



The Estate Tax and Charitable Giving

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Summary

In this paper we examine the role of the estate tax in people's decision to leave money to charities. In general, we find that there is much theoretical and empirical support for the notion that an elimination of the estate tax will cause significant reductions in charitable giving to nonprofit organizations. In 2001, the repeal would have meant a loss of between \$3.6 billion and \$6.0 billion in bequests. In addition, the repeal would have meant an additional \$5 billion loss of giving during the lifetime of people subject to the estate tax. **The total annual loss of charitable giving would thus be approximately \$10 billion per year.** Finally, there are reasons to believe that losses may be greater than these estimates.

Introduction

The estate tax plays an important role in the life of nonprofit organizations. A key aspect is the impact of the tax on charitable giving, particularly in the form of bequests. One way to lower the tax levied on an estate is through gifts to charity at the time of death, since tax law permits an unlimited amount for charitable bequests that directly reduce the estate tax owed.

Since President Bush took office there has been a vigorous national debate around whether to repeal the estate tax. The tax cuts that were enacted in 2001 included a number of changes in the estate tax, including one year of full repeal of the tax in 2010. But those changes are eliminated starting in 2011. This uncertainty over the status of the estate tax means that there will be renewed debate around permanent reform or repeal of the estate tax. This is especially true in light of the administration's reported goal to reduce taxes every year.

We first lay out some background on the estate tax, and recent policy changes. We then examine why nonprofits should care about estate tax policy changes. Foremost among these considerations is a reduction in charitable giving that might accompany an elimination of the tax. As such, we then examine who gives to charities through bequests, and also which charities benefit from the estate tax.

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Finally, we examine some evidence as to the direction and the size of the estate tax effect on charitable giving using a variety of data, and by examining the latest economic research on the subject. We find that there is a significant potential reduction in giving, approximately \$10 billion, that would arise from an estate tax repeal, and that there are reasons to believe that estimates cited in the literature may be too small. Finally, we estimate what the effect of the charitable giving reduction might mean for different categories of nonprofit institutions.

Background on the Estate Tax

The estate tax in this country has been around for nearly as long as the United States has existed. During the early years the tax was activated during times of war in order to raise additional revenue and suspended at other times. Teddy Roosevelt, along with philanthropists such as Andrew Carnegie, argued in the early 1900s that the estate tax should be made permanent, not only as a source of government revenue but also to limit the accumulation of inherited wealth within families to avoid the formation of a new aristocracy. Eventually their argument carried the day and the estate tax, as we know it today, was instituted in The Revenue Act of 1916.

Today, only between 1% and 2% of the wealthiest decedents must pay any estate tax. As a result of the Bush tax cuts enacted in 2001, the first \$1 million of an estate is exempt from any taxation; that amount rises to \$3.5 million by 2009 (these exemptions are doubled for a couple). To lower the size of an estate, an unlimited amount can be transferred to the surviving spouse without any taxation. Additionally, an unlimited amount can be given to charity – such as to establish a foundation – to lower the estate for taxation purposes. Other types of deductions and planning can be done to lower the size of the estate and reduce any subsequent taxation. These provisions mean that while the total value of estates filing taxes in 1998 was \$174 billion, the total estate tax collected was only \$20 billion, or about 12% of the total value.

The estate tax currently generates between \$20 billion and \$25 billion in annual federal revenue. According to the Joint Committee on Taxation, revenue from the estate tax is anticipated to be \$63.6 billion in 2013.¹ Similarly, the estate tax generates state revenue of roughly \$6 to \$7 billion annually because many states are tied to the federal estate tax system. According to the provisions of the 2001 tax cut law, the federal estate tax credit for state estate taxes is phased out by 2004, effectively eliminating all of that state revenue, which is estimated at a \$9 to \$10 billion loss by 2010.²

Conservatives and small business leaders have been advocating full repeal of the federal estate tax for more than 10 years now. Not all small business leaders were uniformly in support of full repeal. Some, such as the National Federation of Independent Businesses, initially argued that the tax should be reformed, but not totally repealed. However, by 1998, NFIB changed its position to advocating repeal of the estate tax.³ From that point onward, a coordinated legislative agenda has been advanced to repeal the estate tax. President Clinton stymied the

¹ Under current law, the estate tax is gradually phased out by 2010, but then reinstated for 2011 – hence revenue would be greater than zero in 2013, unless a permanent elimination is passed.

² This assumes that states do not decouple from federal laws or pass independent state-level estate taxes.

³ It should be noted that only about 3% of taxable estates contain a business or farm, and tax provisions allow payments to be spread over a number of years.

repeal movement by promising to veto any legislative effort to eliminate the estate tax.

