

---

# G Taxation treatment of charitable giving

Tax deductibility for donations to eligible organisations is one way that the government can support selected not-for-profits (NFPs). In Australia, over \$1.8 billion in deductible gifts were claimed by over 4.2 million taxpayers in 2006-07, and there were 26 123 organisations with active deductible gift recipient (DGR) status as at June 2009.

Support for NFPs by individuals and governments is much broader than deductible and non-deductible donations, and includes volunteering and ‘in kind’ use of resources (volunteering is discussed in chapter 10 and there is little data available on in-kind donations). While these are an important source of resources for NFPs, this appendix focuses on the tax arrangements that apply to donations of cash and property by individuals. In particular, this appendix outlines the Australian taxation arrangements affecting philanthropic giving and compares these arrangements with those found internationally. It also provides a review of the literature examining the effect of tax deductions on giving and a discussion of the impact different arrangements might have on giving.

## G.1 Taxes and giving in Australia

Tax deductions for philanthropic donations were introduced in Australia with income tax. Today, division 30 of the *Income Tax Assessment Act 1997* (ITAA 1997) stipulates that taxpayers can deduct from their taxable income the value of donations of \$2 or more made to a fund or organisation that is endorsed as a DGR (box 7.2). Broadly, the general categories of DGRs include public benevolent institutions (PBIs), public universities, public hospitals, approved research institutes, arts and cultural organisations, environmental organisations, school building funds and overseas aid funds (Treasury 2008a). In addition, certain gifts made to organisations specifically named in division 30 of the ITAA 1997 and Private Ancillary Funds (PAFs) (previously known as Prescribed Private Funds) named in schedule 3 of the *Income Tax Assessment Regulations 1997* are also tax deductible.

Welfare and rights, education and cultural organisations — especially charities operating in these areas — are the main type of organisations that have been granted DGR status (table G.1).

**Table G.1 Types of active DGRs by charitable status<sup>a</sup>**

As of June 2009

<i>Category</i>	<i>Charitable</i>	<i>Non-charitable</i>	<i>Total</i>
Welfare and rights	9 469	2 501	11 980
Education	4 143	1 456	5 599
Cultural organisations	1 903	1 698	3 601
Ancillary funds	1 331	237	1 568
Health	993	459	1 452
Prescribed Ancillary Funds	639	106	745
Environment	251	229	480
Legislated	119	72	191
International Affairs	150	21	171
Research	95	65	160
Defence	61	27	88
Other organisations	32	12	44
Sports and recreation	14	5	19
The family	12	3	15
<b>Total</b>	<b>19 212</b>	<b>6 891</b>	<b>26 103</b>

<sup>a</sup> Information regarding charitable status was not available for 20 DGRs.

Source: ATO (pers. comm., 24 June 2009).

Eligible donations include gifts of cash as well as certain non-cash items, such as property and shares (table G.2). Capital gains tax relief is also available for certain testamentary gifts and gifts of cultural property made through the Cultural Gifts Program.

Over the past decade, tax incentives for philanthropic giving have undergone reforms aimed at encouraging a greater level of giving in Australia, especially by high income and wealthy individuals. Among other things, the scope of deductible donations was widened to include certain gifts of property, tax deductions for attending fundraising dinners (or similar events) and to give taxpayers the ability to spread deductions for certain gifts over a five year period (McGregor-Lowndes and Newton 2009). Moreover, in 2002 an immediate tax deduction for payroll giving to DGRs was allowed.

Initiatives to promote giving through philanthropic intermediaries were also introduced. These included the establishment of PAFs, which have grown rapidly since their inception in 2001 to receive over \$1.3 billion in donations, of which more than \$300 million has been distributed to eligible recipients (Treasury 2008b).

---

Coinciding with these reforms, there appears to have been an increase in philanthropic giving in Australia. According to the *Giving Australia* study (FACS 2005b), donations of money by individuals to all NFPs increased by around 88 per cent between 1997 and 2005 to \$7.7 billion (comprising donations of \$5.7 billion and another \$2 billion raised through charity gambling or support for events). Adjusting for inflation, this represents a real increase of about 58 per cent, or 8.3 per cent per annum, during this period. However, this comparison should be treated with caution as different methodologies were applied in the collection of data and new vehicles were established to promote individual giving (specifically PAFs) which may have resulted in some business giving becoming individual giving.

The value (adjusted for inflation) of claimed tax deductions for donations to DGRs has also grown over the past decade or so. In real terms, tax deductions have been growing steadily each year between 1992-93 and 2006-07 (figure 7.4). However, annual growth rates accelerated in the post 2001-02 period — increasing from an average growth rate of around 6 per cent per annum between 1992-93 and 2000-01, to around 11 per cent per annum between 2001-02 and 2006-07 — following the introduction of immediate income tax deductions for payroll giving and PAFs.

Around \$1.5 billion in deductible gifts were claimed by Australian taxpayers in 2004-05 (McGregor-Lowndes and Newton 2009), much lower than the *Giving Australia's* \$5.7 billion estimate of individual donations in the year to January 2005. This difference reflects that not all philanthropic gifts are claimed as tax deductions. Estimates of the share of philanthropic donations being claimed as tax deductions range from one in three dollars (McGregor-Lowndes and Newton 2009) to one in four dollars (FACS 2005b). Possible driving factors include: a large share of donations to non-DGRs; a number of small donations under the \$2 minimum; individuals failing to keep their tax receipts for donations or deciding that claiming was not worth the effort; or measurement issues, such as respondents to the *Giving Australia* survey overstating their giving.

### *The characteristics of individual givers*

While middle-aged individuals and women tend to donate more often, older individuals and men tend to donate more (box G.1). Income is also a critical factor in the giving of money, with the share of the adult population donating and the average donation size increasing with income.

---

## Box G.1 Results from the 'Giving Australia' Project

### Demographic characteristics

*Women give money more often, men give more.* 89.5% of women reported having made a donation in the year to January 2005, while 84.1% of men reported giving a donation. Men tend to give more when they do give ...

*More older people give more.* The likelihood that people will give increases slightly with age until middle age and then declines slightly (those aged 45–55 give at a rate of 88.4% and give, on average \$500 per year). ... Those over 65 who donate, on average make the largest donation ...

### Income and giving

*Those with higher incomes give money more often and give more.* The rate of giving and amounts given rise with income; those with incomes under \$15 599 pa give at a rate of 82.6% and at an average of \$264 pa; those on annual incomes of \$52 000 or higher give at a rate of 90.5% for an average of \$769 pa.

*High levels of education and labour force status correlate with high rates and amounts of giving.* Related to the trends for income, those with higher levels of education, and those in professional and management positions, tend to give money at greater rates, and greater amounts, than those with low levels of education or lower status/pay jobs or those who are unemployed.

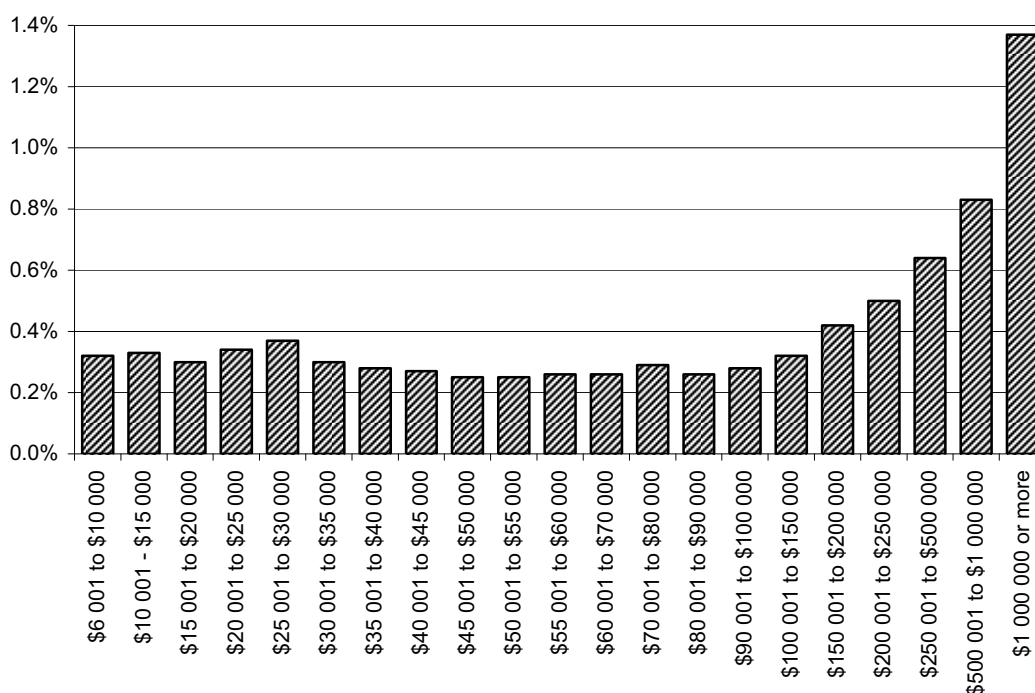
Source: FACS (2005b, pp. 9–10).

Claimed gift deductions represent a higher share of taxable income for high income taxpayers relative to low income taxpayers (figure G.1). This is consistent with evidence that many low income taxpayers do not claim a tax deduction for some, if not all, donations (McGregor-Lowndes, Newton and Marsden 2006). Also, wealthy individuals are often among those who respond to tax related giving incentives (FACS 2005b).

Furthermore, there has been a substantial increase in deductible gifts claimed by affluent Australians — the share of total tax deductions for donations accounted for by those earning \$100 000 or more in taxable income increased from 20 per cent to 30 per cent between 1998-99 and 2002-03 (McGregor-Lowndes, Newton and Marsden 2006). While there is no definitive evidence, this trend among affluent Australians may be linked to the introduction of PAFs and property gift incentives.

**Figure G.1 Claimed gift deductions as a percentage of taxable income by income band**

Income year ending 30 June 2007



Data source: McGregor-Lowndes and Newton (2009).

## G.2 How do Australia's taxation arrangements compare internationally?

Providing a tax incentive for philanthropic donations is common practice in many countries. Indeed, some form of tax concession has been available for donations to certain charities from the start of income taxation in the United States (US), the United Kingdom (UK), Canada and Australia (McGregor-Lowndes, Newton and Marsden 2006).

A comparison of the tax incentives for philanthropic giving for taxpayers in the US, UK, Canada and New Zealand with those that operate in Australia (table G.2), reveals commonalities and differences:

- In Australia, the US and the UK, the value of the tax benefit is dictated by the donor's marginal tax rate. In contrast, the rate of the tax benefit is fixed under the New Zealand and Canadian tax credit (rebate) systems (with a fixed, tiered rate applying in Canada, depending on the value of the donation).

- 
- Australia offers one of the more generous incentives for cash donations in that deductions for donations are only bounded by the individuals income tax liability. This is also true for the UK, and in New Zealand there is now no upper limit (although until recently it was 33 1/3 per cent of taxable income). In contrast, tax benefits in Canada are limited to 75 per cent of taxable income and in the US to 50 per cent of adjusted gross income for gifts to public charities.
  - The scope of eligible charitable activities is relatively narrow in Australia. For example, in the US and the UK donations to religious organisations as well as amateur sport events are eligible for tax benefits, whereas they are not generally eligible in Australia (McGregor-Lowndes and Newton 2009).<sup>1</sup>
  - The tax compliance requirements and, hence, cost placed on donors and recipient organisations differs across countries. It appears to be relatively high under the UK Gift Aid organisational rebate since: charities are required to maintain a schedule detailing the name of the donor as well as the date and amount donated; and taxpayers are required to claim the difference between the base tax rate (due to the organisation) and their marginal tax rate in their annual tax return. Such costs can act as a barrier. For instance, Hall, Pettigrew and Sweet (2008, p. 44) studied the attitude of charities and intermediaries towards Gift Aid and barriers to adoption, finding that irregular users of Gift Aid ‘... would like to see a degree of administrative burden removed’. However, the UK’s use of payroll giving does reduce compliance costs associated with that form of giving.
  - There are number of tax incentives used to promote non-cash donations including tax deductions (or rebates), capital gains tax relief and relief from inheritance tax. The complexity of the different tax systems hinder cross-country comparisons, even so a potentially important feature of the US and UK tax systems is relief from inheritance tax for certain bequests. While inheritance tax is not levied in Australia, bequests of certain property are exempt from capital gains tax.

---

<sup>1</sup> Certain donations to religious organisations, such as donations to building funds, are deductible donations in Australia.

