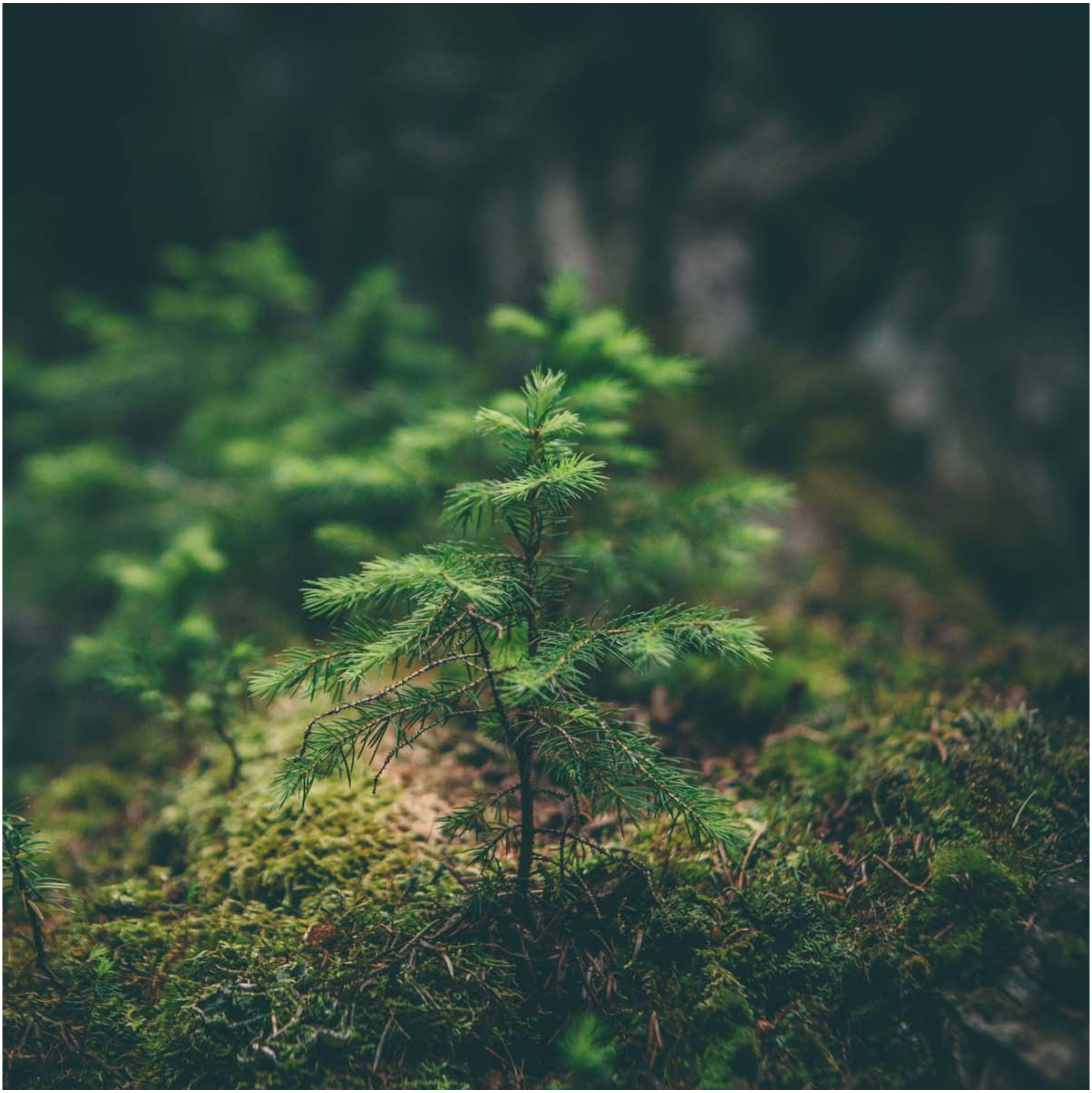


The Philanthropy **Outlook** 2018 & 2019

PRESENTED BY
Marts & Lundy

RESEARCHED AND WRITTEN BY
Indiana University Lilly Family School of Philanthropy

FEBRUARY 2018

Marts&Lundy

IUPUI LILLY FAMILY SCHOOL OF PHILANTHROPY
INDIANA UNIVERSITY
Indianapolis

THE RESEARCH TEAM

Indiana University – Purdue University Indianapolis

David Bivin, PhD | LEAD STATISTICIAN
Professor of Economics

Una Osili, PhD | PRINCIPAL INVESTIGATOR
Associate Dean for Research and International Programs, Indiana University Lilly Family School of Philanthropy
Professor of Economics and Philanthropic Studies

