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The Effect of State Taxes on Charitable Giving

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Executive Summary

An often overlooked aspect of public policy is the role that charitable organizations have in addressing some of society's most pressing concerns. Because of this important role and since charitable organizations are funded privately through donations, understanding how state policies interact with charitable organizations is crucial for a robust discussion about public policy. This *State Factor* examines state tax policies that encourage charitable giving, apart from the charitable giving deduction.

While many factors certainly influence an individual's choice about donating to charity, there are broad policy choices that can encourage higher rates of growth in charitable giving. By examining various tax burdens and tax rates with rigorous economic analysis, this paper's research findings show that a 1 percent increase in the personal income tax burden is associated with 0.35 percent decrease in charitable giving per dollar of state income. Similarly, this *State Factor* found that an increase in personal income tax burden of roughly 1 percentage point of total state income results in a roughly 0.10 percentage point decrease in the level of measured charitable donations as a percent of income.

When all state taxes are considered, a 1 percentage point increase in the total tax burden is associated with a 1.16 percent drop in charitable giving per dollar of state income. Similarly, this *State Factor* found that an increase in total tax burden of roughly 1 percentage point of total state income results in a roughly 0.09 percentage point decrease in the level measured charitable donations as a percent of income.

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For these figures, the opposite is also true: a tax cut of the size described will result in a proportionate increase to charitable giving. Moreover, given that total state charitable giving as a percent of income ranges from roughly 5.2 percent down to 1.15 percent across states and years, this suggest that taxes have a strong effect on charitable giving.

These strong findings indicate that charitable giving increases when the burden of government, through taxes, is reduced. This effect is three-fold. First, taxes reduce an individual's income, leaving less income to donate to charity in a given year. Second, taxes reduce potential income growth that could have resulted in subsequent charitable giving. Third, taxes pay for public services and citizens may decide that they are already paying their share of social spending through taxes and decline to contribute to charity, thus "crowding out" charitable donations. While it is clear that tax reductions do not necessarily translate into loss of government services—there are many ways that governments can spend tax revenues more efficiently—it is certainly relevant that when taxes are reduced, charitable organizations are likely to offset reductions in public benefits.

It is also worth noting that the reverse effect is also true; an increase in taxes is associated with a decrease in charitable giving. These increases in taxes, which are then translated into government spending for a given purpose, may reduce charitable giving in that area. This negative feedback loop could result in worsening a problem that additional government spending seeks to solve. Given these findings, the impact of tax changes on charitable giving is an often overlooked piece of the public policy puzzle and policymakers should consider it carefully when discussing tax policy changes.

> "This *State Factor* examines state tax policies that encourage charitable giving, apart from the charitable giving deduction."

Introduction

The concept of civil society has existed for centuries, yet it is too often left out of serious conversations about public policy. Civil society is a collection of individuals who are connected through various social institutions and range from national groups with many chapters to local community organizations. Too often, discussion on the size and scope of government ignores the role of civil society, particularly the larger role civil society can be expected to fill as government is reformed in order to tax less and focus its responsibilities on core competencies that government is uniquely situated to accomplish.

This unique place in society is recognized by the United States government by granting non-profit status, which exempts these organizations from tax treatment as a business, precluding organizational taxation under the corporate or personal income tax code and even allows private money donated to these organizations to be deducted from the tax liability of donors.

When discussions of tax reductions or spending reform occur within state legislatures and the public sphere, discussions of charitable giving are often absent, even from the talking points of tax reduction and spending reform advocates. These debates often focus on advocates of big government lamenting the loss of public services, with all spending deemed essential and already at the most frugal of scales, while tax reformers note the proliferation of government waste ripe for cutting, the benefits of additional economic growth as true social assistance (more jobs, more income and more entrepreneurial opportunity) and the positive "Laffer" effects of tax cuts which partially dull the loss of revenue that would otherwise be expected from tax cuts.

But what is often forgotten is the charitable sector—both what they provide currently and what more they would be able to provide given a tax cut. That is, if lower tax states tend to give more, and tax cutting states increase their giving, then charitable giving belongs in the conversation regarding state tax cuts. Civil society may well appropriately—and perhaps more efficiently–fill necessary gaps in public needs that might happen to arise alongside a back stop of more money in taxpayer pockets, more economic growth and a government that provides for core social needs.

The space between what individuals are able to accomplish on their own, voluntarily, and what government is able to—or should—accomplish is filled by another crucial component of civil society: private charitable organizations. Charitable organizations, broadly defined, are non-governmental collections of individuals or communities that work to solve some problem in society or otherwise provide social value in the gap between private enterprise and government action. These organizations, in their most abstract sense, have been around in some form or another as long as people have been interacting with one another. Today, there are countless charitable organizations, diverse in size, scope and mission. Ranging from religious organizations to public policy groups, these groups generally do not seek to make a profit, like businesses, and are not an arm of any government. Whether it is a foundation that donates millions to fighting global disease and hunger or the neighborhood church that operates a food bank for the neediest in a community, charitable organizations fill an important role in civil society while relying exclusively on voluntary donations.

According to some, solving social problems is thought to be entirely in the purview of various government programs funded by taxpayers. However, there are limits to what government is able to accomplish and, perhaps more importantly, limits on what government *should* attempt to accomplish.

Much has been written on the effectiveness of privately funded charitable organizations and the lackluster performance of government-run aid programs. Of course, there is a role for government aid programs, but when it comes to providing long-term assistance to individuals in need, private charity is unquestionably in a better position to do so. Government is able to acquire—through taxes—and directly spend large amounts of money on a large number of people, often in the form of government assistance checks. However, government agencies are less able to predict and meet specific needs of individuals and communities. Much of the lasting benefits of charity come from individualized attention and knowledge that government is often unable to provide.

Solving societal problems is rarely, if ever, as simple as transferring money from one individual to another. Instead, the focus on an individual's development is what is most important. In *Losing Ground*, political scientist and American Enterprise Institute Fellow Charles Murray describes the unintended consequences of simple output based government aid programs, "The first effect [of government policies] . . . was to make it profitable for the poor to behave in the short term in ways that were destructive in the long term. Their second effect was to mask these long-term losses—to subsidize irretrievable mistakes. We tried to remove the barriers to escape poverty, and inadvertently built a trap."[1]

The government programs, funded by the Workforce Investment Act, provide aid to about 7 million people annually. Only 56 percent of enrollees in the program find work, while 20 percent are unable to retain their job after six months.

Howard Husock, a philanthropy researcher and Vice President at the Manhattan Institute for Policy Research, highlights a comparison between government job training programs and private job training programs. The government programs, funded by the Workforce Investment Act, provide aid to about 7 million people annually. Only 56 percent of enrollees in the program find work, while 20 percent are unable to retain their job after six months. A similar private jobs training program by contrast, in this case Cincinnati Works, is able to boast an 84 percent job placement and retention rate.[2] Rather than focusing on outputs, private charity is better equipped to do what is needed most, improve outcomes and help individuals thrive.[3]

Private charitable organizations are often under tougher resource constraints than government, and because of this, there is much more pressure to use those resources wisely and focus on results, particularly given that charities compete against one another for scarce charitable funding. Moreover, numerous organizations and firms exist to examine the effectiveness of charities in order to advise donors on how to be most impactful with their donation.

> "While many factors certainly influence an individual's choice about donating to charity, there are broad policy choices that can encourage higher rates of growth in charitable giving."