**Table G.2 International comparisons of tax incentives for charitable gifts by individual taxpayers**

<i>Scheme</i>	<i>Details including rate and any limits or conditions</i>	<i>Eligible NFPs</i>
<b>Australia:</b>		
Tax deduction for cash donations to DGRs — donations may be claimed in the donor's annual tax return or through their payroll (where made available by employers)	<p>A (non-refundable) tax deduction applies for donations over \$2 that provide no material benefit or advantage to the donor</p> <p>Tax deductions can be spread over a period of up to five years</p>	DGRs including PBIs, philanthropic funds and specifically named institutions (including approved scientific research institutes, building funds for schools conducted by NFPs). Donations to PAFs are also eligible
Tax deduction for non-cash donations	<p>Tax (non-refundable) deduction for donations of:</p> <ul style="list-style-type: none"> <li>• property valued over \$5000 or purchased less than 12 months prior to the gift being made</li> <li>• shares valued at \$5000 or less and acquired at least 12 months prior to the gift being made</li> <li>• trading stock of a business</li> <li>• cultural gifts donated through the Cultural Gifts Program<sup>a</sup></li> <li>• heritage gifts<sup>b</sup></li> </ul> <p>Tax deductions can be spread over a period of up to five years</p>	DGRs (except for heritage gifts which must be gifted to National Trust bodies and cultural gifts which must be donated to public art galleries, museums, libraries or archives)
Capital gains tax relief for gifts of property	<p>The following gifts of property are exempt from capital gains tax:</p> <ul style="list-style-type: none"> <li>• cultural gifts and bequests made under the Cultural Gifts Program</li> <li>• testamentary gifts</li> </ul>	Testamentary gifts donated to DGRs and cultural gifts and bequests donated to public art galleries, museums, libraries or archives
<b>Canada:</b>		
Tax credit for donations of cash and certain in-kind gifts (such as land and securities)	<p>The tax credit only applies to the 'eligible amount' of a gift. This is the amount by which the fair market value of the gift exceeds the amount of any 'advantage' received for the gift</p> <p>The tax credit is:</p> <ul style="list-style-type: none"> <li>• 15 per cent on the first CAN\$200 donated</li> <li>• 29 per cent on donations thereafter</li> </ul> <p>Donation above 75 per cent of taxable income are not eligible for a tax credit (however, the total donations limit may increase if capital property is donated)</p>	<p>Broadly, donations to the following organisations are eligible: registered Canadian charities; some overseas charitable organisations; and amateur athletic associations</p> <p>Registered charities include charitable organisations as well as public and private foundations. These charities must have a charitable purpose and undertake charitable activities</p>

(continued on next page)

**Table G.2 (continued)**

<i>Scheme</i>	<i>Details including rate and any limits or conditions</i>	<i>Eligible NFPs</i>
	Tax credits can be carried forward and offset against future tax liabilities for up to five years Donors may also be eligible for a provincial tax credit	
Capital gains tax relief for donations of certain types of capital property	Donors may reduce capital gain to zero when they donate certain types of capital property (including shares and ecologically sensitive land)	Registered charities or other qualified donees (as above)
<b>New Zealand:</b> Tax credit for cash donations	A 33⅓% (refundable) tax credit applies for donations over NZ\$5 <sup>c</sup>	Eligible charities are NFPs that are established and maintained for charitable purposes (including advancing education, religion, poverty) and its objective is of benefit to the public
<b>United Kingdom:</b> Payroll Giving — immediate tax deduction for cash donations made through PAYE (Pay As You Earn)	Non-refundable tax deduction	Registered charities — organisations that have a charitable purpose that benefits the public including educational institutions, religious organisations and organisations and that act to relieve poverty and sickness
Gift Aid — for cash donations made after tax (outside the payroll giving scheme) registered charities can make a claim for tax paid by the donor on the amount donated	Paid to the charity at the basic tax rate of 20%. <sup>d</sup> Taxpayers can claim the difference between their marginal tax rate and the base rate in their annual tax return  The claim is non-refundable, such that if the charities claim against the donation is greater than the total tax paid by the donor, the donor may be required to pay the shortfall to the government. However, gifts can be offset against tax paid in the previous year  Charity required to obtain a 'Gift Aid declaration' form from the donor	Donations to registered charities or Community Amateur Sports Clubs (CASCs)  CASCs are amateur clubs that are open to the whole community and whose main purpose is to provide facilities and/or to promote participation in one or more eligible sports
Tax relief for non-cash gifts	<ul style="list-style-type: none"> <li>Income tax deduction for gifts (or the sale below market value) of shares and securities</li> <li>Capital gains tax exemption for gifts (or sale below market price) of non-cash assets — including land, building and shares</li> </ul>	<p>Income tax deduction for gifts to charities (excluding CASCs)</p> <p>Capital gain exemption for gifts to charities and CASCs</p>

(continued on next page)

**Table G.2 (continued)**

<i>Scheme</i>	<i>Details including rate and any limits or conditions</i>	<i>Eligible NFPs</i>
Bequest exempt from inheritance tax	Estate valued over the Inheritance Tax threshold (£325,000 in 2009-10) are taxed at 40% on the amount over this threshold The value of gifts are deducted from the total value of the estate before inheritance tax is calculated	Charities and CASCs
<b>United States:</b>		
Tax deduction for cash and non-cash donations for taxpayers itemising their tax returns <sup>e</sup>	Broadly, for cash donations the following can be deducted: <ul style="list-style-type: none"> <li>• up to 50% of 'adjusted gross income' (AGI)<sup>f</sup> for donations to public charities</li> <li>• up to 30% of AGI for donations to private foundations</li> </ul> For donations of capital assets the following can be deducted: <ul style="list-style-type: none"> <li>• up to 30% of AGI for donations to public charities</li> <li>• up to 20% of AGI for donations to private foundations</li> </ul> Generally, taxpayers can carry forward deductions in excess of these limits for up to 5 years	Eligible NFPs include those that are religious, charitable, educational, scientific, or literary in purpose, or that work to prevent cruelty to children or animals <ul style="list-style-type: none"> <li>• Public charities covers those that receive funding from a range of sources and may operate charitable programs</li> <li>• Private foundations generally have a single major source of funding (such as gifts from a family) and largely make grants to other charitable organisations and/or individuals</li> </ul>
Relief from estate taxes	Estate taxes are due on estates valued over the legislated exemption level (US\$1.5 million in 2004 but rising to US\$3.5 million in 2009). For such estates, charitable donations can be deducted from the total value of the estate before estate tax is calculated	Donations to the government (including the US and any state governments) or to a qualifying charity set up for exclusively charitable purposes

<sup>a</sup> The Cultural Gifts Program provides tax benefits (including tax deductions and capital gains tax exemption) for donations of culturally significant items, such as paintings, books and ceramics, to public art galleries, museums, libraries and archives. <sup>b</sup> Heritage gifts are gifts to National Trust bodies of places included in either the National Heritage List, the Commonwealth Heritage List, or the Register of the National Estate. <sup>c</sup> Until mid 2009, rebates for cash donations were capped at the lower of NZ\$1890 per year or 33⅓ per cent of taxable income. <sup>d</sup> Donations to charities or CASCs made between 6 April 2008 and 5 April 2011 are eligible for a separate government supplement of three pence on every pound donated. <sup>e</sup> US taxpayers are able to deduct from their income an amount equal to the maximum of a 'standard' or 'itemised' deduction. Such that 'itemisers' subtract the value of their charitable donations (as well as any other eligible deductions) from their AGI to calculate their taxable income. <sup>f</sup> AGI is equal to gross income less certain allowable deductions; it forms the basis of which other deduction (including deductions for charitable donations) and credits are calculated.

Sources: ATO (2008a); CAF (2006); CRA (2009); HMRC (2009); IRD (2006); IRS (2008, 2009); McGregor-Lowndes and Newton (2009); OECD (2009b); section LD 1 of Income Tax Act 2007 (New Zealand).

---

## What determines the level of giving?

International comparisons should provide a useful benchmark for assessing the scope for increasing philanthropic giving in Australia. However, comparisons are complicated by inconsistencies in how data is collected and compiled.

Some studies, notably CAF (2006), have attempted to collate a relatively consistent set of figures for a selection of countries. In terms of donations as a share of Gross Domestic Product (GDP), philanthropic giving in Australia (0.69 per cent of GDP in 2004) was relatively high compared to giving in New Zealand, Germany and France (0.29, 0.22 and 0.14 per cent of GDP respectively) but slightly below than in the UK and Canada (figure G.2). However, it is considerably lower than in the US (1.67 per cent of GDP), which is generally acknowledged to be an outlier internationally.

There are a number of factors that may be driving the relative strength of giving in the US, including tax incentives that extend to a broader class of NFPs relative to that in Australia. Furthermore, Andreoni (2006, p. 1246) suggests that estate taxes may play a role as in the US ‘... the price of lifetime contributions are effectively lower since one enjoys both an income tax benefit and the same estate tax savings down the road’.

Despite efforts by CAF (2006) to provide a consistent data set, a number of factors still limit the comparability of the data. Most notably, donations to religious organisations are excluded from the CAF analysis even though in some countries these donations may account for a large share of overall donations. For instance, while giving to religious organisations account for over one-third of giving in the US, it accounts for less than 15 per cent of giving in the UK (CAF 2006).

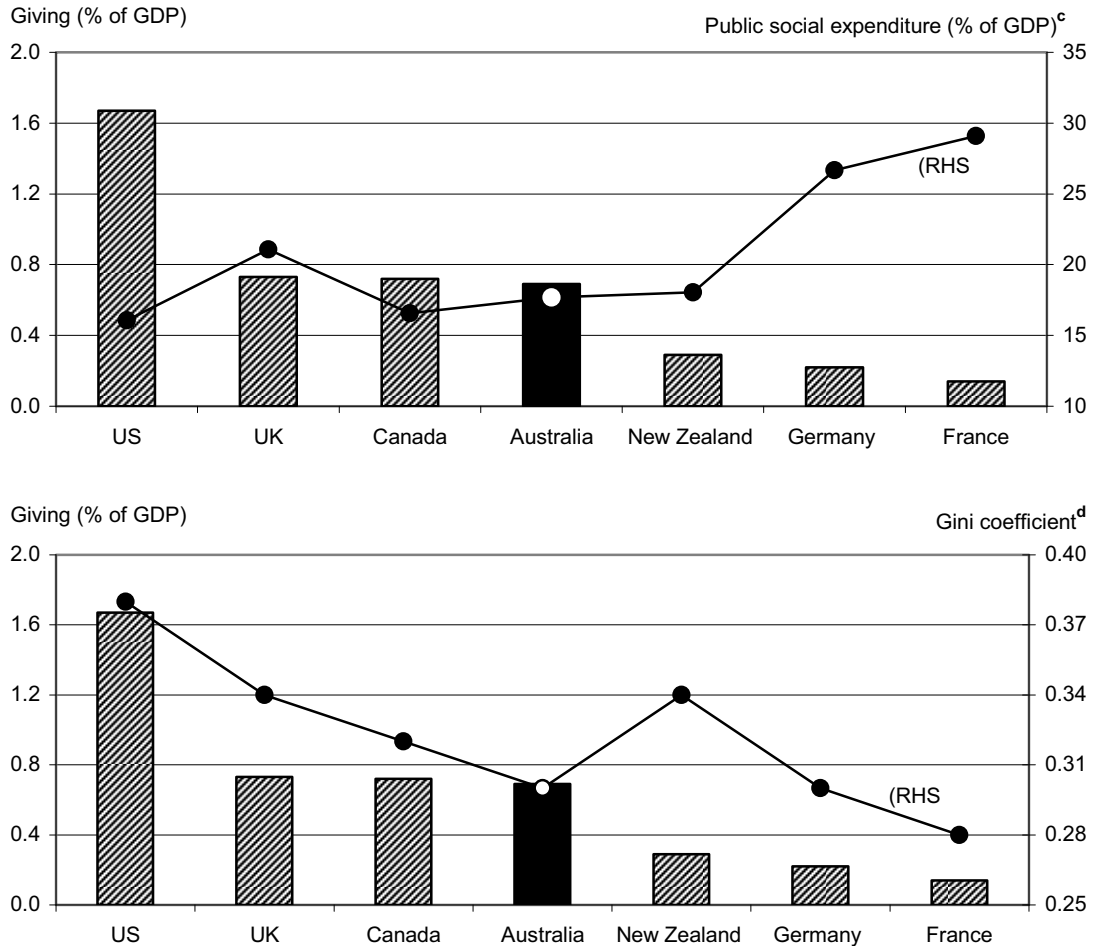
Moreover, a country’s social, cultural and institutional conditions are likely to have an effect on the philanthropic behaviour of its citizens. Liffman makes a strong comparison between the culture of giving in Australia and in the US:

... [in America] giving is public, planned and unapologetically connected with personal identity. Domestic and household giving in Australia reflects our history of apparent unease about extravagant wealth, our sense of privacy about personal convictions, and our expectations of a significant role for government in the provision of basic services. (2007, p. 4)

More generally, while some countries may have a strong culture of giving, the government may be expected to play a large role in the provision of social services in other countries. Johnson, Johnson and Kingman (2004, p. 11) note that ‘... in countries where the government has long been the provider of basic services there is typically a strong feeling that this responsibility should remain the state’s — despite

enormous cutbacks in such services'. This appears to be the case for Germany and France (figure G.2).