With the election of George Bush, those in favor of repeal were certain the time had surely come to get rid of the estate tax. President Bush advocated repeal and his 2001 tax cuts included a phase-out of the estate tax by gradually increasing the amount of wealth exempted from taxation, gradually lowering the marginal tax rates, and permanently eliminating the tax as of 2010. However, making the Bush tax cuts, including repeal of the estate tax, permanent was not supported by the required 60 Senators, and all of the provisions will expire at the beginning of 2011, ten years after the tax cuts were passed. Repeal of the estate tax, beginning January 1, 2010, will only last one year, until midnight on December 31, 2010, and then revert to the law as it was before the Bush 2001 tax cuts were passed.

Pro-repeal forces tried again in 2002 to get permanent repeal of the estate tax, but fell a few votes short of the 60 votes needed in the Senate. President Bush has included repeal of the estate tax in his FY 2004 budget proposal, and both House and Senate Republican leaders have identified repeal of the tax as one of the top ten agenda items for this Congress. Moreover, given the on-again, off-again nature of the tax, and the difficulty in estate planning under such conditions, it is inevitable that the debate will continue until it is resolved one way or the other – either repeal or reform.

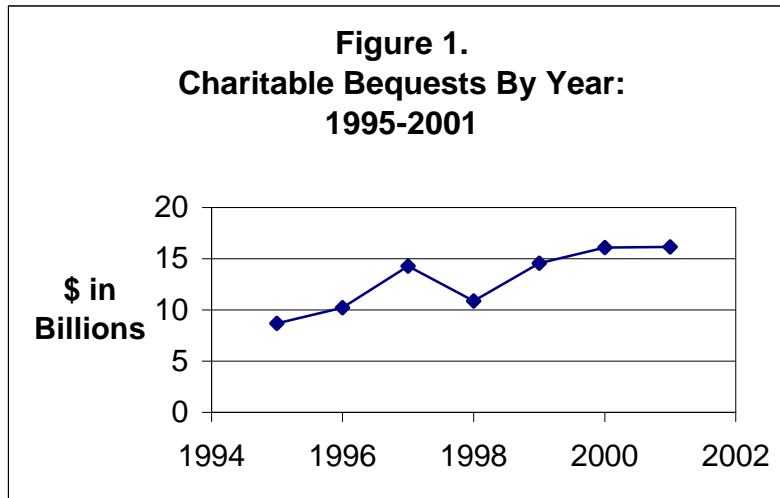
Why Nonprofits Should Care

The nonprofit community has a huge stake in the estate tax. Repeal of the estate tax would:

- **Increase concentrations of wealth and power.** The estate tax is our most progressive tax and the only tax on accumulated wealth that is passed from generation to generation. Our core democratic and economic values include the promotion of fairness and social justice. The estate tax is essential in protecting equality of opportunity and preventing the concentration of wealth in the hands of a few families. The nonprofit sector in the United States plays a significant role in advancing social justice and equality of opportunity and so has a strong stake in preserving the estate tax. In addition, one research study also showed that, per dollar in wealth, wealthy entrepreneurs gave six times as much to charities as people who inherited their wealth.⁴
- **Reduce federal and state revenues.** Loss of the federal and state revenue that is generated by the estate tax will exacerbate cuts in programs including those serving low-income and vulnerable families. This comes at a time when federal and state spending is being cut enormously. The budget resolution would cut federal discretionary spending by more than 4 percent over the next 10 years – and the impact on domestic programs will likely be even more severe since they will be competing for limited resources with military spending and homeland security costs, which are expected to rise.
- **Sharply curtail charitable giving.** Since there are no limits on the amount of money that can be left to charities – and since bequests to private foundations are treated the same as those to public charities – charitable giving is a powerful and attractive way to lower the taxed value of the estate. The deduction for charitable bequests is the second largest type of deduction taken, with 17% of all filers claiming a charitable bequest on

⁴ Avery and Rendall (1990) Cornell University. This research supports the contention made by Andrew Carnegie that it is better for society if the children of the rich have to work for a living.

their tax returns, indicating that estate tax filers are well aware of this provision. Only the deduction for a surviving spouse – also unlimited – is larger. A variety of evidence and analysis shows that estate tax laws influence the amount of charitable bequests. Some of that evidence is presented below.



How Much Goes to Charities?

Over time, the amount of money given through charitable bequests tends to increase. For example, between 1995 and 2001, charitable bequests nearly doubled, going from \$8.7 billion in 1995 to \$16.2 billion in 2001. See Figure 1 “Charitable Bequests By Year: 1995-2001.”

As intergenerational wealth transfers are expected to increase over time, it is expected that the total value of charitable bequests will also increase.

