



TAX POLICY CENTER
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Patterns of Giving by the Wealthy

Wealth Taxation, Entrepreneurship, and Philanthropy

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Summary

Giving by the Wealthy

- During life the vast majority give to charity:
 - An above-average share of income
 - A tiny share of wealth
- At time of death the vast majority do NOT give to charity.
- But...when they do, estate giving dwarfs lifetime giving.

- Tantalizing Implications for Increasing Charitable Donations:
 - Appeals based on the opportunities provide by wealth, not just income
 - Example: The Giving Pledge

Giving Patterns

How do the wealthy differ?

People are more likely to be wealthy if they:

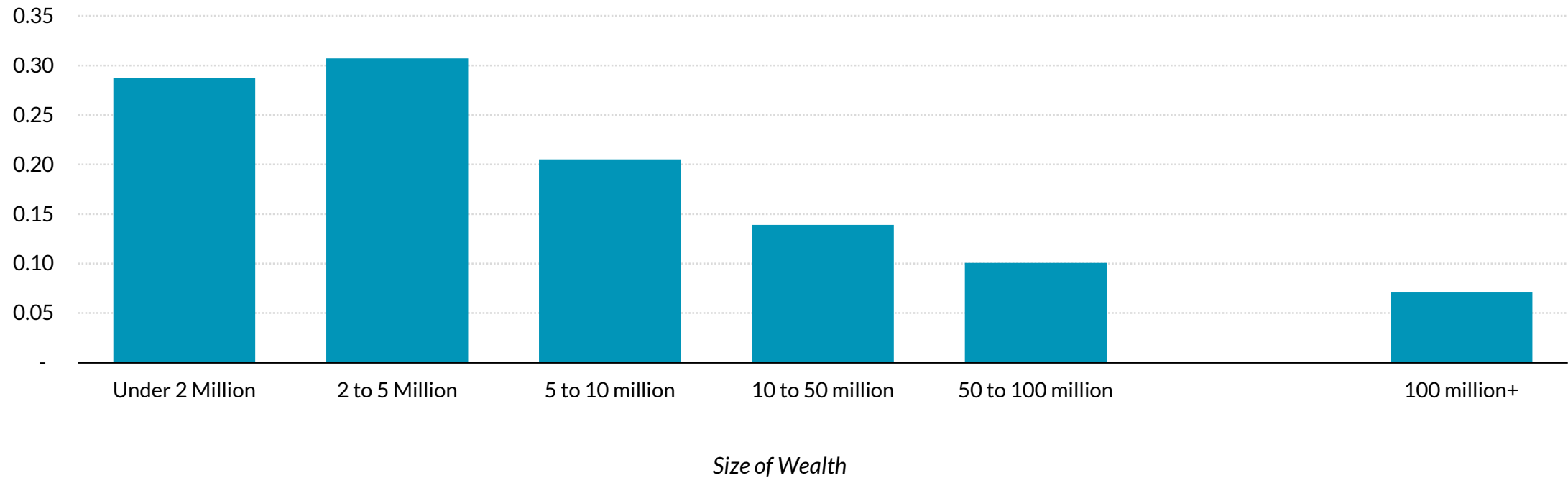
- Save and accumulate larger portions of their income
 - *And focus less on earning merely for their own consumption*
- Earn above-average returns on their net worth
 - *Because of both skill and luck*
- Inherit more financial, real, and human capital
- Engage as successful entrepreneurs, defined broadly

Of course, the most wealthy combine these characteristics.

Obvious consequence: **Transfers** to individuals or charity loom large.