Government, on the other hand, often focuses on direct outputs, such as how much money is spent, and often provides duplicative or unnecessary services. This problem is exacerbated by the fact that government aid agencies and programs do not need to attract voluntary donations to function, which curtails incentives for efficiency and innovation. Because funding can be based on politics rather than on effectiveness and demonstrable results, government aid agencies often suffer from a lack of accountability.

A lifelong academic researcher in the field of foreign aid and its effectiveness, William Easterly writes about the perverse incentives that government aid agencies often face when tasked with helping developing countries. Easterly describes a difference between "planners" and "searchers" in foreign aid.[4] Government agencies often deliver aid as "planners" using formulas and specific metrics to measure aid. Private charities are often categorized as "searchers," people searching for solutions to problems when delivering foreign aid. Easterly describes "searchers" as decentralized and looking for ways to imitate the feedback of markets and democracy.

The positive role and influence of charitable giving in addressing some of society's most urgent needs is difficult to overstate. To that end, state policymakers should consider which policies are likely to help private charity to proliferate and which are likely to undermine it. This *State Factor* examines the relationship between a state's tax policy and its charitable giving.

Charitable Giving in the United States Today

To best understand the relationship between charitable giving and state taxes, understanding the enormous scope of charitable giving is essential. How much charitable giving exists? Where does it come from and where does it go? Answering these questions provides context for this topic and will better inform conclusions drawn from the research presented in this paper.

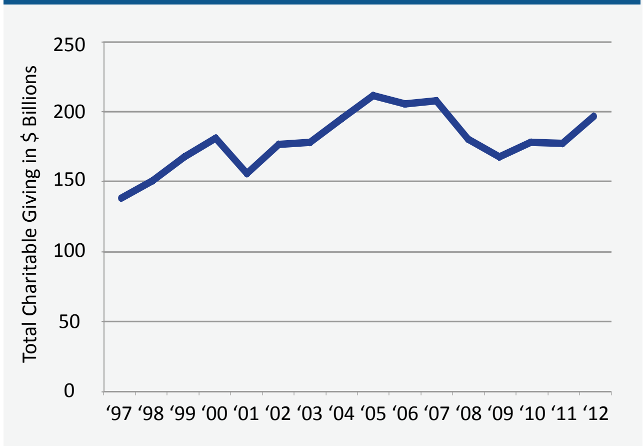
According to the National Center for Charitable Statistics, there are currently 1,507,231 tax-exempt organizations operating in the United States.[5] This includes a mixture of public charities, private foundations, non-profit organizations and others. Overall, Americans have traditionally given about 2 percent of Gross Domestic Product (GDP) to charity over the past 40 years.[6]

From 1997 to 2012, charitable giving in the United States grew by 43.03 percent after adjusting for inflation, according to Internal Revenue Service (IRS) statistics of income (SOI) tables. In 2014, total charitable giving was $358.38 billion according to estimates by *Giving USA*, or about 2.1 percent of total GDP. While these figures describe charitable giving in the United States as a whole, giving rates and growth in charitable giving vary widely by state.

In gathering the data for this study, the analysis focused on collecting data on state economic growth as well as accounting for varying populations and incomes in states by tracking adjusted gross income (AGI) and number of claimants of the charitable deduction in the state. This data comes from the IRS. Generally, these IRS data releases have roughly a two-year time lag between revenue collections and publication of the data, hence ending the time series in 2012. As seen in Figure 1, total charitable giving from individuals, as reported in IRS data, was $197.1 billion or $198.6 billion when the District of Columbia is included.

Figure 1

Charitable Giving in the United States



Source: Internal Revenue Service

Table 1

Total Chartiable Deductions Claimed in 2012 by Income Group										
	Total Chartiable Deductions	Size of Adjusted Gross Income								
		$1 to $10,000	$10,000 to $25,000	$25,000 to $50,000	$50,000 to $75,000	$75,000 to $100,000	$100,000 to $200,000	$200,000 to $500,000	$500,000 to $1,000,000	$1,000,000 or more
Returns Claiming Charitable Deductions	37,490,960	527,460	1,971,880	5,850,480	6,881,930	6,294,810	11,305,520	3,652,790	639,210	366,880
Cash Value of Charitable Deductions Claimed (in Billions)	$198,552,435	$642,534	$3,997,673	$14,089,611	$19,080,355	$19,851,248	$45,110,012	$26,983,944	$11,468,422	$57,328,636
Percent of Total Income Claimed as Charitable Deduction	2.19%	0.54%	0.69%	1.15%	1.62%	1.89%	2.16%	2.27%	2.42%	0.04%
Percent of Total Charitable Deductions Claimed	100.00%	0.32%	2.01%	7.10%	9.61%	10.00%	22.72%	13.59%	5.78%	28.87%

Source: Internal Revenue Service

As Table 1 shows, taxpayers with incomes of more than $1 million accounted for the largest share, in dollars, of charitable deductions claimed and the highest dollar total amount. However, the top income group is far from the majority of taxpayers claiming the charitable deduction. It is worth noting that there are some taxpayers in each income group who claim the charitable deduction even if more than 70 percent of charitable deductions are claimed by those with incomes of $100,000 or more.

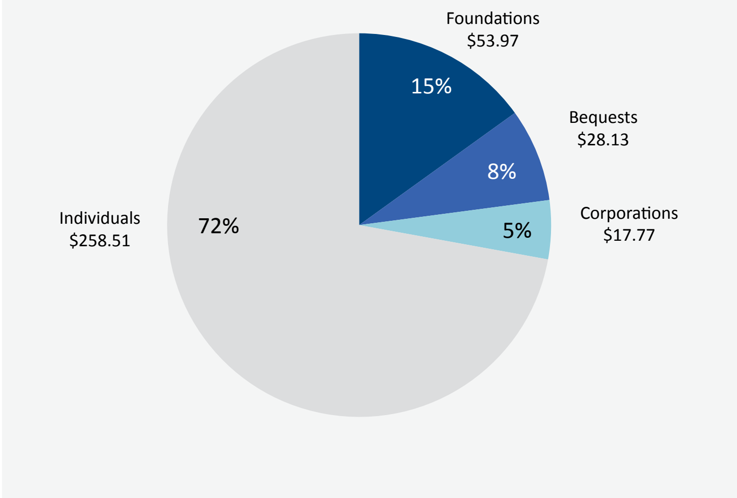
It should be noted that the IRS data tracks giving from individuals as claimed on their tax returns (via the charitable deduction). To put this in perspective, Figure 2 highlights data from the *Giving USA* report showing that individual charitable donations accounted for roughly 72 percent of total charitable giving in 2014, which means that individuals made charitable contributions equal to about 1.9 percent of GDP. The remaining 26 percent of charitable contributions came from bequests, foundations and corporations. *Giving USA* estimates giving levels by using a forecasting model that blends relevant trends with data from the Philanthropy Panel Study series, which is a longitudinal study that follows 8,000 households over many years and records their giving habits.

According to IRS statistics as seen in table 1, roughly 2.2 percent of total AGI was claimed as charitable contributions in 2012. These charitable contributions go to a variety of organizations, including religious organizations, education related causes, human and disaster services, health related causes and others as illustrated in Figure 3. As the figure demonstrates, charitable giving is spread across categories that very much mimic and supplement the functions of government.

