
Charitable Giving Patterns of the Wealthy

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ALTHOUGH A FAIR AMOUNT of research has been done on the relationship of charitable giving to individual income, much less is known about the relationship of giving to wealth.¹ Few data are available on the charitable donations of the wealthy, especially the relationship of their lifetime giving to giving via bequest. The combined patterns of lifetime giving and bequests reveal some of the motivations behind individual charitable activity, especially by those who held significant wealth at the time of their death.

This study examines patterns of giving among wealthy individuals. The principal data are a sample of 4,143 estate tax returns filed in 1977 (for deaths generally in 1976 and 1977), matched with the income tax returns of decedents in years just prior to death, from 1974 through 1976. Each estate generally had assets worth \$60,000 or more (\$120,000 or more for decedents dying in 1977).

The 4,143 estate tax returns used for this study constitute 1 out of 10 of the more than 41,000 returns used in *Statistics of Income—Estate Tax Returns* (U.S. Department of the Treasury, Internal Revenue Service,

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¹ Wealth data actually improves our understanding of the relationship of giving to income. Previous research (Steuerle, 1985a) has indicated that the relationship of realized, and therefore measurable, income to wealth is poor and that most real income from capital is not recognized by individuals. As a consequence, most existing research on the relationship of giving to income must make use of an income measure that understates true economic income.

1979) and for related wealth studies (Schwartz, 1983). In many cases, however, matching income tax returns could not be found or were not filed for these decedents. In addition, since information on charitable giving during life was to be examined, only returns filed by itemizers were often useful. This study, therefore, usually focused attention on those decedents from whom there was available income tax information from the year prior to death or on persons in this latter group who actually itemized.

Under ideal conditions, one would want to examine a data set that was free of measurement errors, possible sample selection bias, and similar statistical problems. Unfortunately, no such data on wealthholders exist. Instead, capital income reported on income tax returns or in surveys is poorly measured, perhaps much worse than wealth reported on estate tax returns. The data used in this study also have several limitations. First, accounting for wealth takes place in a period different from that in which income tax returns are filed. Charitable giving in one year is thus compared to wealthholdings in the following year (at the time of death). Wealth transfers, consumption out of wealth, or wealth accumulation out of income could have occurred between the points at which measurements were made. Moreover, charitable giving in the year prior to death may be atypical.

For tax accounting reasons, wealth is also likely to be understated. Valuations for estate tax purposes are typically low for reported assets, especially businesses, farms, houses, and other non-liquid or infrequently traded assets. Estimates must be reasonable, but there is a strong incentive to provide the lowest among available choices. In addition, much wealth from life insurance or pensions does not pass through estates, so estimates of value of estates and inheritances are often understated. Finally, estate tax returns reveal only the wealth of the decedent; in cases where comparisons are made with income tax returns of joint filers, the wealth (and charitable bequests) of only one spouse are contrasted with the annual lifetime charitable giving of both spouses.²

PATTERNS OF GIVING

As indicated in Table 7-1, charitable giving as a percentage of income tends to decrease as income increases, but it increases once income rises above middle-income levels.³ A contrast of charitable bequests with net worth also tends to show a slight **U**-shaped pattern (Table 7-2). Thus,

² Unless otherwise noted, charitable giving made at death will be referred to specifically as "charitable bequests" whereas the term "charitable contributions" will refer to the annual contributions made during the year before death of the decedent.

³ The data show results somewhat similar to those found in earlier studies of charitable contributions (see Clotfelter and Steuerle, 1981).

TABLE 7-1.
DECEDENTS' (PRIOR YEAR) CHARITABLE CONTRIBUTIONS AS A PERCENTAGE
OF GROSS INCOME SUBJECT TO TAX (GIST) BY
SIZE OF GIST AND BY SIZE OF NET WORTH

