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Dr. Garcia

Senior Honors Project

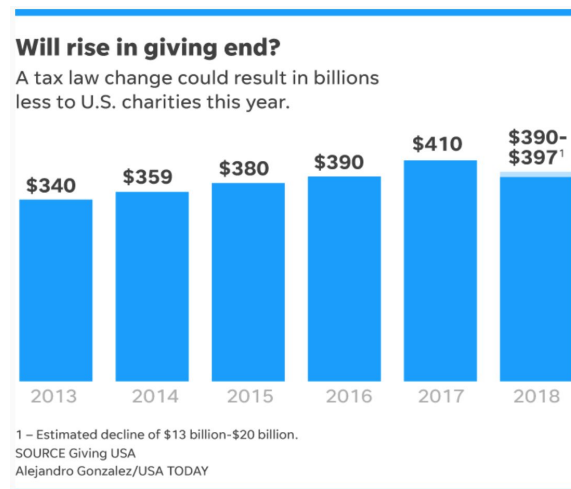
3 May 2019

Effects of the Tax Cuts and Jobs Act's Increase in the Standard Deduction on Not-For-Profit Organizations

With nearly all people and organizations subject to taxation in one form or another, the regulations regarding taxation in the United States have been nothing but controversial over the years. Except for minor alterations, the United States has followed the Internal Revenue Code of 1986 until very recently. In December 2017, Congress passed the Tax Cuts and Jobs Act (TCJA). Even though the United States still abides by the Internal Revenue Code of 1986, this tax reform changed the rules regarding a variety of different topics listed out in the Internal Revenue Code. This resulted in considerable uncertainty as the nation headed into the first year of filing tax returns with the recently enacted changes. One significant alteration under the TCJA is the increase of the standard deduction. The purpose of this project is to make a prediction about how the change in the standard deduction will impact not-for-profit organizations. Initial projections show a major decrease in donations for 2018.

Donations have been steadily increasing each year and reached a record high \$410 billion donated in 2017. GivingUSA.com, the primary organization used for compiling data regarding the uses of

Figure 1. Projected Donations



donated dollars, predicts donations to decrease to between \$390 billion and \$397 billion during 2018.

When filing a tax return, individuals have two options to choose from: itemized deductions or the standard deduction. Taxpayers choose the greater of the two to deduct in order to arrive at their taxable income. Itemized deductions are a compilation of contributions and expenses that one can deduct from their adjusted gross income, effectively lowering their taxable income. Prior to the TCJA, itemized deductions included charitable donations, home mortgage interest, medical expenses, state and local taxes, and miscellaneous expenses¹. The standard deduction is a flat amount that changes with regard to filing status. For 2017, the standard deduction was set at \$6,350 for single taxpayers and \$12,700 for married taxpayers filing jointly (Innovate Professional Services).

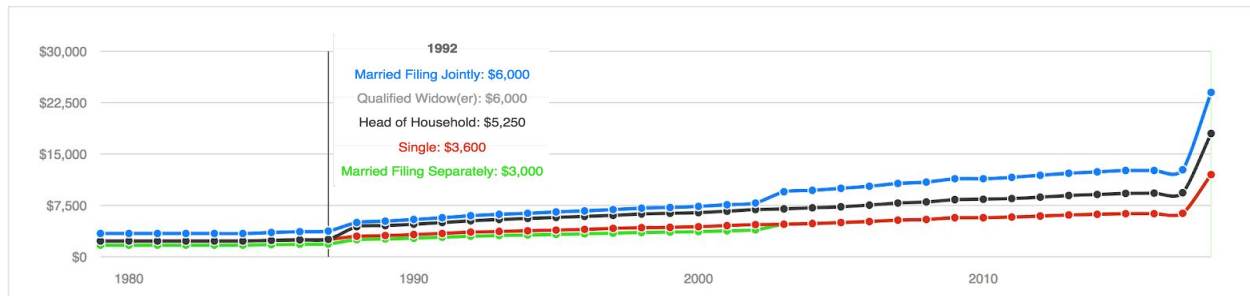
The decision regarding which deduction to take is easy: utilize the one that provides the largest deduction. Itemizing tends to be a tedious task that, if one takes the time, can sometimes provide a larger benefit. Also, if itemized deductions are close to the standard deduction amount, people that will benefit from itemizing will choose to do so. Others who do not wish to spend hours figuring out their deduction or know that their itemized deduction will not produce a larger deduction opt to take the standard deduction for convenience. With recent passage of the TCJA, we will definitely see less itemizing, as the Act eliminated miscellaneous expenses and placed limitations on state and local tax deductions, as well as almost doubled the standard deduction.

