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Effect of Itemized Deduction Caps on Charitable Giving

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1 Current Policy

Taxpayers can take the standard deduction or itemize. Tax units face deduction limits if their contributions adjusted gross income (AGI) exceeds \$311,300 if married filing jointly, \$285,350 if head of household, \$259,400 if single, or \$155,650 if married filing separately. Deductions must then be limited by the smaller of 80 percent of their itemized deductions and 3 percent of the amount their AGI exceeds the limit.

2 Reform Options

To offset proposed cuts to the top marginal tax rate, the the Trump campaign proposed limiting itemized deductions to \$100,000 for singles and \$200,000 for joint filers. Using the open-source Tax-Calculator, I present results describing the effects of limiting itemized deductions with elasticities of charitable contributions of -1.0. To examine the range of policy options, we simulate itemized deduction caps for singles of \$25,000, \$50,000, and \$200,000 in addition to the \$100,000 cap explicitly outlined. Joint filers are assumed to have deductions twice those amounts.

Elasticity of Charitable Giving	Taxpayers Receiving Tax Hike (millions)	Itemizers (millions)	Wght. Ave. MTR on Charitable Contributions	Total Charitable Contributions (billions)	10-Year Revenue Change (billions)
Current Law	0.0	44.8	-23.84	\$210.3	\$0.0
\$200,000	0.1	44.8	-23.84	\$197.5	\$198.4
\$100,000	0.3	44.8	-23.84	\$192.9	\$309.4
\$50,000	1.2	44.7	-23.84	\$184.8	\$507.4
\$25,000	6.5	44.2	-23.84	\$168.5	\$939.8

3 Comments

- Under current law, charitable contributions total \$210.3 billion.
- When a contribution cap of \$25,000 is imposed, we estimate charitable contributions will fall by \$41.7 billion, assuming a elasticity of charitable contributions equal to -1.0.
- When a contribution cap of \$50,000 is imposed, we estimate charitable contributions will fall by \$25.4 billion, assuming a elasticity of charitable contributions equal to -1.0.
- When a contribution cap of \$100,000 is imposed, we estimate charitable contributions will fall by \$17.4 billion, assuming a elasticity of charitable contributions equal to -1.0.
- When a contribution cap of \$200,000 is imposed, we estimate charitable contributions will fall by \$12.7 billion, assuming a elasticity of charitable contributions equal to -1.0.

4 Modeling Notes

4.1 Tax-Calculator

Tax-Calculator is an open source microsimulation tax model that computes federal individual income taxes and Federal Insurance Contribution Act (FICA) taxes for a sample of tax filing units for years beginning with 2013. The model can be used to simulate changes to federal tax policy to conduct revenue scoring, distributional impacts, and reform analysis. As an open source model, Tax-Calculator is under constant development and improvement. Therefore, the results reported in this paper will change as improvements are made. The model relies on data from the 2009 IRS Public Use File (PUF). These results are generated using Tax-Calculator Version 0.8.3.

4.2 Modeling Assumptions

The cost estimation from a partial equilibrium analysis that uses an elasticity of taxable income of 0.4. The cap on deductions is adjusted to \$25,000, \$50,000 and \$100,000 for single filers (double that amount for joint filers).

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