized deductions greater than the standard deduction choose to itemize which allows for the greatest tax benefit (Lowry, 2014).

With the passage of the TCJA, the standard deduction nearly doubled, rising, for married couples, from $12,700 on 2017 tax returns to $24,000 on 2018 tax returns. For single taxpayers, the standard deduction increased from $6,350 in 2017 to $12,000 in 2018. For illustrative purposes, if a married couple regularly gave $20,000 to charitable organizations as part of their itemized deductions, with the increase in the standard deduction, they could potentially be less inclined to do so in 2018. As previously mentioned, taxpayers use the higher of either their itemized deductions or the standard deduction when preparing their tax returns; consequently, there would not be a financial incentive to donate if the taxpayer could not get a tax deduction for these charitable contributions (Lowry, 2014). Therefore, charitable giving could be greatly impacted as a result of the new tax rule or TCJA.

The charitable contribution deduction has been in effect since 1917 and many nonprofit organizations rely on charitable contributions to fund their public-interest purposes (Duquette, 2016). In 2016, the nonprofit sector provided 11.4 million jobs, or 10% of the workforce in the United States (The Charitable Sector, n.d.). According to Independent Sector, in 2016, the charitable sector employs 10% of the nation's population (n.d). Individual household giving plays an important role in sustaining these organizations. In 2017, individuals were responsible for 70% of charitable giving (Giving USA, 2018). Of the $424.74 billion given in 2017, individuals gave $286.65 billion, which is a 5.2% increase from 2016 (Giving USA, 2019). In addition to the services of nonprofits being undermined, the number of nonprofit jobs could deteriorate due to a lack of donation revenue. From tax deductions, to necessary services, to job creation, it is evident that charitable giving holds multi-faceted importance.

The TCJA has the potential to have a greater impact on individual charitable contributions as opposed to charitable contributions made by businesses and other entities. Americans donated $390 billion in cash contributions in 2016. This was a 2.7% increase from 2015 (Giving USA, 2018). Also reported by Giving USA (2019), Americans gave $424.74 billion to charity in 2017, crossing the $400 billion level for the first time, resulting in an almost 9% increase from 2016. A first look at 2018 giving shows 2018 donations totaled $427.71 billion. Although this is an overall increase, when adjusting for inflation, this amounts to a 1.7% decrease (Giving USA, 2019). From 2017 to 2018, giving by individuals fell 1.1%, which is a 3.4% decrease when adjusting for inflation (Giving USA, 2019). This decrease suggests, as suspected, the TCJA may have had a negative impact on charitable contributions.

The donation amounts listed above from the Independent Sector (n.d.) and Giving USA (2019) are charitable contributions received by nonprofit organizations. Our study focuses on the charitable contributions deducted on individual tax returns. The amount of donations received by nonprofit organizations will not equal charitable contribution deductions due to several reasons: 1) Not all taxpayers deduct charitable contributions as some taxpayers take the standard deduction; 2) some individuals may choose not to take the deduction for moral reasons; 3) others may have inaccurate records; and 4) the donations total includes all giving, and we are only examining amounts deducted for charitable contributions on individual tax returns. We are not including charitable contribution deductions taken by businesses, estates, trusts, charities, or nonprofits.

Our study makes several contributions and has value to policymakers, nonprofit organizations, individuals, and practitioners. Tax policy affects social and economic behavior such as offering credits to distressed businesses in urban and rural areas and allowing many deduction items to be adjusted for inflation (Rupert & Anderson, 2019). Social objectives take the form of tax-favored pensions and profit-sharing plans, allowing deductions for charitable contributions, and prohibiting the deduction of illegal bribes, fines, and penalties (Rupert & Anderson, 2019). Comprehending how tax policy impacts charitable giving is fundamental for understanding the ramifications felt by the operations of non-profit and other organizations. If donations decrease significantly, nonprofit organizations may be at risk of cutting valuable services that they provide to society.

The remainder of this paper is organized as follows. Section II reviews the literature on charitable contributions and taxation effects and outlines three testable hypotheses. Section III outlines an analysis of individual taxpayer charitable giving utilizing data from the Internal Revenue Service Statistics of Income website. Section IV outlines the results of our analysis. Sections V and VI conclude with a discussion of our results, possibilities for future research as forthcoming data are available, and implications for theory and practice.