Figure 2. Standard Deduction by Filing Status

Tax Year	Single	Married Filing Jointly	Married Filing Separately	Head of Household	Surviving Spouse
2018	\$ 12,000.00	\$ 24,000.00	\$ 12,000.00	\$ 18,000.00	\$ 24,000.00
2017	\$ 6,350.00	\$ 12,700.00	\$ 6,350.00	\$ 9,350.00	\$ 12,700.00
2016	\$ 6,300.00	\$ 12,600.00	\$ 6,300.00	\$ 9,300.00	\$ 12,600.00
2015	\$ 6,300.00	\$ 12,600.00	\$ 6,300.00	\$ 9,250.00	\$ 12,600.00

¹ For a complete list of items previously included in the itemized deduction, reference the Internal Revenue Code of 1986.

Figure 3. Standard Deduction per Year



Source for Figure 2 and Figure 3: “Federal Standard Deduction Historical Amounts (1979-2018).” *Tax Technologist Blog*, Innovate Professional Services, 2018, www.innovateprofessional.com/taxdata/standard-deduction.php.

On the other hand, favorable tax treatment for charitable contributions continues under the TCJA, as the limit on deductions relative to adjusted gross income has increased². While itemizing deductions can provide a larger deduction from adjusted gross income, it typically only provides a larger deduction for very wealthy individuals. Congress has acknowledged that it can be a very tedious task to itemize. The response was to increase the standard deduction up to \$12,000 for single taxpayers and \$24,000 for married taxpayers filing jointly. Considering that approximately fifty percent of the United States’ population is in the middle class, this increase in the standard deduction will cause a significant decrease in the amount of people who itemize each year (Pew Research Center). Increasing the standard deduction potentially reduced the tax incentive to donate to not-for-profit organizations. A majority of taxpayers will now have itemized deductions that do not exceed the new standard deduction; thus, it is fair to speculate that the standard deduction will be utilized on a larger basis.

According to Forbes.com, roughly 25 percent of taxpayers itemize deductions on their individual tax return prior to the TCJA, with that number rising by income level (Forbes.com). Since the TCJA significantly increased the size of the standard deduction, the question must be

² The previous limit was 50%. It has since increased to 60% under the TCJA.

asked: what does an increase in the standard deduction mean for not-for-profit organizations that rely heavily on donations? In this project, I will assess the effects of the TCJA's increase of the standard deduction on charitable donations. I began by conducting interviews with individuals familiar with not-for-profits and investigating the effects of similar tax legislation in foreign countries. In doing so, I developed an idea of what the United States can expect to happen to donations during 2018 and beyond. I also examined the effect of income level on donation behavior. Since exact data for 2018 will not be released until June, I used preliminary data to support my conclusions regarding which charities are most significantly affected.

INTERVIEWS:

To gain an informed understanding of how relevant this issue regarding the increase in the standard deduction is, this project began with a series of interviews conducted with professionals in both the tax and not-for-profit sectors. These interviews were carried out in different states and include individuals representing various types of not-for-profits in order to minimize any biases in particular regions and to cover a broad range of various groups.

Individuals that were interviewed include the following:

Karen Blake, President of the Prism Insurance Group, LLC

Katrina Straker, Director of Development and Communications at International Orthodox
Christian Charities

Dr. Amy Hageman, Professor of Accountancy at Kansas State University, specializing in
taxation

Dr. Lindsay Calkins, Associate Professor of Economics at John Carroll University

I began the interviews with Karen Blake. In contrast to my expectation regarding not-for-profits worrying about donations this year, Blake remains confident that “people will continue to donate out of habit.” However, she believes these organizations will begin to take a defensive approach towards receiving donations because they know that the TCJA will affect them. This approach includes “asking for sympathy,” meaning that they will hope to appeal emotionally to donors in order to ensure a steady flow of donations. Not-for-profits are still uncertain as to the extent the TCJA will affect them.

