

# The Takeaway

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## Nonprofit Donor Motivation Under the Tax Cuts and Jobs Act

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*Since the Tax Cuts and Jobs Act passed in late 2017, many nonprofit practitioners and academics in the field have pondered whether the tax law changes will affect giving motivation by donors. It is certainly too early to tell, but many have predicted significant decreases in charitable contributions, with some projections as high as \$24 billion in losses. The nonprofit sector is America's third largest industry and such a contraction could lead to significant job losses and a loss of much-needed services.*

Generally speaking, leaders of charitable organizations must always keep their eyes on the gap between the wealthy and those who are less fortunate. This scenario surely has the potential to affect social-service

missions on a rolling basis. When coupled with reductions in government spending, charitable organizations not only face having to do more with less, but also risk succumbing to moratoriums on programmatic



### WHAT'S THE TAKEAWAY?

**Tax benefits motivate donors, but other economic factors and altruism also influence giving.**

**It is too early to know how giving will be affected, but charity leaders should follow trends closely and pivot accordingly.**

**Nonprofits should focus on growing revenue from high net-worth individuals. Decreases are most likely to occur in the pool of donors who make smaller charitable contributions.**

services or closing their doors all together. To combat this, research has shown that leader stability at the executive and board level is key, as is having a compelling fund development message to communicate to donors.<sup>1</sup>

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However, even if nonprofit organizations are operationally sound and generally well-prepared for internal and external factors, President Trump's new tax plan will likely shift charitable donor behavior in a manner never experienced before.

### EFFECT ON GIVING

Passed on December 22, 2017, our new tax laws include increases to the standard deduction (for single taxpayers and for married taxpayers filing either separately or jointly) and decreases to the marginal tax rate. Standard deductions have nearly doubled: \$6,350 to \$12,000 for single filers, and \$12,700 to \$24,000 for married filers.<sup>2</sup> As a result, many American taxpayers will no longer benefit from itemizing their deductions and will choose the standard deduction instead. Reductions to one's tax liability via charitable donations are only available to those who itemize, so the population of filers whose charitable generosity will be offset by tax benefits will decrease under the Tax Cuts and Jobs Act.

The taxpayers who still itemize will tend to be wealthier, but because of the lower marginal tax rate, they will receive a smaller offsetting tax benefit for their deductions. On the other hand, their smaller tax bills may make wealthier donors feel more able to give, despite receiving less tax benefit for those gifts.

One potential implication of this seismic shift in lowering one's tax liability is the negative affect it will likely have on nonprofit and public service organizations. At a minimum, this shift heralds the loss of a significant population of filers who once were incentivized to gift dollars to charities. Some estimate as many as 95% of all taxpayers will be unable to claim charitable contribution deductions, and it is in this population where we are most likely to see giving negatively affected.<sup>3</sup>

In an effort to ensure this does not read as simple math—the more who take advantage of the standard deduction the higher the loss will be in overall charitable contributions—readers should keep in mind that itemizers tend to be wealthier individuals whose overall contributions to charities far outpace overall giving by those who take the standard deduction.

Though other factors affecting donor motivation include how weak or strong the economy is and fluctuations in consumer spending, it is well documented that giving behavior is influenced by the ability and/or non-ability to gain tax advantages.<sup>4</sup>

### OTHER REASONS WHY PEOPLE GIVE

Surely there are reasons outside of lowering one's tax obligation explaining why people give? The answer is certainly *yes*, and according to past studies on the subject of philanthropy, there are both public and private reasons why Americans do so. Regarding the public side, folks donate to charitable causes with the hope and belief they and others will benefit from the outcomes produced by their investment. For example, I personally donate a percentage of my income to youth development organizations; it is my belief by doing so more children will reach their full potential and eventually become productive citizens. If that scenario indeed plays out, I along with the general public win with consideration to the jobs those youth will eventually

hold and their economic contributions to society. When it comes to private reasons why people give, this can range from something as simple as feeling good about oneself to prestige, recognition, and associated tax benefits. Keep in mind it is typically not one or the other when it comes to public or private reasons for giving. Individuals contribute for a myriad of reasons, both for public and private purposes.<sup>5</sup>