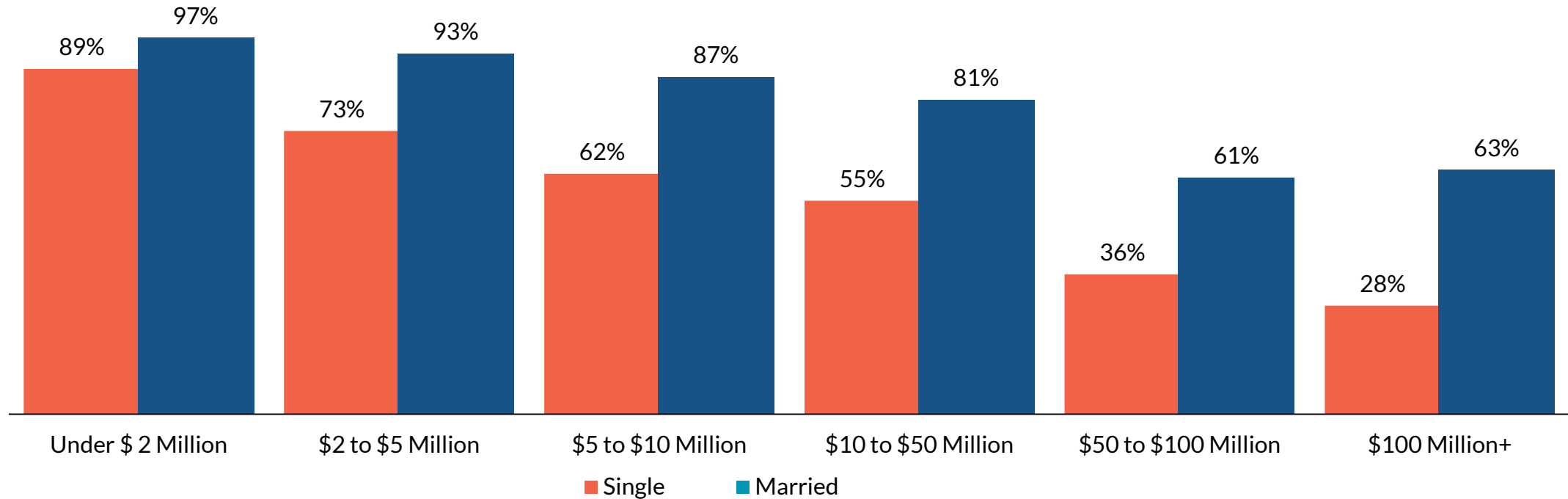
Zero Itemized Giving on Income Tax Return at Different Levels of Wealth, 2006

Zero Giving on Income Tax Returns



Source: Author's analysis based on dataset created by IRS SOI.

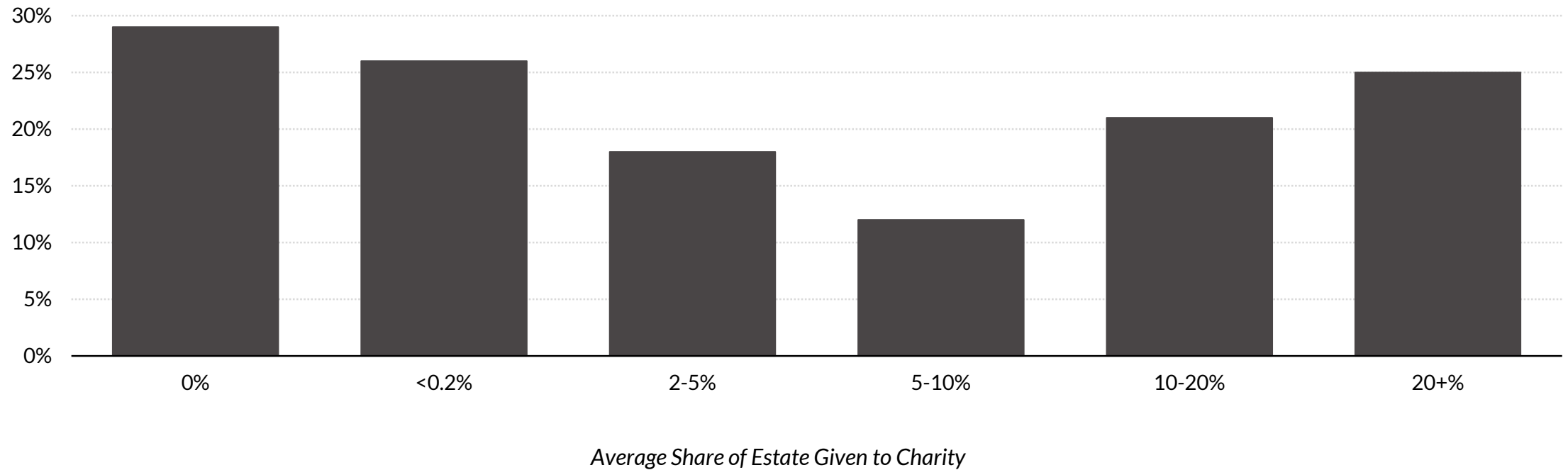
Zero Bequests on Estate Tax Returns at Different Levels of Wealth by Marital Status