After my discussion with Blake, I interviewed Katrina Straker. She agrees with Blake that people will continue to donate out of habit. According to Straker, “International Orthodox Christian Charities is currently on track to meet their revenue budget.” However, a number of donors have disclosed that they will not be giving to the mission this year. Straker believes that donations will decrease from middle income level individuals and increase slightly or remain constant for high income level individuals. This is due to middle income level individuals being on the cusp between itemizing or using the standard deduction.

Following my interview with Straker, I contacted Dr. Amy Hageman, who is currently researching how tax incentives affect contributions to charitable organizations. She has found through her research that “the deduction given for charitable contributions has had less of an effect on total donations.” Considering the uncertainty of the TCJA, not-for-profits can expect that they will not suffer drastic drops in donations. Hageman’s views have been consistent with Blake’s and Straker’s: people will continue to give because they want to.

Contrary to the trend throughout these interviews, Dr. Lindsay Calkins believes that charitable donations are going to decrease this year, “mainly due to the uncertainty of the

TCJA.” However, Calkins commented that if individuals are giving simply for the deduction, then giving will ultimately go down. Individuals in the higher tax brackets will continue to reap high benefits from donating because they will continue to itemize. Low income level individuals will continue to use the standard deduction, so donations from that group will not vary. The middle income level is the group that will shift from itemizing to taking the standard deduction, and will have to decide whether or not to continue donating. Additionally, Calkins introduced the idea that the type of charities that people donate to depends on their income level. I found this to be fascinating and decided to further investigate this theory within this project. For a complete transcript of the interviews conducted, please see appendix A.

HOW THE UNITED STATES COMPARES TO OTHER COUNTRIES THAT HAVE FAVORABLE TAX REGULATION FOR CHARITABLE CONTRIBUTIONS:

Despite being one of the largest countries in regards to population, the United States does not lead the world in total donations given by people. According to a 2018 report conducted by the Charities Aid Foundation

(CAF), Myanmar, Indonesia, and

Australia lead the world for the

largest percentage of their

populations that donate money.

What makes these smaller

countries so generous compared to

the United States? In addition to

cultural norms and expectations,

Figure 4. Percentage of Population that Gives.

Table 5: Top 10 countries by participation in donating money.



Donating money by country and ranking		People (%)
Myanmar	1	88
Indonesia	2	78
Australia	3	71
United Kingdom	4	68
New Zealand	5	68
Netherlands	6	66
Norway	7	65
Iceland	8	65
Ireland	9	64
Malta	10	64

Data is for 2017 and includes only countries surveyed in 2017.

Data relates to participation in donating money during one month prior to interview.

Table 6: Top 10 countries by the number of people donating money.



Donating money by country and ranking		People (m)
India	1	191
United States of America	2	158
China	3	156
Indonesia	4	144
Germany	5	39
United Kingdom	6	37
Nigeria	7	36
Pakistan	8	34
Myanmar	9	33
Iran	10	32

Calculated using UN adult population numbers.

Data is for 2017 and includes only countries surveyed in 2017.

Data relates to participation in donating money during one month prior to interview.

SOURCE: Charities Aid Foundation

which are not specifically considered in this project, I believe that tax laws implemented within these top 10 countries provide incentives for giving. If this is true, then how will an increase in the standard deduction affect the United States overall giving compared to other countries?

To begin, numerous countries provide tax incentives for donating to charitable organizations. According to a report compiled by KPMG, Myanmar currently functions under a progressive tax system, with the highest tax rate for individuals listed at twenty five percent. However, citizens can deduct the full amount of their charitable contribution as long as it does not exceed 25% of their income (Myanmar Individual Deductions). Since the highest tax rate in the United States is currently thirty seven percent, this could be a contributing factor as to why the United States is less generous compared to the rest of the world. In Indonesia, the highest tax rate is thirty percent for individuals making more than IDR 500 million, which converts to \$7,163,118 (Tax System of Indonesia). On the other hand, Australia requires 45 cents to be paid as taxation for every dollar earned over \$180,001 (Australian Taxation Office, 2018). However, for charitable donations, Australians can deduct the entire amount given to arrive at their taxable income, as long as the amount given exceeds \$2. The United Kingdom currently operates under a progressive tax system, with the highest tax rate set at forty five percent of income exceeding £150,000 (Tax Efficient Giving: A Guide for UK Donors). Each tax bracket can deduct a portion of their contribution, but those in the highest tax brackets can reclaim the difference of 20-30 percent charged on top of the 20 percent gift the charity receives. Each country provides a different kind of incentive for giving donations, which could explain why such a large percentage of the population donates money each year.

