

The background of the slide is a photograph of the U.S. Capitol building in Washington, D.C., taken at dusk. The building's iconic dome is illuminated from within, and the sky is a deep blue with some clouds. The building's facade, with its many columns, is also visible and partially lit.

# **Estimate of reduction in corporate charitable giving resulting from the proposed 1% floor on deduction of charitable contributions made by corporations**

Prepared on behalf of Independent Sector  
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# Reduction in corporate charitable giving resulting from the proposed 1% floor

## Deduction of charitable contributions under current law

Under current law, corporations can deduct charitable contributions made during the taxable year. The total deduction a corporation can take in a given year is generally limited to 10% of its taxable income. Contributions above this limit are not deductible for that year but can be carried forward to future years, subject to the same 10% limit.

## What is the proposed change?

The House-approved reconciliation bill includes a proposed change to how corporate charitable deductions are calculated. Under the proposal, a corporation would only be allowed to deduct charitable contributions to the extent that the total amount exceeds 1% of its taxable income. The deduction would still be generally limited to no more than 10% of taxable income. This means that only the portion of contributions between 1% and 10% of taxable income would be deductible.\*

## What is the estimated average annual reduction in corporate charitable giving due to the proposed change?



\*Amounts less than the 1% floor would not be deductible in the current year and could only be carried forward to future years if the taxpayer's total charitable contributions in that year exceed the 10% limit; amounts above the 10% limit could be carried forward to future years (up to a maximum of five years).

# Methodology, caveats, and limitations (1/3)

This analysis estimates the potential reduction in corporate charitable giving resulting from the proposed 1% floor on the deductibility of charitable contributions made. The methodology uses data from the Internal Revenue Service (IRS) Statistics of Income (SOI), Joint Committee on Taxation (JCT) estimates, and peer-reviewed academic literature. It calculates the change in the tax price of corporate charitable giving under the proposed policy and applies elasticity estimates to quantify the expected change in giving.

## Primary data sources

### *IRS SOI*

- Provides data on corporate income statements, balance sheets, and taxes, broken down by major and minor industry.
- In 2021, C corporations with net income reported \$2.4 trillion in taxable income and \$34.5 billion in charitable contributions.

### *JCT estimates*

- Provide tax expenditure projections for corporate deductions for charitable contributions.
- The average projected growth rate of corporate deductions from 2024 to 2028 was estimated to be 3.6%.

### *Peer-reviewed academic literature*

- Provides estimates of the price elasticity of corporate charitable giving, which measures the percentage change in giving in response to a 1% change in its after-tax cost (i.e., the “tax price” of giving).
- Early studies found corporate price elasticities ranging from -1.0 to -2.0, including:
  - Schwartz (1968): Elasticity estimates ranging from -1.06 to -2.0.<sup>1</sup>
  - Nelson (1970): Elasticities ranging from -1.03 to -1.18.<sup>2</sup>
- A more recent and widely cited study by Carroll and Joulfaian (2005) estimates a corporate price elasticity between -1.8 and -2.1.<sup>3</sup>

<sup>1</sup> Schwartz, R. A., (1968), “Corporate philanthropic contributions,” *The Journal of Finance* 23 (3): 479-497.

<sup>2</sup> Nelson, R. L., (1970), “Economic Factors in the Growth of Corporation Giving,” National Bureau of Economic Research Occasional Paper 111, New York. National Bureau of Economic Research and Russell Sage Foundation.

<sup>3</sup> Carroll, R., & Joulfaian, D., (2005), “Taxes and corporate giving to charity,” *Public Finance Review* 33(3): 300-317.

# Methodology, caveats, and limitations (2/3)

- Another recent study by Asatryan and Joulfaian (2022) estimates a corporate price elasticity of giving of -1.965.<sup>4</sup>

## Methodology

This analysis estimated the reduction in corporate charitable giving resulting from the proposed 1% floor on the deductibility of charitable contributions using two approaches. This analysis' central estimate is the average of the results from the two approaches.

### Approach #1: Lumpy charitable giving

#### Step 1. Baseline charitable contribution estimates

- Estimate charitable contributions for each minor industry in 2021 as a share of taxable income before charitable contribution deductions, using SOI data.
  - For industries with undisclosed 2021 data, values from 2013 (the most recent year without data suppression) were used to impute undisclosed data.
  - At the national level, charitable giving equaled 1.4% of taxable income before charitable deductions; the median across 189 industries was 1.0%.
- These estimates were grown forward to 2025 using JCT tax expenditure projections for corporate deductions for charitable contributions.

#### Step 2. Incorporate bunching behavior

- Account for the behavioral response of “bunching,” where corporations may concentrate charitable giving in a single year to exceed the 1% floor and maximize deductibility. For example, a corporation that donates \$2 million annually may instead donate \$6 million every three years to deduct more under the proposed policy.
  - This analysis calculates the tax price of giving under various bunching scenarios (no bunching, 2-year, and 3-year) and assumes each corporation selects the strategy that minimizes the effective average price per dollar donated.
  - This analysis assumes that a corporation will bunch their donations for a maximum of 3 year.

<sup>4</sup> Asatryan, Z. & Joulfaian, D., (2022), “Taxes and business philanthropy in Armenia,” *Journal of Economic Behavior & Organization*, 200, 914-930.

# Methodology, caveats, and limitations (3/3)

## Step 3. Estimate change in tax price

- Calculate the average tax price of charitable giving for each industry under:
  - Current law (full deduction up to 10% of taxable income).
  - Proposed policy (deduction allowed only for giving between 1% and 10% of taxable income).

## Step 4. Apply price elasticity of corporate charitable giving

- Apply the price elasticity of -1.8 from Carroll and Joulfaian (2005) to estimate the expected reduction in charitable giving.
  - This analysis uses the lower end of the estimate to account for another behavioral effect of the proposed policy; that is, while corporations may reduce giving due to the higher tax price, some may shift contributions to another deductible category such as advertising expenses, which would remain fully deductible under the proposal.

## Step 5. Estimate reduction in average annual giving

- Combine the projected 2025 charitable contributions with the estimated percentage reduction calculated in Step 4 to estimate the expected reduction in average annual giving.

## Approach #2: Continuous charitable giving

Approach #2 follows the same steps as Approach #1, except:

- Approach #2 does not include an adjustment for bunching behavior given that it assumes that charitable contributions are made continuously and therefore corporations are not able to lump charitable contributions to maximize deductions.
- Approach #2 uses the change in the marginal price of charitable giving, while Approach #1 uses the change in average price of charitable giving.

When results from this analysis are used to estimate a JCT-style revenue estimate for the proposed policy, they are found to be similar to the revenue estimate published by JCT on June 2, 2025.<sup>5</sup>

<sup>5</sup> See "Estimated revenue effects of tax provisions to provide for reconciliation of the fiscal year 2025 budget as passed by the House of Representatives on May 22, 2025," *Joint Committee on Taxation*, (JCX-26-25 R), June 2, 2025.