**Figure G.2 International comparison of philanthropic giving<sup>a</sup>, 2004<sup>b</sup>**



<sup>a</sup> Legacies and religious taxes (including the German church taxes) as well as cash gifts given direct to the poor were excluded from the estimates. <sup>b</sup> Data for New Zealand is for households (rather than individuals) and is for 2000, while data for the UK is for 2004-05. <sup>c</sup> Public social expenditure is for 2004 and includes social insurance and social assistance payments (but excludes defence spending). <sup>d</sup> The Gini coefficient is for the mid-2000s. It is a measure of income inequality, taking a value between zero and one, where zero implies *perfect equality* (all individuals receive the same level of income) and one implies *perfect inequality* (all income goes to one individual).

Data sources: CAF (2006); OECD (2009a).

Substantial differences in government social welfare and in attitudes to giving are likely to be borne out in comparisons. The ‘social origins theory’ sets out four types of NFP regimes depending on the scale of government social welfare spending and the size of the NFP sector (Anheier 2005). Under this framework, the US, the UK and (probably) Australia, where there is a low level of government social spending and NFP activity is large, are described as ‘liberal’. In contrast, France and

---

Germany fit under the ‘corporatist’ regime, where NFP activity is large and is supported by a high level of government social spending (chapter 2).

Plotting levels of giving against public social expenditure as a per cent of GDP (figure G.2) suggests a roughly inverse relationship between giving and public social expenditure. This is consistent with observations by CAF (2006, p. 12):

In countries such as the Netherlands, France, Sweden ... there is a strong belief that governments rather than charities should provide for social needs, whereas in the US, and increasingly in the UK, charities assume an important role in meeting the needs of socially excluded groups.

Large variations in income may also result in a strong culture of giving if high income individuals perceive the need to give back to the community. One measure of income distribution or inequality is the Gini coefficient — which can take a value between one and zero, where higher income inequality is indicated by a higher coefficient value. The level of giving appears to increase as income inequality (the Gini coefficient) increases (figure G.2).

These fundamental cultural, social and historical factors may also interact with tax concessions. For instance, the comparatively low level of giving but high level of income inequality in New Zealand may in part be due to the relatively low cap on tax benefits for charitable giving that was in place at the time the data was collected.

These observations support the idea that a relationship exists between the broader social context of a country and the level of individual giving. Consequently, giving in the US, where income inequality is higher, may not provide a valid benchmark for assessing the scope for increasing philanthropic giving in Australia. Even so, comparing giving behaviour in Australia and overseas, including exploring differences in behaviour of high income donors and the extent of planned giving, may help to explain differences in overall giving levels.

### *Income and giving*

Survey data suggests that a similar share of the population in Australia, the US and Canada donate — 87 per cent of all adult Australians (FACS 2005a) compared to 89 per cent of US households (McGregor-Lowndes 2009) and 85 per cent of the Canadian population aged 15 years and over (McGregor-Lowndes and Newton 2009). However, comparisons of income-giving profiles (which plot donations as a share of income across income brackets) suggests that giving (as a share of income) by high income individuals in Australia may be lower than in the US.

US income-giving profiles are often described as following a U-shaped pattern, where individuals in the lowest and highest income brackets are the most generous

---

(generally donating 3–8 per cent of their taxable income) and middle income earners tend to be less generous (donating around 2 per cent of their taxable income) (Van Slyke and Brooks 2005). A relatively high level of donations by high income individuals in the US has been attributed to a so called ‘culture of elite philanthropy’ (Ostrower 1995), while the high level of giving by low income individuals is linked to participation in religious organisations.

By comparison, in Australia there is some evidence that giving as a percent of income by low income individuals is greater than giving as a percent of income by high income individuals. In particular, data on average annual donations by income bracket from the 2005 *Giving Australia* survey implies that individuals earning between roughly \$4000 and \$10 400 donated 2–6 per cent of their income. In contrast, those earning over \$100 000 donated less than 2 per cent of their income on average (although, the amounts donated by high income earners vary considerably) (Madden and Scaife 2008). A similar pattern is also observed in the UK, where charitable donations as a share of total household expenditure generally decline with income (Banks and Tanner 1997).

Not taking wealth into account in the analysis of giving and income can provide some misleading results. For instance, the seemingly high level of giving by low income individuals may be in fact be attributed to donations by low income but high wealth individuals such as retirees, or to donations by second-income earners.

The apparent relatively low level of giving (as a share of income) by high income individuals in Australia compared to the US may imply that a culture of elite philanthropy has not yet developed in Australia to the same extent as in the US.

### *Planned giving*

Planned giving, relative to spontaneous giving, can be an efficient form of giving for donors as they can better plan their giving behaviour. Further, planned giving can play an important role in supporting the ongoing activities of NFPs by reducing transaction and administrative costs, and providing a greater level of funding certainty and consistency.

In Australia, most giving is spontaneous, with only 16 per cent of respondents to the *Giving Australia* 2005 survey describing their giving activity as planned.<sup>2</sup> However, planned donations were around four times larger than spontaneous donations — on

---

<sup>2</sup> A further 31 per cent of donations were described as a combination of spontaneous and planned. Lyons, McGregor-Lowndes and O’Donoghue (2006, p. 391) suggests that this may be ‘... the result of an original donation being spontaneous but subsequent donations to that organisation in that year being planned’.

average, \$238 compared to \$59 respectively (Lyons, McGregor-Lowndes and O'Donoghue 2006).

McGregor-Lowndes (2009) describes the US as the home of planned giving. This may be due in part to the wide range of vehicles available for planned giving that are especially suited to the wealthy. These vehicles are supported by taxation incentives. In addition, there a number of dedicated financial planning professionals who can provide advice to potential donors. A 2005 survey of US households with an income over US\$200 000 or assets valued over US\$1 million found that around 40 per cent had made a charitable bequest, just under 20 per cent had established a foundation, and a further 12 per cent had established a split interest trust (where charities receive an irrevocable, but deferred contribution of property).

Another vehicle for planned giving is payroll giving, where employees make regular donations from their wages. Payroll giving, in some form or another, has a long history in the US and Canada, and emerged strongly in the UK in the late 1990s when the government, among other things, allowed immediate tax deductions for donations through the payroll system (PWC 2009).

An immediate tax deduction for payroll giving was introduced in Australia in 2002, after which participation in the program is estimated to have doubled (PWC 2009). However, payroll giving in Australia still lags behind that in the UK and Canada (table G.3). Moreover, for those who participate in payroll giving in Australia, the average amount donated is less then 60 per cent of the average amount donated in the UK.

**Table G.3 International comparisons of payroll giving, 2004**

	<i>Australia</i>	<i>Canada</i>	<i>UK</i>
Number of donors	94 000 (0.6% of adults)	1 500 000 (5.6% of adults)	580 000 (1.3% of adults)
Amount of money raised (in AUD)	\$18 million	\$343 million	\$200 million
Average annual amt/donor (in AUD)	\$190	\$228	\$350

*Source:* PWC (2009).

The next section discusses the form and impact of tax incentives (including current and alternative arrangements) that could be employed in Australia to promote philanthropic giving.

---

## G.3 The impact of taxation incentives on philanthropy

### Indirect mechanisms to promote philanthropic giving

There are a number of advantages to using indirect support mechanisms — which act to lower the price of philanthropic giving for taxpayers — over direct government grants to support charitable organisations.

One of the key benefits of indirect support mechanisms is pluralism (individual choice). Direct grants rely on the government identifying charitable causes most in need of immediate support. However, individuals are arguably more adept at identifying such charitable causes (Krever 1991). That is, pluralism in the allocation of public funds to charities may result in a more optimal allocation of funding for charities relative to that under a system of direct government grants (Cordes 1999). Indirect support mechanisms facilitate pluralism as they allow taxpayers to direct a certain proportion of their tax dollars to their chosen charity. However, the causes taxpayers choose to support may not align with government priorities.

Another key feature of indirect funding for charitable organisations is that tax concessions may induce a higher level of individual giving than otherwise (box G.2). In this case, it may be a more efficient form of funding from the view point of the government. In particular, if the increase in charitable donations promoted by indirect funding exceeds the cost to the government (in forgone tax revenue), then the indirect support mechanism is said to be ‘treasury efficient’. That is, for a given level of government expenditure, indirect funding can result in a greater flow of funds to charities compared to direct government grants. If the indirect funding is treasury efficient then, by using such mechanisms, the government may be able to achieve its social goals at a lower cost.

Indirect support mechanisms have a number of other advantages. They:

- can be used to support private donations to politically sensitive causes that provide a public benefit (Saez 2004)
- may encourage greater engagement between individuals and NFPs and reinforce socially desirable behaviour. Further, some studies suggest that a positive relationship exists between cash donations and volunteering.<sup>3</sup> If this is the case, ‘... financial incentives that encourage gifts of cash may also help charities expand and deepen their pool of volunteers in a way that direct government grants to charities will not’ (Cordes 1999, p. 3)

---

<sup>3</sup> While there is some evidence to suggest that donations of time and money may act as complements (see, for example, Brown and Lankford 1992), Van Slyke and Brooks (2005) note that there is mixed evidence on positive/negative (complements/substitutes) relationship between donations of cash and time.

## Box G.2 Tax deductions and giving

### Sharing the cost between taxpayers and the government

Tax deductions for donations to DGRs in effect share the cost of donations between taxpayers and the government, with the government's share being determined by the marginal tax rate ( $t_i$ ) of individual  $i$ . For a donation to a DGR of an amount  $X_i$ , the individual contributes  $(1-t_i)X_i$  and the government contributes  $t_iX_i$ . Therefore, tax deductions lower the price of giving for taxpayers. However, not all gifts are tax deductible. For donations that are not tax deductible and for individuals that do not have a tax liability, when individual  $i$  donates an amount  $Y_i$ , the cost to the donor is the whole  $Y_i$  (and the government does not contribute).

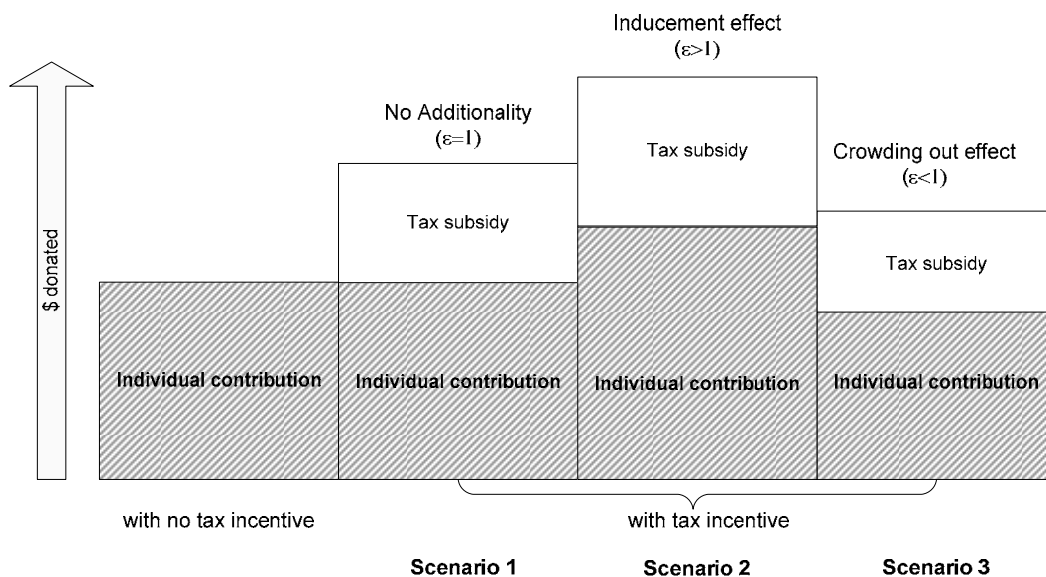
Summing up over the entire population:

- total donations to NFPs =  $\sum_{i=1}^N (X_i + Y_i)$
- total cost to individuals of donations =  $\sum_{i=1}^N ((1-t_i)X_i + Y_i)$
- total cost (tax expenditure) of tax deductions for the government =  $\sum_{i=1}^N (t_i X_i)$ .