It is important to acknowledge that other countries have implemented tax laws that had drastically affected charitable giving. Observing how similar tax laws affected these countries may offer insight into what not-for-profits in the United States can expect to happen within the next few years. The country with the most similar tax law regarding the standard deduction and charitable giving is Canada. According to “Charity and the Canadian Income Tax: An Erratic History,” the first standard deduction in Canada was established in 1957. The standard deduction, which at the time was \$100, would be advantageous to most citizens because their charitable contributions, medical expenses, union dues and professional fees would not exceed this amount (Watson 1985). Charitable giving has favorable treatment in Canada: “taxpayers whose donations exceeded the 10 percent annual limit were permitted to carry the excess forward to the next tax year” (Watson, 10).

There was a push to increase this annual limit to 20 percent, which was “the case in Great Britain and the United States” (Watson, 10). However, there was some animosity towards the introduction of the standard deduction. As noted by a member of the Social Credit Party, a prominent political party in Canada during the 20th century, “it seemed unfair that someone who gives very little or nothing is allowed a deduction of \$100, whereas someone who is much more generous receives no exemption whatever for certain portions of his donation” (Watson, 10). Since the enactment of the standard deduction in Canada in 1957, charitable giving has decreased (Watson, 10). The standard deduction was removed in 1984, and as a result, charitable giving increased 31% between 1984 and 1989 (Hall & Macpherson, 1996).

Canada’s standard deduction favored those who had little wealth. Those in the upper class disliked the deduction because it actually decreased the benefit that they could receive from

giving to charitable organizations. The TCJA's increase in the standard deduction could have the same effects as Canada's standard deduction. Giving to not-for-profits could decrease due to the tax benefits received from giving becoming harder to attain. The TCJA will be enacted until 2025. Giving could go down and then increase if the legislation is removed in 2025, similar to the trend in Canada.

Even though the United States is ranked second for number of people donating money, it means little in regards to the percentage of the population that actually gives. Since the TCJA decreased individual tax rates and increased the standard deduction, there is less of an incentive to give, particularly if one donated solely for the deduction. Also, with more people choosing to take the standard deduction, there might be a decrease in the amount people actually give. This could be for a number of reasons, such as putting the additional savings towards college funds or vacations and purchasing a new car or a house. People will have more money to spend and not everyone will increase the amount they donate to charity. With the new tax legislation, I expect the United States population to donate less in 2018, followed by a steady increase of donations after people adjust to take advantage of the tax savings. Though there was little information regarding how donations changed during the time the standard deduction was enacted, my interviews with Hageman and Calkins illustrated that once people become comfortable with change, they will be more likely to continue giving to their regular not-for-profits.

LOW LEVEL INCOME CHARITIES VS HIGH LEVEL INCOME CHARITIES

As mentioned earlier, approximately 25 percent of people itemize every year on their individual tax return (Ellis 2017). Itemizing provides significant financial incentives for individuals. While many may choose to take the standard deduction due to its simplicity, taking

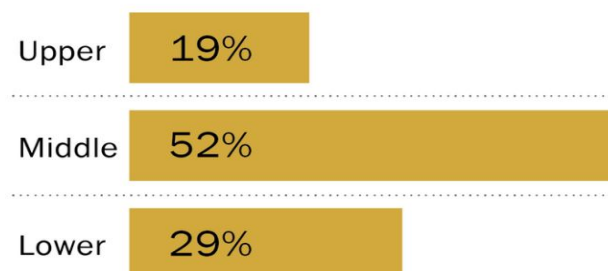
the extra time to itemize deductions can produce a significantly higher deduction from one's adjusted gross income. However, it is much easier for certain income classes to reap the benefits of itemizing than others. Since passage of the TCJA, it has become essential for not-for-profits to recognize which people utilize the standard deduction and which people itemize, considering different income levels tend to donate to different organizations. In doing so, organizations can target marketing efforts towards specific groups to ensure a steady inflow of donations for the coming years.

Prior years have shown that those who itemize tend to be wealthy individuals who can accumulate all of their deductions together to produce an amount that will be greater than the standard deduction. Low income individuals almost always use the standard deduction regardless of how many deductions they accumulate, because that amount will not exceed the standard deduction. Determining which method middle income individuals use is complex and depends on a number of factors like total income, number of dependents, and other activities that can produce a deduction. Thus, middle income individuals are on the cusp: the amount of deductions they can claim compared to their total income will determine if they itemize or use the standard deduction for a given year.