Source: Author's analysis based on dataset created by IRS SOI.

Estate Givers: Patterns At Death vs. During Life

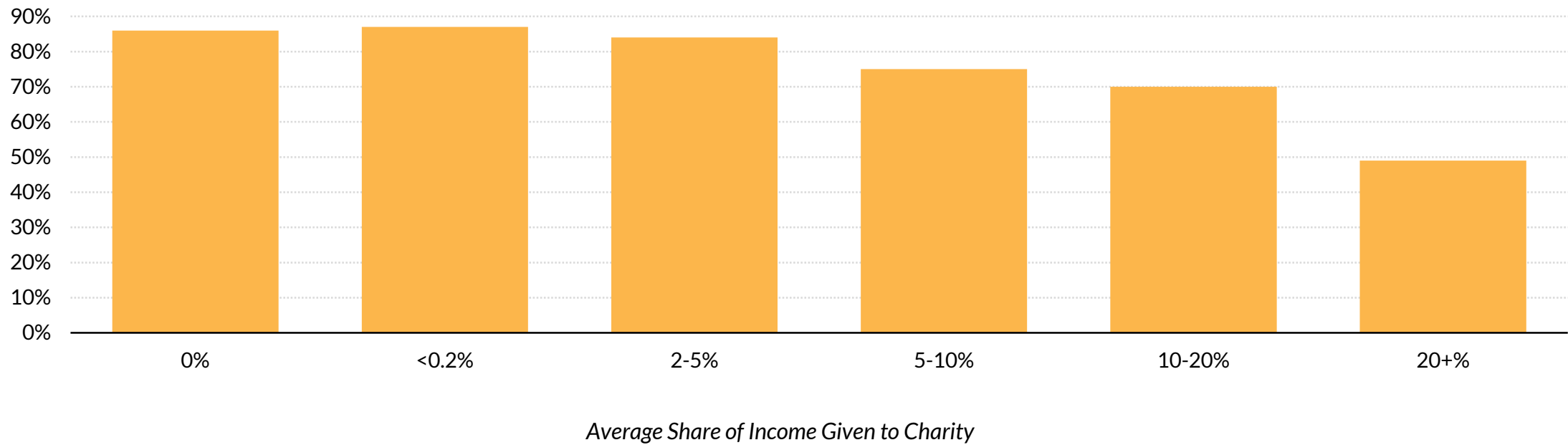
Zero Giving on Income Tax Returns, 2006



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Income Givers: Patterns At Death vs. During Life

