PENN WHARTON
UNIVERSITY of PENNSYLVANIA
Budget Model

New Charitable Deduction in the CARES Act: Budgetary and Distributional Analysis

Summary: The CARES Act establishes a new, temporary charitable deduction (limited to $300) in tax year 2020 for taxpayers who claim the standard deduction. PWBM projects that this provision would cost about $2 billion and would have little effect on total donations. More than half (53 percent) of the benefit would accrue to families in the 60th to 90th percentiles of the income distribution. This estimate accompanies our analyses of the CARES Act recovery rebates as well as the short-term and long-term impacts of the coronavirus.

Introduction

Late Wednesday night, the Senate passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The bill provides loans, tax breaks, and transfers aimed at providing economic relief to households and businesses impacted by the Coronavirus pandemic.

Included in the tax changes is a new above-the-line deduction for charitable contributions specifically for taxpayers who do not itemize (i.e., those who claim the standard deduction). These taxpayers may deduct from their adjusted gross income (AGI) up to $300 of qualified charitable contributions. This provision only applies to tax year 2020.

Projected Effects on the Budget and Charitable Giving

PWBM estimates that this provision will cost about $2 billion. This estimate accounts for two possible forms of behavioral response. First, this policy would induce some taxpayers who would normally opt to itemize to instead take the standard deduction.[1] Second, faced with a larger tax subsidy, some filers will choose to increase their charitable donations.[2] We estimate that this second effect would likely be small—that is, the new deduction would likely do little to spur giving.

PWBM estimates that the provision would increase total charitable contributions in 2020 by about $110 million. This change amounts to a 0.03 percent increase—PWBM projects total household charitable contributions to be $320 *billion* in 2020. The negligible impact on total giving is in part due to the design of the deduction's ceiling limitation: for the many non-itemizing families who already give more than $300, the *marginal* tax subsidy would still be 0 percent under the policy. Raising the ceiling or structuring the limitation as a floor would incentivize more giving but at a higher budgetary cost to the government.[3]

Projected Distributional Effects

PWBM estimates that the new charitable deduction would result in small average tax cuts for all income groups except the lowest quintile. Table 1 shows various measures of the provision's distributional impact.

Table 1: Distribution of Federal Tax Change, Calendar Year 2020

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Income group	Average tax change	Tax units with a tax cut		Percent change in after-tax income	Share of tax change	Share of federal taxes paid	
		Share with tax cut	Average tax cut			Under current law	Under the proposal
Bottom quintile	$0	0.4%	-$25	0.0%	0.2%	0.1%	0.1%
Second quintile	-$5	21.6%	-$30	0.0%	9.6%	2.3%	2.3%
Middle quintile	-$15	40.9%	-$40	0.0%	22.0%	10.3%	10.3%
Fourth quintile	-$30	58.9%	-$50	0.0%	34.2%	19.1%	19.1%
80-90%	-$40	59.7%	-$65	0.0%	19.1%	14.9%	14.9%
90-95%	-$35	49.1%	-$70	0.0%	8.0%	11.0%	11.0%
95-99%	-$30	37.5%	-$80	0.0%	5.8%	16.3%	16.3%
99-99.9%	-$25	24.2%	-$105	0.0%	1.0%	12.7%	12.7%
Top 0.1%	-$15	14.7%	-$110	0.0%	0.1%	13.1%	13.1%

Note: "Income" is defined as AGI plus: above-the-line deductions, nontaxable interest income, nontaxable Social Security benefits, nontaxable pensions and annuities, employer-side payroll taxes, and corporate liability.

About 53 percent of the benefits would accrue to the upper-middle income groups (60th to 90th percentiles). The share of tax units with a tax cut and the share of the total dollar benefits of the tax change are both highest for these taxpayers. Families in this income range benefit most because those with higher incomes are more likely to itemize and wouldn't be eligible for the deduction, while lower-income groups are more likely to have no taxable income to further reduce. Note, however, that the average tax cut for those families *who receive* the tax cut is increasing with income due to increasing marginal tax rates; families that face higher marginal tax rates benefit more for each dollar reduction in their taxable income.

Due to the relatively small size of the deduction, changes in average after-tax incomes for each income group are negligible. The share of federal taxes paid by each income group would be unaffected by the deduction.

Victoria Osorio produced this analysis under the direction of Richard Prisinzano. Calculations are based on PWBM's model that is developed and maintained by PWBM staff.

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1. This effect is qualitatively small due to the low dollar amount cap on deductible contributions. ↩
2. Following empirical evidence, we assume a tax-price elasticity of charitable contributions of -0.5. ↩
3. See PWBM's previous analysis exploring policy reform options for establishing a non-itemizer charitable deduction. ↩