II. Literature Review

As stated earlier, the charitable contribution tax deduction has existed since 1917 (Duquette, 2016). The relationship between charitable giving and its tax deduction has been highly debated. A 1990 survey examining 24 studies on that look at the relationship between giving and tax deduction emphasized that new findings were challenging the original consensus that the deduction is a powerful predictor of actual giving (Steinberg, 1990). The general consensus remains that tax incentives potentially impact charitable giving, and this is addressed when making tax law revisions (Philanthropy, 2017). This relationship between donations and their the tax deductibility has been consistent for the past 100 years, from 1917 to 2017 (Duquette, 2016). During that time, taxpayers could more easily see a direct tax benefit to making charitable contributions than they can after the passage of the TCJA in 2017. The TCJA includes many changes, but the specific change affecting charitable contributions is related to the standard deduction.

One of the goals of the TCJA was to simplify the filing process for individual income tax returns (York & Muresianu, 2018). In theory, increasing the standard deduction should result in fewer individuals having to track their itemized deductions. While the tax filing process is simplified for some taxpayers due to the TCJA, for other filers, it resulted in a loss of deductions.

Based on the pre-TCJA rules, taxpayers received two main deductions after arriving at Adjusted Gross Income (AGI) and before the calculation of taxable income. AGI is the sum of all sources of income minus adjustments. Types of income sources may include wages, salaries, investment income, business income, and retirement income. Examples of adjustments include individual retirement account (IRA) contributions, student loan interest deductions, and alimony paid. The two deductions from AGI to arrive at taxable income are 1) the higher of the standard deduction or itemized deductions and 2) exemptions. The pre-TCJA rules provided for an exemption deduction of $4,050 for each person listed on the return as a taxpayer, spouse, or dependent. The passing of the TCJA removed the exemption deduction which was an area which taxpayers could take advantage of deductions. To compensate for the loss of the exemption deductions, the TCJA increased the standard deduction (Marks Paneth Accountants & Advisors, 2018).

The standard deduction can be thought of as a deduction to compensate for personal, or cost-of-living expenses. In 2017, the standard deduction was $6,350 for single taxpayers and $12,700 for married couples filing jointly. In 2018, after the passage of the TCJA, the standard deduction increased to $12,000 for single taxpayers and $24,000 for married couples filing jointly. Taxpayers have the option of taking the standard deduction or the itemized deduction. If taxpayers can prove that their cost-of-living type expenses exceed the amount of the standard deduction, they will benefit from using the itemized deduction. Included in itemized deductions are a portion of medical expenses, taxes paid (state income tax or sales tax, real estate tax, and personal property tax), home mortgage interest paid, charitable contributions, and gambling deductions.

As an example, for 2017, we use a married couple filing jointly with no dependents, an AGI of $105,000, sales tax deduction of $1,500, real estate taxes of $2,500, mortgage interest deduction of $1,900, and charitable contributions of $10,000. Itemized deductions total $15,900 (1,500 + 2,500 + 1,900 + 10,000). Table 1 presents an income tax comparison of using the standard deduction or taking the itemized deduction. By itemizing instead of taking the standard deduction, this couple saves $800 in federal income taxes.

Table 1 Comparison of Standard Deduction and Itemized Deduction

Married Filing Jointly, no dependents

	2017		Savings
AGI	$ 105,000	$ 105,000	
Standard Deduction/	(12,700)		
Itemized Deduction		(15,900)	
Exemptions (2 x $4,050)	(8,100)	(8,100)	
Taxable Income	84,200	81,000	
Total Tax*	$ 12,528	$ 11,728	$ 800

*Total Tax is based on 2017 tax rate schedules

To the taxpayers who are aware of the direct benefit realized by itemizing, there is an incentive to increase their itemized deductions. The charitable contribution deduction is the deduction that is the easiest to control, because sales tax, property tax, and interest are more fixed and less discretionary. Using the same financial information, we see the effect of increasing donations by $2,000 to a total of $12,000. In this case, itemized deductions total $17,900 (1,500 + 2,500 + 1,900 + 12,000). Table 2 shows that additional donations of $2,000 saves the couple an extra $500.

Table 2 Comparison of $10,000 Donation and $12,000 Donation

Married Filing Jointly, no dependents

		2017		Savings
		Original Donation Amount	Additional Donations of $2,000	Additional Savings
AGI	$ 105,000	$ 105,000	$ 105,000	
Standard Deduction/	(12,700)			
Itemized Deduction		(15,900)	(17,900)	
Exemptions (2 x $4,050)	(8,100)	(8,100)	(8,100)	
Taxable Income	84,200	81,000	79,000	
Total Tax*	$ 12,528	$ 11,728	$ 11,228	$ 500

*Total Tax is based on 2017 tax rate schedules

Using the scenario from Table 2, saving $500 on $2,000 of donations is a tax savings of 25%. The couple could view this as a net donation of $1,500 as they gave $2,000 but received a $500 tax benefit. Taxpayers can mentally calculate the savings with each donation, realizing for every $100 of donations, their tax bill decreases by $25 or their refund increases by $25. This example applies to taxpayers in the 25% tax bracket, or a marginal tax rate of 25%. Taxpayers in other tax brackets would experience savings at the marginal rate of their respective tax bracket. Before the TCJA went into effect, the tax brackets were 10%, 15%, 25%, 28%, 33%, 35%, and 39.60%. Beginning with 2018, the tax brackets are 10%, 12%, 22%, 24%, 32%, 35%, and 37%.