GIST	Total number contributing	Charitable contributions (\$000)	GIST (\$000)	% Charitable contributions/ GIST
Zero or negative	53	8.5	-4,284	—
\$1-\$2,499	77	2.5	107	2.3
\$2,500-\$4,999	177	10.8	678	1.6
\$5,000-\$7,499	260	41.3	1,622	2.6
\$7,500-\$9,999	227	61.8	1,967	3.1
\$10,000-\$14,999	377	92.9	4,712	2.0
\$15,000-\$19,999	299	141.8	5,213	2.7
\$20,000-\$29,999	429	262.2	10,546	2.5
\$30,000-\$49,999	497	668.1	19,412	3.4
\$50,000-\$99,999	351	862.2	23,937	3.6
\$100,000 or More	177	3,983.2	36,498	10.9
Total all classes	2,924	6,135.3	100,408	6.1

giving relative to net worth declines slightly as net worth increases toward \$500,000, then rises significantly as net worth increases. The wealthiest decedents—those with \$2.5 million or more of net worth—have by far the highest rate of giving, donating almost one-fifth of their net worth to charity.

Tables 7-1 and 7-2 confirm information that is available from separately published statistics on income and estate tax returns. A more useful and original contrast can be made among estate tax returns with itemized deductions in the year prior to death and other populations of returns. Table 7-3 presents estimates for four different groups of returns on which deductions were itemized, mainly in 1975: first, those from the estate-income match with \$120,000 or more in assets; second, all decedents with \$120,000 or more in assets (the estate tax population); third, all top wealthholders (defined as all living persons holding assets valued at \$120,000 or more); and, fourth, all returns, regardless of wealth, that itemized deductions in 1975.⁴

⁴ To obtain the second and third groups, returns in the estate-income match are actually "reweighted." In the former case, recall that each return in the estate-income match actually represents (or is selected from) a much larger group of estate tax returns. In the latter case, a technique referred to as the estate multiplier is used, and each deceased person of a given age is taken to represent a portion of the living population, with the weight or number of persons so represented being determined by the probability of dying at that age. By using this technique, we are able to derive estimates of the wealth and charitable contributions of all top wealthholders, not just those who have died in a particular year. As can be seen in the table, for instance, the wealthy have net worth in excess of \$1 trillion, whereas the wealthy who filed estate tax returns in 1977 have net worth of only about \$19 billion.

TABLE 7-2.
CHARITABLE BEQUESTS AND NET WORTH

Amount of net worth	Total number	Charitable bequests (\$ millions)	Total net worth (\$ millions)	% Charitable bequests/net worth
<\$100,000	578	5.3	36.1	14.8
\$100,000–\$249,999	990	5.3	161.9	3.3
\$250,000–\$499,999	476	4.0	170.1	2.4
\$500,000–\$999,999	601	17.1	406.6	4.2
\$1,000,000–\$2,499,999	231	25.0	335.3	7.5
\$2,500,000 or more	48	80.6	414.8	19.4
All net worth classes	2,924	137.3	1,524.6	9.0

Reading across Table 7-3 from the estate-income match toward the population of all itemizers, average income and average wealth fall. The rate of giving also drops, although the difference in rates of giving between top wealthholders and all itemizers (3.6 percent and 2.9 percent,

TABLE 7-3.
CHARITABLE GIVING FOR VARIOUS POPULATIONS OF ITEMIZERS

	Estate income file ^a	Estate tax returns ^a	All top wealthholders ^a	All returns itemizing in 1975
Total (\$ million)				
Annual charitable contributions	5.8	84.6	4,351	15,343
Charitable bequests	122	1,409	—	—
Adjusted gross income	78.7	1,573	127,019	532,611
Net worth	1,240	19,146	1,091,960	—
Number of tax returns	1,541	48,350	4,063,740	26,074,061
Average per return (\$)				
Annual Charitable contributions	3,764	1,750	1,115	590
Charitable bequests	79,169	29,141	—	—
Adjusted gross income	51,071	32,534	31,257	20,427
Net worth	804,672	395,988	268,708	—
Rates of Giving (%)				
Contributions/AGI	7.4	5.4	3.6	2.9
Contributions/net worth	0.46	0.44	0.41	—

^a Restricted to estate tax returns with \$120,000 or more of gross estate.

respectively) is perhaps not as much as one might have suspected. Some differences, such as the rates of giving of estate tax returns as opposed to those of all top wealthholders, should be attributed to differences in average age. At given income and tax rates, the elderly have been shown to give more than younger groups.

