

- The \$1.47 billion reduction in state income tax revenue will reduce collections by the three local government funds by \$154.3 million (10.5%). This will reduce the amounts that go to libraries, counties, municipalities, townships, and special districts. The biggest revenue loss would be to libraries, since the Library and Local Government Support Fund (LLGSF) receives 5.7% of state income tax collections.

Detailed Fiscal Analysis

The proposed refundable credit will result in a tax revenue loss of \$1.47 billion, absent any behavioral effect. The GRF would bear \$1,315.7 million of this impact, while the three local government funds would lose an additional \$154.3 million. When behavioral effects are taken into account, the estimated annual revenue loss would be even larger. LBO has not put a specific estimate on what the revenue loss would be with behavioral impacts, although they are discussed later in this fiscal note.

There has been testimony on the bill stating that the intent is to limit the credit to contributions made to Ohio based 501 (c) (3) organizations. However, the bill as drafted allows the credit for contributions made to any 501 (c) (3) organization. Furthermore, the bill allows a credit for charitable contributions that are “allowable” on a taxpayer’s federal income tax return. The contribution does not actually have to be claimed as an itemized deduction to be allowed the credit.

The starting point for the estimate is charitable contributions claimed as itemized deductions by Ohioans. The data for tax years 1993 - 1996 is summarized in Table 1, on the next page. As one can see, by tax year 1996 1.31 million Ohio taxpayers were claiming \$2.92 billion in itemized charitable deductions. The 1.31 million taxpayers represented 24.4 percent of Ohio’s 5.36 million federal returns that year (and 84.6% of Ohio filers claiming itemized deductions of any kind). LBO forecasted the number of taxpayers making such contributions in tax year 1999 at 1.42 million. Even if the average contribution stays unchanged at \$2,227 per taxpayer, total deductible contributions would be \$3.17 billion. In fact, LBO forecasts that the average contribution will have risen to \$2,462 by tax year 1999, which would make total deductible contributions equal \$3.50 billion.

The bill actually allows the credit for contributions that are not itemized on the federal tax return. Independent Sector, a nonprofit group that both promotes and monitors charitable giving, has done survey work that shows that 68.5% of U.S. households contributed to charity in 1995. LBO assumes that this percentage holds for Ohio as well: 68.5% of the households gave to charity. This percentage is almost three times higher than the 24.4% of Ohio households who itemized their charitable contributions. These non-itemizing households are presumably smaller givers, but collectively they have a large impact. (Non-itemizers also generally have smaller incomes.)

Based on additional information from Independent Sector, LBO estimates that even if not all 68.5% of contributing households gave to 501 (c) (3) organizations and would thus be eligible for the credit, the number is at least 60%. On this basis, LBO estimates that allowing the credit to non-itemizers adds an additional 2.07 million claimants, which increases the number of claimants in tax year 1999 to 3.49 million. Even if the 2.07 million non-itemizers claim an average credit of about \$200 (vs. the \$2,462 for itemizers), the total eligible contributions increase to \$3.92 billion.

Table 1 - Charitable Contributions Claimed by Ohioans as Federal Itemized Deductions, 1993 - 1996, Estimated 1999

| Item | All returns | Under \$15,000 [1] | \$15,000 under \$30,000 | \$30,000 under \$50,000 | \$50,000 under \$75,000 | \$75,000 under \$100,000 | \$100,000 under \$200,000 | \$200,000 or more |
|------------------------|-----------------|--------------------|-------------------------|-------------------------|-------------------------|--------------------------|---------------------------|-------------------|
| 1993 Contributions: | | | | | | | | |
| Number of returns..... | 1,215,270 | 37,611 | 196,946 | 409,269 | 337,135 | 114,769 | 87,483 | 32,057 |
| Amount..... | \$2,413,582 | \$39,295 | \$200,027 | \$494,287 | \$533,027 | \$257,675 | \$319,272 | \$569,999 |
| Average..... | \$1,986 | \$1,045 | \$1,016 | \$1,208 | \$1,581 | \$2,245 | \$3,650 | \$17,781 |
| 1994 Contributions: | | | | | | | | |
| Number of returns..... | 1,220,790 | 34,968 | 184,602 | 389,142 | 350,201 | 128,881 | 98,056 | 34,940 |
| Amount..... | \$2,429,690 | \$37,368 | \$188,987 | \$462,816 | \$543,205 | \$280,237 | \$344,927 | \$572,150 |
| Average..... | \$1,990 | \$1,069 | \$1,024 | \$1,189 | \$1,551 | \$2,174 | \$3,518 | \$16,375 |
| 1995 Contributions: | | | | | | | | |
| Number of returns..... | 1,275,876 | 34,641 | 190,645 | 412,197 | 371,196 | 135,077 | 98,776 | 33,344 |
| Amount..... | \$2,653,101 | \$35,708 | \$188,151 | \$472,948 | \$575,922 | \$314,188 | \$392,819 | \$673,365 |
| Average..... | \$2,079 | \$1,031 | \$987 | \$1,147 | \$1,552 | \$2,326 | \$3,977 | \$20,194 |
| | | Under \$20,000 [1] | \$20,000 under \$30,000 | \$30,000 under \$50,000 | \$50,000 under \$75,000 | \$75,000 under \$100,000 | \$100,000 under \$200,000 | \$200,000 or more |
| 1996 Contributions: | | | | | | | | |
| Number of returns..... | 1,309,336 | 67,963 | 140,084 | 389,015 | 382,983 | 157,973 | 125,190 | 46,128 |
| Amount..... | \$2,915,437 | \$78,025 | \$145,831 | \$481,821 | \$615,791 | \$349,751 | \$448,884 | \$795,334 |
| Average..... | \$2,227 | \$1,148 | \$1,041 | \$1,239 | \$1,608 | \$2,214 | \$3,586 | \$17,242 |
| 1999 Estimated | | | | | | | | |
| Number of returns..... | 1,423,081 | 60,074 | 133,415 | 369,763 | 435,066 | 199,000 | 164,366 | 61,396 |
| Amount..... | \$3,504,193,969 | \$69,084,989 | \$140,086,155 | \$469,599,435 | \$713,508,252 | \$445,761,084 | \$591,717,614 | \$1,074,436,440 |
| Average..... | \$2,462 | \$1,150 | \$1,050 | \$1,270 | \$1,640 | \$2,240 | \$3,600 | \$17,500 |