In 2018, when this same couple considers making an extra donation of $2,000, they do not realize a $500 decrease in total tax. The increase in standard deduction conceivably removes the tax incentive for making charitable contributions. These mental shortcuts, or heuristics, of calculating the tax savings in one's head are recognized in extant literature (Faulhaber, 2012). Faulhaber refers to this as hypersalience.

Table 3, comparing 2017 to 2018, reveals that the TCJA makes itemization unnecessary for this couple. This couple itemized in 2017, but took the standard deduction in 2018. Even though there was no provision for an exemption deduction in 2018, this couple had a taxable income of the same amount due to the increase in standard deduction. The individual tax rates decreased for 2018, resulting in $2,029 less total tax compared to 2017. The roughly $2,000 tax cut presented in Table 3 is precisely what Kevin Brady (R-TX), Chairman of the House Ways and Means Committee and lead author of the TCJA, had promised of the Act was sent to President Trump (By the Numbers: Tax Cuts and Jobs Act Delivers Tax Cuts for Families in Every Congressional District, 2017).

Table 3 Comparison of 2017 to 2018

Married Filing Jointly, no dependents

	2017	2018	Savings
AGI	$ 105,000	$ 105,000	
Standard Deduction/		(24,000)	
Itemized Deduction	(15,900)		
Exemptions (2 x $4,050)	(8,100)		
Taxable Income	81,000	81,000	
Total Tax*	$ 11,728	$ 9,699	$ 2,029

*Total Tax is based on 2017 and 2018 tax rate schedules

Although, the tax savings is a positive outcome for both taxpayers and lawmakers, the unintended consequences of lowered charitable contributions for nonprofit organizations was not outlined. As previously noted, our main research question examines whether the TCJA affects charitable contribution giving by individuals. In addressing our research question, we theorize that charitable contributions as well as the number of tax filers who itemize may decrease because of the changes due to the TCJA. If the TCJA is considered when giving, we predict charitable giving to be lower after the TCJA goes into effect, which begins with the 2018 tax returns. Therefore, our first hypothesis is as follows:

> **H1:** The number of itemized federal income tax returns are statistically lower after the TCJA went into effect in 2018.

Further, many requests for donations are accompanied with the statement that the donation is tax deductible. Faulhaber (2012) calls the act of alerting potential donors of the tax deductibility of a donation a prime example of hypersaliency. The change in taxpayer donation behavior is likely to have a delayed reaction. Meer and Priday (2020) found that taxpayers take several years to respond to tax law changes. They point out that charitable giving is a habit-forming practice; therefore, a delayed response is natural. Due to the changes brought about by the TCJA, fewer taxpayers may be itemizing, and not receiving the incentive of a tax deduction which could result in a change in donation behavior. Thus, our second hypothesis is as follows:

> **H2:** Charitable contribution deductions decreased after the TCJA went into effect.

Further, we expect taxpayers at higher income levels, as opposed to taxpayers at lower income levels, to be more inclined to consider tax laws when making charitable contributions. In a thesis by Elizabeth Ficklin (2014), the General Social Survey (GSS) was used to analyze differences in donation patterns at different income levels. Ficklin included research by Harbaugh (1997), which states that wealthy individuals are more likely to give up to the point of gaining recognition, or achieving a specific reward. The tax saving could be seen as a reward. Andreoni (1989) and Harbaugh (1997) state that there is a selfish element to giving, suggesting that individuals carry out a benefit-cost analysis when giving. Therefore, our final hypothesis is as follows:

H3: Charitable contribution deductions decreased more for higher income taxpayers than for lower income taxpayers.

To clarify, there are some characteristics that are and are not addressed in this project. We do not distinguish between the different types of charitable giving, such as cash donations, non-cash donations, and donations of time. We do not differentiate between different types of charitable organizations, such as sacred versus secular. The study focuses on individuals, and not corporations or other business entities. The TCJA contains many changes to the tax code, this study specifically emphasizes the standard deduction modification.

III. Analysis of Individual Charitable Contributions

Data from the Internal Revenue Service Statistics of Income are analyzed for tax years 2009 to 2018. We focus on the change in the number of tax returns itemized and the change in the dollar amount of charitable contribution deductions over the ten-year period and specifically from tax years 2017 to 2018 which includes the period before the TCJA and after. We provide informational charts and graphs to present our findings. We use a time series dataset to examine the changes in itemized deductions, specifically, charitable contributions and the historical trend from 2009 to 2018.

