

# Two Working Papers on the Economics of Charitable Giving and Fundraising

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# The Papers

- ▶ Paper 1: More Giving or More Givers? The Effects of Tax Incentives on Charitable Donations in the UK

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- ▶ Paper 2: Lift and Shift: The Effect of Fundraising Interventions in Charity Space and Time

# Paper 1: More Giving or More Givers? The Effects of Tax Incentives on Charitable Donations in the UK

- ▶ Tax incentives...different kinds in different countries (e.g. mortgage interest payment relief, pensions, donations)
- ▶ They are costly for government
- ▶ Contributions to private activities produce a private benefit  $\Rightarrow$  there are no direct implications for public spending
- ▶ Contributions to charity affect the private provision of a public good or service (which to some degree substitutes for public provision)  $\Rightarrow$  there may be implications for government budget

# Should government use tax incentives to subsidise charitable giving?

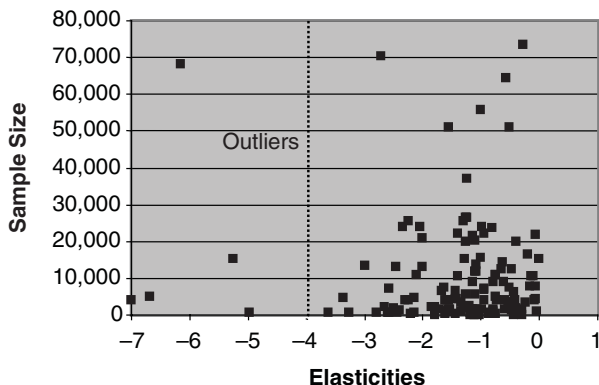
- ▶ It depends on how taxpayers respond to the tax incentive . . .
- ▶ Existing donors may adjust the amount they donate (the intensive margin behavioural response)
- ▶ Non-donors may become donors or existing donors may stop donating (the extensive margin behavioural response)
- ▶ It also depends on the cost of offering the incentive in terms of lost revenue and on whether public provision substitutes for private provision or not (crowd-in/crowd-out of private for public expenditures)

## How do we think of a policy change that changes tax incentives for giving?

- ▶ Economists look at this in terms of the effect of the policy change on the 'price of giving'
- ▶ Just like the price of candy affects how much candy people buy, the 'price of giving' affects how much people donate and a change in tax relief (or tax rates) changes this price
- ▶ So whether or not revenue goes up by more than the fall in spending (or down by more or stays the same), depends on how responsive donors are to changes in the 'price of giving'

## How do we measure the behavioural response to the change in the price of giving

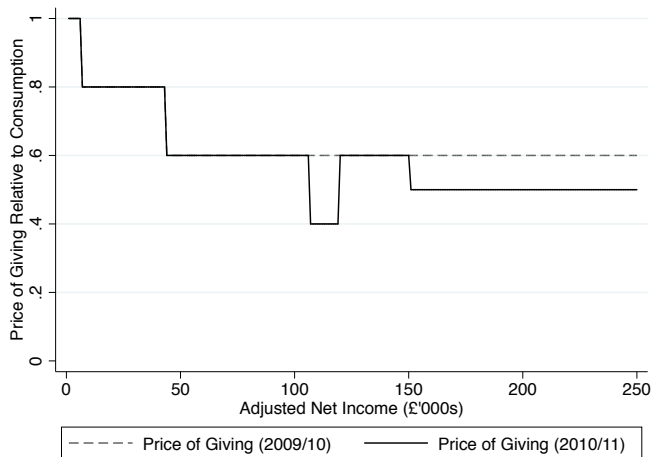
- ▶ Use the price elasticity of giving – a number that measures the sensitivity of donor responses to changes in the price of giving
- ▶ No UK evidence (studies use mainly US data and only look at the intensive margin)



## Our Gift Aid paper

- ▶ Exploit a major policy change in 2010 in the UK: Two new tax brackets for higher rate taxpayers – marginal tax rates increased from 40% to 50% (or 60% for a period of time)
- ▶ Effect of reform was to lower the price of giving for higher-rate taxpayers who claim the rebate on their self assessment tax returns

