The Impact of Lifetime Income on Charitable Giving

Abstract

Using the data from the 2001 Survey of Consumer Finance, the paper provides an intertemporal framework to examine giving behavior as a trade off among current consumption, saving, and charitable giving. The results show that there is nonlinear relationship between household lifetime non-investment income and the percentage of annual income giving to charities. Potential tax motivations are found to influence giving decision. The paper also presents the implication for tax policy, which is supported by Charitable Giving Act of 2003.

Michael S. Gutter, University of Wisconsin-Madison[1]
Cynthia R. Jasper, University of Wisconsin-Madison[2]
Lingling Wang, University of Wisconsin-Madison[3]

Introduction

Charitable giving plays a vital role in the US a one mechanism for the redistribution of income and wealth. Lifetime income is the present value of a household's income from wages and pensions throughout its life expectancy (Gutter, 2000). Lifetime income is used in this study for two principle reasons. First, this study is concerned about the redistribution of wealth and income through charitable giving, in this case lifetime income is the best measure since the equality of the burden of redistribution should be measured by its impact on households true ability to give, thus its resources over the long run. The purpose of this study is to examine how charitable giving fits into the intertemporal resource allocation decision; specifically how total lifetime income impacts the proportion of annual income given to charities. This study will also consider how the tax treatment of charitable giving influences giving decisions.

This paper contributes several things to the research on charitable giving and allocation of lifetime income. First, the study further investigates the tradeoff between consumption, saving, and giving behavior by placing this into an intertemporal framework, which is not specially address by previous studies. Secondly, using the 2001 Survey of Consumer Finances (SCF), the paper provides an update to some of previous finding in examining the relationship between income, wealth, and charitable giving.

Key Findings

The results from the tobit analysis on the percentage of income given to charities show that life cycle variables play an important role in charitable giving. Household heads above 47 years of age are more likely to give greater percentages of income than those under 47, with the likelihood being higher for the oldest age group. Whites are more likely give greater percentages of total income than households of other races. The results of the study provide evidence to support that lifetime income is significantly associated to the percentage of total income given to charities, which is that household with lower lifetime income donate greater percentages of their income to charities than those with higher lifetime income. There is evidence to support that giving is influenced by tax motivations.

Since one of the primary benefits of charitable giving is the redistribution of wealth, it seems to be inequitable for those with lower lifetime resources to be carrying the burden they do. Further, that many of these households are unable to receive any tax benefit to their contributions is another source of inequality. One suggestion would be to modify the existing treatment of charitable contributions for low-income households who do not itemize; this is consistent with the Charitable Giving Act of 2003 which allows for an above-the line charitable deduction for some.

References

Gutter, M. (2000). Human wealth and financial asset ownership. Financial Counseling and Planning, 11(2), 9-19.

Endnotes

[1] Assistant Professor, Department of Consumer Science, School Of Human Ecology, University of Wisconsin – Madison. 1300 Linden Drive, Madison, WI 53706, Tel: (608) 262-5498, Fax: (608) 265-6048, Email: msgutter@wisc.edu

[2] Professor and Chair, Department of Consumer Science, School Of Human Ecology, University of Wisconsin – Madison. 1300 Linden Drive, Madison, Wisconsin 53706, Tel: (608) 262-2384, or (608) 263-5675, Fax:(608) 265-6048, Email: jasper@consci.wisc.edu

[3] Graduate Student, Department of Consumer Science, School Of Human Ecology, University of Wisconsin – Madison. 1300 Linden Drive, Madison, WI 53706, Email: linglingwang@wisc.edu