### The impact of tax deductions on giving

Lowering the price of giving for taxpayers through tax deductions may result in one of three possible scenarios.

- No additionality — individual giving rises by the same amount as the tax subsidy. So that there is no change in the individual's contribution.
- Inducement effect — individual giving rises by more than the tax subsidy. In this case, the tax incentives is said to be 'treasury efficient'.
- Crowding out effect — individual giving rises by less than the tax subsidy, but because of the tax subsidy the total amount received by NFPs is still higher.



- 
- may impose lower administrative costs on the government and lower compliance costs on recipient organisations compared to direct grants.

However, indirect support mechanisms lack regular review processes and do not face the same level of public scrutiny as direct government grants, although the donor may provide such scrutiny where they make large donations. Further, since indirect mechanisms are based on decentralised individual decision making, they can create uncertainty in the resulting level of government expenditure.<sup>4</sup>

#### *How do indirect support mechanisms work?*

There are a number of mechanisms that the government can employ to lower the price of giving for individuals, namely:

- income tax deductions — reduce a taxpayer’s taxable income by the amount of the donation, and thereby reduce their tax liability. Under this mechanism, the effective ‘price of giving’ depends on the taxpayer’s marginal tax rate. With a progressive income tax system, taxpayers on the top marginal tax rate face the lowest price of giving
- tax rebates (also referred to as tax credits or tax offsets) — directly reduce a taxpayer’s tax liability. The rate of the rebate does not vary with income. Rebates may or may not be refundable. With a refundable rebate, taxpayers receive a refund when the value of the rebate exceeds their tax liability. Non-refundable rebates can only be credited against a tax liability, so the rebate lowers the price of giving more for those with a tax liability that exceeds the rebate than for those with a tax liability lower than the rebate. Rebates can be issued to the donor or to recipient organisations
- matching grants — where a donation by an individual triggers a matching donation by the government to the recipient organisation. The value of the matching grant could be less than, equal to or more than the value of the original donation. The matching grant is calculated at a constant proportion of the original donation and therefore does not vary with the donor’s income.

While income tax deductions for charitable donations apply in Australia, other mechanisms of indirect funding (or some combination) are also used in many countries (section G.2).

The remainder of this appendix considers the effectiveness of tax deductions in promoting giving, as well as discussing the other two mechanisms for promoting

---

<sup>4</sup> For a more detailed discussion of the advantages and disadvantages of indirect funding of charitable organisations (IC 1995, pp. 269–74).

---

philanthropic giving. To examine (and model) how effective tax incentives are at promoting giving, the determinates of individual giving must first be considered.

### **What factors affect philanthropic giving?**

Altruism, that is caring about improving the welfare of others, is often cited as a key motivating factor for individual philanthropic giving. In theory, if donors were purely altruistic in their giving, government funding (or funding from other donors) would ‘crowd out’ private giving to a particular cause. The evidence on crowding out is mixed, but it is unlikely to be complete (box G.3).

As well as altruism, philanthropic giving may be motivated by a range of reasons such as promoting the individual’s reputation or status in society and the positive psychological benefit (or ‘warm glow’) that the donor experiences from helping others (box G.3).

Andreoni (1989, 1990) developed an ‘impure altruism’ model to explain charitable donations, where donors are motivated by two reasons: altruism or the public benefit of their gift; and the warm glow or the personal benefit from giving. Assuming individuals are motivated, at least in part, by the warm glow they receive from giving means that donations can be thought of as a ‘contribution’ good that exhibits the same properties as other private consumption goods, such as food and televisions — donations are expected to increase when the price of giving falls or an individual’s income increases. Further, NFPs and causes that have characteristics that enhance the personal value of a donation will be more attractive than other causes. There is a large literature, including from a marketing perspective, that sets out to identify characteristics that increase the appeal of NFPs, and their causes, to induce greater donations (box G.3).

In general, donations are thought to depend on an individual’s demographic characteristics, their ability to give (income and wealth) and the price of giving. Econometric analysis can be used to estimate the relative influence of a set of these factors on giving for populations where adequate data is available.

---

### Box G.3 Factors influencing giving

A recent extensive review of the literature on giving from a range of disciplines identified eight primary drivers of giving.

- *Awareness of need* — needs can be physical, emotional or other intangible needs. This is a subjective rather than an objective assessment by the giver, influenced by knowledge of the beneficiary, past experiences of people in need, and how the beneficiary is presented by the organisation.
- *Solicitation* — several studies report around 85 per cent of gifts follow solicitation. But evidence suggests that value of gifts declines with the level of solicitation.
- *Costs and benefits* — tax deductibility of gifts encourages giving, although the size of the effect is uncertain. For example, a recent US study estimated a persistent price effect of between -0.79 and -1.26, that is a 1 per cent rise in deduction (fall in the price of giving) results in between a 0.79 and 1.26 per cent rise in the amount given. Employer matching of gifts also has a strong inducement effect. Some studies find links between giving and direct benefits from recipient organisations but it appears they do not increase giving, unless they enhance the giver's self image.
- *Altruism* — is motivated by the public benefits achieved by the gift. Pure altruism implies that government funding (or funding from other donors) should 'crowd out' private giving. The evidence on crowding out is mixed, but is not dollar for dollar, and some studies report 'crowding in'. The conclusion drawn is that private benefits or selective incentives dominate altruistic motives.
- *Reputation* — positive social consequences from giving arise where the gift is seen as a good thing to do (addresses needs of deserving people effectively). Not giving can damage a person's reputation where it is announced in public or directly observed. Surveys find that donations are strongly linked to social pressures.
- *Psychological benefits* — helping others has been found to give the helper a positive psychological benefit (emphatic joy or 'warm glow'). Giving may alleviate guilt, generate good feelings for acting according to a social norm, or in line with a specific, especially altruistic, self-image. Positive moods can promote giving, although when motivated by guilt a negative mood can be associated with giving.
- *Values* — surveys have found that people who have altruistic or pro-social values, are less materialistic, endorse post materialistic goals in politics, value being devout or spiritual, endorse a moral principle of care, care about social order, consensus and social justice in society, feel socially responsible for the recipient organisation or society generally are more likely to give. Bekkers and Wiepking argue that supporting a cause that moves the world in a direction desired by the giver is an underappreciated driver of giving.
- *Efficacy* — experiments have found a strong link between giving and the perceived outcomes achieved with the gift. People follow leaders, 'experts' and other donors as signals to assess efficacy. Perceptions of waste (such as flashy solicitation material) have a negative effect on giving.

Source: Bekkers and Wiepking (2009).

---

### *Demographic characteristics*

A number of individual characteristics have been found to be positively related to philanthropic giving including age, educational attainment, gender (some studies have found woman to be more altruistic than men) as well as religious beliefs and attendance (Johnson 1981; Van Slyke and Brooks 2005).

Van Slyke and Brooks also found that ‘... participating in civic and charitable activities, and volunteering for nonprofit organizations all positively affect an individual’s level of charitable giving’ (2005, p. 207). On the other hand, the *Giving Australia* survey found evidence of an inverse relationship between donations of time and money:

Those with less capacity give what they can. Cash-poor individuals (eg retirees, younger people and, comparatively, women) volunteer at higher rates and/or for longer periods on average than do time-poor, wealthier individuals. (FACS 2005b, p. X)

Beliefs and attitudes to giving, such as how individuals feel about supporting certain causes and if they feel a duty to donate, may have a large impact on giving behaviour. Some demographic characteristics (such as age, gender, and religious beliefs) may be correlated with an individual’s attitudes and beliefs. Since it is difficult to observe individual attitudes and beliefs, models of philanthropic giving tend to use observed demographic variables to capture such unobserved characteristics.

A number of other factors may also influence giving behaviour but are difficult to observe, namely recognition (including public acknowledgement for donations) and expressions of gratitude. Cultural factors may also influence giving behaviour, but again these factors are difficult to observe. In particular, differences in the giving culture in Australia and the US (as outlined earlier) may mean that US studies are not entirely applicable to Australia.

### *The effect of income on giving*

As outlined above, charitable donations are expected to increase with income, such that the more an individual is able to give — the higher their income (and wealth) — the more they will give in absolute terms.

Many studies on philanthropic giving have considered the relationship between income and charitable donations. One stream of the literature has focused on estimating the income elasticity of giving — a measure of how responsive donations are to changes in income. A survey of the overseas literature, suggests that giving is income inelastic (see, for example, Andreoni 2008; Brooks 2002;

---

Johnson 1981; Van Slyke and Brooks 2005).<sup>5</sup> That is, a 1 per cent increase in income is expected to increase donations by less than 1 per cent.<sup>6</sup>

In regards to giving by the very high income individuals, Auten, Clotfelter, and Schmalbeck (2000) found that the variance (or the spread) in giving increases with income and that giving is concentrated among a relatively small number of donors.

The inference is that wealthy givers are ‘saving up’ for larger gifts. These larger gifts may allow them to exert some control over the charity, such as providing a seat on the board of directors, or may garner a monument, such as naming a university building after the donor. (Andreoni 2008, p. 2)

Some studies have also estimated the relationship between charitable giving and wealth, separate from income. For instance, Brooks (2002, 2007) found that a 10 per cent increase in wealth is, on average, associated with a 2.1 to a 2.7 per cent increase in charitable giving. In comparisons, an early survey of the literature by Clotfelter (1985) suggests that the wealth elasticity of giving is somewhat lower — between 0.05 and 0.10. Clotfelter notes that the low wealth elasticity may possibly imply that wealth has a greater influence on bequests relative to lifetime giving.

### *The price of giving*

The price of giving refers to the net cost of giving for the donor (box G.2). If there are no tax incentives provided to the individual for philanthropic donations, then the price, or net cost, of donating \$1 is \$1. Yet, many countries treat donations concessionally which lowers the price of giving. For example, assuming donations are eligible for a 30 per cent tax rebate, for every \$1 donated the taxpayer receives a rebate of \$0.30, such that the net cost to the donor is \$0.70 (the amount donated less the rebate). The government effectively co-contributes to the donation in terms of tax revenue foregone.

While tax incentives that lower the price of giving are unlikely to be the main determinant of giving, they are expected to have some influence on charitable donations (Steinberg 1990).

Economic models have been employed to study the effect of the price of giving — as determined by tax incentives — on the level of philanthropic giving, controlling for the ability to give and individual demographic factors.

---

<sup>5</sup> While the majority of studies estimate an income elasticity of giving of less than one — in a survey of 32 studies undertaken between 1970 to 2002 by Schokkaert (2003), income elasticity estimates typically fell between 0.4 and 0.95 — some empirical studies have estimated a price elasticity of greater than one (see, for example, Randolph 1995).

<sup>6</sup> In contrast to earned income, Brooks (2002) found that unearned income (in the form of welfare payments) has a negative impact on charitable donations.

---

## Do tax deductions increase charitable donations by more than the cost to the government?

### *A measure of treasury efficiency*

The extent to which tax incentives promote philanthropic giving depends on how responsive donors are to changes in the price of giving. This responsiveness is measured by the price elasticity of giving, which is the percentage change in donations when the price of giving changes by 1 per cent. The greater the price elasticity of giving (in absolute terms), the more responsive donors are to a change in the price.<sup>7</sup>

As discussed, donations are expected to rise when the price of giving falls. With a tax deduction any increase in an individual's marginal tax rate will decrease the price of giving they face and therefore (all else equal) is expected to increase donations. When the percentage increase in donations is greater than the percentage decrease in the price, then the price elasticity will be greater than unity (in absolute terms) and giving is said to be price 'elastic' ( $\epsilon > 1$ ).<sup>8</sup>

If giving is price elastic then the increase in giving as a result of tax incentives will exceed the revenue forgone by the government, and the tax incentive is regarded as treasury efficient. Where tax incentives are treasury efficient, it is more cost effective for the government to subsidise charitable donations than to provide direct grants to charities (Steinberg 1990). That is, allocation, administration and accountability issues aside, it costs less for the government per dollar of revenue generated for charities.