The bill limits the revenue loss to \$1.5 billion instead of \$4.0 billion by capping the refundable credit at \$1,000 per couple filing jointly and \$500 for all other filers (single, married filing separate, head of household, etc.). LBO estimates that the revenue loss from federal itemizers is \$1.06 billion while the revenue loss from non-itemizers is \$0.41 billion.

At first glance, it might seem that the cap on the credit would limit the revenue loss more. A more in-depth look at the numbers reveals that this is unlikely. Data from the Independent Sector shows that, in 1995, 24.5% of households contributed more than \$500 to charity, with 15.2% contributing more than \$1,000. The IRS data shows that 24.4% of Ohio federal tax returns in 1996 itemized their charitable contributions, and that the average contribution for every income class is over \$1,000. From this, one could draw the conclusion that every Ohio household that itemized their charitable contributions gave at least \$500, with almost all the joint filers contributing at least \$1,000. Making this assumption would result in an estimated revenue loss from itemizers of \$1.17 billion. In fact, LBO has made a less strict interpretation of the data, which reduces the estimated revenue loss to \$1.06 billion.

For the most part, the non-itemizers are not affected by the cap, since the estimated contribution amounts are generally much smaller. The flip side of the conclusion stated above that all itemizers contributed at least \$500 is that all non-itemizers contributed less, so that none of them are affected by the cap. Again, LBO has not strictly followed this assumption, but we do conclude that very few non-itemizers would be affected by the cap.

Table 2 summarizes LBO's estimates of the proposed credit. The credit is broken down by filer type and by income level for both the itemizers and the non-itemizers. While there is some uncertainty about the revenue impact of the credit, none of the simulations that LBO did resulted in a revenue loss of less than \$1 billion.

Behavioral Impacts

There is a rather extensive economics literature concerning the impact of taxes on charitable giving. There is not space in this fiscal note to thoroughly review this literature. The basic intuition is that for individuals who get a tax subsidy for charitable contributions, the price of giving \$1 to charity is less than \$1. For an individual facing a 20% federal marginal tax rate, a deduction reduces the price of \$1 of charitable giving to \$0.80. So, economists have tried to estimate the "price effect" of tax changes on the level of charitable contributions.

Studies prior to 1990 tended to find that the absolute value of the price elasticity of charitable giving exceeded 1, and was typically in the range of -1.2 to -1.3.¹ A landmark 1995 study using panel data – a group or "panel" of taxpayers observed over time – estimated that the long-run price elasticity of charitable giving may only be about -0.7.² This would mean that a 10% decrease in the price of charitable contributions, due to a tax break, would increase charitable contributions by 7%. The older studies estimated that a 10% reduction in price due to a tax break would increase giving by about 13%.

¹ See, for example, Richard Steinberg, Taxes and Giving: New Findings," *Voluntas*, vol.1 no.2, 1990.

² William Randolph, "Dynamic Income, Progressive Taxes, and the Timing of Charitable Contributions," *The Journal of Political Economy*, vol. 103. No.4, August 1995, pps. 709-738.