# UK income tax reform of 2010

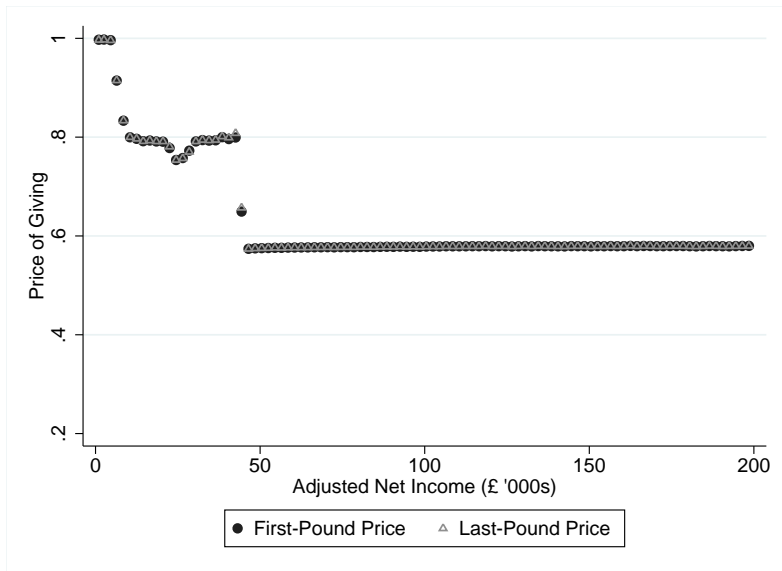




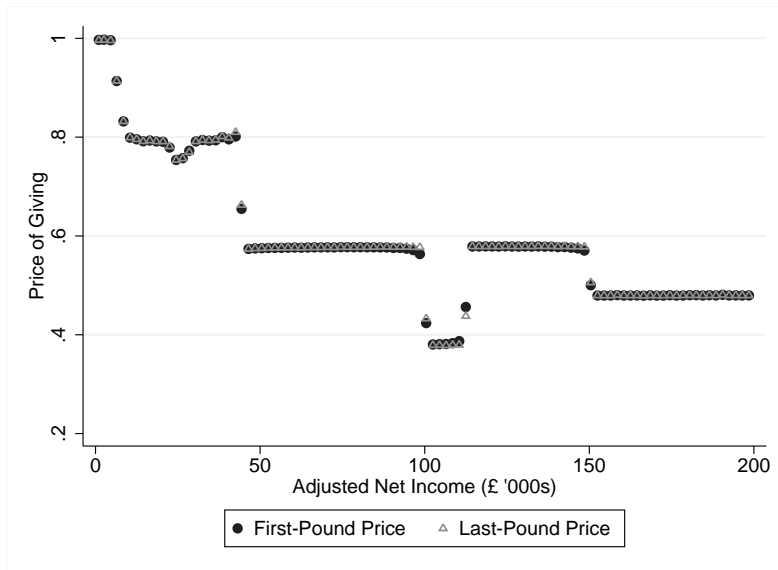
## Data

- ▶ Full population of HMRC's Self-Assessment (SA) Income Tax returns for the period 2004/05 through 2012/13
- ▶ Approximately 8-9 million returns *per year*:  $N = 75$  million
- ▶ Does not include about 22 million taxpayers who do not file a tax return (Pay As You Earn system)
- ▶ Only 11% of taxpayers report positive donations