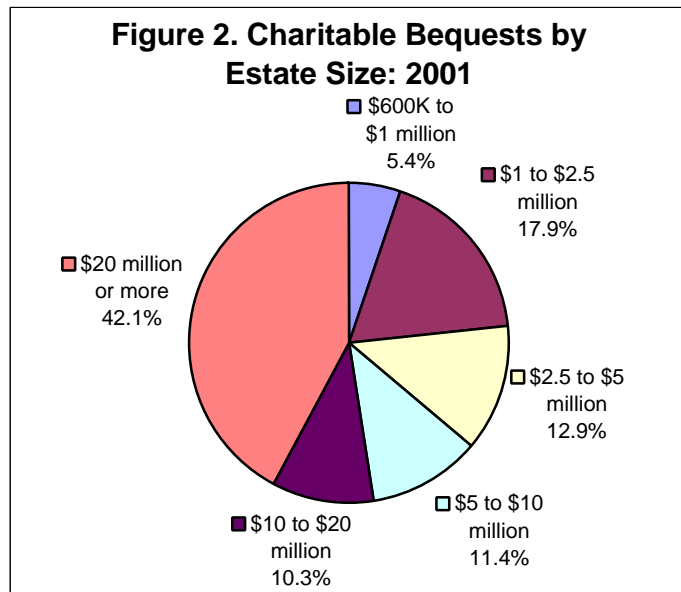
Who Gives Charitable Bequests?

Examining data from the IRS and other sources demonstrates regular patterns in charitable giving, including:

- Individuals with greater wealth claim a greater amount of charitable deductions. In addition, a greater percentage of higher wealth individuals give to charity.
- Widows and widowers, along with single families, give the largest portion of their estates to charity, while those married with a surviving spouse give the least.
- There is little difference across sex in estate giving patterns.

Income

As Table 1 (“Charitable Deductions Claimed in Estate Tax Returns: 2001”), and Figure 2 (“Charitable Bequests by Estate Size: 2001”) show, of the \$16.2 billion given in charitable bequests, the largest amount, \$6.8 billion, comes from estates valued at \$20 million or more. In fact, 65% of charitable bequests come from the wealthiest 5.1% of those filing estate tax returns – those with estates valued at \$5 million or higher. Figure 2 shows the percentage of charity given by each wealth group.



Column 4, “% Claiming Charitable Deductions,” and column 5, “Average Charitable Deduction,” are derived from IRS data. Not surprisingly, these data clearly show that as the size of the estate grows, so too does the size of charitable deductions. Column 4 further demonstrates that the percent claiming charitable deductions grows with the size of the estate, from 14.2% for estates under \$1 million to 47.9% for estates valued at \$20 million or more. Column 5 shows a positive relationship between size of estate and average size of the charitable deduction, from \$135,000 for estates under \$1 million to \$22.6 million on average for estates valued at \$20 million or more.

Table 1.
Charitable Deductions Claimed in Estate Tax Returns: 2001
(\$ in Thousands)

Size of Gross Estate	# of Returns	# with Charitable Deductions	% Claiming Charitable Deductions	Total Charitable Deductions	Average Charitable Deduction
\$600K but under \$1 mil	45,459	6,463	14.22%	873,319	135
\$1 mil but under \$2.5 mil	47,300	7,844	16.58%	2,895,568	369
\$2.5 mil but under \$5 mil	9,893	2,484	25.11%	2,076,504	836
\$5 mil but under \$10 mil	3,550	1,151	32.42%	1,834,806	1,594
\$10 mil but under \$20 mil	1,282	468	36.51%	1,667,695	3,563
<u>\$20 mil or more</u>	<u>628</u>	<u>301</u>	<u>47.93%</u>	<u>6,802,127</u>	<u>22,598</u>
Total	108,112	18,711	17.31%	16,150,018	863

Source: Estate Tax Returns Filed in 2001: Gross Estate by Type of Property, Deductions, Taxable Estate, Estate Tax and Tax Credits, by Size of Gross Estate. SOI Unpublished Data.
<http://www.irs.gov/taxstats/article/0,,id=96442,00.html>