The IRS data is calculated by tracking which taxpayers use the charitable giving deduction on their tax returns. The *Giving USA* report, however, estimates that in 2014, about 17 percent of individual charitable giving goes unreported on individual tax forms (i.e. non-itemizing donors).[7] Over recent decades, the amount of unreported charitable giving has varied. Typically, this number is between 15 and 20 percent. That remaining 15 to 20 percent of individual charitable deductions are not recorded by the IRS because those donations are either larger than the level of the taxpayer's tax liability and hence not claimed, or that taxpayer did not have sufficiently high itemized deductions

Figure 2

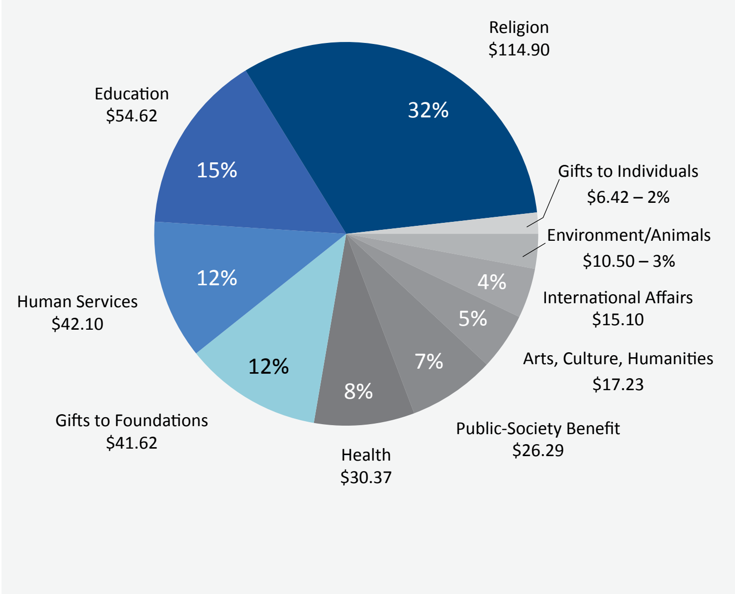
2014 Charitable Contributions by Source ($ in Billions)



Reproduction of Giving USA Chart

Figure 3

2014 Charitable Contributions by Type of Recipient Organization ($ in Billions)



Reproduction of Giving USA Chart

such that they could improve their tax liability by claiming the charitable deduction coupled with other deductions, relative to simply taking the standard deduction.

It should be noted that not all charitable contributions are cash donations. Individuals can also donate investment assets or goods and claim those donations against their tax liability. In 2012, 24.6 percent of all donations were non-cash, according to the Tax Foundation.[8] Figure 4 from the Tax Foundation breaks those non-cash donations into relevant subcategories.

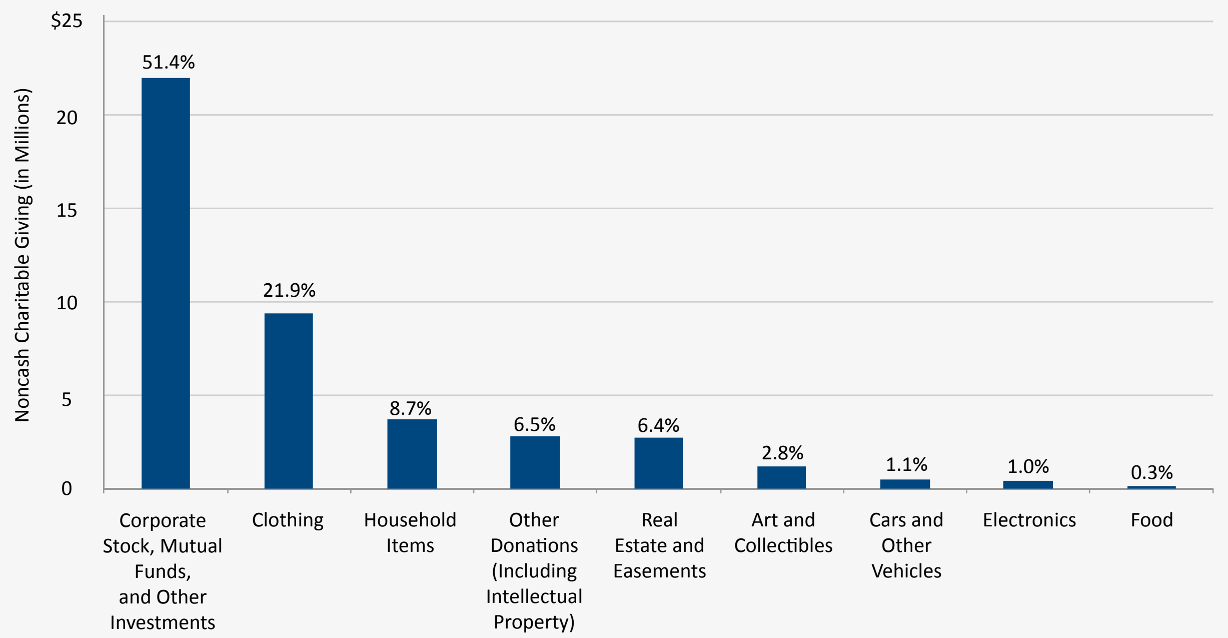
Another data limitation when calculating rates of charitable giving is the largely unreported and difficult to quantify donation of time—volunteer hours. The National Center for Charitable Statistics estimates that in 2012, 64.5 million people, about 26.5 percent of the U.S. population, volunteered at least once. Overall in 2012, the Center estimates that 12.7 billion hours were spent volunteering, with an estimated valuation of $259.6 billion.[9] The economic value of the volunteer time goes unquantified in these estimates of charitable giving due to data limitations.

"Overall in 2012, the Center estimates that 12.7 billion hours were spent volunteering, with an estimated valuation of $259.6 billion."

While the above data demonstrate the contours of charitable giving in the United States, this study will focus on charitable giving from itemized filers as reported by the IRS. Due to vast population and income differences between the states, this report will focus on charitable giving per number of claimants of the federal charitable deduction in a state and as a percentage of the state's AGI, which provides an appropriate normalizing benchmark.

Figure 4

Noncash Charitable Contributions in 2012 (Percentage of Total)



Reproduction of Tax Foundation chart using Internal Revenue Service Data

A Review of Previous Research on Charitable Giving

A state-specific analysis of how state tax policy affects levels and growth of giving has generally been an under-studied element of charitable giving. Most of the research on the topic has examined federal fiscal policy. Previous research on the connection between tax and budget policy and charitable giving has focused on two general frames of analysis. The first frame analyzes giving with respect to an increase in taxes, mostly on the federal level, and considers the effect of the federal charitable deduction, thus creating an implicit after tax discounted cost of charitable giving. Call this the price model of charitable giving. The second way giving has been analyzed is by comparing the movement of federal government spending to charitable giving to see if spending "crowds out" charitable giving. This effect can be seen as potential donors reduce charitable giving as citizens perceive that they have already paid their necessary social burden to society or have budgets that are overextended by taxes, such that additional giving is financially difficult. This is the crowding out model of charitable giving and taxation.

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A: PRICE MODEL ANALYSIS

The price model focuses on the "elasticity" of charitable giving assuming changes in net after-tax prices. Elasticity is the response of a consumer—in this case, consumption is the "purchase" of a charitable donation—to a relative change in price. That net effect is the combination of taxes reducing income available for charitable giving while the charitable deduction offers an opportunity to reduce the increased tax liability with additional giving. Taxpayers can opt to give income to charity instead of paying taxes to the government, and as their taxes go up, they have more of a tax burden to offset with charitable giving. These studies are conducted at both the aggregate, nation-wide level and also on the individual level using data indicative of a taxpayer's marginal response to an increase in tax burden.

