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Publication Date

2005-09-10

The Economists' Voice

Volume 2, Issue 3

2005

Article 3

The Choose-your-Charity Tax: A Way to Incentivize Greater Giving

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Summary

Why don't people give more to charity? One reason is that the problems will be there whether individuals give or not. Here is a policy—inspired by the matching grants that charities use so effectively—that could actually make a real difference.

KEYWORDS: taxation, charity, matching

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Why don't I—and others—give more to charity? And, how can that be changed?

One reason that many people like me do not give as much as they can afford, is the seeming irrelevance of a single contribution. The problem with good causes is that the very thing that makes a charity a good cause is the enormity of the problem it is fighting. Yet because the problem is so vast, my gift is a drop in the bucket. The problem will still be there when I am done giving. The problem will be there if I do not give. So, what difference would my gift make?

Charities, of course, understand this problem, and they have developed tactics to deal with it. One is to shrink the problem by personalizing it: You can “adopt” a particular child in Africa and feed him.

Another tactic is the matching grant. If my grant is matched by another donor, I am more apt to give because I can give twice as much at the same price. The “price” of a \$1 gift is only 50 cents when my gift is matched.

These tactics are clever, and effective. But we must be more ambitious if we seek to solve truly vast problems. In this column, I will propose a more aggressive tactic, expanding upon the idea and power of a matching grant: The Choose-your-Charity Tax.

A Tax Credit to Boost Charitable Giving

Under our current tax system, contributions to eligible charities are tax-deductible. But this proposal would replace that rule—and go much further.

The new rule would be this: People would get a tax credit of one dollar for each dollar they spend, up to a certain limit, on a charitable contribution. To make the plan revenue neutral for the government that limit would be equivalent to a tax increase.

How would this work in practice? Suppose the limit is 10% of income. And suppose a given taxpayer has \$75,000 in taxable income. That taxpayer has a choice: Either pay a \$7500 tax increase, or give \$7,500 to the charity of her choice, and receive a \$7500 tax credit.

From the taxpayers' point of view, these two alternatives are financially equivalent. But the charitable gift provides an option the tax payment does not: It allows the giver to specifically choose the recipient of the payment.

Those who believe in giving money to the poor can opt to give to charities that directly help them. In contrast, those who believe in self-reliance—opposing the Great Society programs on the ground that they create a culture of dependency, and preferring to teach a man to fish, rather than giving him a fish—can direct their dollars elsewhere. For instance, they may want to contribute to domestic training programs or infrastructure programs in the developing world.

Finally, those who continue to have a faith in government transfer programs, or who worry about the U.S. budget deficit, could choose not to take the credit at all. They could thus pay their extra tithe to the government, and consider that their gift.

Supporting the Tax is Like Choosing to Give with a 100 million to 1 Matching Grant

The reader might object that this kind of tax credit will never come to be. It is tantamount to requiring taxpayers to give 10% of their income to charity (or the government, if they don't claim the credit). If taxpayers don't give that much now, why would they support a policy that forces them to do it?

The answer is matching. The Choose-your-Charity Tax would be, in effect, the ultimate matching grant.

Matching is a central feature of taxation, though it is one that most voters don't think about. If they did, taxation might be more popular than it is.

Consider a person who—like me, and probably, like you—is not currently giving 10% of her income to charity.

She might feel her individual decision to tithe to charity would involve great personal sacrifice, yet would not go very far toward curing any of the world's or the nation's great ills. If she thinks about it, though, she might feel very differently about the tax increase, combined with the offsetting choose-your-charity tax credit.

A decision to vote for the Choose-your-Charity Tax expresses a willingness to endure significant personal sacrifice, but *only a willingness to do so if others match that willingness*.

And, if others match, then the sacrifice is not a drop in the bucket, but a great wave of change—and the taxpayer knows that. By matching contributions with over 100 million U.S. Taxpayers, it would be possible to solve *vast* problems. Roughly speaking, supporting such a policy is equivalent to being willing to give \$1 when the personal price of giving that dollar is one-hundred-millionth of a dollar. This is the ultimate expansion of the proven “matching” tactic that has already helped increase donations to charities.

And here’s the extra added attraction of the Choose-your-Charity Tax, which makes it more palatable than an ordinary tax increase: The taxpayer gets to direct exactly where her own contribution goes, and can make sure it is well spent (for instance, by a charity with far lower administrative costs than, say, the U.S. government). The rest of the money will, of course, be spent by other taxpayers, but their choices may not be so different from your own.

The Taxpayer’s Choice: Different For Individual Giving Than a Tax and Credit

If you call me and ask me to give a charity 10% of my taxable income (let’s say \$4,000 if I am the average taxpayer), I will ask myself whether I would rather have this \$4,000 in my pocket or theirs. Sadly, my answer—like that of so many other Americans—is that I would rather have it in my own. And this is true even though I’ve read philosopher Peter Singer—who convinces my higher self of the essential injustice of my selfishness.

But consider calling me and asking me, instead, if I support the Choose-your-Charity Tax. Like an individual deduction to charity, this tax will also take \$10,000 out of my pocket. But it could produce \$400 billion/year in extra charity in the U.S., assuming all taxpayers decide to exhaust their credits.

If I ask myself whether I would prefer having this \$4,000 in my pocket or \$400 billion in extra charity, I may just give. The matching grant, after all, is whopping: It’s 100-million-to-1. (For a richer taxpayer the match might be somewhat less, and for a poorer taxpayer, the match would be even more.)

Huge Problems Could Be Solved With a One-Hundred-Million-to-One Match

With \$400 billion per year, think what could be done: There could be no homelessness in America. Job retraining could be available for all.

And that's only on the domestic side. If half this charity went abroad, U.S. foreign aid would increase by a factor of 15. Instead of fast becoming one of the most hated nations in the world, the U.S. could quickly become the most loved.

A Solution that Ought to Appeal to Conservatives and Liberals Alike

The Choose-your-Charity Tax ought to garner bipartisan support.

Liberals should like the tax, because it will route more money to their favorite causes. And conservatives should like it because it moots the problem they often raise: that big government bureaucracies are often ineffective and inefficient at dealing with problems.

Conservatives favor private, not public solutions—and have long said that private charity is more efficient than higher taxes. In this case, they get the best of both worlds: The “matching” advantage of the tax system that I described above, and the ability to greatly amplify the “thousand points of light” that they see in private charities.

The program will also harness the power of competition among charities: Those that do the best works will attract the most charitable giving. Such competition already exists in the current system, but with the Choose-your-Charity tax it would be greatly amplified.

Perhaps 10% is too ambitious, or perhaps lower income taxpayers should be excluded. Even a 1% Choose-Your-Charity Tax could generate \$40 billion in extra charitable giving. The point is that the Choose-Your-Charity tax, however calculated, could convince individuals to listen to their higher selves—not their innate selfishness—with the assurance, through “matching,” that they are not alone in doing so.

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