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Effect of an Itemized Deduction Cap on Charitable Giving: Sensitivity to Behavioral Response

Alex Brill | June 7, 2017 | Tax Brief Series

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 Trump administration has 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 -0.5, -1.0, and -2.0. The costs of these expansions are estimated using a partial equilibrium analysis.

Behavior	Taxpayers Receiving Tax Hike (millions)	Itemizers (millions)	Wght. Ave. MTR on Charitable Contributions	Total Charitable Contributions (billions)	10-Year Revenue Change, Dynamic (billions)
0.0	0.3	44.8	-23.84	\$210.0	\$332.6
-0.5	0.3	44.8	-23.84	\$201.5	\$332.7
-1.0	0.3	44.8	-23.84	\$192.9	\$336.0
-2.0	0.3	44.8	-23.84	\$182.3	\$341.1

3 Comments

- Under current law, charitable contributions total \$210.3 billion.
- When the contribution cap is imposed, we estimate charitable contributions will fall by \$0.2 billion (assuming a elasticity of charitable contributions equal to 0.0).
- When the contribution cap is imposed, we estimate charitable contributions will fall by \$8.8 billion (assuming a elasticity of charitable contributions equal to -0.5).
- When the contribution cap is imposed, we estimate charitable contributions will fall by \$17.4 billion (assuming a elasticity of charitable contributions equal to -1.0).
- When the contribution cap is imposed, we estimate charitable contributions will fall by \$28.0 billion (assuming a elasticity of charitable contributions equal to -2.0).

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 simulation is a partial equilibrium analysis that uses an elasticity of taxable income of 0.4. The elasticity of charitable contributions is changed as well set equal to either -0.5, -1.0, or -2.0. Caps on charitable contributions are set at \$100,000 for individual filers and \$200,000 for couples.

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