The results of the academic literature offer a range of conclusions that vary based on the given data set, research design and empirical parameters used, but generally conclude an estimate of "unit elasticity," meaning charitable giving is neither increased nor decreased' by a change in federal taxes.[10] This suggests that a desire to reduce a personal tax liability has roughly equal effect than the simple income effect of having less money available to give charity, given a tax increase. However, this state factor indicates that state taxes are closely linked to charitable giving in the states.

B: CROWDING OUT MODEL

The results of the "crowding out" studies on charitable giving stand somewhat at odds with the literature in the price elasticity of after-tax charitable giving. These studies compare changes in government spending with changes in charitable giving. These crowding out studies are analyzed from the aggregate, nation-wide level of spending and total charitable donations. Many of these studies separate specific types of government spending and charitable giving differentiated by category and empirically matched in their effect, such as government education funding and donations to educational institutions. The matching method allows researchers to see whether certain areas of spending increases create a larger or smaller change in charitable giving relative to other areas.

The literature again has mixed results but generally suggests that crowding out does occur, particularly for certain subcategories of spending.[11] That is, as government spends more, citizens tend to give less, either overall or in certain categories of government spending and related giving. Those estimates tend to stay around the 0.50 level, meaning a 1 percent change in government spending leads to a 0.5 percent change in charitable giving.[12]

C: RECONCILING THE PRICE MODEL AND CROWDING OUT MODEL

The notion that taxpayers respond to a tax increase by holding charitable giving constant, while spending increases crowd out charitable giving produces a slight paradox. One problem with some of the price literature is that in general it ignores the medium-term and long-term effects of taxation on income growth. While individuals may respond in the short-term to a tax increase by increasing charitable giving, their income may grow slower in future periods, reducing their capacity for charitable giving. There is a tremendous body of evidence that taxes do indeed hurt income growth and tax cuts improve income growth.[13] Taxpayers also may shift their charitable giving away from areas of increased spending which is potentially the spending that created the necessity for a tax increase. They may feel that given that government is doing more to help people in a certain way, they have less reason to give charitably towards that cause, particularly since they are already paying more in taxes for that spending.

Moreover, the difference in the literature may be the result of the frame of analysis—aggregate, overall level of society or individual marginal, short-term responses. The two research tracks ask slightly different questions and at different levels of analysis.

Finally, the level of federal spending is not firmly tied to the level of taxation given the record of extensive deficit spending, particularly given the United States' status as the world reserve currency. Taxes and spending do not perfectly match, so some divergence in results is likely given that different measures are being considered.

Perfectly recreating this analysis on the state level raises additional issues. With respect to the crowding out literature, federal spending is not tied directly to federal taxes, given the authority to borrow large amounts of money and continue deficit spending, as noted above. Due to 49 out of the 50 states maintaining a formal balanced budget requirement, states generally do not have this fiscal luxury. Moreover, the federal government provides a tremendous amount of the funding for state-implemented spending through federal grants, but those grants are neither evenly distributed nor are they neutral across the states. Hence, states have their own wedge between taxes and spending, and that wedge varies significantly by state.

Because of these compositional issues in the taxes and spending fiscal mix noted above, this research uses taxes at the aggregate, state-wide level to analyze the possibility of crowding out at the state level. Additionally, it may well be the case, at least at the state level, that citizens are more aware of their level of taxation than they are in regards to the level of spending, making them more cognitively responsive to taxes than to spending in terms of crowding out. Finally, the crowding out effect of taxes better accounts for the possibility of a long-term growth effect from taxes to be adequately picked up in a regression analysis. Analyzing this question using a state analysis model provides additional statistical power given its differentiation, as will be discussed further in the empirical section of the paper.

As government spends more, citizens tend to give less, either overall or in certain categories of government spending and related giving.

Comparing State Charitable Giving

Subsection A examines the levels of charitable giving in each state, focusing on the ten states that are most generous in their giving and the ten states that are least generous in their giving. To properly consider these figures given differences in state income and population, the analysis adjusts them using two separate measures. Charitable giving is considered per person, measured by the number of individual claimants that gave a gift of at least a dollar, controlling for population. Separately, charitable giving is considered as a percent of total state income, creating a measure of giving per dollar of total state income. These figures are considered over two time periods: 1997-2012 and 2008-2012. The full time frame available from the IRS statistics on charitable giving ranges from 1997-2012. The 2008-2012 time frame is considered separately to give a more recent look at charitable giving in the wake of the Great Recession.

After examining levels of charitable giving, Subsection B displays and reviews the growth in the rates of charitable giving to see movement in the giving levels, as opposed to static levels alone. Again, two time frames are considered: 1997-2012 and 2008-2012. The growth of charitable giving per claimant, charitable giving per dollar of total income, and charitable giving growth rates unadjusted by population or income are considered. The top and bottom 10 states are displayed and discussed for these three measures.

Charitable giving is considered per person, measured by the number of individual claimants that gave a gift of at least a dollar, controlling for population. Separately, charitable giving is considered as a percent of total state income, creating a measure of giving per dollar of total state income.

Next, in Subsection C, the levels of charitable giving for the top and bottom 10 fastest growing states in terms of AGI are considered. This is to consider whether income growth drives charitable giving. Two time frames are considered for the growth of charitable giving and for the growth of AGI—1997-2012 and 2008-2012. All five measures from above are considered in reviewing the results of the fastest growing states: giving per claimant, growth of giving per claimant, giving per dollar of income, growth of giving per dollar of income and unadjusted growth of giving.

Last, in Subsection D, the levels of charitable giving for the states with the highest and lowest burdens of taxation are considered. These figures are considered to display the impact that taxes have on charitable giving. To measure taxation, three measures are displayed and reviewed: *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*, the total state tax burden as a percent of state income and the states with the highest and lowest personal income taxes. The data is considered over the same time frames as the sections above: 1997-2012 and 2008-2012. Once again, all five measures from above are considered in reviewing the results of the fastest growing states: giving per claimant, growth of giving per claimant, giving per dollar of income, growth of giving per dollar of income and unadjusted growth of giving.

Astute observers will note that Wyoming does well in levels of charitable giving and tops each metric of growth in charitable giving by an extremely large margin. This data anomaly serves as an extreme outlier due entirely to a large increase in charitable giving from 2011 to 2012. Over this time period, charitable giving in Wyoming increased by a multiple of seven, while total adjusted gross income doubled. This is not an error, as confirmed in a conversation with the IRS, but rather a result of a large amount of income going to charitable giving in a single year. The underlying causes are not easily deciphered from IRS data alone, but it is likely that a few, or even just one, very high income individual(s) gave a very large gift to charity.

A: LEVELS OF CHARITABLE GIVING IN THE STATES

From 2008 to 2012, Wyoming, Utah and South Dakota were the top three states for charitable giving per claimant while New Hampshire, Maine and Rhode Island were the lowest. As seen in Table 2, the same states maintained the same positions when the time period is extended from 1997 to 2012.

As Table 3 on the next page shows, Utah, Wyoming and Georgia were the top three states for charitable giving as a percentage of total AGI both from 2008 to 2012 and from 1997 to 2012. From 2008 to 2012, New Hampshire, North Dakota and West Virginia are the states with the least charitable giving as a percentage of AGI. When the time period is extended back, covering 1997 to 2012, West Virginia, North Dakota and New Hampshire are the three states with the least charitable giving as a percentage of AGI.