The hypotheses are evaluated with repeated measures analysis and trend analysis. We use 50 states and the District of Columbia. For H1, the dependent variable is the percentage change of itemized tax returns using 2017 as the base year. For H2, the dependent variable is percentage change of charitable contribution deductions. The independent, or categorical, variable is the year, which designates before and after the TCJA took effect. The results are compared for tax years 2017 and 2018. H3 is tested by extending H2 analysis, stratified over several income categories.

We predict that the results from the repeated measures analysis will show that the TCJA has a profound effect on the number of tax returns itemized and the dollar amount of charitable contribution deductions. Additionally, trend analysis is provided to enhance the results.

IV. Results

To test H1, the hypothesis that the number of itemized federal income tax returns were statistically lower after the TCJA went into effect in 2018, a repeated measures t-test was performed. Each group has 51 observations, representing 50 states and the District of Columbia. Results show tax returns filed had a higher number of itemized returns for 2017 ($M = 921{,}906$, $SD = 1{,}119{,}477$) than for 2018 ($M = 344{,}391$, $SD = 504{,}209$). A repeated measures t-test finds this difference to be significant $t(50) = 6.49$, $p < .001$. Results suggest that the TCJA affects the number of tax returns that were itemized, lending support to H1.

While the change in number of tax returns itemized can be noticed most concisely by comparing 2017 to 2018. We also analyze the number of tax returns itemized at the federal level over a ten-year period, from 2009 to 2018. Figure 1 shows a drastic decrease in the number of itemized tax returns after the TCJA went into effect.

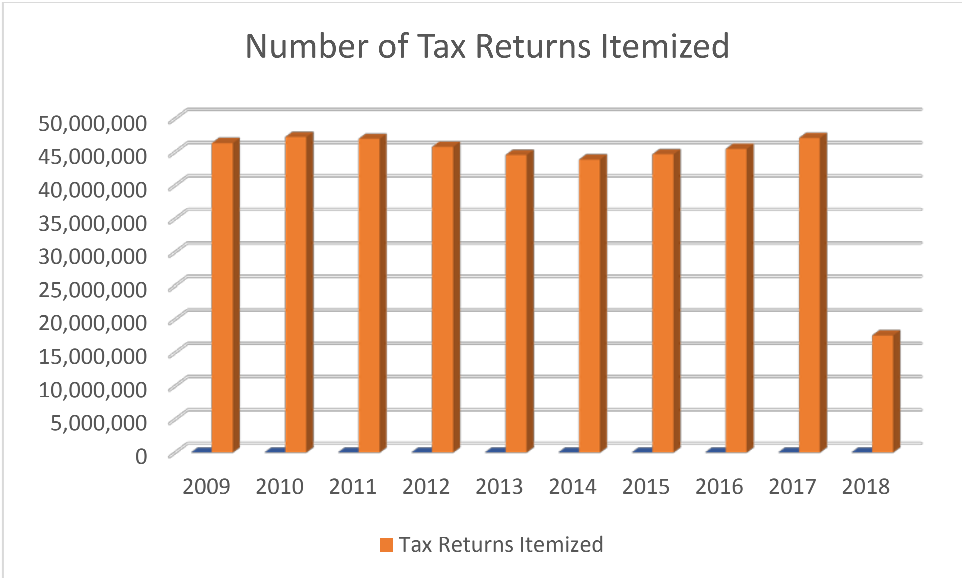

Figure 1 Number of Tax Returns Itemized by Year

Table 4 shows the difference in the number of tax returns from 2017 to 2018 at the federal level total and for nine income levels. The income levels are dollar amount of AGI. Table 5 uses the same data but displays the percentage of tax returns itemized in 2017 and 2018. Table 5 highlights the fact that the largest decreases in itemized deductions were observed between $100,000 and $500,000 of Adjusted Gross Income (AGI). The range of $100,000 to $200,000 saw a decrease of 49%, while the range of $200,000 to $500,000 noticed a decrease of 45%.