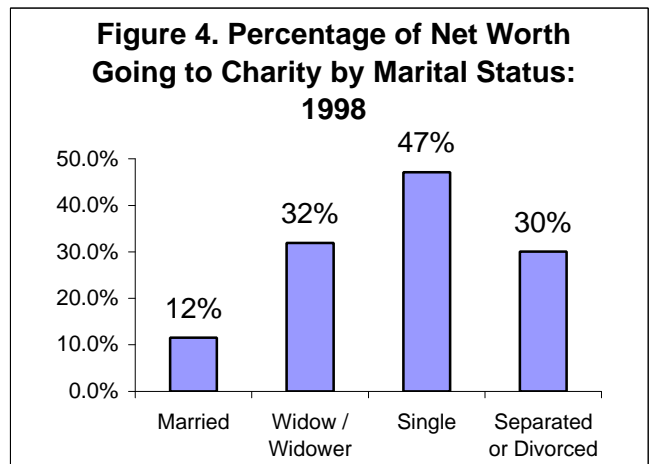
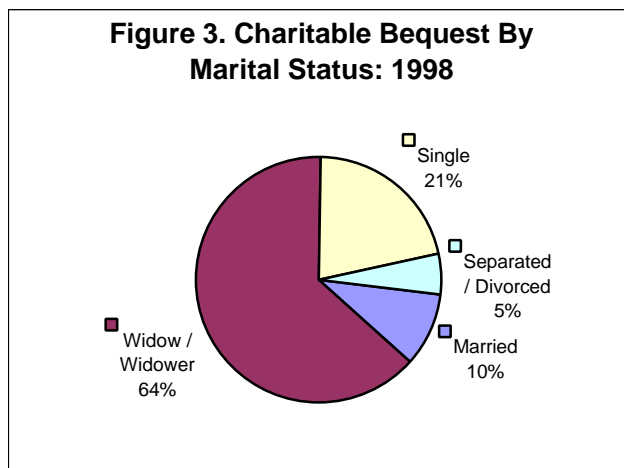
Marital Status

Table 2, "Marital Status of Those Making Charitable Bequests: 1998," shows that widows and widowers account for more than half of the 17,587 charitable bequests made in 1998. The largest bequest amounts also come from widows and widowers – \$9.5 billion or 63.5% of all bequests in 1998. Conversely, estates comprised of married families gave away the smallest portion of their net worth, 11.6%, when compared to the marital status of other estates making charitable bequests and constituted only 9.7% of all bequests in 1998. This stands to reason since an unlimited amount can be bequeathed to the surviving spouse without taxation.

Estates comprised of single people gave the largest portion of their estate to charity, 47.1%, than any other category of marital status. Figure 3 ("Charitable Bequest By Marital Status: 1998") and Figure 4 ("Percentage of Net Worth Going to Charity by Marital Status: 1998") summarize this information as well.

Table 2.
Marital Status of Those Making Charitable Bequests: 1998
(**\$ in Thousands**)

	<u>Net Worth</u>	<u>Number of Bequests</u>	<u>Amount of Bequest</u>	<u>Average Bequest</u>	<u>Bequest As % of Net Worth</u>	<u>Share of All Bequests</u>
Married	\$12,598,467	2,977	\$1,455,519	\$489	11.6%	9.7%
Widow/Widower	29,757,130	10,403	9,504,982	914	31.9%	63.5%
Single	6,829,077	3,050	3,216,224	1,054	47.1%	21.5%
<u>Separated or Divorced</u>	<u>2,648,548</u>	<u>1,157</u>	<u>796,794</u>	<u>689</u>	<u>30.1%</u>	<u>5.3%</u>
Total	51,833,221	17,587	14,973,519	851	28.9%	100.0%



Sex of Decedent

There are no major differences between male or female decedents in the amount that is given to charity. In 1998, female decedents gave \$7.8 billion and male decedents gave \$7.2 billion. Although female decedents gave more money, the amount per bequest is smaller – \$762,000 – than that given by male decedents – \$974,000.

Table 3.
Sex of Those Making Charitable Bequests: 1998
(\$ in Thousands)

	<u>Net Worth</u>	<u># of Bequests</u>	<u>Amount of Bequest</u>	<u>Average Bequest</u>	<u>Bequest As % of Net Worth</u>
Female Decedents	26,488,211	10,175	7,754,922	762	29.3%
Male Decedents	25,345,010	7,412	7,218,597	974	28.5%

Which Charities Benefit from the Estate Tax?

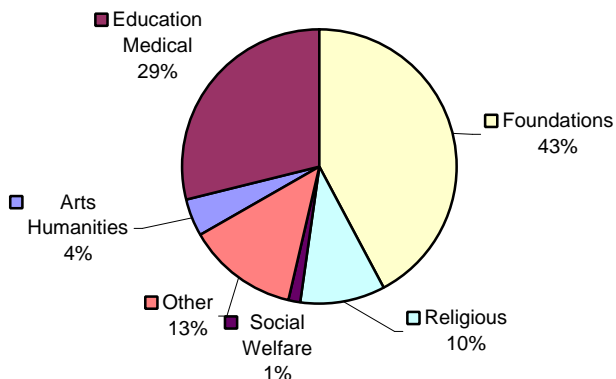
In 1998, the largest dollar value of charitable bequests went to private foundations: \$6.4 billion or 42% of all charitable bequests. These bequests came from a relatively small number, only 6%, of the total number of bequests. The largest number of charitable bequests went to religious institutions (10,415), but these institutions also received the lowest amount on average (\$142,590 per bequest). See Table 4 “Charitable Bequests by Type of Recipient: 1998” below.

