The Impact of TCJA on Individual Giving and a Plan to Do Something About It

Updated 25 June 2019

Donations by individuals are the oxygen of nonprofit organizations. The Tax Cuts and Jobs Act of 2017 (TCJA) has added new urgency to the question of what is the future of charitable giving by individuals in the United States. Specifically, how large of an impact, and for how long, will the new tax law affect individual giving—and which charities will be most adversely affected?

In 2018-19, Indiana University Lilly Family School of Philanthropy and Americans for the Arts set out to understand the challenges that TCJA could pose on the philanthropic landscape. We reviewed philanthropic trends, donor behavior research, data-lag issues, tax policy, and economic models of the TCJA's impact. After careful consideration of this material by academics, fundraising professionals, and tax policy experts, it is clear there are troubling phenomena in motion that, without intervention, could bring the nonprofit arts sector to a critical tipping point.

Will fewer income tax itemizers = fewer donors?

The immediate and expected impact of TCJA will be a reduced number of taxpayers who file an itemized (long-form) tax return. TCJA doubles the standard deduction, imposes dramatic limits on State and Local Tax (SALT) deductions, and eliminates many deductions—meaning that millions of middle-class taxpayers who typically filed the long-form tax return will find themselves instead filing the short form. It is estimated that the share of long-form "itemizers" will decrease from 30 percent of all filers to 15 percent or even less. This decrease is meaningful. Research shows that itemizers are far more likely to donate—and donate more—to charity than short-form "non-itemizers."

Data from the University of Michigan's *Panel Study of Income Dynamics* (the largest and longest running panel study in the world) shows that itemizers are almost twice as likely to donate than non-itemizers (83 percent compared to 44 percent), and while non-itemizers

represent nearly three-quarters of tax filers, they contribute less than 20 percent of total charitable giving. There was a window between 1982 and 1986 when charitable giving was made an "above-the-line deduction" and available to all taxpayers, which is considered to have been an effective strategy in stimulating giving by ordinary households. Tax policy can have a swift and meaningful impact by incentivizing charitable giving, or depressing it.

A fresh warning sign

People don't give just because of the tax deduction, but incentives matter. For an itemizer in the top tax bracket pre-TCJA, it cost $60 to give $100, thanks to the tax deduction. If they lose that deduction, it costs $100 to give $100. Most people will react negatively to such a steep increase in cost and give less. The new *Giving USA 2019* report provides early evidence that concerns about TCJA-caused changes in donor behavior may be well founded. In 2018, giving by individuals decreased for the first time in five years (-3.4 percent) and dropped as a percentage of total giving to 68 percent (down from 70 percent in 2018). TCJA's concurrence with the first decrease in individual giving in five years may not definitively be "fire," but it certainly qualifies as "smoke."

Will TCJA exacerbate an already troubling trend?

While the new tax law is the subject of the news, the fact remains that the nonprofit sector was already moving towards an environment of the "haves and have-nots" pre-TCJA. A Lilly Family School of Philanthropy analysis of IRS 990 forms shows that just 2.4 percent of nonprofit organizations account for a remarkable 90 percent of nonprofit revenue. For more than a decade, total giving by individuals has been *increasing* while the number of donors is simultaneously *decreasing*. Specifically, fewer gifts are coming from low- and middle-income donors, and more gifts come from wealthier donors.

The trend of fewer individuals shaping the health and composition of the nonprofit sector is likely to be exacerbated by TCJA. While increased giving by high net worth households is certainly a welcome scenario, it raises questions about the long-term impact on the sector and its ability to equitably reflect the breadth and needs of American society:

- Are contributions from wealthy donors primarily flowing to anchor institutions—hospitals, universities, museums, large performing arts centers—and leaving smaller and community-based organizations behind?
- Will organizations that are closer geographically to urban centers, which already enjoy greater access to high-income donors, fare better than those located in small urban, under-served, or rural communities?
- Will there be fewer contributions to organizations that serve diverse or traditionally marginalized populations such as those that serve communities of color, immigrants, and the LGBTQ+ community? How will TCJA affect the resource base of organizations whose work aims to address issues of Inclusion differently than other organizations?

Shrinking government revenues will increase the stress on nonprofits—especially the arts

Most nonprofit organizations operate very close to the margins. Research by the Nonprofit Finance Fund shows that half of nonprofit organizations carry a cash reserve of three months or less (19 percent have just one month of reserves). Thus, even small fluctuations in contributed income can mean the difference between serving the community and going out of business.

Tax cuts are projected to swell the federal deficit to $1 trillion in 2019. This ongoing reduction in federal income is likely to be addressed in part by government spending cuts. With fewer resources to sustain public sector programs and direct services, this burden will tip to a nonprofit sector that will be asked to do more (make up for cuts in government services) with less (cuts in government funding and decreases in charitable contributions).

If this "double-hit" to the nonprofit sector comes to pass, there is further cause to be concerned for the arts, which historically does not fare well in challenging economic times as pressure increases to fund "essential services." The arts may very well be the "TCJA canary in the coal mine"—the first sub-sector to begin showing the negative impacts of post-TCJA changes in donor behavior, philanthropic equity, and government spending cuts.

Our plan for a strong research-driven advocacy effort

Tax policy work is highly dependent on access to good data. Yet, one of the challenges is that the most robust research studies have data lags of 2-3 years (time needed for data collection, analysis, and publication). Waiting until 2022 for game-changing data is simply too long to wait.

To address the timeliness issue, the Lilly Family School of Philanthropy and Americans for the Arts have designed a research solution that will bring reliable data to the table within a single year of deployment. It is built around a national panel study of 2,000 nonprofit organizations representing the full range of size, subsectors, and geographic regions. We will track key fundraising metrics and pair those with a qualitative on-the-ground perspective about shifts in contributions by individuals, changes in demand for services, and the ability to meet that demand. In other words: Real people at real organizations telling real stories about the impact of the tax law changes.

Our aggressive goal is to begin this work in 2020. When the evidence about the effects of TCJA on charitable contributions arrives more quickly, advocates and policy experts can begin working on solutions sooner. Success will be nonprofit and community leaders visiting their legislator with strong data to say: "Senator, TCJA was detrimental to nonprofits. We have examples of what changed, and this is the data that demonstrates it. Let me tell you a story about the impact on your community. Here are policy alternatives to remediate the situation."

The right to a tax deduction for a charitable contribution was a bedrock principle for 100

years in the United States and it shaped generational patterns of behavior incentivizing philanthropy. TCJA, however, has created a near perfect storm that could be deeply damaging to a nonprofit sector whose resource infrastructure is inherently fragile. We look forward to not only preserving but strengthening our nonprofit sector. Stay tuned as we hope you'll join us in the undertaking.

This piece was originally published by Americans for the Arts.

AUTHORS

Randy Cohen

Vice President of Research and Policy
Americans for the Arts

Patrick Rooney

Professor of Economics and Philanthropic Studies
Lilly Family School of Philanthropy

The Conference Board is the global, Member-driven think tank that delivers ***Trusted Insights for What's Ahead***®. Founded in 1916, we are a nonpartisan, not-for-profit organization. TCB.org | Learn about Membership

© 2026 The Conference Board, Inc.