# Tax-Price of Giving in the Data (2009/10)



# Tax-Price of Giving in the Data (2010/11)



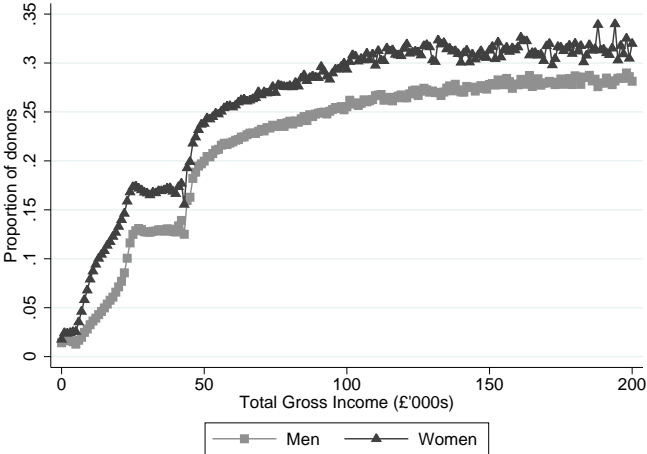
# Data descriptives

Table 1: Summary Statistics

	<b>Mean</b>	<b>Std. Dev.</b>	<b>p10</b>	<b>p50</b>	<b>p90</b>	<b>Observations</b>
Donations ( $g$ )	211	25,632	0	0	59	75,646,776
Donations (if $g > 0$ )	1,927	77,376	63	382	2,796	8,296,291
Adjusted Net Income ( $z$ )	36,072	878,780	3,592	18,799	70,031	75,646,776
Disposable Income ( $y$ )	29,098	533,810	3,873	17,186	55,886	75,646,776
Price of Giving ( $p$ )	0.79	0.14	0.60	0.78	1.00	75,646,776
Age	49.92	15.02	31	49	70	74,007,168
Female	0.34	0.47	0	0	1	75,646,776
Used a Tax Advisor	0.67	0.47	0	1	1	75,646,776

# Data descriptives

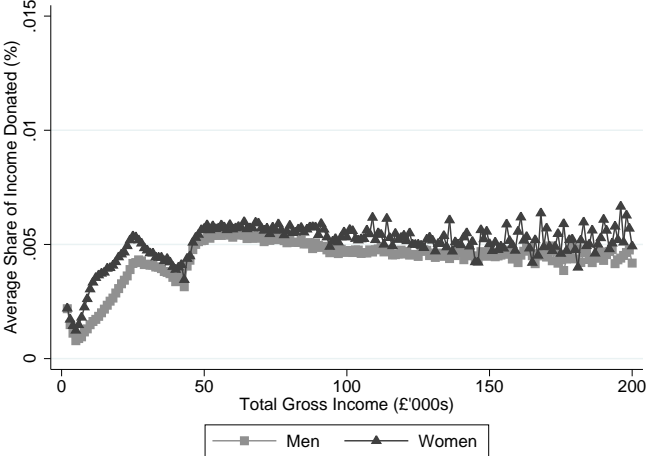
Figure: Fraction of Donors by Income and Gender



Note: Calculations derived from HMRC's administrative data sources

# Data descriptives

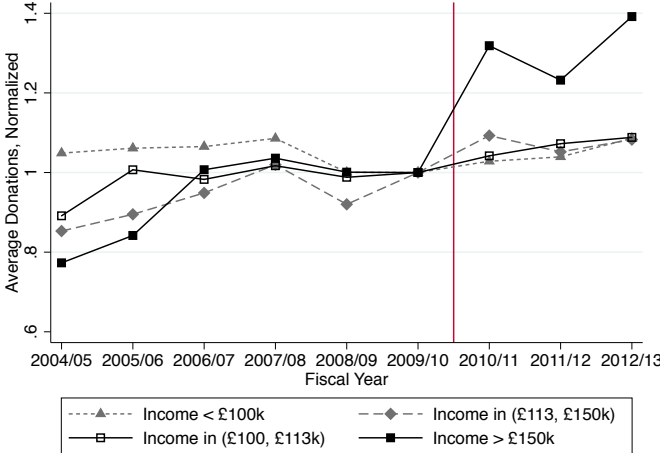
Figure: Share of Income Donated, by Income and Gender



Note: Calculations derived from HMRC's administrative data sources

# Graphical Diff-in-diff Analysis

Figure: Normalized Average Donations by Income Group



Note: Calculations derived from HMRC's administrative data sources

## Summary of Absolute Value Elasticity Estimates

- ▶ Panel fixed-effects (OLS/IV):
  - Intensive-margin price elasticity:  $\approx .2$
  - Extensive-margin price elasticity:  $\approx .8$
  - Total price elasticity:  $\approx 1$



## Absolute Value Elasticity Estimates by Income Level

- ▶ Bottom 25% of income distribution:
  - Extensive-margin price elasticity:  $\approx 1.6$
  - Intensive-margin price elasticity:  $\approx 0$
  - Total price elasticity:  $\approx 1.6$
- ▶ Top 5% of income distribution:
  - Extensive-margin price elasticity:  $\approx .17$
  - Intensive-margin price elasticity:  $\approx .23$
  - Total price elasticity:  $\approx .4$

## Is Gift Aid optimal?

- ▶ Develop new optimal tax expenditures framework that allows for extensive-margin responses and for the government to place a different value on private donations vs direct govt subsidies
- ▶ Predicts that our elasticity estimates are only consistent with the current subsidy being optimal if the govt values private donations less than direct govt provision. Otherwise, current subsidies are sub-optimal and should be increased