Anna Pruitt, PhD | PROJECT MANAGER AND WRITER
Indiana University Lilly Family School of Philanthropy

Jonathan Bergdoll, MS | STATISTICIAN
Indiana University Lilly Family School of Philanthropy

Tessa Skidmore, MPA | PROJECT COORDINATOR AND WRITER
Indiana University Lilly Family School of Philanthropy

Sasha Zarins, MS | RESEARCH ASSOCIATE AND WRITER
Indiana University Lilly Family School of Philanthropy

Xiaonan Kou, MA | RESEARCH ASSOCIATE AND WRITER
Indiana University Lilly Family School of Philanthropy

ACKNOWLEDGMENTS

The Indiana University Lilly Family School of Philanthropy developed this report with financial support from Marts & Lundy, a leading fundraising consulting firm dedicated to advancing philanthropy and philanthropic research and strengthening nonprofit leadership.

The research team would like to thank the following people from Marts & Lundy for their input and guidance during the development of The Philanthropy Outlook 2018 & 2019: Philippe G. Hills, President & CEO, Senior Consultant & Principal; Sarah W. Williams, Leader of Analytical Solutions, Senior Consultant & Principal; Alison L. Rane, Associate Consultant, Analytical Solutions, Manager of Research & Development.

The Indiana University Lilly Family School of Philanthropy and Marts & Lundy also acknowledge Giving USA Foundation for publishing *Giving USA: The Annual Report on Philanthropy*. For more than 60 years, Giving USA has been publishing timely estimates for U.S. charitable giving. *Giving USA: The Annual Report on Philanthropy* is the authoritative source on American philanthropy.

Table of Contents

Introduction . . . 2
Potential Impact of Tax Reform on Charitable Giving . . . 4
Scenario Analysis . . . 12
- The High Growth Scenario . . . 14
- The Uneven Growth Scenario . . . 16
- The Flat Growth Scenario . . . 18

Introduction to the Baseline Projections . . . 20
- Total Giving . . . 22
- Giving by Individuals/Households . . . 23
- Giving by Foundations . . . 24
- Giving by Estates . . . 25
- Giving by Corporations . . . 26
- Giving to Education . . . 27
- Giving to Health . . . 28
- Giving to Public-Society Benefit . . . 29

Conditions That May Affect the Outlook for Giving . . . 30
Emerging Trends . . . 34
Methodological Overview . . . 38
Variable Definitions and Sources . . . 41
Limitations . . . 43

For more detailed information about the methodology used in The Philanthropy Outlook, locate the Guide to the Philanthropy Outlook Model at www.PhilanthropyOutlook.com.

Introduction

With the strong finish of the stock market and passage of the Tax Cuts and Jobs Act at the end of 2017, 2018 is shaping up to be an unusual year, and we can expect major changes in the landscape of charitable giving. These factors will undoubtedly affect the baseline projections produced by The Philanthropy Outlook's forecasting model.

The stock market exceeded expectations for growth in 2017 and if this growth continues, would boost charitable contributions in the coming years. At the same time, tax reform has the potential to have a significant dampening effect on giving— especially giving by individuals. The picture for corporate philanthropy is more complex, since little research is available on how the new tax law will impact this giving source. Questions also remain about how corporate and foundation giving will respond to or compensate for changes in giving by individuals. Bequest giving is more complicated still, since estates are slower to react to policy changes.

The multiple ways in which different changes in the tax legislation will affect one other and combine to affect giving, as well as the complex interactions among the economic, policy, and behavioral forces that influence giving, are just beginning to unfold. As a result, forecasting giving in these circumstances is especially challenging, and incorporating these evolving, countervailing factors in real time is beyond the scope of The Philanthropy Outlook's forecasting model. Therefore, this year's Philanthropy Outlook has added additional context to explain how the environment for charitable giving is changing.

POTENTIAL IMPACT OF TAX REFORM ON CHARITABLE GIVING

The Philanthropy Outlook 2018 & 2019 includes a special "Potential Impact of Tax Reform on Charitable Giving" section. Under the Tax Cuts and Jobs Act, the standard deduction for individuals and couples will nearly double from what was originally established for 2018, there will be new limits on state and local tax deductions, the estate tax threshold will double, and the corporate tax rate will drop to 21%.[1] This section will help stakeholders identify the tax policy changes that will matter most to their donors and charitable organizations and that will likely affect the baseline projections.