Table 4.
Charitable Bequests by Type of Recipient: 1998
(\$ in Thousands)

Type of Recipient	Total Bequest \$ Amounts	% Share of Total Bequest Amounts	Average Amount Per Bequest	Number of Bequests	% Share of Bequests
Private Foundations	6,351,008	42.4%	3,635	1,747	5.6%
Educational, Medical or Scientific	4,322,327	28.9%	471	9,184	29.5%
Other	1,964,754	13.1%	265	7,417	23.8%
Religious	1,485,070	9.9%	143	10,415	33.4%
Arts & Humanities	655,782	4.4%	457	1,434	4.6%
<u>Social Welfare</u>	<u>194,577</u>	<u>1.3%</u>	<u>204</u>	<u>955</u>	<u>3.1%</u>
<i>Total</i>	<i>14,973,518</i>	<i>100.0%</i>	<i>481</i>	<i>31,152</i>	<i>100.0%</i>

Source: IRS, *Statistics of Income*, (2002).

Figure 5. Size of Bequest to Type of Charity: 1998

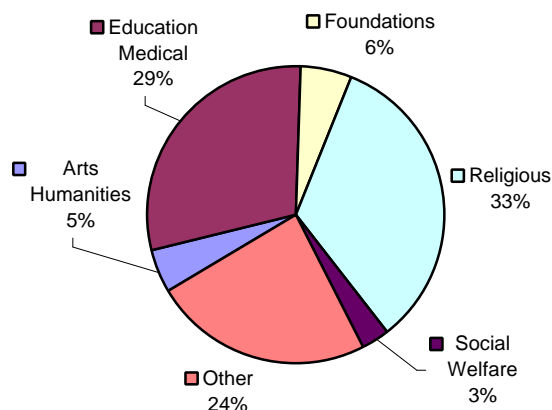


On average, bequests to private foundations were \$3.6 million each.

Preliminary data based on computations from estate tax returns filed in 2001 show a similar trend. Bequests to foundations went up \$54 million from 1998 data, and accounted for 40% of all bequests. In contrast, in 1995, 31% of charitable bequests went to private foundations.

A significant portion of foundation assets comes from estate revenues, particularly from larger estates. Thus, it can be expected that repeal of the estate would have a significant adverse impact on foundations. This would affect the creation of new foundations or enlargement of existing foundation, and it would inevitably have an impact on yearly giving by foundations to charities.

Figure 6. Number of Bequests to Type of Charity: 1998



Educational, medical or scientific institutions received \$4.3 billion, and constituted the second largest number of bequests – 9,184. The average bequest was \$470,637, the second highest average bequest, but nearly eight times smaller than the average gift to a private foundation.

While there are fewer numbers of bequests to arts and humanities

organizations, such as museums and symphonies, the average size approaches the amount given to educational, medical, and scientific institutions. In 1998, there were 1,434 bequests, slightly less than 5% of all bequests that were made. This generated \$655.8 million. The average bequest was \$456,310, just below the average amount given to educational, medical, and scientific institutions.

The “Other” category in the figure above includes a range of social service organizations and other charities that are not covered by the named categories. In 1998, estates provided \$1.5 billion to “other” charities in bequests. Based on the Treasury Department data, it would appear that “social welfare” charities – those tax exempt 501(c)(3) organizations promoting civil rights, community development, social science research, or government effectiveness – would see the smallest dollar decline from the estate tax repeal. However, these groups are often heavily

dependent on private foundations for support. Since the estate tax has a dramatic effect on the establishment and size of philanthropic institutions, these types of charities are also significantly affected by the tax.

Estate Tax Repeal Would Affect Giving

If the estate tax were repealed, it is unlikely that all of the \$16.2 billion in charitable bequests from 2001 would end. Since the after-tax cost of a charitable bequest is lower than the after-tax cost of bequests to heirs, there is an economic incentive to leave charitable bequests; however, many people will continue to give to charities regardless of whether there is a tax incentive.⁵