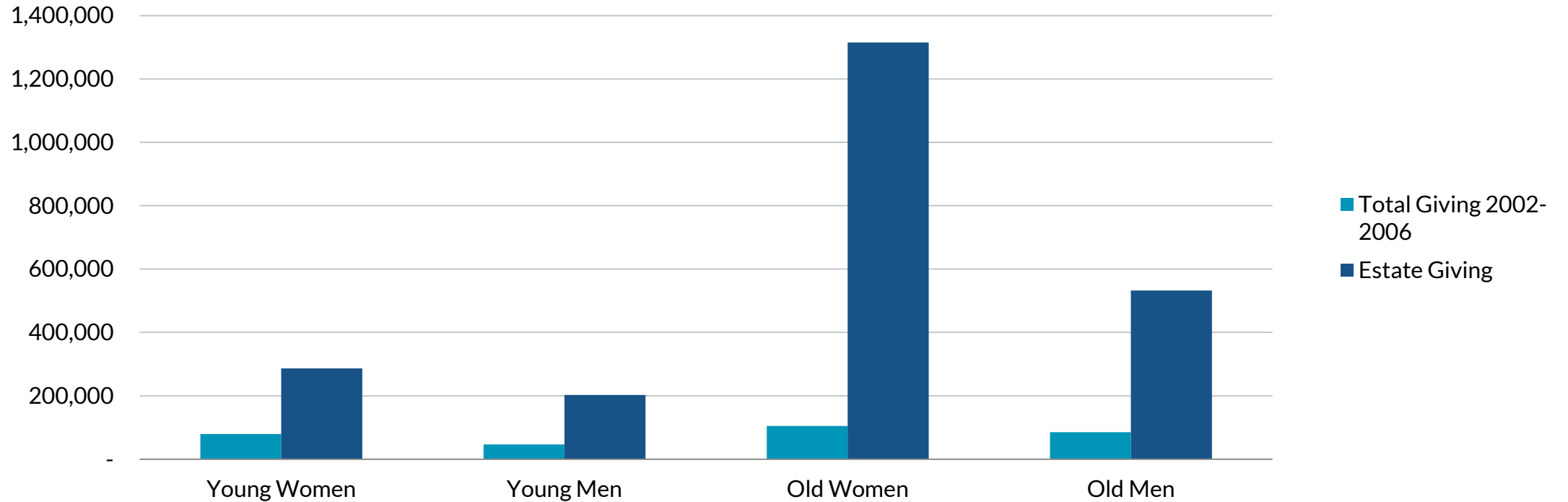
Zero Giving on Estate Tax Returns



Source: Authors analysis based on dataset created by IRS SOI.

Giving in Death Dominates Giving in Last Years of Life

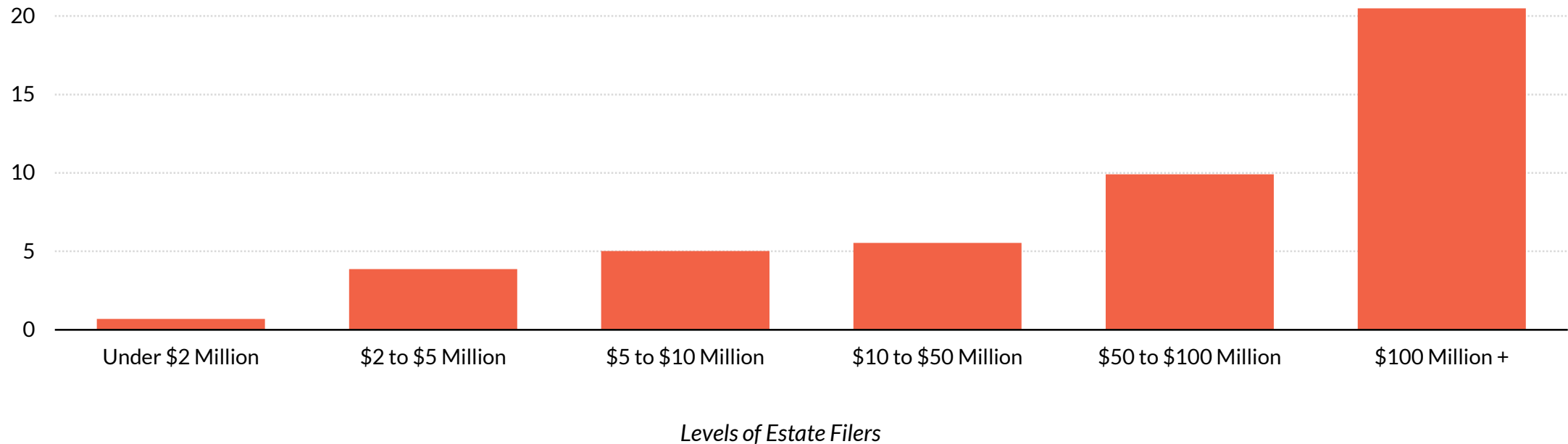
Average Giving in Last Five years of Life and At Death



Source: Author's analysis based on dataset created by IRS SOI.