---

<sup>7</sup> When the price elasticity of giving is equal to unity (in absolute terms) a 10 per cent decrease in the price of giving will increase donations by 10 per cent; when the price elasticity is greater than unity (in absolute terms), say 1.5, a 10 per cent decrease in the price will increase donations by 15 per cent; and when the price elasticity is less than unity, say 0.5, a 10 per cent decrease in the price will increase donations by only 5 per cent.

<sup>8</sup> When the (absolute value) of the price elasticity is less than unity giving is said to be 'inelastic' ( $\epsilon < 1$ ) and the percentage increase in donations will be less than the percentage decrease in price.

---

## *Estimates of price elasticity*

### *Australian evidence*

The responsiveness of Australians to tax deductions for donations to DGRs is not well understood. This is due in part to the fact that most Australian data on giving does readily not lend itself to price elasticity analysis.<sup>9</sup>

Over the past decade, the top marginal tax rate has declined somewhat. All else equal, under a deduction system a decrease in the tax rate would increase the price of giving and therefore should result in a decline in giving. However, deductible donation claims as well as overall individual giving have increased over this period (section G.1). This apparent contradiction of the increase in donations over the past 10 or so years may be explained by other broad trends, including increased economic prosperity (until the recent downturn) and ageing of the population. In addition, a range of new government measures were introduced to promote philanthropy (including the introduction of PAFs and an immediate tax deduction for payroll giving). The positive impact on giving from these broad trends and measures to promote giving may have outweighed the impact of the decline in marginal tax rates. More analysis is required to separate out these effects.

### *International evidence*

Since the late 1960s, the impact of tax incentives on charitable donations has been studied widely in the international literature, mainly in the US. Table G.4 summaries the results for selected overseas studies.

---

<sup>9</sup> Available data on charitable giving in Australia includes: the 2005 *Giving Australia* survey of giving and volunteering for a random sample of 6209 adults; the ABS Australian Nonprofit Data Project and Household Expenditure Survey; as well as some market research (Lyons, McGregor-Lowndes and O'Donoghue 2006). In addition, the Australian Taxation Office (ATO) has recently released a 1 per cent cross-sectional sample file of individual tax returns (box G.6).

**Table G.4 Estimates of the price elasticity of giving from a selection of overseas studies**

<i>Study</i>	<i>Country</i>	<i>Data</i>	<i>Type of data</i>	<i>Sample/notes</i>	<i>Price elasticity</i>
Feldstein (1975)	US	1948–1968 time series of biannual aggregate tax data	cross-section		-1.24
Hood, Martin and Osberg (1977)	Canada	1968–1973 tax data	pooled cross-section		-0.52 to -0.86
Reece (1979)	US	1972–1973 Consumer Expenditure Survey	cross-section		-1.19
Kingma (1989)	US	1986 survey data on contributions to public radio stations	cross-section		-0.43
Kitchen and Dalton (1990)	Canada	1982 Survey of Family Expenditures micro data set	cross-section		-1.07
Auten, Cilke and Randolph (1992)	US	1979 cross-section tax return data for itemisers	cross-section	itemisers	-1.11
Brown and Lankford (1992)	US	1984 Florida Consumer Attitude Survey	cross-section		-1.62 to -1.79
Kitchen (1992)	Canada	1986 Survey of Family Expenditures micro data set	cross-section		-2.29
Randolph (1995)	US	1979–1988 tax return data	panel	transitional price elasticity	-1.55
				persistent price elasticity	-0.51
Auten and Joulfaian (1996)	US	1981/1982 matched income and estate tax data	cross-section	lifetime contributions	-1.16
				charitable bequests	0.60
O'Neil, Steinberg and Thompson (1996)	US	1985 tax data(oversamples rich, no state taxes)	cross-section	combined donations	-0.42 to -0.74
Chua and Wong (1999)	Singapore	1989 tax file data	cross-section	primary school	-3.4 to -5.3
				secondary school	-5.6 to -6.2
				tertiary	-0.98 to -3.6

(continued on next page)

**Table G.4 (continued)**

<i>Study</i>	<i>Country</i>	<i>Data</i>	<i>Type of data</i>	<i>Sample/ notes</i>	<i>Price elasticity</i>
Duquette (1999)	US	1985 and 1986 tax data (oversampling of high-income returns)	cross-section	itemisers (1985) Itemisers (1986)	-1.01 -1.24
				nonitemisers (1985)	-0.81
				nonitemisers (1986)	-0.64
Bakija (2000)	US	1979–1990 panel of individual tax returns	panel	transitory price elasticity	-1.15
				persistent price elasticity	-0.29
Tiehen (2001)	US	1987–1995 biannual survey of persons 18 years and over	pooled cross-section and panel		-0.94 to -1.15
Auten, Sieg and Clotfelter (2002)	US	1980–1992 tax data (original sample oversampled high-income individuals)	panel	transitory price elasticity	-0.40 to -0.61
				persistent price elasticity	-0.79 to -1.26
Brooks (2007)	US	2001 Panel Study of Income Dynamics (survey)	cross-section		-2.7
Bakija and Heim (2008)	US	1979–2005 panels of tax returns (heavily oversampled high income taxpayers)	panel	transitory price elasticity	-0.47
				persistent price elasticity	-0.7
Yetman and Yetman (2009)	US	1985–2005 from the Internal Revenue Service Statistics of Income files	charity-level panel	charities private foundations	-1.46 -8.93

Tassig (1967) was the first to attempt to estimate the price elasticity of charitable donations using US income tax return data. A considerable number of studies followed, mostly using cross-sectional tax or survey data to estimate the price elasticity of giving. Up to the mid 1980s, while estimates varied, studies tended to estimate a price elasticity of giving of close to or greater than one (in absolute terms), suggesting that tax incentives for giving were treasury efficient. Indeed, Clotfelter undertook an early review of the literature finding that:

The consensus of these studies is that the price elasticity for the population of taxpayers is probably greater than 1 in absolute value, although there are certainly estimates that

---

are smaller and estimates that are considerably larger than this. The range of most likely values appears to be about -0.9 to -1.4. (1985, p. 274)

This ‘consensus’ was later challenged by price elasticity estimates from studies using panel data (which follows the same groups of individuals over a period) (Steinberg 1990). The early evidence from panel data was significant not only because it suggested that the price elasticity of giving was inelastic (less than one in absolute terms), but also because it provided more reliable results compared to studies using cross-sectional data. This is because panel data studies: allow greater control over omitted factors that might influence giving behaviour; and, as income can vary over time, are better able to distinguish between price and income effects (box G.4).

A number of studies have used panel data over a period that straddles a change in tax rates. Since such studies observe a change in the price of giving that is independent of income, the price elasticity of giving can be more reliably identified. Notably, Randolph (1995) used panel tax return data for a period spanning two tax reforms and found that a persistent price elasticity of -0.51 and a transitional elasticity of -1.55. Randolph’s results are consistent with donors substituting giving from years of low marginal tax rates to years of high marginal tax rates (Andreoni 2008). However, some more recent studies estimate a price elasticity greater than unity (in absolute terms). Also, in contrast to Randolph, some studies suggest that persistent price effects have a larger impact on charitable donations than transitory price effects (Auten, Sieg and Clotfelter 2002).

Estimates of the persistent price elasticity of giving from a few studies undertaken since the mid 1990s using panel data (that covers a period of tax reform) have tended to fall between -0.51 and -1.26 (Auten, Sieg and Clotfelter 2002; Bakija 2000; Bakija and Heim 2008; Randolph 1995).

While the variability of results has left the literature unsettled as to the price effect of giving, a number of studies have estimated a price elasticity greater than one (in absolute terms). In a meta-analysis of 69 price elasticity of giving studies undertaken between 1967 and 2004, weighting the studies by sample size and excluding outlying observations, Pelozo and Steel (2005) estimated a weighted average price elasticity of -1.11.

---

## **Box G.4 Estimating the price elasticity of giving**

Contributions to charities are generally modelled as a function of income and the tax price of giving, controlling for demographic characteristics (commonly including age, gender, educational attainment and religious beliefs or participation). However, the data employed and the specification of the model vary between studies.

### **Omitted variables**

Early studies tend to use cross-sectional data, however analysis using such data may suffer from omitted variable bias — that is, price elasticity estimates may be biased due to the omission from the model of factors (including demographic variables) that influence giving behaviour. This is particularly a problem with cross-sections of income tax data, as survey data often includes demographic variables not available in tax data sets. Further, the literature has shifted focus to studies using panel data sets (tax or survey panels). Panel data can provide more convincing results as the panel data models suffer less from omitted variable bias from variables that are (or likely to be) constant over time, such as gender and educational attainment.

### **Tax return or survey data**

Studies of charitable donations generally use income tax return or survey data. While tax return data can provide an accurate account of how much individuals donate to charities eligible to receive deductible gifts, tax data does not capture giving for which a tax benefit is not claimed and therefore is an incomplete data set. Survey data, on the other hand, covers donations to all NFPs. However, survey respondents may not accurately report donation amounts.

### **Separating price and income effects**

Under a tax deduction system the price of giving is related to the donor's income — high income individuals pay a lower price for giving as they face a relatively high marginal tax rate. For this reason, it can be difficult to separate the effect of price and income on giving. However, as an individual's income can vary over time, panel data studies are better able to identify the price effect of giving relative to studies using cross-sectional data. This is especially true for studies using panel data that covers a period where tax rates change, as there is an associated change in the price of giving independent of income, allowing the price effect to be more reliably estimated.

### **Not all individuals give**

Early studies tended to estimate the price elasticity of giving using a log-log model. However, owing to the fact that not all individuals give — charitable donations are censored at zero — these models may not describe giving behaviour well. To account for this, many studies use a Tobit specification which allows for the probability of giving to be estimated. By taking non-givers into account, Tobit can provide unbiased coefficient estimates. While Tobit is used widely, some studies have used other specifications for dealing with limited depending variables, such as the two-step Heckman procedure (which allows price to have a different effect on the decision to donate than on the decision of how much to donate).

---

## *Income and giving*

Many studies of charitable contributions assume that the price elasticity of giving does not vary with income. However, the conventional understanding is that high income (and wealth) individuals are probably more sensitive to the price of giving than low to middle income (wealth) individuals (Steinberg 1990). Some observation and survey evidence also implies a relationship between the price elasticity of giving and income. For instance, following the 1986 tax cuts in the US and the resulting increase in the after-tax price of giving, only taxpayers in the highest income tax brackets were observed to reduced their charitable giving (Cordes 1999). In Australia, survey data suggests that tax incentives have a relatively large impact on charitable donations by wealthy individuals (FACS 2006).

The constant price elasticity assumption may in part be a result of high income individuals being under-represented in many surveys and tax data sets. However, a number of US datasets have been compiled which oversampled high income (wealth) individuals, allowing researchers to relax the constant price elasticity assumption and explore the relationship between price elasticity and income.

Clotfelter (1985) reviewed several studies (undertaken between 1962 and 1981) estimating price elasticities for different income groups using a variety of estimation techniques. While overall Clotfelter could not draw a firm conclusion on how price elasticity varies with income, he did find that ‘... the best evidence comes from separately estimated equations, and these estimates strongly suggest that price elasticities at upper incomes are larger than one in absolute value’ (Clotfelter 1985, p. 71).

A later study by O’Neil, Steinberg and Thompson (1996) estimated the price elasticity by income group using a stratified random sample (which oversampled wealthy individuals) of US individual income tax returns for over 70 000 taxpayers in 1985. In particular, they estimated the price elasticities for charitable donations (cash and appreciated assets) for four income subgroups. They found evidence of a U-shaped pattern of price elasticities across income groups, with the highest price elasticities in the lowest and highest income groups for total and cash donations.

Duquette (1999) also used 1985 and 1986 income tax return data for taxpayers who itemised deductions. He found that price elasticities steadily increased with income, from having an insignificant effect on those with a disposable income less than US\$40 000, to a price elasticity between -1.42 and -2.18 for those with a disposable income above US\$100 000. Duquette notes that:

---

... in both years it is only for the highest income class that the price elasticity exceeds in magnitude the critical value of  $-1$ . Evidently, the itemizers-only tax deduction is treasury efficient only for the highest income taxpayers.<sup>10</sup> (1999, p. 203)

More recently, Bakija and Heim (2008), using a panel of income tax returns between 1979 and 2005 which oversampled high income taxpayers, found that the estimates of persistent price elasticity were generally larger when the sample is limited to high income taxpayers. In one specification, Bakija and Heim estimated that the persistent price elasticity increased from  $-0.70$  for taxpayers earning less than US\$200 000 to  $-0.77$  for those earning US\$200 000 or more,  $-0.83$  for taxpayers with incomes of US\$500 000 or more, and  $-1.08$  for those earning US\$1 million or more.