Table 2

Average Charitable Giving per Claimant					
2008-2012 Average Real Charitable Giving per Claimant			1997-2012 Average Real Charitable Giving per Claimant		
Rank	Level	State	Rank	Level	State
1	$24,275.88	Wyoming	1	$14,749.10	Wyoming
2	$7,930.33	Utah	2	$7,844.61	Utah
3	$7,683.77	South Dakota	3	$6,584.67	South Dakota
4	$6,861.20	Oklahoma	4	$6,580.77	Tennessee
5	$6,634.68	Texas	5	$6,419.94	Texas
6	$6,584.50	Tennessee	6	$6,109.32	Oklahoma
7	$6,036.11	Mississippi	7	$6,039.10	Arkansas
8	$5,981.30	Arkansas	8	$5,936.22	Mississippi
9	$5,832.90	Alabama	9	$5,657.97	Alabama
10	$5,557.56	Louisiana	10	$5,438.85	New York
41	$3,865.79	Delaware	41	$3,878.37	Iowa
42	$3,821.21	Oregon	42	$3,877.13	Oregon
43	$3,777.08	Ohio	43	$3,774.06	New Jersey
44	$3,581.99	Vermont	44	$3,736.94	Ohio
45	$3,524.76	Hawaii	45	$3,625.52	Hawaii
46	$3,484.43	New Jersey	46	$3,496.35	Vermont
47	$3,328.15	Wisconsin	47	$3,388.44	Wisconsin
48	$3,006.98	New Hampshire	48	$3,221.21	New Hampshire
49	$2,980.73	Maine	49	$3,095.02	Maine
50	$2,929.28	Rhode Island	50	$2,991.64	Rhode Island

Source: Internal Revenue Service

B: GROWTH IN RATES OF CHARITABLE GIVING IN THE STATES

While levels of charitable giving over time is an important metric to understand, growth in charitable giving portrays a dynamic picture of charitable giving in the states. Growth in charitable giving shows which states are improving relative to where they started and which states are stagnating or declining relative to the baseline year.

As shown on the next page in Table 4 from 2008 to 2012, Wyoming, North Dakota and Connecticut grew rates of total charitable giving more than any other state. From 1997 to 2012, Wyoming, Texas and South Dakota grew rates of charitable giving more than any other states. The 2008 to 2012 time frame saw declines in charitable giving for many states, most likely due to the effects of the recession, with Oklahoma, Virginia and Louisiana declining more than any others during that period. From

Table 3

Charitable Giving as a Percentage of Total Adjusted Gross Income					
2008-2012 Average Real Charitable Giving as a Percentage of AGI			1997-2012 Average Real Charitable Giving as a Percentage of AGI		
Rank	Level	State	Rank	Level	State
1	4.75%	Utah	1	4.90%	Utah
2	4.53%	Wyoming	2	3.25%	Wyoming
3	2.94%	Georgia	3	2.92%	Georgia
4	2.90%	Alabama	4	2.88%	Alabama
5	2.72%	Mississippi	5	2.81%	Oklahoma
6	2.69%	Oklahoma	6	2.75%	South Carolina
7	2.67%	Idaho	7	2.70%	Maryland
8	2.66%	South Carolina	8	2.69%	Idaho
9	2.54%	North Carolina	9	2.63%	North Carolina
10	2.53%	Maryland	10	2.63%	Mississippi
41	1.70%	New Mexico	41	1.85%	Ohio
42	1.66%	Hawaii	42	1.83%	Wisconsin
43	1.66%	New Jersey	43	1.75%	New Mexico
44	1.50%	Rhode Island	44	1.60%	Rhode Island
45	1.47%	Vermont	45	1.54%	Vermont
46	1.46%	Alaska	46	1.54%	Alaska
47	1.37%	Maine	47	1.52%	Maine
48	1.34%	West Virginia	48	1.40%	New Hampshire
49	1.29%	North Dakota	49	1.39%	North Dakota
50	1.24%	New Hampshire	50	1.32%	West Virginia

Source: Internal Revenue Service

1997 to 2012, Michigan trails Maine and Ohio for lowest growth in rates of charitable giving. It is very likely that these low levels of growth in charitable giving were a result of continued periods of low economic growth in these states, particularly the poor economic performance of Michigan during this time period.

To put this in perspective, real growth in charitable giving across the U.S. in 2012 rose 47 percent since 1997. That means, even accounting for inflation, charitable causes received $59,294,449 more in 2012 than they did in 1997. From 2008 to 2012, as the U.S. experienced a significant recession and began to recover, charitable giving in the U.S. grew by 9.4 percent, or a total of $16,872,925.

Wyoming, Nevada and Florida experienced the highest rate of charitable giving growth per claimant from 2008 to 2012, as

Table 4

Growth in Total Charitable Giving					
2008-2012 Total Real Growth			1997-2012 Total Real Growth		
Rank	Level	State	Rank	Level	State
1	756.86%	Wyoming	1	1220.26%	Wyoming
2	29.99%	North Dakota	2	98.88%	Texas
3	22.35%	Connecticut	3	97.77%	South Dakota
4	21.52%	Massachusetts	4	85.25%	Montana
5	18.81%	Kansas	5	83.50%	North Dakota
6	17.17%	South Dakota	6	76.49%	Nevada
7	17.05%	Washington	7	60.64%	Oklahoma
8	15.54%	California	8	58.79%	Georgia
9	13.13%	Nebraska	9	57.85%	Kansas
10	12.53%	Montana	10	57.62%	Washington
41	-0.56%	West Virginia	41	20.12%	Pennsylvania
42	-0.80%	Maine	42	19.01%	Indiana
43	-0.83%	New Jersey	43	18.92%	Wisconsin
44	-1.21%	Alabama	44	18.44%	New Hampshire
45	-3.30%	Arizona	45	13.80%	Rhode Island
46	-3.45%	Minnesota	46	12.52%	New Jersey
47	-4.08%	Delaware	47	10.78%	Delaware
48	-4.98%	Louisiana	48	8.92%	Ohio
49	-5.52%	Virginia	49	5.02%	Maine
50	-10.30%	Oklahoma	50	1.57%	Michigan

Source: Internal Revenue Service

noted in Table 5. Louisiana, Virginia and Oklahoma actually declined in rates of charitable giving per claimant in that period, while every other state experienced at least some growth in the rate of charitable giving per claimant. From 1997 to 2012, Wyoming, Oklahoma and North Dakota grew rates of charitable giving per claimant more than other states, while Maine, Delaware and New Jersey grew charitable giving per claimant the least, and at rates significantly lower than other states, even in the bottom 10.

As charitable giving per claimant falls, as was the case for Louisiana, Oklahoma and Virginia from 2008 to 2012, charitable causes receive less in support per individual claimant on average, even though charitable giving overall may be increasing. This was not the case for Louisiana, Oklahoma and Virginia since the overall rate of charitable giving in those states also decreased during that period.