Another revealing statistic from Table 7-3 (similar statistics can also be derived by comparing Tables 7-1 and 7-2) is that top wealthholders tend to give away only a tiny percentage of wealth during their lifetimes. Contributions represent slightly less than $\frac{1}{2}$ of 1 percent (between 0.41 percent and 0.46 percent) of net worth. This relatively small amount is fairly constant among the different categories of wealthholders shown in the table.

Table 7-4 compares charitable bequests with charitable contributions listed on income tax returns in the year prior to death. In the aggregate, charitable bequests represent over 20 times the amount of charitable contributions in a single year.⁵ At first, one might suspect that this ratio would be high only for those taxpayers who had been less generous than average during their lifetimes. The ratios of charitable bequests to charitable giving, however, are high even for those taxpayers who appear to have been relatively generous during their lifetimes. Those who gave more than \$25,000 in annual gifts, for instance, fall into the classification of the most generous of lifetime givers, yet even they gave 15.6 times as much in the year of their death as during the previous year. Although not shown in Table 7-4, this phenomenon is not confined to the year

TABLE 7-4.
CHARITABLE BEQUESTS (ESTATE TAX) AS A MULTIPLE OF CHARITABLE
CONTRIBUTIONS (INCOME TAX), IN THOUSANDS OF DOLLARS

Size of charitable contributions	Number	Charitable contributions	Estate tax bequests	
			Total	As a multiple of contributions
Nonitemizers	1,035	—	10,243	—
No contributions	212	—	7,558	—
\$1-\$249	388	47	7,360	156.5
\$250-\$499	308	110	2,781	25.2
\$500-\$999	359	252	8,715	34.6
\$1,000-\$2,499	342	550	8,096	14.7
\$2,500-\$4,999	132	461	4,974	10.8
\$6,000-\$9,999	75	494	22,819	46.2
\$10,000-\$24,999	49	715	9,952	13.9
\$25,000 or more	24	3,506	54,841	15.6
Total all classes	2,924	6,135	137,338	22.4

⁵ In another study for this project, Boris has found that, at least for gifts to foundations, the ratio for lifetime giving to bequests tended to be higher in the years before 1970.

prior to death. When returns from two years prior to the respondent's death are examined, a similar result is obtained.⁶

One important inference from Tables 7-3 and 7-4 is that wealth seems to play only a limited role in determining the amount given during one's life, except perhaps to the extent that it increases realized income. Nonetheless, it is an important determinant of charitable bequests, as those with greater amounts of wealth tend to give both greater absolute amounts and larger percentages of their estates to charitable causes.

Table 7-5 displays the distribution of charitable amounts given during life by size of charitable bequests. Many persons who are very generous in death can clearly be seen to have given little or nothing in the way of lifetime gifts. For instance, 13 of 21 persons bequeathing \$1 million or more to charity actually gave less than \$10,000 in annual gifts.⁷ In contrast, many who were relatively generous during life made few or no contributions at time of death. Thus, of the 24 individuals who contributed more than \$25,000 in annual giving, 11 made no charitable bequests whatsoever.

TABLE 7-5.
DISTRIBUTION OF PERSONS BY SIZE OF CHARITABLE CONTRIBUTIONS
AND CHARITABLE BEQUESTS

Size of charitable contributions	No charitable bequests	Size of charitable bequests				Total
		\$1-\$50,000	\$50,000-\$ \$250,000	\$250,000-\$ \$1 million	\$1 million or more	
No charitable contributions or nonitemizers	1,075	125	30	14	3	1,247 ^a
\$1-\$999	881	128	30	12	4	1,055
\$1,000-\$9,999	419	89	22	13	6	549
\$10,000-\$24,999	23	11	6	6	3	49
\$25,000 or more	11	2	4	2	5	24
Total	2,409	355	92	47	21	2,924

^a Includes 1,035 nonitemizers

Table 7-6 presents charitable contributions and bequests as percentages of income and net worth, rather than in dollar amounts. The results of both Tables 7-5 and 7-6 are broadly similar. For instance, of 32 persons who made annual contributions of over 40 percent of their income, 19

⁶ This is the only way that one can check whether giving in the year before death displays any peculiar pattern. No further information is available on total lifetime patterns of giving or even on giving several years before death.