Table 4 Number of Tax Returns Itemized 2018 – 2017

Year	All returns	$1 under $10,000	$10,000 under $25,000	$25,000 under $50,000	$50,000 under $75,000
2018	17,599,150	240,230	653,920	1,764,880	2,447,710
2017	47,103,650	763,190	2,398,150	6,756,380	7,845,070
Difference	(29,504,500)	(522,960)	(1,744,230)	(4,991,500)	(5,397,360)

Year	$75,000 under $100,000	$100,000 under $200,000	$200,000 under $500,000	$500,000 under $1,000,000	$1,000,000 or more
2018	2,356,080	5,615,470	3,370,590	729,940	420,340
2017	7,081,630	15,037,580	5,832,860	931,980	456,810
Difference	(4,725,550)	(9,422,110)	(2,462,270)	(202,040)	(36,470)

Table 5 Percentage of Tax Returns Itemized 2018 – 2017

Year	All returns	$1 under $10,000	$10,000 under $25,000	$25,000 under $50,000	$50,000 under $75,000
2018	12%	1%	2%	5%	11%
2017	31%	4%	8%	19%	38%
Difference	-19%	-2%	-5%	-14%	-26%

Year	$75,000 under $100,000	$100,000 under $200,000	$200,000 under $500,000	$500,000 under $1,000,000	$1,000,000 or more
2018	17%	27%	49%	66%	78%
2017	53%	76%	94%	94%	92%
Difference	-36%	-49%	-45%	-28%	-15%

Our second hypothesis examines how the decreases in itemized deductions translates into charitable contribution deduction dollars. To test H2, the hypothesis that charitable contribution deductions decreased after the TCJA went into effect, a repeated measures t-test was performed. Each group has 51 observations, representing 50 states and the District of Columbia. Supporting data from IRS SOI Historic Table 2 is displayed in

Table 6. Results show charitable contribution deductions had a higher dollar amount for 2017 (M = \$5,012,335, SD = \$6,493,207) than for 2018 (M = \$3,853,969, SD = \$5,527,250). A repeated measures t-test finds this difference to be significant $t(50) = 6.87$, $p < .001$. Together these results suggest that the TCJA affects the dollar amount of charitable contribution deductions, supporting H2.

Table 6 Charitable Contribution Dollars for 2017 and 2018

	2017 Charitable Contribution Dollars	**2018 Charitable Contribution Dollars**		**2017 Charitable Contribution Dollars**	**2018 Charitable Contribution Dollars**
Alabama	3,879,230	2,557,754	Montana	669,249	489,098
Alaska	344,992	231,568	Nebraska	1,355,083	848,444
Arizona	4,088,485	3,179,296	Nevada	2,032,147	1,594,380
Arkansas	2,912,841	2,611,289	New Hampshire	698,686	596,143
California	34,940,114	31,826,883	New Jersey	7,336,304	4,917,116
Colorado	4,470,734	3,745,617	New Mexico	914,963	586,546
Connecticut	3,874,653	2,644,674	New York	21,673,508	18,379,256
Delaware	612,492	403,388	North Carolina	7,271,726	5,154,899
District of Columbia	961,430	825,808	North Dakota	418,951	273,281
Florida	17,957,694	13,464,954	Ohio	6,104,471	4,020,192
Georgia	11,988,026	9,763,855	Oklahoma	2,739,030	1,952,763
Hawaii	777,162	492,625	Oregon	2,972,568	2,256,346
Idaho	1,243,224	867,785	Pennsylvania	7,740,052	5,162,861
Illinois	9,268,445	7,636,601	Rhode Island	513,669	356,341
Indiana	3,630,819	2,407,967	South Carolina	3,603,540	2,534,201
Iowa	1,840,611	1,084,077	South Dakota	680,488	519,558
Kansas	2,072,585	1,464,631	Tennessee	4,582,933	3,471,363
Kentucky	2,235,548	1,479,734	Texas	22,139,014	15,683,431
Louisiana	2,595,469	1,760,795	Utah	4,305,613	3,371,325
Maine	533,284	337,920	Vermont	326,726	217,016
Maryland	6,416,583	5,268,704	Virginia	7,296,007	5,628,098
Massachusetts	6,755,554	5,775,264	Washington	6,215,390	4,898,614
Michigan	5,863,685	3,924,029	West Virginia	530,436	303,786
Minnesota	4,272,899	2,861,633	Wisconsin	3,352,586	2,111,044
Mississippi	1,883,978	1,145,815	Wyoming	662,266	469,494
Missouri	4,073,131	2,994,180			
			Average	**5,365,141**	**4,259,879**

While the change in the dollar amount of charitable contribution deductions can be noticed most concisely by comparing 2017 to 2018. We also analyzed the dollar amount of charitable contribution deductions at the federal level over a ten-year period, from 2009 to 2018. Figure 2 shows a drastic decrease in the dollar amount of charitable contribution deductions after the TCJA went into effect.