Table 5

Growth of Average Charitable Giving per Claimant					
2008-2012 Total Real Growth			1997-2012 Total Real Growth		
Rank	Level	State	Rank	Level	State
1	758.08%	Wyoming	1	820.43%	Wyoming
2	38.31%	Nevada	2	57.83%	Oklahoma
3	26.12%	Florida	3	56.15%	North Dakota
4	26.11%	Connecticut	4	55.54%	Montana
5	23.73%	Massachusetts	5	37.54%	Kansas
6	22.69%	North Dakota	6	37.40%	Nevada
7	21.54%	Kansas	7	35.82%	Connecticut
8	21.44%	Washington	8	35.23%	Vermont
9	17.54%	California	9	33.27%	South Dakota
10	16.84%	Idaho	10	32.71%	Alaska
41	5.16%	South Carolina	41	13.48%	Pennsylvania
42	3.25%	Maine	42	13.28%	Tennessee
43	2.94%	West Virginia	43	13.19%	Mississippi
44	2.81%	New Jersey	44	13.05%	Wisconsin
45	1.45%	Mississippi	45	10.68%	Rhode Island
46	0.70%	Minnesota	46	10.48%	New Hampshire
47	0.45%	Delaware	47	9.87%	North Carolina
48	-2.44%	Oklahoma	48	3.75%	New Jersey
49	-3.59%	Virginia	49	2.73%	Delaware
50	-5.33%	Louisiana	50	2.64%	Maine

Source: Internal Revenue Service

From 2008 to 2012, Wyoming, Connecticut and Kansas were the three states with the highest rates of charitable giving growth as a percentage of AGI; Oklahoma, Virginia and Minnesota were the states that declined most in rates of charitable giving as a percentage of AGI. From 1997 to 2012, Wyoming, Mississippi and South Dakota grew rates of charitable giving as a percentage of AGI the most. Maine, Delaware and New Jersey declined in rates of charitable giving the most during that period. These figures can be seen in Table 6.

When looking at the rates of growth in charitable giving as a percentage of AGI, from 1997 to 2012, nine states actually experienced a reduction in rates of charitable giving per dollar of income rather than simply growing modestly. It is noteworthy that six out of the nine states tend to embrace a larger role for government spending and generally higher tax rates. In fact, of these nine states, Hawaii, New York, Minnesota and New Jersey are also among the nine states with the highest state personal income taxes. Of the nine states that do not levy a personal in-

Table 6

Growth of Charitable Giving as a Percentage of Total Adjusted Gross Income					
2008-2012 Total Real Growth			1997-2012 Total Real Growth		
Rank	Level	State	Rank	Level	State
1	456.07%	Wyoming	1	459.86%	Wyoming
2	18.06%	Connecticut	2	33.53%	Mississippi
3	14.06%	Kansas	3	29.34%	South Dakota
4	12.59%	Massachusetts	4	29.04%	Kansas
5	12.23%	Nevada	5	26.82%	Georgia
6	10.18%	Washington	6	24.85%	Tennessee
7	9.21%	New Mexico	7	24.75%	Montana
8	8.06%	New York	8	24.23%	Louisiana
9	7.83%	Georgia	9	23.77%	Texas
10	7.53%	California	10	20.49%	Connecticut
41	-2.77%	West Virginia	41	0.41%	Pennsylvania
42	-2.78%	Michigan	42	-0.38%	Hawaii
43	-3.18%	Maine	43	-2.57%	New York
44	-3.68%	Arizona	44	-2.83%	Rhode Island
45	-4.03%	Delaware	45	-3.81%	Minnesota
46	-4.10%	South Carolina	46	-4.02%	New Hampshire
47	-6.90%	North Dakota	47	-4.07%	North Dakota
48	-9.31%	Minnesota	48	-5.67%	New Jersey
49	-9.75%	Virginia	49	-7.44%	Delaware
50	-15.80%	Oklahoma	50	-10.76%	Maine

Source: Internal Revenue Service

come tax, only one state, New Hampshire, experienced a decline in charitable giving as a percentage of AGI from 1997 to 2012.

As far as states that grew charitable giving as a percentage of AGI from 1997 to 2012, three of the top nine states, South Dakota, Tennessee and Texas, do not tax personal income. This would be four if the outlier of Wyoming is included. None of the states with the highest income taxes are among the top nine states for the most growth in charitable giving as a percentage of AGI from 1997 to 2012.

C: INCOME GROWTH AND CHARITABLE GIVING

Once the data was collected, patterns of income growth corresponding to increases in charitable giving growth emerged. In fact, several major indicators of economic growth were linked to growth in charitable giving. This bears major importance in understanding charitable giving as a phenomenon driven at least in part by economic performance and suggests policies that enhance income growth will also enhance charitable giving.

Growth in a state's AGI tracked closely with growth in the state's charitable giving rates. As the total AGI in a state increased, the rate of growth in charitable giving also tended to be higher, as Table 7 illustrates. The 10 states with the most robust growth in AGI over the past five years, not counting the outlier of Wyoming, had an average growth in charitable giving per claimant of 14.04 percent from 2008 to 2012. By contrast the average rate of growth in charitable giving per claimant among the 10 states with the lowest growth in AGI was just 10.41 percent in the same time period.

Table 7

Comparing the Growth of Charitable Giving in the States with the Fastest and Slowest Growth in AGI

	Percent Growth in Charitable Giving per Claimant (2008-2012)	Percent Growth in Charitable Giving per Claimant (1997-2012)	Percent Growth in Charitable Giving as a Percentage of AGI (2008-2012)	Percent Growth in Charitable Giving as a Percentage of AGI (1997-2012)	Percent total Growth in Charitable Giving (2008-2012)	Percent total Growth in Charitable Giving (1997-2012)
Average of the 10 States with the Fastest Growth in AGI (5yrs)	13.35	32.02	1.36	14.78	14.66	65.84
Average of the 10 States with the Slowest Growth in AGI (5yrs)	9.74	17.16	2.65	12.50	2.63	39.52
Average of the 10 States with the Fastest Growth in AGI (16yrs)	12.28	35.00	-1.89	12.99	8.93	72.71
Average of the 10 States with the Slowest Growth in AGI (16yrs)	10.51	16.81	1.85	10.93	3.03	26.01

10 States with the Fastest Growth in AGI (5yrs)	WY, ND, SD, NE, MT, TX, IA, CO, AR, MA
10 States with the Slowest Growth in AGI (5yrs)	LA, AL, NJ, NV, NM, DE, MO, AZ, MS, IL
10 States with the Fastest Growth in AGI (16yrs)	WY, ND, TX, SD, MT, NV, VA, UT, CO, OK
10 States with the Slowest Growth in AGI (16yrs)	MI, OH, IN, IL, MO, AL, WI, KY, MS, RI

* These averages exclude the outlier of Wyoming, which, if included, would only bolster these results

Source: Authors' Calculations using Internal Revenue Service Data

Controlling for Wyoming, the 10 states that experienced the highest rates of AGI growth over the last five years grew charitable giving per claimant by 32.02 percent and by 14.78 percent as a percentage of AGI from 1997 to 2012. During the same time period, the 10 states with the lowest AGI growth in the past five years grew charitable giving by an average of 17.16 percent per claimant and by 12.5 percent as a percentage of AGI. Generally, the 10 states growing AGI the most over the past five years are also growing charitable giving rates in almost every metric more than the 10 states growing AGI the least over the past five years.

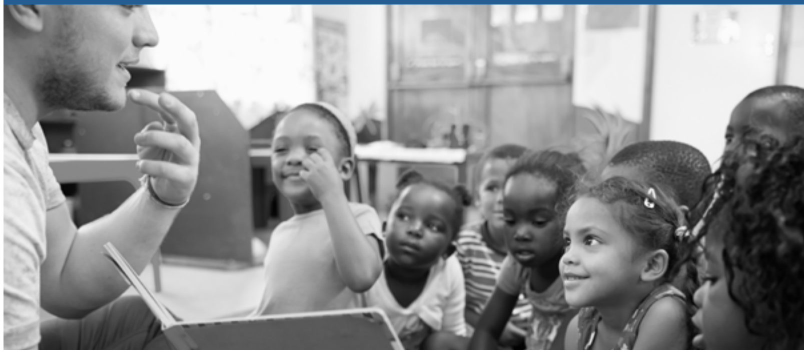
This trend is also true when AGI growth is measured over a longer time period. Excluding Wyoming, the 10 states with the most robust growth in AGI from 1997 to 2012, had an average growth in charitable giving per claimant of 12.28 percent from 2008 to 2012. By contrast, the average rate of growth in charitable giving per claimant among the 10 states with the lowest growth in AGI was 10.51 percent in that time period.