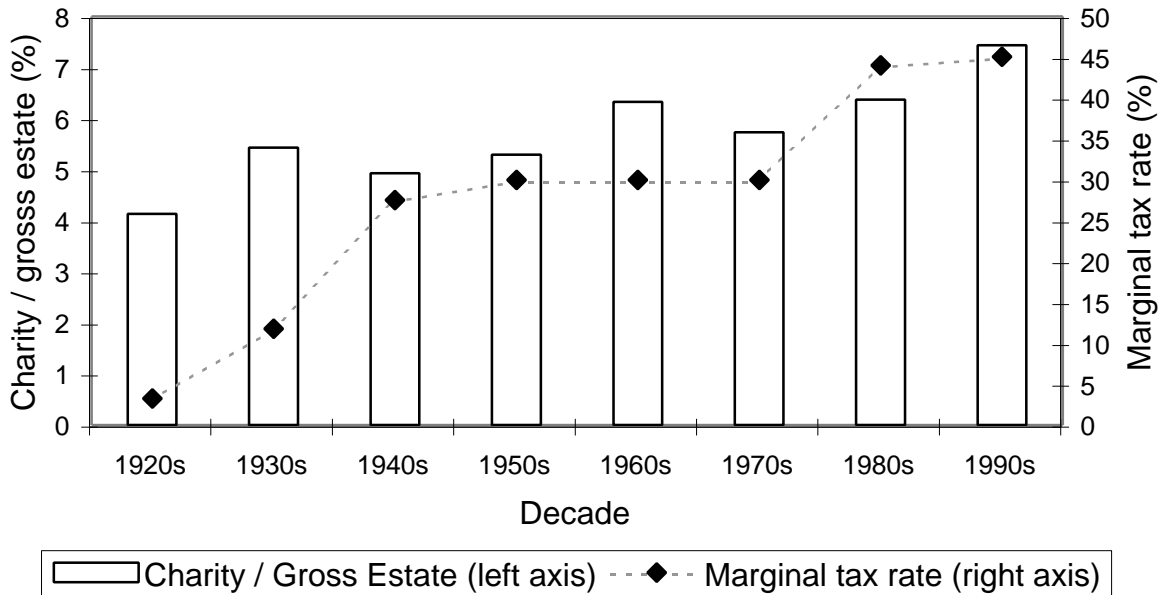
Nonetheless, it is very clear from available studies that tax incentives help to stimulate certain behavior, including charitable giving. The estate tax provides an important incentive for charitable bequests.

The evidence that estate giving is sensitive to estate tax laws includes:

- ◆ Greater contributions to charities over time as marginal tax rates increased.
- ◆ Greater contributions to charities by those that cannot claim spousal deductions, namely widows/widowers, and single decedents.
- ◆ Formal econometric research that shows estate tax law changes do result in different levels of estate giving, as well as different giving prior to death.

⁵ For example, taxpayers who do not itemize tax returns still give to charities, especially to religious institutions. Many people will continue to give to charities that they support and believe in whether or not there is a tax incentive to do so, although they may give less generously without an associated tax incentive.

Figure 7. Charitable Bequests as a Percentage of Gross Estates vs. Marginal Estate Tax Rate on Average Gross Estate, All Filers, by Decade



Source: Bakija and Gale (2003) based on data from IRS Statistics of Income. The tax rate is a decade average of annual rates calculated at mean gross estate among all filers. Decade averages from 1950s through 1980s are based on a subset of years for which data was available.

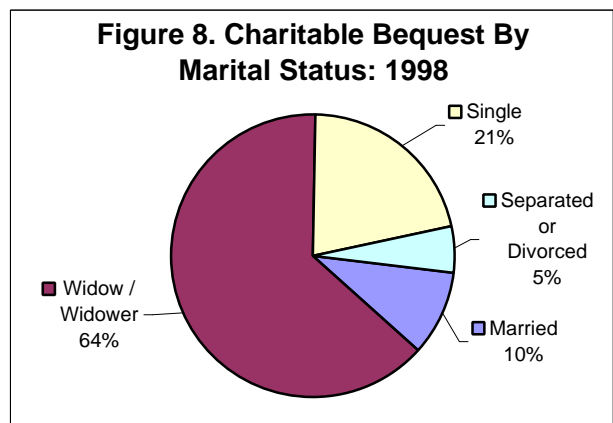
Increases over Time

Figure 7 (“Charitable Bequests as a Percentage of Gross Estates by Decade”) shows the trend of charitable bequest giving as a percentage of estates, as well as the marginal estate tax rate faced by an average estate. In the 1920s, the estate tax rate on an average estate was 3.3%, and the percentage of charitable giving was 4.1%. In the 1990s the tax rate increased to 45% and the percentage of charitable giving nearly doubled to 7.4%.

While this evidence strongly suggests that the estate tax provides a strong incentive to leave charitable bequests, it is not conclusive. Since there may be other factors that influence the percentage of charitable giving which might also have changed over time, we must use more sophisticated econometric analysis to find the “pure” effect of the estate tax on giving. Such an analysis is described below.

Married vs. Unmarried Filers

As discussed above and again illustrated in Figure 8, “Charitable Bequests by Marital Status: 1998,” (repeated from above), the largest bequest amounts come from widows



and widowers – \$9.5 billion or 63.5% of all bequests in 1998. Conversely, estates comprised of married families gave away the smallest portion of their net worth – 9.7% in 1998. This stands to reason since an unlimited amount can be bequeathed to the surviving spouse without taxation. Estates comprised of single people give the largest portion of their estate to charity – 47.1% – relative to any other category of marital status.