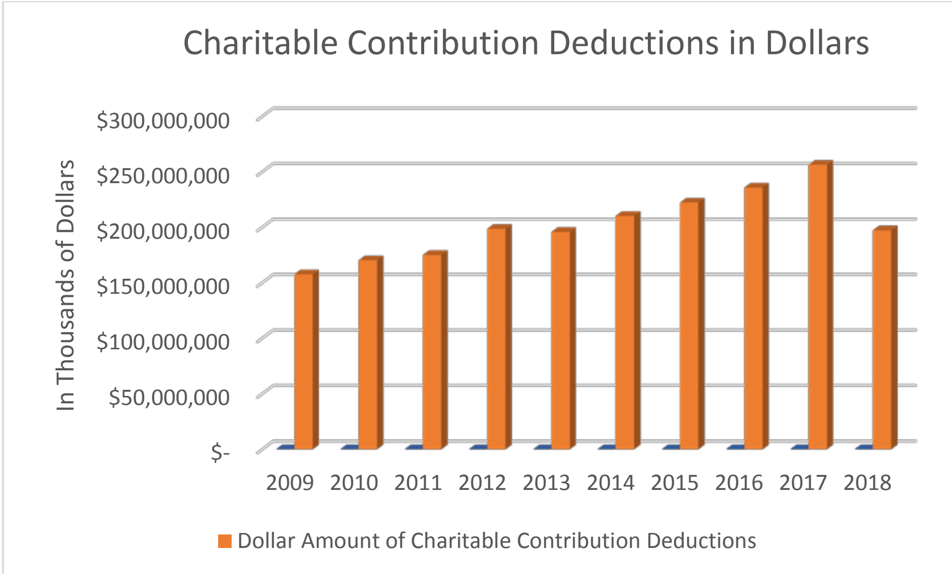

Figure 2 Charitable Contribution Deductions in Dollars

The change in charitable contribution deductions is extended by reviewing the change experienced stratified by income level. To test H3, the hypothesis that charitable contribution deductions decreased more for higher income taxpayers than for lower income taxpayers, a time series dataset was analyzed.

Table 7 shows the difference in the dollar amount of charitable contribution deductions from 2017 to 2018 aggregated at the federal level and for nine income levels. The greatest decrease in charitable contribution deductions is in the $100,000 to $200,000 AGI range, at ($21,639) million. The AGI range of $1,000,000 and above experienced an increase in charitable contribution deductions of $1,615 million. The bottom row displays the percentage of charitable contribution deductions from 2017 to 2018. The bottom row highlights the fact that the largest decreases in charitable contribution deductions were observed between $1 and $25,000 of AGI. The range of $1 to $10,000 saw a decrease of 70%, while the range of $10,000 to $25,000 noticed a decrease of 66%.

The results of this time series analysis find partial support for our third hypothesis that charitable contribution deductions decreased more for higher income taxpayers than for lower income taxpayers.

Table 7 Change in Charitable Contribution Deductions 2018 – 2017 (in millions of dollars)

Year	All returns	$1 under $10,000	$10,000 under $25,000	$25,000 under $50,000	$50,000 under $75,000
2018	$197,208	$173	$1,249	$5,815	$9,199
2017	256,341	580	3,679	13,894	19,247
Dollar change	($59,132)	($407)	($2,431)	($8,079)	($10,049)
Percent change	-23%	-70%	-66%	-58%	-52%

Year	$75,000 under $100,000	$100,000 under $200,000	$200,000 under $500,000	$500,000 under $1,000,000	$1,000,000 or more
2018	$10,283	$34,925	$33,619	$16,931	$85,014
2017	20,580	56,564	40,753	17,644	83,399
Dollar change	($10,296)	($21,639)	($7,133)	($713)	$1,615
Percent change	-50%	-38%	-18%	-4%	2%

V. Discussion

More taxpayers are taking the standard deduction. In 2017, 31% of filers chose to itemize their personal expenses on Schedule A, while only 12% of filers itemized in 2018 (SOI historic table 2). Concentrating on charitable contribution deductions, we observe a decrease of $59 billion, or 23%, from 2017 to 2018 (SOI historic table 2). Charitable contribution deductions totaled $256 billion in 2017 and $197 billion in 2018. Drilling down even further, we analyze changes in charitable contribution deductions at various income levels.

Based on the prior research of Ficklin (2014), Andreoni (1989), and Harbaugh (1998), we expected taxpayers at higher income levels to show greater decreases in charitable contributions compared to lower income levels. The results demonstrate that our prediction is supported in the income levels up to the point of the highest income categories. However, the highest income levels have an effect opposite to our prediction, because their charitable contribution deductions typically exceed the new standard deduction threshold. Not only did the highest income level not have the most drastic decrease in charitable contributions, giving actually increased at this level. The highest income level, $1,000,000 and above, experienced an increase of $1.6 billion, or 2%, from 2017 to 2018. Charitable contribution deductions were $83.4 billion in 2017 and $85 billion in 2018. Going back to 2010, the first year that the IRS SOI offers data for an income level of $1,000,000 and above, we notice that from 2010 to 2018, the highest income level displayed an increase of $49 billion, or 137%, from 2010 to 2018. Charitable contribution deductions were $36 billion in 2010 and $85 billion in 2018. Figure 3 presents the charitable contribution deduction trend for the highest income level from 2010 to 2018.