How the price elasticity of giving changes with income levels is an important consideration for policies aiming to promote individual giving. Indeed, there is some evidence to suggest that high income individuals are relatively more sensitive to the price of giving and therefore may be more responsive to tax incentives. In this case, policies targeted at promoting giving by high income individuals may be more (treasury) efficient.

#### *What are the implications for Australia?*

While the international evidence on the price elasticity of giving is mixed, a number of studies have estimated a price elasticity of greater than one (in absolute terms), and some studies (mostly from the US) suggest that giving is relatively more price elastic for higher income taxpayers. There is also some evidence to suggest that the price elasticity of giving varies between NFP categories (box G.5).

---

<sup>10</sup> US taxpayers deduct from their income an amount equal to the maximum of a ‘standard’ deduction or an ‘itemised’ deduction (equal to the sum of eligible deductions). Therefore, only ‘itemisers’ list the value of their charitable donations to calculate their taxable income.

### Box G.5 Does the price elasticity of giving vary between NFP categories?

The literature on philanthropic giving and tax incentives commonly assumes that the price elasticity of giving is constant across all types of charities. This implies that tax incentives have the same effect on giving to hospitals as giving to school building funds. Yetman and Yetman (2009) suggest that this assumption is driven mainly by the lack of data on donations by recipient categories. However, using data that (to varying degrees) breaks donations down by recipient category, a few US studies (table G.5) have found evidence to suggest that price elasticities vary with the type of charitable cause.

Table G.5 Price elasticities estimates by broad category of NFPs

Study	Year	Overall	Religion	Education	Health	Social welfare (including gifts to the poor)
Feldstein (1975)	1962	-1.24	-0.49	-2.23	-2.44	-1.19
Reece (1979)	1972–1973	-1.19	-1.60	-0.08	na	na
Bradley Holden and McClelland (2005)	1982–1984	na	na	na	na	-1.34
Brooks (2007)	2001	-2.7	-1.30	-1.18	-0.64	-1.43
Yetman and Yetman (2009)	1985–2005	-1.46 <sup>a</sup>	-2.99	-2.05 <sup>b</sup>	0.78 to -1.30	2.62 to -3.69

<sup>a</sup> This includes donations to all charities, but excludes donations to private foundations for which Yetman and Yetman (2009) estimate a price elasticity of -8.93A note. <sup>b</sup> This estimates only covers donations to private education organisations.

While there is mixed evidence on the price elasticity of giving for different categories of NFPs, giving to social welfare is generally found to be price elastic. Moreover, evidence from these studies suggest that there are asymmetric policy effects. For instance, Brooks (2007, p. 610) concludes that the ‘... deductibility for most types of giving (for example, religion, poverty, combinations charities, and education) are probably efficient, whereas health charity, by itself, is probably not’.

The differences in estimated price elasticities are potentially driven by differences in what motivates donors to give to particular categories of NFPs. For instance, donors who are motivated to donate to certain causes because of the tangible (such as, invitations to special events) or intangible (such as, social status and prestige) benefits they receive from donating may respond more strongly to tax incentives.

As outlined above, there are a number of important research questions relevant to the most cost-effective way for government to support charities that are yet to be fully answered in the Australian context.

- How do Australians respond to tax deductions for charitable giving? In particular, do individuals increase their giving by more than the tax subsidy?
- Do the effect of tax incentives to give depend on an individual’s income?

---

Following on from the international literature, estimating the price elasticity of giving (which measures the responsiveness of giving to small changes in the price) can shed light on these questions. However, analysis of the price elasticity of giving requires more Australian microdata — ideally a panel of individual income tax returns, which tracks (claimed) donations to DGRs for a group of taxpayers over a number of years.

A recent development in the availability of taxation data in Australia has been the release of a 1 per cent cross-sectional sample file of individual tax returns (box G.6). While this sample of tax returns can be used to estimate the price elasticity of giving, in the context of a tax deduction it is difficult to separate out the effect of price from the effect of income on charitable giving using cross-sectional data (box G.4). A panel of individual tax returns can better identify the price effect of giving. This is particularly the case for a panel that covers a period where tax rates, and therefore the price of giving, changes independently of income. For example, there have been a number of changes in the income tax rates and tax thresholds in the five years to 2007-08. A panel over this period (or longer), would be ideal for analysis.

**Box G.6 The 1 per cent individual sample file**

In 2009, the ATO released a confidentialised cross-sectional sample of 1 per cent of all individual tax returns lodged in 2005-06 (containing around 115 000 individual records) and a 1 per cent sample file of returns lodged in 2006-07 (containing just over 118 000 individual records).

The sample files provides a detailed range of taxation microdata, including:

- demographic variables (for example, gender and marital status)
- income
- deductions (including deductions for donations to DGRs)
- losses.

As such, the sample files can facilitate the in-depth study of the Australian taxation system and the analysis of potential changes to the system.

*Source:* ATO (2009).

There are a number of design features an individual tax return panel can include to improve the quality of the analysis of tax incentives to give.

- 
- a stratified random sample of taxpayers that oversamples high income taxpayers may shed light on how the price elasticity of giving varies with income<sup>11</sup>
  - price elasticity studies focus on the effect of small changes in the tax rate on giving. As a result, they tell less about the likely response to large changes in the tax treatment of giving, such as the impact of the introduction of PAFs. A panel starting in the early 2000s would observe the response of taxpayers to the large change in the price of giving to private foundations as a result of the introduction of PAFs. The analysis of such large price changes on giving behaviour may shed some light on the likely impact of widening DGR status.

There are some limitations in using taxation data to analyse giving behaviour as donations that are either not claimed or are donated to non-DGRs are not captured in the data. (This end of the spectrum of giving is less likely to be price sensitive, but could be very income and wealth sensitive.) In addition, donations cannot be broken down by charity category. While survey panel data sets, such as the Household, Income and Labour Dynamics in Australia Survey (which records demographic, financial and volunteering information) could potentially provide details on a the full range of donations, estimates of giving from survey data can suffer from accuracy issues as respondents may misreport their giving levels.

To evaluate the impact of indirect tax incentives on individual giving, the ATO could construct a panel of individual income tax returns.

- The panel would need to provide details on tax deductions for charitable giving as well as income and demographic variables. In addition, the panel would need to cover a period of more than two years in which marginal tax rates change and, ideally, should be ongoing.
- To allow for the study of different income groups, high income taxpayers could be oversampled in the first year of the panel.

## **A tax deduction or rebate?**

Over the past few decades a number of countries have moved away from an income tax deduction scheme to a tax rebate or credit scheme, namely New Zealand in the 1970s and Canada in 1987. The idea of moving from a tax deduction to a rebate for

---

<sup>11</sup> Stratified random sampling may deliberately over- or under-represent certain subpopulations (or strata). In doing so, stratified samples ensure adequate precision so that separate estimates can be produced for different strata (such as different income groups) and can improve the precision of population estimates. Adjustments can be made for over- or under-sampling when making population estimates.

---

charitable donations has also been discussed in the Australian context (Asprey Committee 1975; IC 1995).

As discussed, a tax rebate differs from a tax deduction in that the price of giving is constant under a rebate system, however it varies with income under an income tax deduction system.

It has been argued that tax deductibility creates ‘vertical inequity’ issues as a greater tax benefit is provided to high income taxpayers relative to low and middle income taxpayers. And, that vertical inequity undermines the pluralist objective of the tax subsidy because the government provides proportionally larger ‘... grants to organisations designated as worthy institutions by rich taxpayers than it does to bodies nominated by poor taxpayers’ (Krever 1991, p. 20). However, it could also be argued that the higher tax benefit is merely a partial offsetting of the (inequitable) higher marginal tax rate imposed on these individuals in the first place.

Rebate (and matching grants) can be designed to afford the same tax benefit to all donors no matter their income level, removing the bias towards high income donors and improving vertical equity. Indeed, some analysts argue that tax rebates may be superior to tax deductions on the basis of vertical equity (see, for example, IRD 2006; Krever 1991).

The Commission estimates that in 2006-07 a ‘tax revenue neutral’ rebate rate — where the overall cost to the government does not change — would have been around 38 per cent. This would have increased the price of giving for high income taxpayers but decreased the price for low and middle income taxpayers (box G.7).

The impact on overall donations of moving to a rebate is dependent how responsive taxpayers are to the price of giving. Assuming that tax incentives have an inducement effect on giving, then the Commission estimates that a tax revenue neutral rebate in 2006-07 would have resulted in an overall decline in giving to DGRs (scenario (b), box G.7). Similarly, some other studies, notable Johnson (1981) and IC (1995), suggest that overall donations would fall as the increase in donations by low income taxpayers would be more than offset by the reduction in donations by high income taxpayers. In this case, a tax revenue neutral rebate will be less (treasury) efficient than a tax deduction, and overall donations to charities would be expected to fall.

The pattern of donations may also change as a larger share of the government’s taxation revenue is directed towards those NFPs chosen by low and middle income taxpayers and away from those chosen by high income taxpayers. This may imply a shift of donations towards welfare and social justice causes and away from environmental causes and the arts, to better match the preferences of Australians on an ‘average working income’ (FACS 2006).

## Box G.7 Tax revenue neutral rebate rate

Using taxable income and tax deductible donations data for 2006-07 (the latest available year of taxation statistics), the Commission estimated the single rebate rate that would have applied if a tax deduction was replaced with a tax revenue neutral rebate in that year.

The rebate is assumed to be non-refundable, that is the rebate can not create a tax loss. As such, individuals not liable to pay any tax would not be eligible for a rebate for donations to DGRs. Similarly, these taxpayers would not have been eligible for a tax deduction.

### Methodology

The appropriate tax rate (taking into account the Medicare levy and low income tax offset) for the level of taxable income was applied to the value of deductible donations to estimate the tax expenditure for donations to DGRs in 2006-07. The rebate rate where the total cost to the government was equal to that under a tax deduction was estimated for a range of price elasticities assumptions.

### Results

The tax revenue neutral rebate would have decreased the price of giving for low to middle income taxpayers, but increased the price for high income taxpayers. How taxpayers would have reacted to these price changes is dependent on their price elasticity of giving (box G.2).

The estimated tax neutral rebate rate in 2006-07 for four different scenarios is presented in the table below. The different scenarios assumes a high/low price elasticity in order to show the range of possible impacts.

	(a)	(b)	(c)	(d)
Assumed price elasticity of giving:				
Individuals with taxable income of \$100 000 or less	-1.0	-1.4	-0.6	-0.7
Individuals with taxable income above \$100 000	-1.0	-1.4	-0.6	-1.3
<b>Tax neutral rebate rate (%)</b>	<b>37.2</b>	<b>37.5</b>	<b>36.6</b>	<b>38.5</b>
Additional cost to government (\$m)	0	0	0	0
Change in individual giving (net of the subsidy) (\$m)	0	-17	29	-60
Donations received by DGRs (\$m)	1 885	1 868	1 914	1 825

- In scenario (a) it is assumed that that tax incentives to give have no additional effect on individual giving. Therefore, net of the tax subsidy, individuals contribute the same amount under a rebate as a tax deduction. Accordingly, donations received by DGRs is not expected to not change.

(continued next page)

---

### Box G.7 (continued)

- In scenario (b) it assumed that tax incentives to give have an inducement effect. In this case, the increase in price of giving for high income taxpayers reduces the inducement effect and they give less. Conversely, low and middle income taxpayers are induced to give more. Overall, assuming a constant price elasticity of -1.4, the decrease in giving by high income taxpayers more than offsets the increase by low and middle income taxpayers, and giving to DGRs is expected to decline.
- Tax incentives are assumed to have a crowding out effect in scenario (c). The increase in price of giving for high income taxpayers will reduce the crowding out effect of the tax subsidy, increasing individual giving (net of the tax subsidy). On the other hand, the increase in the subsidy to low and middle income earners will amplify the crowding out effect, decreasing giving by these individuals. Assuming a constant price elasticity of -0.6, overall the increase in giving by high income taxpayers will outweigh the decrease by other taxpayers, increasing overall donations to DGRs.
- The price elasticity of giving is assumed to vary with income in scenario (d) — tax incentives to give are assumed to have a crowding out effect on taxpayers earning less than \$100 000, but an inducement effect on taxpayers earning above \$100 000. In this scenario, high income taxpayers (due to the inducement effect) as well as low and middle income taxpayers (due to the crowding out effect) donate less, resulting in a relatively large decline in donations to DGRs.