Again, the data suggests that the estate tax is a major incentive for giving. Those individuals that face the estate tax – widows and widowers, and single decedents – give a larger percentage of their estate to charities.

Econometric Research

While the evidence above is suggestive of the idea that individuals who face an estate tax are likely to increase their giving, more detailed study is needed to pin down the exact magnitude of the effect.

There have been several econometric studies looking at the impact that repeal of the estate tax would have on charitable giving. Most find that the estate tax has a significant impact on giving. The latest and most comprehensive is a forthcoming Brookings Institution study by Jon Bakija, William Gale, and Joel Slemrod.⁶ This paper provides a thorough examination of existing research on the topic as well as their own econometric analysis incorporating data from 1924 through 1998.

Using federal estate tax returns from 1924 through 1998 and a tax calculator that computes combined federal and state inheritance and estate taxes for any year, state, or wealth level, they were able to track estate tax rate changes over time and across states. They used these differences in the tax rates to calculate the effects of changes in the estate tax on charitable giving. Bakija and Gale then calculated that repeal of the estate tax would cause a 22 percent to 37 percent drop in total charitable bequests. Applying this finding to Treasury Department data on the \$16.2 billion in charitable bequests in 2001, this would mean an annual drop of between \$3.6 billion and \$6.0 billion in charitable bequests.

In addition, the research estimates the magnitude of reduction in giving in years prior to death by those likely to be subject to the estate tax. Using estimates that the elimination of the estate tax would reduce annual charitable giving during life by 12% among people who would have otherwise faced the estate tax, Bakija and Gale find an additional \$5 billion decline in giving.

Taken together, the repeal of the estate tax would thus reduce total annual giving to charities by an estimated \$10 billion. To replace the \$10 billion in charitable giving, you would need the equivalent grantmaking of 12 new Ford Foundations or roughly \$200 billion in new foundation assets assuming the foundation provides a 5% payout. According to the Foundation Center, bequests and gifts to foundations totaled \$28.7 billion in 2001. Thus, it would take 7 years of bequests and gifts to foundations to make up for the one year of loss in charitable giving caused by repeal of the estate tax.

⁶ See Bakija, Gale, and Slemrod "Charitable Bequests and Taxes on Inheritances and Estates: Aggregate Evidence from across States and Time" *American Economic Review Papers and Proceedings*, May 2003; and Bakija and Gale, "Effects of Estate Tax Reform on Charitable Giving," Brookings Institution, expected summer, 2003.

Empirical Estimates are Likely Too Conservative

There is overwhelming evidence from econometric studies that charitable giving would be adversely affected by a repeal of the estate tax. The actual estimates, however, are likely to be conservative. Most studies examining the effect of the estate tax are based on small-scale differences or changes in tax rates. When considering a larger change, such as the elimination of the tax altogether, there are other, qualitative, factors that can also significantly impact behavior that are not captured. For example, what will be the psychological impact created by the message that charitable giving at death through estate tax incentives is no longer encouraged?⁷

Moreover, in talking with estate tax planners and fundraising professionals, many point out that the existence of the estate tax brings both the opportunity to discuss the value of charitable giving with potential donors and acts as a “selling point” to increase charitable bequests. The Philanthropic Initiative⁸ conducted interviews with 150 financial advisors and surveyed an additional 500 advisors. Many estate planners indicated that the estate tax was the only way to get their clients to consider charitable giving.⁹

Finally, moving to a new estate tax “regime,” where there is a complete elimination of the tax, means that the empirical estimates that are derived from only a small change in the tax are likely to underestimate the total effect.

For this reason, and for the other reasons mentioned above, the overall impact of a repeal is likely to be larger than previously estimated. The only way to accurately find out these effects is to repeal the estate tax and see what happens. We can’t afford to take that risk, especially considering how difficult it would be to reinstate the estate tax once it has been permanently repealed.

Which Charities Would be Affected the Most?

The impact of this reduction in giving would not be uniform by type of recipient. For example, while religious organizations receive the most number of bequests, they account for only 10% of the value of total bequests. Assuming that the percentage share of total bequests by recipient generally is the same in 2001 as it was in 1998, Table 5, “Impact of Repeal of Estate Tax on Charitable Bequests: 2001,” provides the impact that an estate repeal would have on various recipients.

⁷ Having an estate tax that can be reduced by unlimited charitable contributions is an indication that the society places a value on charitable giving. Theoretically, an individual’s preference for giving to charity may be negatively impacted by eliminating the social value implication of an estate tax that privileges charitable giving.