From 1997 to 2012, again controlling for Wyoming, the 10 states that experienced the highest rates of AGI growth grew charitable giving per claimant by 35 percent and by 12.99 percent as a percentage of AGI. As Table 7 shows, during the same time period the 10 states with the lowest AGI growth in the past 16 years grew charitable giving by an average of 16.81 percent per claimant and by 10.93 percent as a percentage of AGI. Similar to the shorter time period, the 10 states growing AGI the most over the past 16 years are also growing charitable giving rates faster in most comparisons with the 10 states growing AGI the least. From 1997 to 2012, the 10 states with the fastest growing AGI over the last 16 years grew their total charitable giving nearly three times more than the charitable giving of the 10 states with the slowest AGI growth over the past 16 years.

The average growth in charitable giving of the 10 states with the fastest AGI growth tends to be higher than the 10 states with the lowest AGI growth over either time period. In fact, the only measure where the 10 states with the fastest growth in AGI do not grow charitable giving faster than the 10 states with the slowest growth in AGI is in the growth in charitable giving as a percentage of AGI from 2008 to 2012. This is true for both the five-year and 16-year time periods. However, when total growth in charitable giving is measured, the 10 states with the fastest growth in AGI from 2008 to 2012 grew total charitable giving by 13.4 percent in that time period. That is more than four times the 3.08 percent total growth in charitable giving experienced by the 10 states with the slowest growth in AGI from 2008 to 2012. Similarly, the 10 states with the fastest growth in AGI from 1997 to 2012 grew total charitable giving by 8.93 percent from 2008 to 2012, more than double the 4.12 percent total growth in charitable giving from the 10 states with the slowest growth in AGI from 1997 to 2012.

In all the cases examined in this research, one notable conclusion is that the states with higher rates of economic growth always grow total charitable giving at a faster rate than their low performing counterparts. With higher rates of economic growth translating into higher rates of growth in charitable giving, lawmakers have a tremendous opportunity: prioritizing economic growth will encourage more charitable giving. Just as economic growth increases opportunity, it also tends to strengthen civil society by encouraging more growth in charitable giving. Thus, a state that grows faster not only creates more income for its citizens through more jobs and higher wages, it also creates higher capacity for social assistance to those not fully integrated into the labor force and unable to share the gains of booming economic performance.

With higher rates of economic growth translating into higher rates of growth in charitable giving, lawmakers have a tremendous opportunity: prioritizing economic growth will encourage more charitable giving.



D: PRO-GROWTH TAX POLICY AND CHARITABLE GIVING

To examine the relationship between rates of growth in charitable giving and generally pro-growth tax and fiscal policy environments, growth in rates of charitable giving were compared with three different metrics that signify states as having generally pro-growth tax and economic policies.

First is an analysis of rates of growth in charitable giving in the states ranking in the top and bottom 10 for economic outlook in the most recent edition of *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*.[14] The economic outlook rankings are based on 15 equally weighted tax and fiscal policy variables linked to increased rates of economic growth.[15] Next, rates of growth in charitable giving were measured against a state's overall tax burden, using the Tax Foundation's annual data set.[16] Finally, as personal income taxes are among the most damaging to overall economic growth, growth in rates of charitable giving were compared between the nine states that do not have a personal income tax and the nine states that maintain the highest personal income taxes. All of these results are summarized in Table 8.

In every category, over each time period, the nine no income tax states grew their rates of charitable giving more than the nine states with the highest income taxes.

Table 8

Pro-Growth Tax Policy and Growth of Charitable Giving

	Percent Growth in Charitable Giving per Claimant (2008-2012)	Percent Growth in Charitable Giving per Claimant (1997-2012)	Percent Growth in Charitable Giving as a Percentage of AGI (2008-2012)	Percent Growth in Charitable Giving as a Percentage of AGI (1997-2012)	Percent total Growth in Charitable Giving (2008-2012)	Percent total Growth in Charitable Giving (1997-2012)
RSPS 8th Ed. Average of Top 10 States in Economic Outlook	16.31	25.85	1.71	13.15	9.73	59.37
RSPS 8th Ed. Average of Bottom 10 States in Economic Outlook	10.84	23.01	3.10	5.29	7.58	33.66
Average of the 10 States with the Lowest Tax Burden	10.73	22.00	0.53	15.79	4.38	57.08
Average of the 10 States with the Highest Tax Burden	10.62	20.04	3.42	3.42	6.85	27.69
Average of 9 No Personal Income Tax States	16.53	24.24	2.99	15.00	8.05	53.79
Average of the 9 States with the Highest Personal Income Taxes	8.97	20.80	1.71	4.67	5.12	30.37

RSPS 8th Ed. Top 10 States	UT, ND, IN, NC, AZ, ID, GA, WY, SD, NV
RSPS 8th Ed. Bottom 10 States	NY, VT, MN, CT, NJ, OR, CA, MT, ME, PA
10 States with the Lowest Tax Burden	WY, AK, SD, TX, LA, TN, NH, NV, SC, AL
10 States with the Highest Tax Burden	NY, NJ, CT, CA, WI, MN, MD, RI, VT, PA
Nine States with No Personal Income Tax	AK, FL, NV, SD, TX, WA, WY, TN, NH
Nine States with the Highest Personal Income Taxes	CA, NY, HI, OR, NJ, MN, VT, MD, KY

* These averages exclude the outlier of Wyoming, which, if included, would only bolster these results

Source: Authors' Calculations using Data from the Internal Revenue Service, ALEC Research and the Tax Foundation

Looking at these three metrics and measuring rates of charitable giving in these states provides for interesting results displayed in Table 8. The 10 states with the best economic outlook in *Rich States, Poor States* experienced higher rates of charitable giving than the bottom 10 states in nearly every category. The top 10 economic outlook states even grew charitable giving as a percentage of AGI from 1997 to 2012 at more than double the rate of the bottom ten states. From 1997 to 2012, the 10 states with the lowest tax burdens grew their charitable giving as a percentage of AGI at a rate of nearly five times that of the 10 states with the highest tax burdens.

The results of comparing the average rates of growth in charitable giving from the nine no income tax states to the highest income tax states are particularly striking. In every category, over each time period, the nine no income tax states grew their rates of charitable giving more than the nine states with the highest income taxes. Additionally, the nine states with no income tax grew charitable giving as a percentage of AGI nearly three times as much as the nine states with the highest income taxes from 1997 to 2012.

The trend in these results is clear; the states with more pro-growth tax and fiscal policies tend to also have higher rates of growth in charitable giving, as one would hypothesize based on the observable relationship between economic performance and charitable giving and the academic consensus on tax policy and economic growth. But to examine this apparent trend more comprehensively, research deeper into the data with robust tools of statistical analysis were used and yielded strong results.

REGRESSION ANALYSIS

In previous sections, this paper analyzed and revealed trends which suggest charitable giving is driven by strong income growth and therefore can be similarly harmed by policies that hinder income and production growth. High tax rates, particularly when high taxes are levied on income, damage income growth according to the bulk of the research on the topic.[17] Moreover, besides stifling income growth, taxes extract resources from citizens that they may otherwise use to fund charitable endeavors, or may convince citizens that they have already done their part to socially contribute through taxes, thereby crowding out charitable contributions. Conversely, it is the case that the same tax cuts that boost economic opportunity for a state's working citizens also provide a greater cushion for the less fortunate by strengthening civil society. Trend analysis and reviewing basic correlations is an important step in evaluating a public policy hypothesis, but the tools of econometric analysis provide an additional layer of more rigorous statistical analysis to that evaluation.