Total Giving in Last Five Years of Life and At Death Across Different Levels of Estate Filers

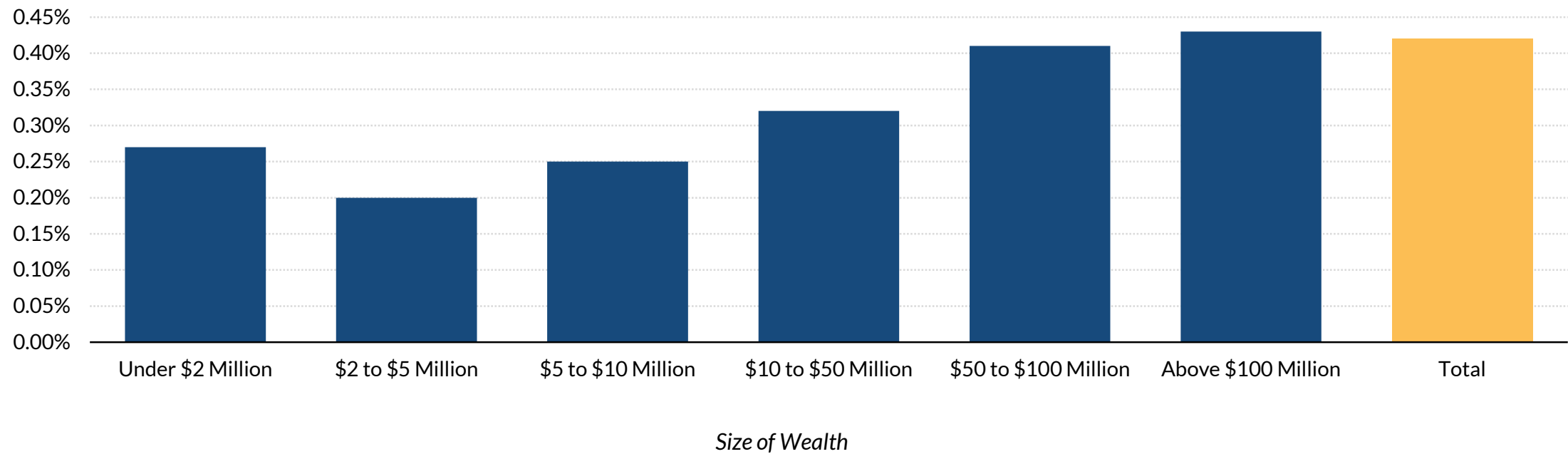
Estate Giving as multiple of Total Giving, 2002-2006



Source: Authors analysis based on dataset created by IRS SOI.

Decedents' Charitable Contributions as a Share of Wealth

Charitable Contributions as a Share of Wealth



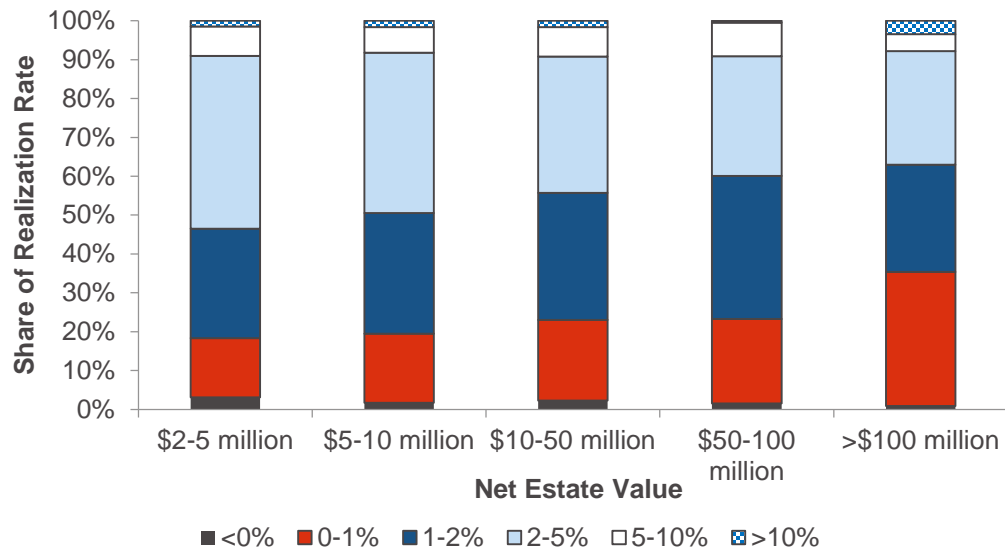
Source: Authors analysis based on dataset created by IRS SOI.