Table 2 - Estimated Tax Impact of Refundable Credit (TY 1999, FY 2000), No Behavioral Change

| Itemizers | All returns | Under \$15,000 [1] | \$15,000 under \$30,000 | \$30,000 under \$50,000 | \$50,000 under \$75,000 | \$75,000 under \$100,000 | \$100,000 under \$200,000 | \$200,000 or more |
|-----------------------------|------------------------|---------------------|-------------------------|-------------------------|-------------------------|--------------------------|---------------------------|---------------------|
| Estimated Number of Returns | | | | | | | | |
| MFJ | 908,504 | 8,410 | 36,554 | 173,578 | 329,597 | 167,593 | 140,792 | 51,981 |
| Other | 514,578 | 51,664 | 96,861 | 196,186 | 105,469 | 31,408 | 23,574 | 9,416 |
| Total | 1,423,081 | 60,074 | 133,415 | 369,763 | 435,066 | 199,000 | 164,366 | 61,396 |
| Estimated Average Credit | | | | | | | | |
| MFJ | | \$500 | \$600 | \$800 | \$1,000 | \$1,000 | \$1,000 | \$1,000 |
| Other | | \$250 | \$300 | \$400 | \$500 | \$500 | \$500 | \$500 |
| Estimated Total Credit | | | | | | | | |
| MFJ | \$854,961,444 | \$4,205,125 | \$21,932,635 | \$138,862,229 | \$329,596,539 | \$167,592,578 | \$140,791,663 | \$51,980,676 |
| Other | \$205,382,135 | \$12,915,913 | \$29,058,298 | \$78,474,219 | \$52,734,734 | \$15,703,953 | \$11,787,170 | \$4,707,846 |
| Total | \$1,060,343,579 | \$17,121,038 | \$50,990,933 | \$217,336,449 | \$382,331,273 | \$183,296,531 | \$152,578,834 | \$56,688,522 |

Non-Itemizers

| | | | | | | | | |
|-----------------------------|----------------------|--------------------|--------------------|---------------------|----------------------|---------------------|----------------------|---------------------|
| Estimated Number of Returns | | | | | | | | |
| MFJ | 1,322,018 | 12,238 | 53,192 | 252,583 | 479,616 | 243,874 | 204,874 | 75,640 |
| Other | 748,793 | 75,179 | 140,948 | 285,481 | 153,475 | 45,704 | 34,304 | 13,701 |
| Total | 2,070,811 | 87,417 | 194,141 | 538,065 | 633,091 | 289,577 | 239,179 | 89,342 |
| Estimated Average Credit | | | | | | | | |
| MFJ | | \$50 | \$50 | \$100 | \$250 | \$300 | \$450 | \$450 |
| Other | | \$50 | \$50 | \$50 | \$150 | \$150 | \$250 | \$250 |
| Estimated Total Credit | | | | | | | | |
| MFJ | \$347,827,512 | \$611,913 | \$2,659,624 | \$25,258,340 | \$119,903,901 | \$73,162,190 | \$92,193,460 | \$34,038,083 |
| Other | \$66,958,627 | \$3,758,943 | \$7,047,411 | \$14,274,065 | \$23,021,238 | \$6,855,528 | \$8,576,108 | \$3,425,334 |
| Total | \$414,786,140 | \$4,370,856 | \$9,707,035 | \$39,532,406 | \$142,925,139 | \$80,017,718 | \$100,769,568 | \$37,463,417 |

Grand Total

| | | | | | | | | |
|-----------------------------|------------------------|---------------------|---------------------|----------------------|----------------------|----------------------|----------------------|---------------------|
| Estimated Number of Returns | | | | | | | | |
| MFJ | 2,230,522 | 20,649 | 89,747 | 426,161 | 809,212 | 411,467 | 345,666 | 127,621 |
| Other | 1,263,370 | 126,843 | 237,809 | 481,667 | 258,944 | 77,111 | 57,879 | 23,117 |
| Total | 3,493,892 | 147,491 | 327,556 | 907,828 | 1,068,157 | 488,578 | 403,545 | 150,738 |
| Estimated Total Credit | | | | | | | | |
| MFJ | \$1,202,788,956 | \$4,817,037 | \$24,592,259 | \$164,120,570 | \$449,500,440 | \$240,754,768 | \$232,985,124 | \$86,018,759 |
| Other | \$272,340,762 | \$16,674,857 | \$36,105,709 | \$92,748,285 | \$75,755,973 | \$22,559,481 | \$20,363,278 | \$8,133,180 |
| Total | \$1,475,129,719 | \$21,491,894 | \$60,697,968 | \$256,868,854 | \$525,256,412 | \$263,314,249 | \$253,348,402 | \$94,151,939 |

The impact of the proposed credit on behavior is not immediately apparent. Since the credit is 100% (dollar for dollar) up to a cap, the price of giving is zero up to that cap. Thus, it is very likely that taxpayers not already giving at the \$1,000 or \$500 limits would increase their giving towards those limits. While this process may take a few years, in the long run one should assume that all the households now making charitable contributions would increase their gifts up to the cap. If all the contributing taxpayers in Table 2 were to do this, the annual tax credit amount would increase from \$1.47 billion to \$2.86 billion. Obviously, this is a simplification for low-income taxpayers, where even with a 100%, refundable credit, the household may have cash flow problems and not be able to give up the money even if they get it all back when they file their taxes.

In the long run, some households who currently do not give to charity would presumably be induced to do so by a 100%, refundable credit. The additional tax revenue loss from these taxpayers is difficult to estimate. Some of these taxpayers might continue to hold out and not give to charity, others might continue to give less than the full amount. However, enough of these households would receive tax credits that the total annual cost of the credit would probably exceed \$3 billion.

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