⁷ Nonitemizers give less than \$2,600 to charity—the maximum standard deduction in 1975—or else they would itemize.

TABLE 7-6.
DISTRIBUTION OF PERSONS BY CHARITABLE CONTRIBUTIONS AS A PERCENTAGE OF
INCOME AND CHARITABLE BEQUESTS AS A PERCENTAGE OF NET WORTH*

Charitable contributions as % of income	No charitable bequests	Charitable bequests as % of net worth				Total
		0.01-3.00	3.01-20.00	20.01-40.00	40.00 or More	
No charitable contributions or nonitemizers	1,075	97	26	11	38	1,247 ^a
0.01-3.00	834	90	23	9	29	985
3.01-20.00	450	79	39	12	22	602
20.01-40.00	31	3	7	2	7	50
40.00 or more	19	4	3	1	5	32
Total	2,409	273	98	35	101	2,916 ^b

* Income is measured by gross income subject to tax.

^a Includes 1,035 nonitemizers.

^b Total differs slightly from Table V because returns reporting positive charitable contributions and negative income are excluded from this table.

left no charitable bequests. At least in percentage terms, however, Table 7-6 indicates that givers may be more likely to give a high percentage of their estate than of their income to charity. Thus, 101 (or 3.4 percent of these returns) gave away 40 percent or more of net worth at death, but only 32 (or 1.1 percent) gave away more than 40 percent of income.⁸

Both Tables 7-5 and 7-6 confirm that the pattern of large bequests and small annual contributions is the prevalent behavior for most taxpayers who make large bequests. Thus, lifetime giving and bequest giving are not great predictors of each other.

ECONOMETRIC RESULTS

Table 7-7 represents a more rigorous analysis of lifetime giving. Some common econometric techniques are used to explain charitable contributions reported on income tax returns.⁹ Income, price of giving, and other dependent and independent variables are defined in roughly the same way as in many recent econometric studies. The principal difference between this study and most previous studies is that net worth is added as a variable.

In equation 1 (Table 7-7), charitable contributions are defined as a function of income, age, marital status, and the presence of dependents,

⁸ Of returns reporting both positive contributions and positive bequests (thus excluding both nonitemizers and those not adequately planning for death), the ratio is roughly similar: 63 with bequests of 40 percent or more of net worth but only 13 with contributions of 40 percent or more of income.

⁹ See, for instance, Clotfelter and Steuerle (1981) and Feldstein and Taylor (1976).

TABLE 7-7.
EQUATIONS EXPLAINING CHARITABLE CONTRIBUTIONS[†] REPORTED ON INCOME
TAX RETURNS

DEPENDENT VARIABLE: ℓn (CHARITABLE CONTRIBUTIONS + \$10)						
Independent variables	Equation					
	1	2	3	4	5	6
ℓn Net worth			.09 (.05)			-.07 (.07)
ℓn Price		-2.15* (.24)	-2.04* (.25)		-2.47 (.20)	-2.44 (.20)
ℓn Realized income	.98* (.05)	.41* (.08)	.37* (.08)			
ℓn Economic income				.82* (.05)	.28* (.06)	.36* (.10)
Married	-.55* (.10)	-.58* (.10)	-.60* (.10)	-.67* (.11)	-.62* (.10)	-.61* (.10)
Dependents	.33* (.12)	.37* (.12)	.37* (.12)	.30* (.13)	.36* (.12)	.34* (.12)
Age unknown	1.51* (.65)	1.32* (.63)	1.20 (.63)	1.35* (.66)	1.22 (.63)	1.29* (.64)
Age between 35 and 49	.12 (.51)	-.001 (.50)	-.06 (.50)	-.01 (.52)	-.06 (.50)	-.02 (.50)
Age between 50 and 64	.48 (.48)	.32 (.47)	.25 (.47)	.45 (.49)	.27 (.47)	.33 (.47)
Age 65 or over	.76 (.48)	.63 (.47)	.53 (.47)	.92 (.49)	.66 (.47)	.75 (.48)
Intercept	-4.47	.442	-.236	-3.13	1.46	1.57
r^2	.241	.280	.282	.206	.277	.278

[†] Standard errors are shown in parentheses.