### CHARITABLE ORGANIZATIONS — CALL TO ACTION

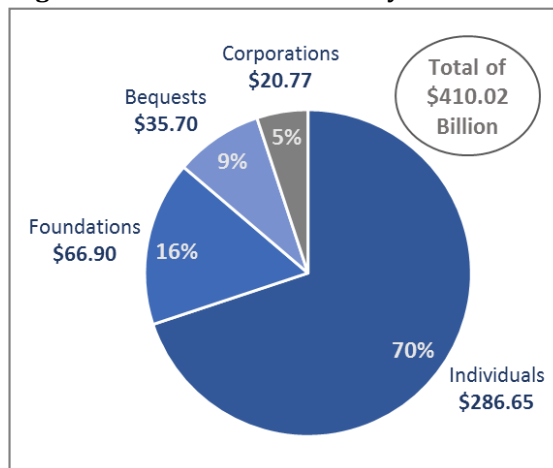
Leaders at nonprofits across the country should find some comfort in knowing that donors choose to invest in their mission-based work for a variety of reasons. And, unlike tax incentives, many of those reasons can be bolstered by the efforts of the organization, including:

- Trust in the organization and its leadership,
- Having a proven record of delivering safe and effective services,
- External image, and
- High ratings by charity evaluators.

However, because of all the uncertainty stemming from how the Tax Cuts and Jobs Act will affect giving from individuals, if there was ever a time to consider what is on the horizon with regard to donors and their motivations to give or not, now is the time.

As Figure 1 illustrates, individuals are the main source for giving, so regardless of the type or subsector any charitable organization is a part of, understanding and having a strategy for acquiring individual gifts is more vital than ever. We know from research that tax benefits tend to motivate giving.<sup>6</sup> What we don't know is if the new Tax Cuts and Jobs Act will inspire increased giving by wealthier individuals who continue to itemize but will receive less tax benefit for their deductions, or how negatively it will affect the majority of donors who will now take the increased standard deduction instead of itemizing.

**Figure 1: 2017 Contributions by Source**



Source: Giving USA 2018: The Annual Report on Philanthropy for the Year 2017

It is too early for nonprofits to panic, but it is never too late for leaders to invest in understanding philanthropic behavior. Funding charitable work is competitive, so it is always advisable for organization leaders to have an eye on gaining what advantages they can. Our country's new tax laws are no different. Nonprofit and public service organizations should strive to assess their strengths, challenges, and level of progress in relation to how their missions can benefit from tax reform.

Charitable giving in 2017 was more than \$400 billion which is an increase of 5% from 2016's total of \$390 billion.<sup>7</sup> Individuals, not corporations or foundations, have long been the primary source of charitable dollars, and that will very likely continue to be the case. Nonprofit organizations should strive to have a robust individual giving program. This is an extremely opportune time for charities to consider making a call to action to their donors and encourage them to continue leading the way via their philanthropy. Doing so could really work to nonprofit organizations' advantage. Engaging donors in sophisticated dialogue about the mission, importance, and challenges of the organization could foster deepening relationships and encourage sustained and heightened contributions. That groundwork could strengthen the organiza-

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tion as a whole and provide the buffer needed during this potentially turbulent time for charity leaders to figure out the effects of the new tax laws on their operations.

Currently, the Tax Cuts and Jobs Act stands as our rule. Tax laws are always in place and reform is as sure as changing political administrations, but charities should remember that the desire to positively affect humankind via philanthropy is as stable (if not flourishing) as ever. Though the bar has been raised to a level where only America's most financially well-off receive tax benefits for their donations, millions of non-itemizing taxpayers will continue to support charities. We just do not know to what extent. Once 2018 is over and enough time has passed to evaluate giving totals, charity leaders should be keenly aware of what trends have formed and implement fundraising strategies which complement their findings.

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**Notes:**

<sup>1</sup> Warwick, M. (2009). *Fundraising when money is tight*. San Francisco, CA: Jossey-Bass.

<sup>2</sup> Tax Cuts and Jobs Act, H.R.1, 115th Congress. <https://www.congress.gov/bill/115th-congress/house-bill/1>

<sup>3</sup> Gleckman, H. (2018). 21 Million taxpayers will stop taking the charitable deduction under the TCJA. Tax Policy Center. <https://www.taxpolicycenter.org/taxvox/21-million-taxpayers-will-stop-taking-charitable-deduction-under-tcja>

<sup>4</sup> Powell, W.W., and Steinberg, R. (2006). *The non-profit sector*. New Haven, CT: Yale University Press.

<sup>5</sup> Ottoni-Wilhelm, M., Vesterlund, L., and Xie, H. (2017). Why do people give? Testing pure and impure altruism. *American Economic Review*, 107(11), 3617-33.

<sup>6</sup> Auten, G.E., Sieg, H., Clotfelter, C.T. (2002). Charitable giving, income, and taxes: An analysis of panel data. *American Economic Review*, 92(1), 371-382.

<sup>7</sup> Indiana University Lilly Family School of Philanthropy (2018). *Giving USA 2018: The annual report on philanthropy for the year 2017*. Giving USA Foundation. [www.givingusa.org](http://www.givingusa.org)

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