While it will take several years to determine the full impact of tax reform on charitable giving, the research highlighted in this section outlines possible separate and combined effects of specific policy changes to provide insight on anticipated outcomes of the new legislation for giving by individuals, estates, corporations, and foundations. The special section also presents studies on donor behaviors that may be expected in response to extensive policy changes, and offers historical perspective on behavioral responses to comparable updates to the tax code.

SCENARIO ANALYSIS: HIGH, UNEVEN, AND FLAT ECONOMIC GROWTH

To understand the full scope of the charitable giving landscape in 2018 and 2019, users of the Philanthropy Outlook must consider the macro-economic climate as well as potential behavioral responses to the new tax law. While no one can know exactly how the confluence of these factors will play out for American philanthropy in the coming years, in this section we present three potential scenarios outlined by economists and reporters in the aftermath of the legislation's passage.

BASELINE PROJECTIONS

Due to the dynamic giving environment, this edition of The Philanthropy Outlook focuses on directional changes in charitable giving for the years 2018 and 2019 in relation to the year 2017.[2] In this section, we explain how various economic factors will affect giving by all four sources (Individuals/Households, Foundations, Estates, and Corporations) and to three subsectors (Education, Health, and Public-Society Benefit) in these years.

Since each subsector contains a wide range of organizations and has its own giving landscape, we provide context for the predicted trends. Although there are many unknowns surrounding charitable giving in the coming years, we know from other policy changes that nonprofit subsectors will likely be impacted differently based on the characteristics of their donors.

CONDITIONS THAT MAY AFFECT THE OUTLOOK FOR GIVING

The Philanthropy Outlook's "Conditions That May Affect the Outlook for Giving" section presents a more complete picture of the factors that may impact the baseline projections for giving in 2018 and 2019. This year, the "Conditions" section of the report also covers the effects that disaster giving may have on the baseline projections, providing readers with relevant data as we head into uncharted territories in the coming years.

Additionally, this section discusses the stability of the estimates for the economic variables that have the greatest bearing on the baseline projections. Stakeholders may use this section of the report to monitor the variables used in the model and make adjustments throughout the year.

EMERGING TRENDS

Understanding how the policy and economic landscape impacts donors can lead to more purposeful and meaningful conversations and planning in 2018 and 2019. The donor base includes increasingly more diverse donors, with major gifts coming from women, people of color, younger individuals, and other unique demographics in recent years. With this diversity comes an interest in funding a variety of needs; we see a rise in philanthropic activities around the world, including in rural communities and post-industrial cities in need of revitalization.

The "Emerging Trends" section of this report gives fundraisers important perspective on how best to build connections with donors in these circumstances. In this section, we note important themes in the philanthropic sector and offer recommendations to be used by practitioners in the course of their daily work. This year, we concentrate on impact investing, diversity in philanthropy, and employee-driven corporate philanthropy.

METHODOLOGICAL OVERVIEW

The final section of the report, "Methodological Overview," provides a high-level summary of our methodology for creating the Philanthropy Outlook forecasting model. The "Variable Definitions and Sources" subsection explains exactly what the variables used in our forecasting model measure and where these variables are sourced.

For more detailed information about the methodology used in The Philanthropy Outlook, locate the Guide to the Philanthropy Outlook Model at www.PhilanthropyOutlook.com.

We hope the Philanthropy Outlook 2018 & 2019 offers helpful insight into the complex factors influencing the philanthropic environment and can assist you in making important decisions for your organization.

Potential Impact of Tax Reform on Charitable Giving

Introduction

On December 22, 2017, President Donald Trump signed the Tax Cuts and Jobs Act (Public Law No: 115-97; previously H.R. 1) into law, significantly changing federal tax policy. The changes have raised questions from fundraisers, donors, and scholars about the potential effects of the new tax law on charitable giving.

Changes to charitable giving are expected: previous research has shown that taxpayers adjust how much they donate to qualified charities in a given year based in part on whether their donations are tax deductible and how this deduction affects their tax liability. However, scholars do not agree on exactly how responsive taxpayers are to changes in tax policy. Additionally, while studies have been conducted on the combined effects of certain elements of proposed changes, research is limited on the impact of all the changes in the final legislation happening simultaneously.