Examining the impact of moving to a tax revenue neutral rebate on the flow of funds to DGRs highlights the potential trade-off between vertical equity and treasury efficiency.

Overall, the analysis suggests that a tax revenue neutral rebate rate in 2006-07 would have been around 38 per cent. In comparison, IC (1995) estimated that in 1989-90 a rebate rate of around 35 per cent would have been tax revenue neutral. The higher rebate rate for 2006-07 may be due in part to reductions in marginal tax rate over that period, which act to reduced the Government's contribution to each dollar donated to a DGRs. Since tax rates have fallen since 2006-07, the equivalent rebate rate today may be somewhat higher again.

*Sources:* Australian Government (2006); McGregor-Lowndes and Newton (2009); Commission estimates.

An alternative to a single tax revenue neutral rebate rate is a tiered set of rates that increase as the value of donations increase, thereby providing a higher tax benefit for those donors who donate larger amounts. For instance, in Canada the rebate rate is equal to the lowest marginal tax rate (15 per cent) for donations of CAN\$200 or less in any one year, while donations over CAN\$200 attract a rebate equal to the top marginal tax rate (29 per cent). However, Carter (2009, p. 12) notes that ‘... it would appear that the transition between deductions and credits has not had a significant impact on charitable giving’. Moreover, he suggests that Canada’s two-tier system has not had a large impact on vertical equity, as low income taxpayers

---

who donate a small amount and high income taxpayers who donate a large amount both receive the same tax benefit as they did under the income tax deductibility system.

Moving to a rebate system is also likely to impact on the administrative costs for donors, recipient organisations and the government, with the impact depending on whether it is an individual or organisational rebate.

- With an individual rebate, the application for a tax benefit can be incorporated into a donor's income tax return (as with the current tax deduction) or filed separately (as in New Zealand). Under the current income tax system, requiring that donors' file a separate claim for the rebate may increase administrative costs for both the donor and the government. The administrative cost to recipient organisations is unlikely to be effected.
- With an organisational rebate, the burden of applying for the tax benefit shifts from the donor to the recipient organisation. The increase in administrative cost for the recipient organisation (and the government) could be substantial under an organisational rebate if DGRs are required to obtain additional information from donors so that the government can match rebate claims to a donor's tax liability (for revenue protection purposes). Indeed, a survey of NFPs conducted by the ATO in 2006 on a proposal to pre-populate gift labels on electronic individual tax returns using data supplied by DGRs, suggests that most NFPs would not be supportive of a move to provide donor information directly to the ATO (ATO 2008b). Further, relative to an individual rebate, an organisational rebate may result in a higher tax expenditure as organisations may claim a rebate for all donations while individuals may claim only a proportion of eligible donations.

Krever, in arguing for the adoption of a tax rebate system in Australia, suggests that compared to income tax deductibility, a rebate will increase equity and pluralism and that '... changes in the rebate level or other funding mechanisms could be used to offset a drop in total contributions if one were experienced' (1991, p. 26). Even so, in considering the move to a rebate system, policy makers need to be aware of the potential trade-off between vertical equity and treasury efficiency as well as any change in administrative costs.

### **Can a matching grant promote more giving than a tax deduction?**

Matching grants are an alternative way to subsidise philanthropic giving. A matching grant that provides an equivalent tax benefit to an individual as an income

---

tax deduction should result in the same level of giving.<sup>12</sup> Under a tax deduction (or rebate), if an individual donates \$1 to a charity and they have a marginal tax rate of 20 per cent, then they would receive a tax benefit of \$0.20 and the donation would effectively cost \$0.80. With an equivalent matching subsidy (at a rate of 25 per cent), the donor would donate \$0.80 and the government would make a matching denotation of \$0.20 (25 per cent of \$0.80). In both cases, the charity would receive a total donation of \$1.

However, there is some evidence from experiments and field studies in the US to suggest that donors respond differently to a tax rebate than to a matching grant. In particular, Eckel and Grossman (2003, 2006, 2008) compared the effect of a rebate with an equivalent matching subsidy on charitable donations, finding that a matching subsidy resulted in a greater level of donations to charities than a rebate. Eckel and Grossman (2008, p. 250) concluded that ‘... for a given budget allocated to subsidizing charities, matches are much more effective than rebates at increasing the flow of funds to the charities’.

This leaves the question as to why individuals may respond more to a matching grant than to a rebate. Bénabou and Tirole (2006, p. X) argue that:

... if giving is (partially) motivated by warm glow, then accepting a rebate offer may make the donor feel ‘greedy’, reducing the warm glow benefit and making the donor feel less good about himself. Rejecting the rebate offer maintains the warm glow feelings. Warm glow would be unaffected (or possibly enhanced) by a match subsidy.

This implies that matching subsidies may be more effective in increasing (net) donations by donors motivated by ‘warm glow’, whereas rebates may be more effective for donors motivated by other factors, such as social status.

However, the evidence to date is based mostly on experimental data, and Eckel and Grossman caution that they would not recommend moving to a matching grant system in the US without further study and extensive piloting. Moreover, while Eckel and Grossman have found an interesting result for the US, it is not clear that this would hold in Australia given the different social, cultural and institutional context.

There are also a number of issues with matching grants. First, while under an income tax deduction system the recipient organisation would receive the donor’s and government’s share of the donation immediately, under a matching grant system the organisation would receive the taxpayer’s share of the donation immediately but would not receive the government’s share until after they made a

---

<sup>12</sup> A tax rebate (or deduction for a particular marginal tax rate) of  $s_r$  and a matching subsidy of rate  $s_m = s_r / (1 - s_r)$  presents a donor with the same price of giving.

---

claim. Krever (1991) notes that the effect of such a delay on recipient organisations could be minimised by allowing them to make claims on a regular basis.

Second, similar to a rebate, the matching grant would be applied at a constant rate for all taxpayers. Hence, assuming a tax revenue neutral matching rate, a move to a matching grant system would increase government contributions for low income taxpayers but decrease government contributions for high income taxpayers and therefore, may impact on the overall level and pattern of individual giving. Third, by exposing the true subsidy nature of indirect government support for philanthropic giving, matching grants may lead to closer government scrutiny of which charities are eligible, thereby posing a potential threat to pluralism.

Finally, if recipient organisations are required to apply for the matching grant they will face higher administrative costs than under the current tax deduction system (conversely, donors may face lower costs). Similar to an organisational rebate, the increase in administrative costs could be substantial if recipient organisations are required to obtain additional details from donors in order for the government to match claims to a donor's tax liability.

More evidence of the likely impact on philanthropic behaviour of adopting matching grants in Australia is needed. Indeed, the Asprey Committee (1975) reviewing taxation arrangements in Australia raised the possibility of introducing a matching grant system. However, the Committee concluded that further empirical evidence of the potential impact on the overall level and pattern of private contributions was required before any such reform is undertaken in Australia.

In addition to government matching grants, private employers may also match charitable donations by employees. It is interesting to note that matching of employee donations by businesses has been successful in promoting employee payroll giving in Australia (PWC 2009). However, whether this reflects the effort and culture of the employer in supporting payroll giving or a price inducement effect is not known.

### **A hybrid tax incentive**

A hybrid of the tax deduction and rebate systems is another alternative to promote giving. For instance, a hybrid system of tax incentives could possibly allow an immediate tax deduction for payroll giving and a (individual or organisational) rebate for all other donations. In this way, a hybrid system could be designed to treat all donors equally — so that the tax benefit does not vary with income — unless donors give regularly through the payroll system. Indeed, a somewhat similar system currently operates in the UK where donors receive an immediate tax

---

deduction for payroll giving and other donations are eligible for an organisational rebate (at a ‘base rate’) under the Gift Aid scheme (although, under the Gift Aid scheme taxpayers are able to claim for the difference between the ‘base rate’ and their marginal tax rate in their annual tax return).

The impact on giving from moving to a hybrid tax system from a pure tax deduction will depend largely on the rate at which the rebate is set. If the rebate rate is set equal to the bottom marginal tax rate, then the benefit for taxpayers on that tax rate will be the same no matter how they donate (therefore they would not be expected to change their giving behaviour). However, all other taxpayers will face a higher price of giving unless they donate via the payroll system. In this way, a hybrid system may encourage greater participation in payroll giving, especially by high income taxpayers for whom the difference in the price of giving under the rebate and payroll giving is greatest.

Setting the rebate rate above the bottom marginal tax rate (but below the top marginal tax rate) may result in a disincentive for low and middle income taxpayers to donate through payroll giving. However, such a disincentive could be avoided by setting the minimum rate for payroll giving equal to the rebate rate.

Planned giving has been linked to higher levels of individual giving (Lyons, McGregor-Lowndes and O’Donoghue 2006). If this is the case, a higher uptake of payroll giving may have a further inducement effect on giving. However, taxpayers not wanting (or unable) to participate in payroll giving face the rebate rate and, therefore, potentially an increase in the price of giving, and may lower their donations accordingly.

The impact on giving (as well as the administrative costs for donors, recipient organisations and the government) of a move from a pure tax deduction to a hybrid system will depend on its design and the extent of any inducement effect of promoting payroll giving. More analysis of the current sensitivity to tax incentives is required to inform an assessment of the impact of different schemes to encourage giving. (And, some impacts will only be revealed through Australian pilots or trials.) Such analysis would benefit from the availability of Australian data (especially tax file panel data) on philanthropic giving.

---

## References

- ACF (The Australian Charities Fund) 2009, *Cutting to the Heart of Workplace Giving: How to Engage Employees for Better Community Outcomes*, <http://www.australiancharitiesfund.org.au/images/stories/PROGRAM-MATERIAL/Workplace-Giving-Templates/Cutting-to-the-heart-of-Workplace-Giving.pdf> (accessed 12 November 2009).
- Andreoni, J. 1989, 'Giving with impure altruism: applications to charity and Ricardian', *The Journal of Political Economy*, vol. 97, no. 6, December, pp. 1447–58.
- 1990, 'Impure altruism and donations to public goods: a theory of warm-glow giving', *The Economic Journal*, vol. 100, no. 401, June, pp. 464–77.
- 2006, 'Philanthropy', in Kolm, S.-C. and Mercier Ythier, J. (eds), *Handbook of The Economics of Giving, Altruism and Reciprocity: Volume 2*, Elsevier, North-Holland, chapter 18, pp. 1201–69.
- 2008, 'Charitable giving', in Steven N. D. and Lawrence E. B. (eds), *The New Palgrave Dictionary of Economics Online*, Palgrave Macmillan, [http://www.dictionaryofeconomics.com/article?id=pde2008\\_C000590](http://www.dictionaryofeconomics.com/article?id=pde2008_C000590) (accessed 11 August 2009).
- Anheier, H. 2005, *Nonprofit Organizations: Theory, Management, Policy*, Routledge, Oxon.
- Asprey Committee 1975, *Taxation Review Committee: Full Report*, AGPS, Canberra.
- ATO (Australian Taxation Office) 2008, *Donors and gifts — GiftPack*, Canberra, [http://www.ato.gov.au/print.asp?doc=/content/34496.htm&page=5#P192\\_12811](http://www.ato.gov.au/print.asp?doc=/content/34496.htm&page=5#P192_12811) (accessed 14 September 2009).
- 2008b, *Non-Profit News Service No. 0138 — Response to deductible gift recipient survey*, Canberra, <http://www.ato.gov.au/nonprofit/content.asp?doc=/content/71359.htm> (accessed 10 December 2009).
- 2009, *Taxation Statistics 2006-07*, Canberra.
- Australian Government 2006, *Budget 2006-07, Budget Paper No. 1, Budget Strategy and Outlook 2006-07*, Canberra.
- Auten, G., Cilke, J. and Randolph, W. 1992, 'The effects of tax reform on charitable contributions', *National Tax Journal*, vol. 45, no. 3, pp. 267–90.
- Auten, G., Clotfelter, C. and Schmalbeck, R. 2000, 'Taxes and philanthropy among the wealthy', in Slemrod, J.B. (ed), *Does Atlas Shrug? The Economic*