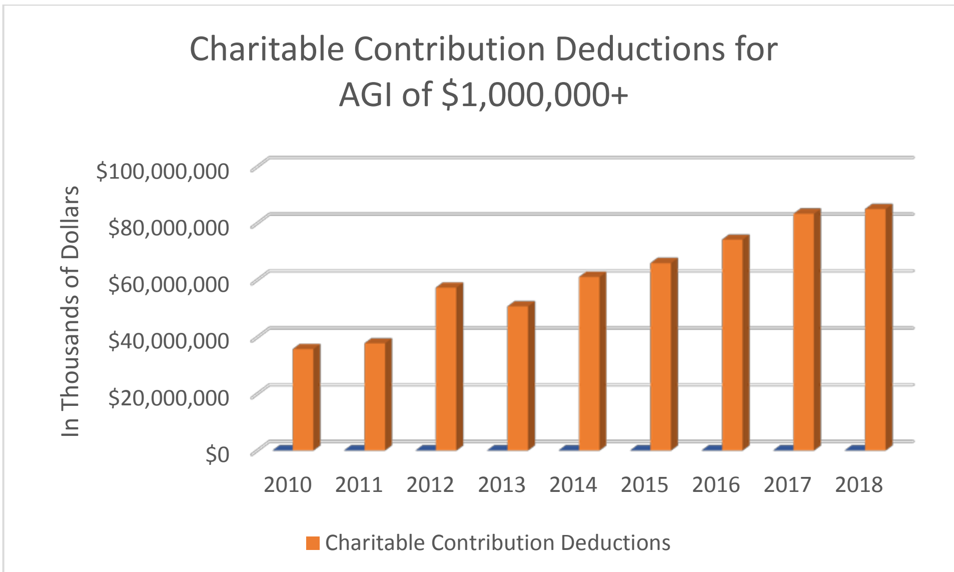

Figure 3 Charitable Contribution Deductions for AGI of $1,000,000+

Charitable contribution deductions for high-income earners increased every year, except for 2013. One possible reason is that the highest tax bracket for individuals increased from 35% in 2012 to 39.6% in 2013 (SOI historic table 23). Along with this tax increase, the Obama administration had proposed a limit of 28% of AGI on charitable contribution deductions for high-income earners (Van de water, 2013). The threat of the 28% limit may have provoked taxpayers to shift the timing of their contributions from 2013 to 2012.

From 2017 to 2018, the income levels of $1 to $10,000 and $10,000 to $25,000 had the greatest declines at $407 million (-70%) and $2.4 billion (-66%), respectively. The $1 to $10,000 level showed charitable contribution deductions of $580 million in 2017 and $173 million in 2018, while the $10,000 to $25,000 level showed charitable contribution deductions of $3.6 billion in 2017 and $1.2 billion in 2018.

The IRS SOI data for the two lowest income levels does not go back to 2010; therefore, information on the $25,000 to $50,000 level is presented from 2010 to 2018. Figure 4 presents the charitable contribution deduction trend for the one of the lowest income levels from 2010 to 2018.

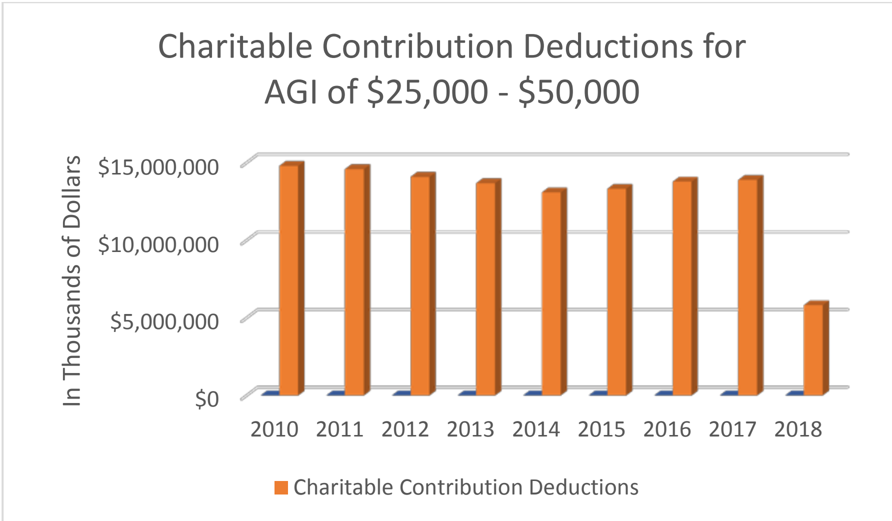

Figure 4 Charitable Contribution Deductions for AGI of $25,000 to $50,000
From 2010 to 2018, the $25,000 to $50,000 level displayed a decrease of $9 billion, or -61%, from 2010 to 2018. Charitable contribution deductions were $15 billion in 2010 and only $6 billion in 2018.