Although the effects of the tax law on charitable giving cannot be determined with certainty at this time, we address the findings and implications of studies that have analyzed specific aspects of the policy changes.

Individual Giving

Two changes in particular have been common among most proposed tax reform plans over the past decade: a decrease in the top marginal tax rate and an increase in the standard deduction for individuals and couples. In this section, we address the separate and combined effects of a decrease in the top marginal tax rate and an increase in the standard deduction for individuals and couples.

Figure 1

CURRENT POLICY[1] (2017) VERSUS THE TAX CUTS AND JOBS ACT (2018)

		Current Law		*Tax Cuts and Jobs Act* [a]	
STANDARD DEDUCTION	*single*		$6,350		$12,000
	joint		$12,700		$24,000
TAX BRACKETS	*single*	10%:	$0–$9,325	10%:	$0–$9,525
	married filing jointly		$0–$18,650		$0–$19,050
		15%:	$9,325–$37,950	12%:	$9,525–$38,700
			$18,650–$75,900		$19,050–$77,400
		25%:	$37,950–$91,900	22%:	$38,700–$82,500
			$75,900–$153,100		$77,400–$165,000
		28%:	$91,900–$191,650	24%:	$82,500–$157,500
			$153,100–$233,350		$165,000–$315,000
		33%:	$191,650–$416,700	32%:	$157,500–$200,000
			$233,350–$416,700		$315,000–$400,000
		35%:	$416,700–$418,400	35%:	$200,000–$500,000
			$416,700–$470,700		$400,000–$600,000
		39.6%:	$418,400+	37%:	$500,000+
			$470,700+		$600,000+
CHARITABLE DEDUCTION		ITEMIZERS ONLY		ITEMIZERS ONLY	
PERCENTAGE OF TAXPAYERS WHO ITEMIZE		30% [b]		5–12.5% [c]	

[a] 2018 tax year [b] 2014, actual [c] 2018, estimated

Sources: "Distributional Analysis of the Conference Agreement for the Tax Cuts and Jobs Act," Tax Policy Center, December 18, 2017, http://www.taxpolicycenter.org/publications/distributional-analysis-conference-agreement-tax-cuts-and-jobs-act/full; Kathryn Vasel, "Why charitable giving could slow under proposed tax changes," CNN Money, November 16, 2017, http://money.cnn.com/2017/11/16/pf/tax-reform-charitable-giving/index.html; "Preliminary Details and Analysis of the Tax Cuts and Jobs Act," Tax Foundation, December 18, 2017, https://taxfoundation.org/final-tax-cuts-and-jobs-act-details-analysis/

[1] *Throughout this publication, "current policy" refers to the tax policies that were in place for the 2017 calendar year (individual income taxes due April 16, 2018).*

INCREASING THE STANDARD DEDUCTION

The Tax Cuts and Jobs Act will increase the standard deduction to $12,000 for single filers and $24,000 for joint filers. Recent research by the Indiana University Lilly Family School of Philanthropy, commissioned by Independent Sector and published in the *Tax Policy and Charitable Giving Results* report, examined the effects of increasing the standard deduction to $11,000 for single filers and $22,000 for joint filers. Increasing the standard deduction to these amounts alone could decrease charitable giving between $4.0 billion (1.4%) and $11.0 billion (3.9%).[3]

In general, research finds that while tax incentives are not the primary motivation for giving among most donors, the charitable deduction incentivizes giving and affects the timing and amount of donations. The charitable deduction has typically only been available to taxpayers who itemize,[4] and itemizers are far more likely to donate to charity than non-itemizers. Itemizers also donate larger amounts, accounting for approximately 80% of total charitable giving reported in *Giving USA 2017: The Annual Report on Philanthropy for the Year 2016*.[5]

There are some limitations to these research findings. For instance, studies on this topic assume that the new group of non-itemizers resulting from the near doubling of the standard deduction will immediately conform to the giving patterns of households that did not itemize before passage of the tax law. Some experts have stated that there is no way of knowing the ways in which giving habits will change for households that previously itemized but will no longer do so.[6]

DECREASING THE TOP MARGINAL TAX RATE

The Tax Cuts and Jobs Act also reduces the top marginal tax rate for individuals and couples from 39.6% to 37%. The *Tax Policy and Charitable Giving Results* report found that decreasing the top marginal tax rate to 35% could decrease charitable giving between $0.9 billion (0.3%) and $2.1 billion (0.8%).[7]

