



---

## The Estate Tax and Charitable Giving: Policy Summary

Gary D. Bass and John S. Irons  
OMB Watch  
June, 2003

### Policy Summary

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 even before 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.

What would be the impact on charitable giving if the tax is repealed?

- ◆ According to studies using data on IRS filings and a wide range of econometric research, charitable giving at death is sensitive to estate tax policy. Evidence supports the idea that people are aware of the tax implications of charitable giving at death, and that they change their giving patterns as a result of the estate tax.
- ◆ Results from the most comprehensive study on the subject estimate that repeal of the estate tax would result in a drop in charitable bequests ranging from 22 percent to 37 percent. In 2001, the estate tax generated \$16.2 billion in charitable bequests. Thus, repeal would have meant a loss of between \$3.6 billion and \$6.0 billion in bequests in 2001. In addition, there are reasons to believe that losses may be greater than these estimates.
- ◆ The impact of this loss would have an uneven impact within the nonprofit community. The largest share of bequests in 1998 went to private foundations (42%) and to educational, medical and scientific institutions (29%). Using these percentages, in 2001 bequests would be cut by between \$1.5 billion and \$2.5 billion for foundations and between \$1.0 billion and \$1.7 billion for educational, medical and scientific institutions.

---

Promoting Government Accountability

1742 Connecticut Ave NW  
Washington, DC 20009

\* tel: 202.234.8494  
\* fax: 202.234.8584

\* email: [ombwatch@ombwatch.org](mailto:ombwatch@ombwatch.org)  
\* web: <http://www.ombwatch.org>

- ◆ Besides making charitable bequests at death, many wealthy individuals also reduce their annual tax liability through giving during their lifetimes. Existing studies have concluded that repeal of the estate tax will also have an adverse impact on annual charitable giving. At least one key study pegged the impact on annual giving at a 12% drop among people who would have otherwise faced the estate tax. 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. **Recent estimates indicate that this decline in annual giving would amount to an additional \$5 billion over and above the \$3.6 to \$6 billion in lost bequest giving, bringing the total annual reduction in giving to approximately \$10 billion.**
  
- ◆ The reduction in giving to foundations would have a profound impact. In most cases, gifts to foundations create sustained annual giving to other organizations that increases over time. **To replace the \$10 billion in charitable giving, you would need the equivalent grant making of 12 new Ford Foundations or roughly \$200 billion in new foundation assets** assuming the foundation provides a 5% payout. For nonprofits dependent on charitable bequests, such as universities or arts and environmental organizations, this represents a double loss. Not only will their actual bequests decline but they will face decreased opportunity for funding through foundation grants.
  
- ◆ Besides these previously quantified effects of the repeal of the estate tax on charitable bequests and annual giving, there are additional factors that are likely to also have a significant negative impact on charitable giving. These impacts arise because the estate tax will not just be reduced, but will be eliminated altogether. For example:
  1. There will be a psychological impact created by a message that charitable giving at death through estate tax incentives is no longer encouraged.
  2. The estate tax benefit of charitable giving, which is a “selling point” for charities, will no longer be available as an added incentive for giving.
  3. The removal of the need for estate tax planning prior to death lessens the opportunity to introduce potential givers to charities and foundations. This decline in planning might also reduce giving in years prior to death. The estate tax is partially responsible for creating an industry that encourages giving for a multitude of reasons (including self interest). Since giving is very concentrated (44% of the total charitable bequests were donated by estates in excess to \$20 million – the wealthiest 0.3%) those that give the most are less likely to do extensive estate planning if the estate tax were repealed.

There is little doubt that repeal of the estate tax will have a profound impact on nonprofit organizations. One way nonprofits will feel this impact is through less charitable giving.