* Significant at the .05 level.

but not of price (or taxes) or net worth.¹⁰ The income measure used here, however, is not economic income but rather the income reported by the taxpayer on the tax return. Thus, this equation follows most previous studies of charitable giving by using the amount of income realized or reported by the individual as the measure of income. Note that the coefficient for the income variable, 0.98, is very close to 1.00, implying that giving as a percentage of this realized income will stay fairly constant after controlling for age, marital status, and presence of dependents. For instance, if income increases from \$10,000 to \$100,000, the rate of giving would be predicted to fall less than 5 percent. When taxes (or price) are added to the model, however, the coefficient of income

¹⁰ Only 11 percent of itemizers had no contributions. As is typical in charitable studies with such a high percentage of positive givers, ordinary least square rather than a Tobit or similar regression technique was used.

is decreased significantly, while the price coefficient increases in absolute value (see equation 2). This result is again consistent with previous studies. Because price and income are highly correlated, of course, interpretation is difficult, and it is always possible that the regression attributes to changes in price some of the effect of the changes in income and vice-versa.

Equation 3 goes one step further and adds net worth as a variable. The results are changed only trivially from equation 2, and the coefficient for net worth fails to meet the statistical test of significance at the .05 level. Even if significant, the size of the coefficient indicates that an increase in net worth, all other things being equal, would have only a small effect on charitable contributions. For instance, if net worth increased 20-fold from \$50,000 to \$1 million, giving would be predicted to increase only by 31 percent.

The low coefficient on net worth is actually quite similar to that obtained by Feldstein and Clotfelter (1976) in survey data from the 1963 and 1964 surveys conducted by the Board of Governors of the Federal Reserve System (coefficient = .095; standard error = .057). The coefficient on net worth obtained here is slightly higher than that obtained by Dye (1977), who used a 1974 national sample of household giving behavior of low- and middle-income taxpayers interviewed by the Survey Research Center at the University of Michigan (coefficient = .05; standard error = .01).¹¹ Although wealth and income from capital tend to be understated significantly in surveys, regressions run on these data sets have tended nonetheless to show the same price and income elasticities as have similar regressions run on tax returns. Perhaps it is not surprising that the wealth elasticities would have the same tendency to be small or insignificant.

Because recognition of income from capital is largely a discretionary event (Steuerle, 1985b), recognized income from capital is actually a very poor measure of real income from capital. Much of the total return to capital, especially of top wealthholders, is accrued in the form of unrecognized capital gains. In equations 4, 5, and 6, therefore, recognized income from capital is replaced with an estimate of the economic income from capital. The latter measure is obtained essentially by multiplying net worth by 5 percent and adding that income to labor income. Estimated income from capital is closer to an expected return from capital, as assets will fluctuate in value from year to year. Nonetheless, it is a more accurate measure of the well-being of the household than is a recognized income measure that is unadjusted for the presence of accrued

¹¹ Households did not report actual net worth in the Michigan survey, but only classified themselves as falling in certain groups.

capital gains and for the effect of inflation on the measure of income from capital.

When economic income is substituted for recognized income, the income elasticity tends to fall. In equation 4, the income elasticity is .82. Unlike equation 1, where the rate of giving out of income tends to stay constant, an elasticity of .82 implies that as income rises from \$10,000 to \$100,000, the rate of giving falls by over one-third. Since there is no separate price variable in equations 1 and 4, the income elasticity really reflects the combined effect on charitable giving of both an increase in income and a likely increase in tax rates. Thus, when recognized income goes up, so do tax rates, while an increase in economic income, if not recognized, would involve no simultaneous increase in taxes. In equations 5 and 6, price is added back as a variable. When these equations are compared to equations 2 and 3, the price effect can be seen to be stronger in those equations that use economic income as a variable, while the income effect is somewhat weaker in equation 5. Equation 6 must be interpreted with caution since the economic income variable is measured in part from the net worth variable, so that one cannot really separate out the income from the net worth effect.

The results demonstrate that individual lifetime giving may tend to be a function more of recognized income than of economic income. Individuals may be much more likely to give out of cash income than they are to give out of accrued gains in the value of corporate stock or land. By the same token, tax incentives from charitable giving do not apply to income that is never recognized.

