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REPEALING THE ESTATE TAX WOULD REDUCE CHARITABLE GIVING

The full report can be viewed at http://www.cbpp.org/6-17-03tax.pdf

New research by Brookings Institution economists Jon Bakija and William Gale shows that the existence of the estate tax creates a powerful incentive for charitable giving.[1] Their study finds that, without the estate tax, charitable giving in 2001 would have been reduced by about $10 billion — an amount "equivalent to the total grants currently made by the largest 110 foundations in the United States."

The estate tax increases the amount of charitable contributions, particularly among the largest estates, because these donations are fully deductible and thus act to reduce estate taxes. In 2001, for example, the latest year for which these IRS data are available, estates contributed $16.2 billion to charities. Taxable estates of more than $20 million gave $6.8 billion of this total, averaging $23 million in donations per estate.

The Bakija-Gale study finds that eliminating the estate tax would affect charitable giving by reducing both charitable bequests at death and charitable donations made during a person's life. (Charitable contributions made during life have a comparable effect to charitable bequests made at death in terms of reducing the size of taxable estates. Bakija and Gale conclude that repeal of the estate tax would reduce incentives for wealthy individuals both to make charitable gifts during their lifetimes and to make charitable bequests at death.) As noted, they estimate that if there had been no estate tax in 2001, the reduction in charitable giving would have totaled $10 billion.

- Repeal of the estate tax would reduce charitable bequests at death by between 22 percent and 37 percent. Bakija and Gale estimate that if the estate tax had been repealed in 2001, bequests at death would have been reduced by $3.6 billion to $6.0 billion.

- In addition, charitable donations made during life would have been reduced by about $5 billion.

The portion of an estate that is *exempt* from the estate tax is scheduled to rise from $1 million today to $3.5 million in 2009 ($7 million for a couple), and the estate tax is repealed in 2010. The repeal remains in place for only one year, because all of the tax cuts enacted in 2001 sunset at the end of 2010. Permanently eliminating the estate tax, as legislation that the House of Representatives is scheduled to consider this week would do, would remove a powerful incentive for charitable giving both at death and during life. Retaining the estate tax at a higher exemption level, such as the exemption level that will be reached in 2009 under current law, would maintain an important tax incentive for large estates to make charitable contributions while eliminating the tax on smaller estates currently subject to the tax.

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[1] Jon Bakija and William Gale, "Effects of Estate Tax Reform on Charitable Giving," Brookings Institution, June 2003.