According to the Pew Research Center, the middle class accounts for 52% of the population (Fry & Kochhar 2018). Since middle income individuals have the potential to use either the standard deduction or itemized deductions, an

Figure 5. U.S. Income Classes

SHARE OF AMERICAN ADULTS
IN EACH INCOME TIER



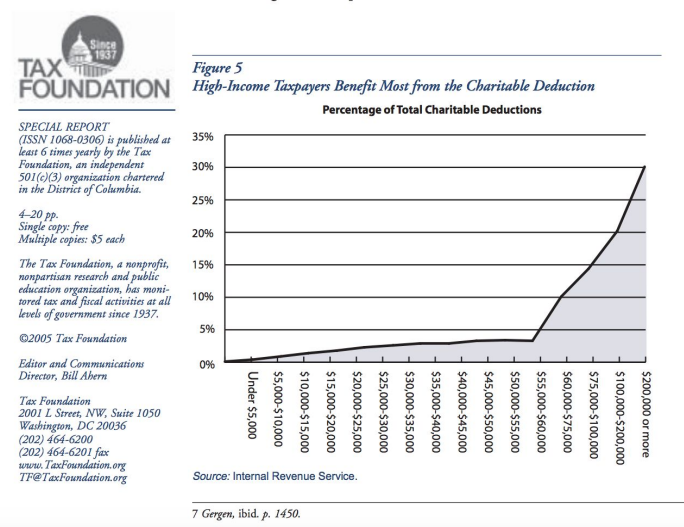
Source: "Are You in the American Middle Class?" Pew Research Center

increase in the standard deduction may reduce the incentive to donate or decrease donations given to not-for-profits. As a result, not-for-profits regularly donated to by middle income families may be affected the most for 2018 and years to come. As presented by the Pew Research Center, the average income for middle income families is two-thirds to two times the median income, which is \$60,000. Thus, middle class income ranges between \$40,000 and \$120,000 (Fry & Kochhar, 2018). The range will include all upper middle income families as well, since they could also be greatly affected by the increasing standard deduction.

Now that the income range has been established for the middle class, the next step is to determine which income levels donate to which not-for-profit organizations. There are six broad categories of not-for-profit organizations focused on in this project, which include religious, animal and environmental, educational, poverty-related, health, and art and cultural.

According to Ken Berger, president and CEO of Charity Navigator, high income individuals typically donate to “the arts, universities, and sometimes healthcare organizations” (Rogers 2016). Along with these, animal and environmental causes also receive numerous donations from high income individuals. These individuals prefer to know what their donation is

Figure 6. High Income Taxpayers Benefit from Donations



being used for, so giving to well-established organizations provides comfort that the donations are being used properly (Calkins 2019). As reported by Andrew Chamberlain and Mark Sussman, authors of “Charities and Public Goods: The Case for Reforming the Federal

Income Tax Deduction for Charitable Gifts,” high income individuals benefit most from donating to not-for-profit organizations. Since high income individuals regularly itemize, they will most likely continue to donate to receive a larger deduction (Sussman & Chamberlain 2005). Thus, not-for-profit organizations regularly donated to by high income individuals are less likely to experience a drastic decline in donations for the coming years.

Prior to conducting research, I believed low income individuals to donate the smallest amount to any organization out of the three income groups. This notion holds true, yet, for low income individuals, donating to poverty-related organizations tends to be popular because they are “the largest [group] focused on serving the poor” (Rogers 2016). One reason low income individuals give to poverty-related organizations is that they may also benefit from services offered by these organizations. Religious organizations also receive substantial donations from low income individuals. Thus, low income individuals contribute more when they will also receive a direct benefit in return. Despite donating fewer dollars to these organizations, low income individuals donate a larger percentage of their income based on the direct benefits they receive (Patterns of Household Charitable Giving by Income Group). For example, lower income individuals could donate to their church or local recreation center because they could use the facilities maintained by these groups. However, total donations to organizations like these could originate mainly from high income individuals.