In order to interpret further this data on charitable giving, Table 7-8 presents wealth and income information for the sample of top wealthholders. What becomes apparent almost immediately is that the ratio of income to wealth of top wealthholders declines significantly as wealth increases. Gross capital income subject to tax is only 2.2 percent of wealth for decedents with wealthholdings of \$2.5 million, while it is 5.9 percent of wealth for those with wealthholdings of \$250,000 to \$500,000. These results arise in large part because persons with lesser amounts of wealth often receive a greater percentage of their capital income in the form of interest and dividends. Those with greater amounts of wealth tend to hold real estate and corporate stock, and returns from these assets are often deferred or never realized for tax purposes.

What this declining ratio of income to wealth also suggests is that the difference between economic income and recognized income tends to increase as wealth increases. To the extent that individuals are more likely to give out of their recognized income, top wealthholders will be those who are most affected by the increasing gap between economic and recognized income.

TABLE 7-8.
ALL DECEDENTS: GROSS CAPITAL INCOME SUBJECT TO TAX AS A PERCENTAGE OF WEALTH (IN THOUSANDS OF DOLLARS)

Size of Wealth	Gross capital income subject to tax as a % of wealth					
	Average gross capital income			Zero or negative		
	Total number	Average wealth	Gross capital income as a percentage of wealth	Number	Wealth	Gross capital income
Under \$100,000	519	72	9	41	3,269	-43
\$100,000 under \$250,000	980	164	10	66	10,460	-140
\$250,000 under \$500,000	445	344	20	22	7,597	-139
\$500,000 under \$1,000,000	668	675	34	39	25,608	-775
\$1,000,000 under \$2,500,000	255	1,458	70	18	25,638	-144
\$2,500,000 or more	57	8,272	183	9	48,197	-578
All decedents	2,924	563	26	195	120,770	-2,116
			4.5			627,302
				751		5,361

Gross capital income subject to tax as % of wealth (continued)									
Size of wealth	3 percent under 5 percent			5 percent under 7 percent			7 percent under 10 percent		
	Gross capital income			Gross capital income			Gross capital income		
	Number	Wealth	Gross capital income	Number	Wealth	Gross capital income	Number	Wealth	Gross capital income
Under \$100,000	99	7,930	315	57	4,340	260	48	3,850	331
\$100,000 under \$250,000	235	39,291	1,541	161	27,583	1,623	98	15,943	1,360
\$250,000 under \$500,000	109	37,055	1,487	92	31,282	1,808	54	18,931	1,575
\$500,000 under \$1,000,000	204	139,757	5,692	119	78,818	4,628	70	47,243	3,852
\$1,000,000 under \$2,500,000	93	134,038	5,337	29	41,848	2,436	22	32,441	2,618
\$2,500,000 or more	14	71,788	2,591	7	24,838	1,462	2	6,128	507
All decedents	754	429,860	16,964	465	208,707	12,216	294	124,534	10,244

TABLE 7-8 (CONTINUED)

Size of wealth	Gross capital income subject to tax as % of wealth (continued)					
	10 percent under 15 percent			15 percent or more		
	Number	Wealth	Gross capital income	Number	Wealth	Gross capital income
Under \$100,000	42	2,968	358	112	5,192	3,237
\$100,000 under \$250,000	81	13,338	1,579	76	11,969	3,232
\$250,000 under \$500,000	40	14,490	1,716	26	8,398	1,916
\$500,000 under \$1,000,000	39	25,314	3,059	29	19,720	4,627
\$1,000,000 under \$2,500,000	11	17,137	1,925	7	9,790	3,999
\$2,500,000 or more	—	—	—	2	5,645	1,751
All decedents	213	73,247	8,636	252	60,716	18,761

Source: Eugene Steuerle, "Wealth, Realized Income and the Measure of Well-being," pp. 99-100.

Effect on Giving of Other Demographic Factors

Except for the effect of marriage, other variables in all the equations in Table 7-7 tend to show the same effects as those reported in previous econometric studies. Giving increases significantly with age. Since the estate-income match contains information on much more elderly individuals than do most surveys or samples of tax returns, the "age unknown" category is likely to be comprised primarily of persons aged 55 or older. Hence, the significance of the age coefficient for this group confirms a significant increase in giving with age, all other things being equal. Moreover, the coefficients for other groups tend to increase with age, and their failure to be significant at the .05 level is probably simply a function of the limited number of returns of younger ages.