To examine charitable giving in this study, data was collected from the IRS on the total dollar amounts of federal charitable deductions claimed by taxpayers, differentiated by state between 1997 and 2012, the only years available. First, the Tax Foundation's annual measure of state and local tax burdens, which were only available up until 2011, measure total state and local taxes as a percentage of income. Second, this study also collected total personal income tax collections by state from the Census Bureau and adjusted it as a percentage of state AGI, thus creating an effective state income tax rate. That data was available starting in 1998 and up to 2012. Control variables that account for the effect on charitable giving of total state AGI, number of individuals filing a tax return in the given state, and income concentration among those making over $200,000 of AGI.

Econometric analysis calculates an estimate of the relationship between variables as well as measuring the statistical strength of that relationship. Hence, this paper will discuss the strength of the relationship in terms of the "p-value" being "statistically significant" or statistically strong, and also interpret what those results practically mean.

The authors ran four multivariate regressions in order to study the effect of economic performance and taxes on individual charitable giving. Regressions examined both the level of the various variables in raw terms and the growth in those same variables, substituting two measures of tax policy for robust analysis—tax burden as a percent of income and the effective income tax rate on state AGI. All regressions were run using the state fixed effects specification. An in depth review of the empirical analysis, including summary regression results tables, can be reviewed in the working paper available at *www.ALEC.org/giving_and_taxes*.

A: ANALYZING LEVELS OF CHARITABLE GIVING, LEVELS OF ECONOMIC PERFORMANCE AND TAX BURDEN

When considering total tax burden, this *State Factor* found that an increase in tax burden of roughly 1 percentage point of total state income results in roughly a 0.09 percentage point decrease in measured charitable donations as a percent of income. As noted earlier in the paper, charitable giving as a percent of AGI ranges from roughly 5.2 percent down to 1.15 percent across states and years. As such, total tax burden appears to have a large effect on charitable giving. The opposite of this figure is also true—a decrease in taxes is associated with an increase in charitable giving. This is statistically significant at the 0.000 level, which is a strong statistical relationship.

Turning from total tax burden to the personal income tax burden, this study found a larger magnitude of effect. When considered alongside AGI, a 1 percentage point increase in the personal income tax burden is associated with a 0.10 percent decrease in charitable giving as a percent of state income. Again, charitable giving as a percent of AGI ranges from roughly 5.2 percent down to 1.15 percent across states and years. Similar to above, this suggests taxes have a large effect on charitable giving. Also similar to above, the opposite is statistically true—a decrease in taxes is associated with an increase in charitable giving. This measurement is statistically significant at roughly the 0.050 level, which is strong.

The evidence from these two regressions—total tax burden and personal income tax burden—suggests that income has a large and significant positive effect on charitable giving. Moreover, the results suggest that taxes have a statistically significant effect on charitable giving and that the magnitude of that relationship is strong. Meaning these variables are highly correlated in a strong way and also, that effect is large.

This evidence suggests that some mix of the three pronged effect of taxes is creating a discrepancy in the level of charitable giving in the states—reduced current income in the year taxes are paid, lower income growth, and reluctance to donate additional social spending voluntarily given the level of social spending by government. Simply put, states with higher levels of taxation have lower levels of charitable giving.

B: ANALYZING GROWTH OF CHARITABLE GIVING, GROWTH IN ECONOMIC PERFORMANCE AND TAX BURDEN

Separate from the levels of charitable giving, this *State Factor* attempted to see how closely changes in these variables moved together. Looking at growth rates of charitable giving alongside growth rates of taxes allows observers see if the two variables move in unison.

This *State Factor* finds that a 1 percent increase in the personal income tax burden is associated with a 0.35 percent decrease in charitable giving per dollar of state income. This is statistically significant at the 0.016 level, which is a strong statistical relationship. The opposite is also statistically true: a decrease in taxes will correlate with an increase in charitable giving.

Turning to total tax liability, the research finds that a 1 percent increase in the total tax burden is associated with a 1.16 percent drop in charitable giving per dollar of state income. This is statistically significant at the 0.021 level, which is a strong statistical relationship. Again, the opposite is also statistically true: a decrease in taxes will correlate with an increase in charitable giving.

Additionally, it is worth considering that for the seven states with no income tax burden (Tennessee and New Hampshire do have a tax on investment income, thus resulting in at least some measured taxation of income) there is no growth variation, since the tax burden does not change in any of the 15 years measured. These states tend to also have high growth of charitable giving, as displayed above. Thus, the lack of variation

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in personal income tax burden coupled with high variation for charitable giving means that the true impact of personal income taxation may be under-measured in this study's model.

Similar to the above analysis of levels of taxation and levels of charitable giving, evidence from regressions comparing the growth of taxes and growth of giving indicate an adverse relationship. Some mix of the three pronged effect of taxes is creating a discrepancy in the growth rates of charitable giving in the states—reduced current income in the year taxes are paid, lower income growth, and reluctance to donate additional social spending voluntarily given the level of social spending by government. States that raise taxes see a decline in charitable giving, and states that reduce taxes see an increase in charitable giving.

Conclusion

The level and growth of charitable giving is strongly related to the rates and burden of a given state's taxes. Charity is at least in part a function of a citizen's ability to pay and as their pocketbooks grow, they tend to give more. This tendency is particularly pronounced when tax changes affect how much wealth individuals have to potentially give to charity.

Moreover, in regards to the prevalence and magnitude of charitable giving, individuals in states with high taxes donate less and individuals in states with lower taxes donate more. This is true both for the level of state taxation compared over time and across states, and the movements in tax burden compared over time and across states. This reflects significant differences in how citizens of various states approach the relationship and trade-off between government and civil society. States with smaller governments tend to provide for perceived public needs by giving more to charity to fill that gap. Moreover, citizens tend to respond to tax increases by decreasing their charitable giving, while increasing their charitable giving in response to tax reductions.

As state lawmakers work to find ways to serve their constituents, growing both economic opportunity and rates of charitable giving can be done simultaneously. Allowing individuals and businesses to keep more of what they earn to save, spend and invest leads to higher rates of job growth, domestic migration and total economic output.[18] The data suggest that in addition to those benefits, pro-growth tax and fiscal policy climates are conducive to higher rates of growth in charitable giving.

As policymakers discuss tax changes going forward, the role of charitable giving must be considered. Tax reductions will provide important social assistance to a state's citizens through more jobs and higher incomes. But beyond these crucial considerations, there is civil society—larger in states with higher incomes, larger in states with low taxes, growing faster in states with high income growth and likely growing faster in states with lower taxes. Thus, a decision to cut taxes is not only a decision by a state's citizens to trim government to the right size, put more money in their citizens' pockets, and boost their state's engine of economic growth, but is also a decision to rely more heavily on civil society and provide for public needs through efficient, voluntary and collective means.

Allowing individuals and businesses to keep more of what they earn to save, spend and invest leads to higher rates of job growth, domestic migration and total economic output. The data suggest that in addition to those benefits, pro-growth tax and fiscal policy climates are conducive to higher rates of growth in charitable giving.

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We hope these research findings serve to educate America's state policymakers and members of the public interested in empowering civil society to advance the best solutions to ensure that all individuals are able to pursue their dreams and thrive.

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