According to Patterns of Household Giving by Income Group, a report prepared in 2005 for Google by The Center of Philanthropy at Indiana

Figure 7. Percentage of Households per Income Group

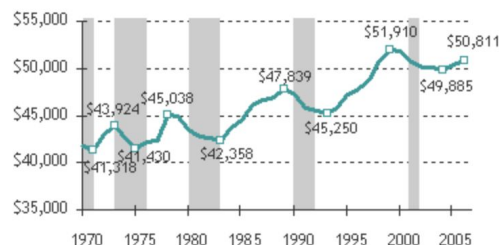
110 million households, 2005 estimate
Percentages by income from Internal Revenue Service data based on tax returns

Household Income, 2004	Percentage of households in income category*
< \$100,000	90.4%
\$100,000 to \$200,000	7.4%
\$200,000 to \$1 million	2.1%
\$1 million or more	0.2%
Total	100.1%

* Exceeds 100% due to rounding

University, families making less than \$100,000 a year account for almost 60% of donations given to religious causes. This is significant because over 90% of U.S. households falls into this group. This percentage includes both low income and middle income families. According to the Pew Research Center, in 2005 the average income was \$50,811.

Median Household Income: 1970-2006



This is significant because donations from this group account for \$89.92 billion in 2005 (Patterns of Household Charitable Giving by Income Group).

Figure 9. Sum of Giving by Subsector in 2005

Source: Pew Research Center

Sum of giving, by subsector by income (\$ in billions)

Household Income	Help meet basic needs							Total
	Religion	Combined	Health	Education	Arts	Other		
< \$100,000	59.96	7.70	9.34	3.06	2.69	1.01	6.16	89.92
\$100,000 to \$200,000	11.39	2.16	2.46	1.12	1.14	0.44	1.17	19.88
\$200,000 to \$1 million	21.01	10.19	5.30	4.81	29.15	13.57	7.45	91.48
\$1 million or more	8.64	2.06	1.93	12.97	12.94	7.88	4.85	51.27
Total	101.00	22.11	19.03	21.96	45.92	22.90	19.63	252.55

Source for Figure 7 and Figure 9: Patterns of Household Charitable Giving by Income Group

When analyzing the data provided by this report, there are two categories I focused on: religion and help meet basic needs (poverty-related). It is evident that religion and poverty-related organizations could be affected greatly once the TCJA goes into effect because these organizations receive donations from the lower and middle income class. As we can see in Figure 9, households with <\$100,000 account for \$59.96 billion out of a total \$101 billion donated to religious causes in 2005. Compared to other income levels, a change in this group's

giving could pose a decline in giving to religious causes. Of the \$89.92 billion donated by <\$100,000, \$59.96 billion donated solely for religious causes suggests a potential decline if giving by the middle class decreases, which could significantly affect religious organizations for the coming years. As for poverty-related, only \$9.34 billion was donated by <\$100,000 in 2005. However, the total amount donated for poverty-related causes was \$19.03. Again, this income level donates generously to these organizations and a shift in giving behavior by this group could negatively affect the total donations these groups receive.

As stated previously, middle income families are on the cusp regarding itemizing or using the standard deduction. In 2018, if middle income families decide to use the standard deduction, donations to religious organizations and poverty-related organizations could suffer. However, it is important to acknowledge that overall giving of \$91.48 billion came from households with income ranging between \$200,000 and \$1 million. More dollars are being donated by high income individuals so, with more individuals taking the standard deduction, dollars given by high income families could offset some of the decrease in donations from the middle income families. Donations will still be lower than what they were in the past. This trend could remain consistent throughout each not-for-profit category and will be validated once released in June 2018.

PSYCHOLOGY BEHIND GIVING:

In 2017, Americans donated \$410.02 billion, making this the most generous year charitable organizations have ever seen (GivingUSA.com). According to GivingUSA.com, donations drastically increased by \$14.27 billion in 2016, and \$10.53 billion in 2015 (GivingUSA.com). Of that \$410.02 billion, 70% was given by individuals. Americans continue

to become more generous, but how will this change in 2018? As stated earlier, current projections by GivingUSA.com suggest a drop in donations during 2018. There are six broad categories of not-for-profit organizations focused on during the course of this project. These organizations include religious, animal and environmental, educational, poverty-related, health, and arts and cultural. These categories were chosen based off of GivingUSA.com statistics reported each year. As we prepare to head into the first year of a tax reform that could drastically reduce donations, it is crucial to understand what motivators encourage people to give. In doing so, I hope to determine which individual characteristics donate to particular not-for-profit organizations. This information could then provide an idea of which not-for-profits can expect fewer donations in the coming years.