Whether we are focusing on the results from two years or nine years, we fail to find support for our hypothesis that charitable contribution deductions decreased more for higher income taxpayers than for lower income taxpayers. This leads us to believe that impacts of the TCJA on charitable contribution deductions may vary by range of income. This anomaly in the highest income category could be a result of a difference in attitude toward charitable giving practices.

The 2018 U.S. Trust Study of High Net-Worth Philanthropy study states that it is normal for wealthy individuals to make charitable contributions. The U.S. Trust (n.d.) study declares that 90% of wealthy individuals give regularly, compared to only 56% of non-wealthy individuals. The U.S. Trust (n.d.) study defines wealthy individuals as having an annual income of greater than $200,000 and/or net worth of $1,000,000 or more, excluding a personal residence.

Leslie Albrecht (2018) reports that charitable contributions of wealthy individuals are primarily based on economic conditions. Albrecht also states that private family foundations are a tax tool used my wealthy families. Giving to a private family foundation allows for an immediate tax deduction, while allowing the foundation to give the monies to a nonprofit organization in a future year. Analyzing the details of various income ranges is of significance for future research.

VI. Conclusion

This paper provides insights for researchers, lawmakers, nonprofit organizations, practitioners, and taxpayers. Tax policy affects economic and social behavior. Our findings highlight the unintended consequences of the TCJA's change to the standard deduction. We find a radical drop in charitable contribution deductions that will likely affect nonprofit organizations. Nonprofit jobs may be lost as well as a reduction in the services offered by nonprofit organizations. Charitable organizations have become an integral part of communities in the United States. Currently, there are nearly 1.6 million nonprofit organizations in the country, employing 10% of the workforce (The Charitable Sector, n.d.). Nonprofits provide crucial services in America. Based on a study from 2016, 71% of museums, 89% of homeless shelters, and 100% of religious services are nonprofit organizations (Duquette, 2016). Nonprofits are responsible for making 69% of hospitals admissions and for awarding 30% of bachelor's degrees (Duquette, 2016) and therefore, the communities these organization serve may be affected by the TCJA.

Of the donations received in 2017, 31% of all donations were given to religious groups; 14% to educational charities; 12% to human services charities; 11% to foundations; 9% to health charities; 7% to public-society benefit charities; 6% to international charities; 5% to arts, culture, and humanities charities; and 3% to environment and animal charities (Charity Navigator, 2018). If donations decrease, many of these nonprofit organizations may be at risk of not providing valuable services.

Tax practitioners can use the information in this study as an opportunity to recommend other tax planning vehicles, for both their individual clients and their nonprofit clients. It is important that practitioners understand that revenues of their nonprofit clients may fluctuate in the future as individuals become cognizant of the TCJA's impact on the deductibility of their donations. For taxpayers who have been itemizing for many years, they may not yet be aware that they are taking the standard deduction. Therefore, the 23% decrease from 2017 to 2018 is financially detrimental and advising a proactive approach to outreach may be instrumental in sustaining their donor base.

This study may also be of interest to marketing departments of nonprofit organizations. A 2018 study generated findings that donors consistently list tax benefits as a motivation for giving (James, 2018). James (2018) also highlighted marketing techniques, demonstrating that financial rewards can diminish the prosocial nature of the gift, negatively affecting the act of giving. Based on our findings, marketing departments can use different approaches for the different income levels.

The full impact of the TCJA has not been absorbed yet; even so, we find that charitable contributions have experienced noticeable changes between 2017 and 2018 charitable deductions reported by the Internal Revenue Service in total contributions between the two years. The act's effect on charitable deductions differed depending on income level, with the highest income taxpayers increasing, while all other income levels decreasing. The repercussion of the TCJA will be worthy of attention for years to come. Since the TCJA is set to sunset in 2025, future researchers may consider an analysis of the impact of donations in the year when individuals resume the tax benefit.

The aftermath of COVID-19 has potential to play a role in modifications to the tax code. The CARES act is now allowing a $300 above the line deduction for those taxpayers who take the standard deduction. This change in policy may provide support that law makers support the hypothesis of this study, and are providing motivation to encourage individual tax payers to continue to make contributions. Additionally, the Biden administration could also make monumental changes to tax laws. The results we have presented have implications for both tax policy and nonprofit operations and are an important contribution to the academic literature.

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