Giving also tends to increase with the presence of dependents, a result consistent with the notion that those with dependents are likely to give more because they or their children are involved with more institutions, such as schools or clubs. While marriage has a negative effect on giving, as opposed to the positive effect revealed in most previous studies, these other studies do not include so many elderly. A logical reconciliation of results is that, among nonelderly persons, marriage is likely to increase lifetime giving, but elderly persons are more likely to become more cautious with their giving if they are planning for the future care of their spouses.

CONCLUSIONS

This study reveals a number of patterns of charitable activity among top wealthholders. While top wealthholders as defined here comprise only a small part of the total population, they are the persons most likely to give large enough amounts to start new charities or foundations or to undertake new enterprises with existing charities. Several conclusions are particularly relevant for the charitable sector: giving by top wealthholders at death tends to be much larger than annual giving during life; wealth has only a limited effect on lifetime giving; and giving is more likely to take place out of realized income than out of economic income. These observations are consistent with each of the following hypotheses or explanations, none of which are mutually exclusive:

1. For the very wealthy, charitable giving may compete less with consumption than with wealthholding itself. Indeed, wealthholding confers such benefits on individuals that they reveal a willingness to pay additional taxes to hold onto wealth that most likely will never be consumed.
2. Many persons may not take maximum advantage of the tax laws, either because they are ignorant of opportunities available to them or

because existing legal mechanisms for encouraging giving to charity are insufficient.

3. Tax incentives are offset significantly, at least for top wealthholders, by the prior tax incentive not to recognize income in the first place.

Each of these possible explanations is discussed briefly in the paragraphs that follow.

Charitable Giving Versus Wealthholding. At death, individuals can either give their assets to charity or to other individuals, but they can no longer consume their own wealth. Individuals who accrue substantial holdings often demonstrate that they are not likely to consume all their wealth during their lifetimes; they have chosen not to buy annuities or engage in other behavior that would maximize lifetime consumption and minimize their holdings at the time of their death. Many researchers would argue that such behavior indicates that the life cycle model provides only limited information on the ways in which individuals save and consume. For instance, the elderly as a group tend to increase, not decrease, their net worth as they age (Menchik and David, 1983). Even if one believes that the life cycle hypothesis explains the consumption behavior of most individuals, however, those with the greatest amount of wealth at death will be those for whom the hypothesis most likely will be inapplicable.

Seen in this light, lifetime charitable giving among top wealthholders must be viewed in part not as competing with consumption, but with the maintenance or accrual of wealth itself. This wealthholding provides increased power, prestige, control over existing assets or businesses, insurance over unforeseen events, and the option of making future decisions with respect to the transfer, investment, or disposition of the wealth.

The substantial increase in charitable giving at time of death is consistent with this notion. Many top wealthholders may be much more willing to make charitable bequests simply because wealth accumulation or retention is no longer an alternative. In effect, at death some transfer must be made either to charity or to other persons.

What makes this pattern of giving even more remarkable is that lifetime giving almost always has more tax advantages than posthumous giving. Both income and estate taxes are lessened in the former case, whereas bequests involve only estate tax reduction. Additional income tax savings could be used to increase consumption without any decrease in total charitable contributions, or to increase total charitable contributions without any decrease in consumption. Put another way, the only benefit from the increased taxation is a lengthening of the period of time in which the person holds onto the wealth. Thus, wealthholding appears to confer advantages on persons other than increased consumption, either for themselves or for their heirs.

Taking Advantage of the Tax Laws

An alternate explanation of this same tax behavior is that individuals are either ignorant of the tax laws or that the existing mechanisms for taking advantage of these laws, such as provisions for trusts, are either inadequate or too costly to use. Ignorance of complicated tax laws is a common phenomenon that cannot be disregarded. Trusts may be costly to set up and may be avoided for this reason, especially by those with lesser amounts of wealth. Certainly many individuals, including some of the most wealthy, have been found to plan inadequately for their estates.