Reconciling Giving Behavior During Life & At Death

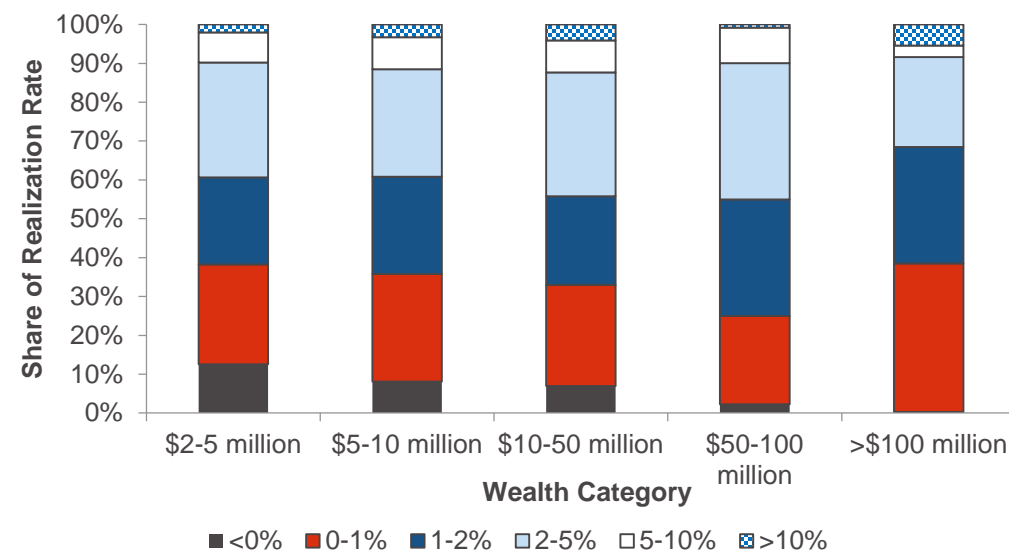
Percentages of Estates with Different Rates of Realization of Net Taxable Capital Income, by Wealth Category



Decedents



Living Population



Possible explanations for these patterns of giving...

1. Income tax limitations provide misleading signals
 1. But even if they gave out of economic income, estate giving would dominate
2. They fear high medical costs
 - But for the wealthy that is an easily insurable risk
3. They don't plan
 - Slowness in updating and even preparing wills
4. They like managing and investing their wealth
 - Both as entrepreneurs who hang onto their businesses and investors

...and a simpler explanation for giving patterns.

4. During life most people look to their income, not wealth, as the pie out of which they will give
 - “Realized” income is only a tiny share of wealth, often $< 2\%$
 - Even big givers say they only give “to the max” [that is, 50% of income]
 - Just do the simple math:
 - If wealth = \$20 million and income = \$400,000 (2% of wealth)
 - Then 10% of wealth = \$2 million and 10% of income = \$40,000
 - Anecdotal evidence: do you give more when your 401(k) goes up in value?

A Wealth of Opportunity?

Can we better ask people to look to potential their wealth provides?

- During lifetime giving?
- Through donor advised funds?
- Through planned giving at death?
- Through approaches that appeal especially to groups like entrepreneurs?