- 
- Consequences of Taxing the Rich*, Russell Sage Foundation, New York, chapter 12, pp. 392–424.
- Auten, G. and Joulfaian, D. 1996, *Charitable Contributions and Intergenerational Transfers*, Office of Tax Analysis paper 72, <https://www.ustreas.gov/offices/tax-policy/library/ota72.pdf> (accessed 21 September 2009).
- , Sieg, H. and Clotfelter, C. T. 2002, ‘Charitable giving, income, and taxes: an analysis of panel data’, *The American Economic Review*, vol. 92, no. 1, March, pp. 371–82.
- Bakija, J. 2000, *Distinguishing Transitory and Permanent Price Elasticities of Charitable Giving with Pre-Announced Changes in Tax Law*, <http://www.williams.edu/Economics/wp/bakijacharity.pdf> (accessed 16 September 2009).
- and Heim, B. 2008, *How Does Charitable Giving Respond to Incentives and Income? Dynamic Panel Estimates Accounting for Predictable Changes in Taxation*, National Bureau of Economic Research, working paper 14237.
- Banks, J. and Tanner, S. 1997, *The State of Donation: Household Gifts to Charity, 1974-96*, Institute for Fiscal Studies, London.
- Bekkers, R. and Wiepking, P. 2009, *Generosity and Philanthropy: A Literature Review*, SSRN Working Paper Series No. 1015507.
- Bénabou, R. and Tirole, J. 2006, ‘Incentives and prosocial behavior’, *American Economic Review*, vol. 96, no. 5, pp. 1652–78.
- Bradley, R., Holden, S. and McClelland, R. 2005, ‘A robust estimation of the effects of taxation on charitable contributions’, *Contemporary Economic Policy*, vol. 23, no. 4, October, pp. 545–54.
- Brooks, A. C. 2002, ‘Welfare receipt and private charity’, *Public Budgeting and Finance*, vol. 22, Fall, pp. 101–14.
- 2007, ‘Income tax policy and charitable giving’, *Journal of Policy Analysis and Management*, vol. 26, no. 3, pp. 599–612.
- Brown, E. and Lankford, H. 1992, ‘Gifts of money and gifts of time: estimating the effects of tax prices and available time’, *Journal of Public Economics*, vol. 47, no. 3, pp. 321–41.
- CAF (Charities Aid Foundation) 2006, *International Comparisons of Charitable Giving*, <http://www.cafonline.org/pdf/International%20Comparisons%20of%20Charitable%20Giving.pdf> (accessed 4 August 2009).
- Carter, T. S. 2009, Part I: an overview of tax credits for charitable donations as a philanthropic incentive in Canada, paper presented at the Modernising Charity Law Conference, Queensland University of Technology, Brisbane, 16–18 April,

---

<https://wiki.qut.edu.au/display/CPNS/DAY+3+-+MCL+Conference+Papers>  
(accessed 9 September 2009).

Chua, V. and Wong C.M. 1999, 'Tax incentives, individual characteristics, and charitable giving in Singapore', *International Journal of Social Economics*, vol. 26, no. 12, pp. 1492–504.

Clotfelter, C. T. 1985, *Federal Tax Policy and Charitable Giving*, The University of Chicago Press, Chicago.

Cordes, J. 1999, The cost of giving: how do changes in tax deductions affect charitable contributions?, paper presented at the Seminar on Emerging Issues in Philanthropy, April, [http://www.urban.org/UploadedPDF/philanthropy\\_2.pdf](http://www.urban.org/UploadedPDF/philanthropy_2.pdf) (accessed 3 September 2009).

CRA (Canada Revenue Agency) 2009, *Gifts and Income Tax*, <http://www.cra-arc.gc.ca/E/pub/tg/p113/p113-08e.pdf> (accessed 18 August 2009).

Duquette, C. M. 1999, 'Is charitable giving by nonitemizers responsive to tax incentives? new evidence', *National Tax Journal*, vol. 52, no. 2, June, pp. 195–206.

Eckel, C. and Grossman, P. 2003, 'Rebate versus matching: does how we subsidize charitable contributions matter?', *Journal of Public Economics*, vol. 87, no. 3–4, pp. 681–701.

— 2006, 'Subsidizing charitable giving with rebates or matching: further laboratory evidence', *Southern Economic Journal*, vol. 72, no. 4, pp. 794–807.

— 2008, 'Subsidizing charitable contributions: a natural field experiment comparing matching and rebate subsidies', *Experimental Economics*, vol. 11, no. 3, pp. 234–52.

FACS (Department of Families and Community Services) 2005a, *Giving Australia: Research on Philanthropy in Australia, Australians Giving and Volunteering 2004*, Department of Family and Community Services, Canberra.

— 2005b, *Giving Australia: Research on Philanthropy in Australia, Summary of Findings*, Department of Family and Community Services, Canberra.

— 2006, *Giving Australia: Research on Philanthropy in Australia, Report on Qualitative Research*, Department of Family and Community Services, Canberra.

Feldstein, M. 1975, 'The income tax and charitable contributions: part II — the impact on religious, educational, and other organizations', *National Tax Journal*, vol. 28, no. 2, pp. 209–26.

- 
- Hall, S., Pettigrew, N. and Sweet, O. 2008, *Key Barriers to the Adoption of Gift Aid*, Research Study conducted for HMRC and CAF, <http://www.cafonline.org/pdf/HMRCGiftAidReport.pdf> (accessed 11 September 2009).
- HMRC (HM Revenue & Customs, United Kingdom) 2009, *Giving to Charity: Individuals*, <http://www.hmrc.gov.uk/individuals/giving/index.htm> (accessed 4 August 2009).
- Hood, R. D., Martin, S. A. and Osberg, L. S. 1977, 'Economic determinants of individual charitable donations in Canada', *Canadian Journal of Economics*, vol. 10, no. 4, November, pp. 653–69.
- IC (Industry Commission) 1995, *Charitable Organisations in Australia*, Report no. 45, Melbourne.
- IRD (Inland Revenue Department, New Zealand) 2006, *Tax Incentives for Giving to Charities and Other Non-Profit Organisations: A Government Discussion Document*, <http://taxpolicy.ird.govt.nz/publications/files/taxcharitiesdd.pdf> (accessed 29 July 2009).
- IRS (Internal Revenue Service, United States) 2008, *Introduction to Estate and Gift Taxes*, Publication 950, cat. no. 14447X, <http://www.irs.gov/pub/irs-pdf/p950.pdf> (accessed 1 September 2009).
- 2009, *Charitable Contributions*, Publication 526, cat. no. 15050A, <http://www.irs.gov/pub/irs-pdf/p526.pdf> (accessed 5 August 2009).
- Johnson, J. A. 1981, 'The determinants of charitable giving with special emphasis on the income deduction under the income tax — a survey of the empirical literature', *Canadian Taxation*, vol. 3, Winter, pp. 258–63.
- Johnson, P., Johnson, S. and Kingman, A. 2004, *Promoting Philanthropy: Global Challenges and Approaches*, [http://www.tpi.org/downloads/pdfs/research-promoting\\_phil\\_global.pdf](http://www.tpi.org/downloads/pdfs/research-promoting_phil_global.pdf) (accessed 29 July 2009).
- Kingma, B. R. 1989, 'An accurate measurement of the crowd-out effect, income effect, and price effect for charitable contributions', *Journal of Political Economy*, vol. 97, no. 5, pp. 1197–207.
- Kitchen, H. 1992, 'Determinants of charitable donations in Canada: a comparison over time', *Applied Economics*, vol. 24, no. 7, pp. 709–13.
- and Dalton, R. 1990, 'Determinants of charitable donations by families in Canada: a regional analysis', *Applied Economics*, vol. 22, no. 3, pp. 285–99.
- Krever, R. 1991, 'Tax deductions for charitable donations: a tax expenditure analysis', in Comparative Public Policy Research Unit and Australian Tax Research Foundations, *Charities and Philanthropic Institutions: Reforming the Tax Subsidy and Regulatory Regimes*, 22 April, Melbourne, pp. 1–28.

- 
- Liffman, M. 2007, 'The cultural and social history of philanthropy in Australia', *Australian Philanthropy*, no. 67, Summer, pp. 4–5.
- Lyons, M., McGregor-Lowndes, M. and O'Donoghue, P. 2006, 'Researching giving and volunteering in Australia', *Australian Journal of Social Issues*, vol. 41, no. 4, pp. 385–39.
- Madden, K. and Scaife, W. 2008, *Good Times and Philanthropy – Giving by Australia's Affluent*, The Australian Centre for Philanthropy and Nonprofit Studies, Queensland University of Technology, Brisbane, <http://tinyurl.com/yewo36x> (accessed 1 September 2009).
- McGregor-Lowndes, M. 2009, Planned Giving Strategies, paper delivered to the Modernising Charity Law Conference, Brisbane, 18 April.
- and Newton, C. 2009, *An Examination of Tax-Deductible Donations Made by Individual Australian Taxpayers in 2006-07*, Working Paper no. CPNS 45, [http://eprints.qut.edu.au/20579/1/CPNS\\_Working\\_Paper\\_Final.pdf](http://eprints.qut.edu.au/20579/1/CPNS_Working_Paper_Final.pdf) (accessed 5 August 2009).
- , — and Marsden, S. 2006, 'Did tax incentives play any part in increased giving?', *The Australian Journal of Social Issues*, vol. 41, no. 4, Summer, pp. 495–509.
- OECD (Organisation for Economic Co-operation and Development) 2009a, *Social and Welfare Statistics*, <http://stats.oecd.org> (accessed 28 August 2009).
- 2009b, *Taxing Wages 2007-2008*.
- O'Neil, C. J., Steinberg, R. S. and Thompson, G. R. 1996 'Reassessing the tax-favored status of the charitable deduction for gifts of appreciated assets', *National Tax Journal*, vol. 49, no. 2, pp. 215–33.
- Ostrower, F. 1995, *Why the Wealthy Give: The Culture of Elite Philanthropy*, Princeton University Press, Princeton, New Jersey.
- Pelozo, J. and Steel, P. 2005, 'The price elasticities of charitable contributions: a meta-analysis', *Journal of Public Policy & Marketing*, vol. 24, no. 2, Fall, pp. 260–72.
- PWC (PriceWaterhouseCoopers) 2009, *The Giving Business: Creating Successful Payroll Giving Programs*, collaboration of CSI, PriceWaterhouseCoopers, Australian Charities Foundation, Charities Aid Foundation and United Way, <http://www.csi.edu.au/uploads/31642/ufiles/The%20Giving%20Business.pdf> (accessed 7 August 2009).
- Randolph, W.C. 1995, 'Dynamic income, progressive taxes, and the timing of charitable contributions', *Journal of Political Economy*, vol. 103, no. 4, pp. 709–38.

- 
- Reece, W. 1979, 'Charitable contributions: new evidence on household behavior', *American Economic Review*, vol. 69, no. 1, pp. 142–51.
- Saez, E. 2004, 'The optimal treatment of tax expenditures', *Journal of Public Economics*, vol. 88, no. 12, pp. 2657–84.
- Schokkaert, E. 2003, *The Empirical Analysis of Transfer Motives*, Center for Economic Studies, KULeuven, <http://www.econ.kuleuven.be/ew/academic/econover/Papers/wptrmot.pdf> (22 September 2009).
- Steinberg, R. 1990, 'Taxes and giving: new findings', *Voluntas*, vol. 1, no. 2, pp. 61–79, November.
- Tassig, M. K. 1967, 'Economic aspects of the personal income tax treatment of charitable contributions', *National Tax Journal*, vol. 20, no. 1, March, pp. 1–19.
- Tiehen, L. 2001, 'Tax policy and charitable contributions of money', *National Tax Journal*, vol. LIV, no. 4, pp. 707–23.
- Treasury 2008a, *Architecture of Australia's tax and transfer system*, Canberra, August.
- 2008b, *Australia's future tax system: Consultation paper*, [http://taxreview.treasury.gov.au/Content/downloads/consultation\\_paper/Consultation\\_Paper.pdf](http://taxreview.treasury.gov.au/Content/downloads/consultation_paper/Consultation_Paper.pdf) (accessed 16 September 2009)
- Van Slyke, D. M. and Brooks A. C. 2005, 'Why do people give? new evidence and strategies for nonprofit managers', *American Review of Public Administration*, vol. 35, no. 3, September, pp. 199–222.
- Yetman, M. H. and Yetman, R. J. 2009, *Does the Incentive Effect of the Charitable Deduction Vary Across Charities?*, Graduate School of Management, University of California, Davis, research paper no. 17–09.