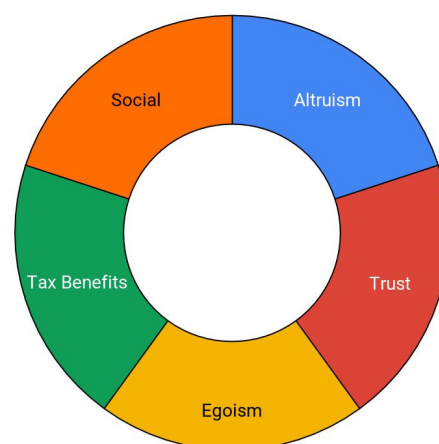
To begin, we must answer the question “what motivates people to give?” According to Lise Vesterlund, economists have divided the population into two groups: the public group and the private group. In the public group, both the donors and the donees benefit (Vesterlund, 2003). For example, one might donate to a cancer research foundation because they are very passionate about finding a cure, and in turn advances in medicine to cure cancer are developed. On the other hand, members of the private group may donate because it makes them feel better about themselves, makes them feel like they have contributed to the community, or allows them to experience acknowledgement they would not normally receive (Vesterlund, 2003). An example of this would be donating to a university to have an academic building named in your honor. Classifying the population into the public group and the private group allows one to observe the characteristics that distinguish the two groups.

In their article “The Development and Validation of the Motives to Donate Scale,” Sara Konrath and Femida Handy discuss five key qualities that drive people to give, which are Trust, Altruism, Social, Tax Benefits, and Egoism. (Konrath & Handy, 2017). First, Trust is believing that one’s donations are being used properly by the organizations that are receiving them. As noted with high income individuals, they tend to donate to established organizations where they know how their donation will benefit the organization (Rogers 2016).

Altruism concerns the wellbeing of others. Essentially, one gives because it is perceived as the right thing to do.

Social means donating because one’s peers donate. As a way to promote themselves throughout the community, individuals could donate to educational institutions, especially the ones they attended. Tax benefits provide an incentive to give because it will decrease one’s taxes. This is typically seen within the middle to higher income classes because the only way to claim a tax deduction from giving donations is to itemize one’s deductions. For instance, donations could have increased in 2017 because people were aware of the changing tax laws. Still wanting to give to charity and receive the benefits from it, they increased the amount they gave so that both the organization and themselves could benefit before enactment of the TCJA. Lastly, Egoism enhances one’s reputation in the public eye. Donating inflates their self perception, which also affects the way they believe the public sees them. Typically high income individuals engage in this type of giving because they have the money to be able to do this.

Figure 10. Qualities that Motivate Giving



After analyzing these five characteristics, I placed each into either the public group or the private group. The public group consists of Altruism and Trust, and the private group includes Egoism, Tax Benefits, and Social. These classifications are significant because, as explained earlier, each tends to donate to a different cause. Also, these classifications are broad to be simple to understand. All income classes can embody these characteristics in varying levels.

Figure 11. Characteristics Classified

Public	Private
Altruism	Egoism
Trust	Tax Benefits
	Social

Once I examined these classifications, I determined that the lower income class can be associated more with the public group. Figure 9 shows that the lower income class donates more to religious organizations and poverty-related causes. Altruism can be synonymous with donations to a variety of different causes: religious, disaster relief, environmental, and so on. Also, most people want to know that their donations are being used properly. On the other hand, those who can receive a tax benefit from donating belong to the upper income class. These individuals have the funds to be able to donate to inflate their ego and/or donate because it is what their peers do. Without 2018 data, it is difficult to develop a concrete conclusion regarding which characteristics will be most prominent in the middle class. Since fewer members of the middle class will itemize, we can assume that these individuals were donating because they received a tax benefit. We will not know for certain which group the middle class belongs to until 2018 data is available.

CONCLUSION:

Since data regarding donations given for 2018 will not be available until June, I will not be able to compare my findings to actual data. I planned on following up with Dr. Amy

Hageman on February 1 to discuss all of the preliminary data about 2018 that has been collected so far. However, Hageman disclosed that information was still not available for 2018. As a result, I can assume two different scenarios. First, donations decreased so significantly that compiling data for each not-for-profit organization will take much longer than expected. Second, the potential drastic effects of the TCJA were hyped up so much and had an anticlimactic ending: nothing really changed. Based off of my research, I am leaning more towards the latter as my conclusion for this project. After determining that the lower income levels historically take the standard deduction and the higher income levels itemize deductions, the discrepancy in giving this year will depend on the middle income level. Considering that most middle income individuals were on the cusp between the two deductions, most will now choose to use the standard deduction because of its significant increase under the TCJA.