To the extent that this is true, it offers the prospect that additional efforts by the charitable sector could increase giving. Existing methods of approaching wealthy individuals may simply be inadequate. If charitable giving provides a sense of well-being to the giver, then perhaps it needs to be better “advertised” and “packaged.” The dissemination of information about optimal tax planning may also be poor, inefficient, or expensive.

If persons hold onto wealth not only for future consumption, but also for the insurance, power, and security it brings, then existing legal vehicles for making donations to charity during one’s lifetime may not adequately appeal to potential donors. A charitable remainder trust, for instance, may be well geared to the consumption needs of a donor, but what if the potential donor has little concern with future consumption patterns and simply wants to maintain control over his wealth? Perhaps better forms of trust or legal vehicles could be developed to take care of the lifetime needs of the giver.

Charitable Incentives and the Recognition of Income

A third explanation for the charitable behavior revealed in this study is that lifetime giving is affected significantly by the tendency not to recognize income in the first place. Top wealthholders hold most of their assets in the form of corporate stock and real estate and do not recognize many of the returns from those investments. This may affect charitable giving in two ways. First, to the extent that charitable giving is more likely to take place out of cash and liquid assets, it may be reduced where the income from assets flows through in less liquid forms. Second, since recognition of capital income at the individual level is largely a discretionary event, tax incentives to give will only apply to that income for which such discretion is exercised. For income that is not recognized or is sheltered by artificial losses, the price effect is basically zero. For many taxpayers, therefore, the existing tax system may discourage the recognition of income so much that a charitable incentive applies only to a small portion of the true economic income of the taxpayer.

An example may help to clarify why tax incentives for lifetime charitable giving by the very wealthy may be minimal. According to Table

7-8, taxpayers with \$2.5 million or more of wealth recognize about 2.2 percent of wealth as gross capital income subject to tax. For a taxpayer with \$8.3 million of wealth, this implies income subject to tax of about \$180,000. Suppose other deductions and income offset each other, so that total income against which charitable deductions are allowed also equals \$180,000. Then the maximum amount of charitable contributions which can be given and still result in a current tax deduction is \$90,000, or only about 1 percent of wealth. For gifts of appreciated property or gifts to nonoperating foundations, the maximum tax incentives apply at even lower percentages of income.

In effect, taxes can induce individuals to give only to the extent that their income is taxable. Given the fact that many of the very wealthy realize only a small part of their capital income, there is only a limited income tax incentive for them to donate significant portions of their wealth to charity during their lifetimes.

The lifetime giving patterns of the wealthy might reasonably be explained by any of the three reasons offered here: the advantages of wealthholding itself, inadequate planning or ignorance of the tax laws, and limited lifetime incentives when income is not recognized in the first place. I would argue that all three are important and interact to explain the charitable giving patterns of the wealthy.

SUMMARY

Wealth is an important factor in deathtime giving, but it plays only a limited role in determining the amount of giving during life. The ratio of charitable bequests to charitable giving during a prior year of life is very high for all classes of wealthy taxpayers, both those who are generous during life and those who are not. Lifetime and deathtime giving, moreover, are not found to be great predictors of each other. Many with little lifetime giving are very generous at death, and many who are very generous during life give nothing out of their wealth at death.

Regression analysis confirms the weakness of net worth as an explanatory variable for lifetime giving. Taxes (price), income, age, and marital status, on the other hand, remain significant predictors. People are also more likely to give out of realized income than out of economic income. Giving out of realized income, of course, may be induced both because charitable deductions can reduce tax only to the extent that income is realized and because individuals may be more likely to give out of liquid than non-liquid assets.

There are three possible explanations for this observed pattern of giving by top wealthholders. First, wealthholding itself may confer on individuals substantial independent benefits such as increased options with respect to future decisions, insurance against unforeseen events, prestige,

and control. In fact, many people demonstrate that they are willing to pay additional taxes to hold temporarily onto wealth that neither they nor their heirs will consume. Second, some persons may not take maximum advantage of the tax laws because of ignorance of the opportunities available to them or because of the inadequacy of existing legal mechanisms. Finally, existing income tax incentives to give are offset significantly by the prior incentive not to recognize income in the first place.

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