⁸ See The Philanthropic Initiative, Inc (2000) “Doing Well by Doing Good: Improving Client Service, Increasing Philanthropic Capital” Boston, The Philanthropic Initiative, Inc.

⁹ See Tempel and Rooney (2000) “Repeal of the Estate Tax: Its impact on Philanthropy,” The Center on Philanthropy at Indiana University.

Table 5.
Impact of Repeal of Estate Tax on Charitable Bequests: 2001
(\$ in Millions)

<u>Type of Recipient</u>	<u>% Share of Total Bequest Amounts</u>	<u>Size of Decline in Bequests, 2001</u>
Private Foundations	42.4%	\$1,511 – 2,541
Educational, Medical or Scientific	28.9%	1,030 – 1,732
Other	13.1%	467 – 785
Religious	9.9%	353 – 593
Arts & Humanities	4.4%	157 – 264
<u>Social Welfare</u>	<u>1.3%</u>	<u>46 – 78</u>
<i>Total</i>	<i>100.0%</i>	<i>3,564 – 5,994</i>

The largest dollar impact would be on private foundations. Using the Bakija and Gale estimates, in 2001, private foundations would have lost between \$1.5 billion to \$2.5 billion.¹⁰ This is the equivalent of starting a new foundation larger than the grantmaking Carnegie Corporation of New York each year. Most foundations accrue net investment income, thus sustaining ongoing grant-making each year. This means that the impact of estate tax repeal would have a long-term impact on philanthropic support of community activities, ranging from support for education to arts, from environment to community development, and from research to advocacy.

In addition, the behavioral response to the tax elimination is likely to differ across organizations. Since foundation giving is more concentrated among the very wealthy – who are more likely to respond to the tax incentive – the effect is likely to be greater than stated above.

As mentioned above, repeal of the estate tax would have a broader impact than just on bequests. According to Bakija and Gale, research shows that changes in the estate tax have an impact on annual charitable giving, although they caution that there is not enough research on the topic, particularly in the context of the impact of estate tax repeal. One key study by Auten and Joulfaian¹¹ showed that estate tax repeal would result in annual giving dropping by 12 percent for those who would have to file estate tax returns. Since the amount of annual giving in the U.S. is much higher than that from bequests, the actual dollar amount of this loss is potentially higher than the loss of bequest giving. Bakija and Gale estimate that this decline in annual giving would amount to an additional \$5 billion in lost annual giving across all types of charities, doubling the impact on foundations and other charities.

Other Impacts Repeal of Estate Tax Would Have on Nonprofits

While this discussion has been primarily concerned with the impact on nonprofits of repeal of the estate tax because of a reduction in charitable giving, it is worth reiterating the points made earlier about the value of the estate tax in limiting concentration of wealth in a few families and

¹⁰ This is a conservative estimate since the share of bequests going to foundations continues to grow over time. In 1995, for example, foundations were the recipients of 31 percent of bequests.

¹¹ Auten and Joulfaian, "Charitable Contributions and Intergenerational Transfers" *Journal of Public Economics*, 1996.

the loss of the state and federal revenue generated by the estate tax. In FY 2002, the gift and estate tax provided \$26.5 billion in revenue to the federal government; in FY 2000, before the changes in estate tax law occurred, it was \$29 billion. According to the Joint Committee on Taxation, in 2013, if the repeal of the tax were extended, the cost to the federal government would be \$63.6 billion.

Additionally, state revenues will be affected by the tax changes that have already been made to the estate tax. If states do not decouple state laws from the federal tax code, it is estimated that repeal of the estate tax will cost states between \$9 billion and \$11 billion per year. To avoid this cost, states would have to pass their own, independent estate tax.¹²

Since roughly one-third of charity revenue comes from government support, the repeal of the estate tax would have a triple-whammy on charities. It would mean less money through charitable bequests, reduced grants from private foundations, and less money in government support.

Summary

In conclusion, charities and foundations that rely in part on charitable bequests, as well as giving during life by those subject to an estate tax, have an interest in maintaining a tax favored status for bequests and other charitable giving.

There is a variety of evidence that charitable giving would be greatly affected by the elimination of the estate tax. In 2001, the repeal would have meant a loss of between \$3.6 billion and \$6.0 billion in bequests. In addition, the repeal would have meant an additional \$5 billion loss of giving during the lifetime of people subject to the estate tax. The total annual loss of charitable giving would thus be approximately \$10 billion per year.

According to the Foundation Center, bequests and gifts to foundations totaled \$28.7 billion in 2001. The \$10 billion annual loss that would arise as a result of an estate tax repeal would represent a potentially devastating impact on non-profits around the country.

¹² To the extent that states pass different estate tax laws, incentives would be created for people to alter their residence in their final years of life.