The trend established in Canada shows that after tax reforms affecting charitable giving, not-for-profits experience an initial dip in donations. This is followed by a slow but steady increase in subsequent years, especially when the legislation is removed. Countries like Myanmar, Indonesia, and Australia provide large incentives to donate. The increase in the standard deduction took away this tax incentive from those who could benefit most from it: the middle class. Thus, charitable giving should be expected to decrease in 2018 and in the years to come. I believe that 2017 was the most generous year in United States history because most people were aware that they would no longer receive a deduction based on their charitable contributions. Still wanting to donate to their preferred not-for-profits, many increased their gifts given to make up for the donations they would refrain from giving in 2018. I believe that bunching gifts will become a more common practice in the coming years. For most individuals,

bunching gifts would be beneficial if done every three years (Straker). Hopefully, this analysis of the TCJA's increase in the standard deduction alleviates any uncertainty regarding the wellbeing of not-for-profits as the nation continues to file tax returns for 2018.

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Appendix A

Interview with Karen Blake

Where do you work? Job Title?

- President of the Prism Insurance Group, LLC

Interesting information provided?

- There will be a big push in December to itemize
- People will donate out of habit
- Nonprofits are going to be asking for sympathy (donate because you support their mission)
- Nonprofits are taking a defensive approach to receiving donations because they know they will be affected by the TCJA, they just don't know how it will affect them yet.

Interview with Katrina Straker

Where do you work? Job title? How long have you worked there?

- International Orthodox Christian Charities
- Director of Development and Communications
- 2 years

What does your place of work specialize in?

- International relief and development work, natural disaster relief
- Have worked in over 60 different countries

Speculations about TCJA effects on your business

- Currently on track to meet revenue budget, however, some donors have already declared that they are no longer donating (this was on November 2, day of interview)
- The very wealthy will still benefit because they will itemize
- Small gifts are pretty steady
- Middle income level donors will decrease
- Advice for TCJA - Bundle gifts (donate larger amount every 3 years instead of small gifts every year)... that way, middle income individuals can receive a tax benefit from itemizing

Relevant research?

- Chronicles Philanthropy - contact editor?

- Nonprofit Pro magazine - editor is Nhu Te... possibly contact?

Interview with Amy Hageman

Where do you work? Job Title? How long have you worked there?

- Kansas State University
- Associate Professor
- 9 years

Speculations about the TCJA

- How does Charitable contributions deduction affect people's willingness to give?
 - Has less of an impact than people might think
 - People will still donate for nontax reasons
- 10%-12% will itemize

Any relevant research?

- Academic Paper Yetman and Yetman

Interview with Lindsay Calkins

Where do you work? Job Title? How long have you worked here?

- Dr. Lindsay Calkins, Associate Professor of Economics at John Carroll University

I think charitable contributions are going to go down. And I think that for this year it is partly because of the uncertainty. I may not get the benefit this year. I opted out of giving to some charities this year. The higher the tax bracket, the bigger the tax savings. If people are giving for the benefit of the tax deduction, then giving will go down.

Some evidence that said that type of charitable contribution that people give to depend on their income level. Lower income gives to churches, higher gives to education, environmental causes, and potentially animals. This is interesting in light of what is going on now. Lower income probably never got a benefit from donating. However, if people are really giving to the other ones, they might suffer.

Compare people who never got a tax break to people who always get a tax break

Medical is something that high income givers give to too. If low income really focus on churches, on the presumption that they always took the standard deduction, the price does not change for them. They have a little bit more disposable income, so donations from low income

taxpayers could go up. High income giving could drop because now people could itemize or use standard deduction, so what charities are going to take the biggest hit.

Economists could pounce on this because they love studying the effects of tax changes, so definitely look for articles like this.

The fact that we haven't heard anything yet (Feb. 6) could mean that things didn't really change

High income taxpayers are the ones that itemize.

There could be an increase in giving from the lower income, which would be really interesting.

Look at charities that are given to most by income class