COMBINED EFFECTS OF INCREASING THE STANDARD DEDUCTION AND DECREASING THE TOP MARGINAL TAX RATE

To gain a full picture of the impact of tax reform on charitable giving, it is important to understand the combined effects of policy changes in addition to the separate effects. The *Tax Policy and Charitable Giving Results* report examined the combined effects of increasing the standard deduction to $11,000 for single filers and $22,000 for joint filers, and decreasing the top marginal tax rate to 35%. Together, these proposals could decrease charitable giving by between $4.9 billion (1.7%) and $13.1 billion (4.6%).[8]

The Tax Policy Center also analyzed the provisions contained in the version of the Tax Cuts and Jobs Act that passed the House of Representatives on November 16, 2017, and found the proposal could reduce charitable giving by between $12 billion (4%) and $20 billion (6.5%) in 2018.[9] The Council on Foundations estimated that the Tax Cuts and Jobs Act could decrease charitable giving between $16 billion and $24 billion.[10]

Research is limited on the effects of all the changes contained in the final version of the law occurring simultaneously. In addition, studies analyzing tax policy typically do not address the dynamic effects of economic growth and market conditions. It is possible that the tax law may stimulate economic growth and market conditions that could benefit charitable giving. It is still unknown what the larger-scale economic effects of the tax law will be, and how these changes may impact or offset losses in charitable giving from other policies.[11]

CAPPING THE STATE AND LOCAL TAX DEDUCTION

Under the Tax Cuts and Jobs Act, taxpayers who itemize will only be able to deduct their state individual income, sales, and property taxes up to a $10,000 threshold. Previously, the deduction amount was unlimited, but filers had to decide whether to deduct their individual income taxes or sales taxes; property taxes were completely deductible.[12] For many filers, the state and local tax (SALT) deduction is a key reason for itemizing, with more than 95% of itemizers claiming the deduction in 2014.[13]

The SALT deduction has primarily benefitted individuals/households from high-income, high-tax states, with filers from California, New York, New Jersey, Texas, and Pennsylvania claiming more than half the value of the deduction.[14] As such, officials in high-tax states were considering workarounds to changes in the SALT deduction at the start of 2018. For example, since the tax code counts gifts to state governments and their subdivisions as charitable contributions, a bill was proposed in the California State Senate that would allow taxpayers who donate to a "California Excellence Fund" to receive a credit against their state income tax for the amount they contribute. Officials in New Jersey put forth a similar strategy for local property taxes.[15]

As with many of the provisions in the Tax Cuts and Jobs Act, it remains to be seen how changes in the SALT deduction and proposed workarounds will impact giving behavior. Together with the near doubling of the standard deduction for individuals and couples, the tax law's cap on the SALT deduction supports predictions that moving forward, fewer filers will itemize, thus becoming ineligible for the charitable deduction. Additionally, passage of the proposed bills incentivizing contributions to state and local governments in California and New Jersey could affect to whom taxpayers in these states give.

EXPECTED BEHAVIORAL RESPONSES

The 1980s saw significant changes in federal tax policy.[16] These changes created an opportunity to examine how people's behavior adjusts in response to changes in tax policy. Not only did these changes include major adjustments to marginal tax rates and the standard deduction for individuals and couples, but for a short time, the charitable deduction was available to non-itemizers.[17] Similar to the current environment, the Tax Reform Act of 1986 in particular led to a great deal of fear among nonprofits about detrimental effects on charitable giving.

Scholars have noted that economic models that aim to predict the effects of policy changes cannot account for all the factors that influence taxpayer behavior.[18] While researchers are aware of this, journalists, policymakers, and lobbyists tend to focus on the topline findings, ignoring caveats of the research. Although this can be necessary to make the research understandable to the general public, it can also lead to unsupported certainty. For example, the *Tax Policy and Charitable Giving Results* report focused on increasing the standard deduction and decreasing the top marginal tax rate for individuals and couples.[19] While this allows us to understand the hypothetical effects of specific proposed changes, it is not meant to predict real-life giving patterns.

People do state that the tax benefits they receive motivate their giving.[20] However, factors such as personality, religious affiliation, warm-glow, and other external benefits have an even greater effect on donor behavior.[21] Economic models from research conducted in the 1980s also performed reasonably well in predicting the effects of the changes in tax policy.[22] Together, these studies suggest that policymakers and nonprofit leaders should take into account the results of economic models, but should not discount other influences on real-life charitable behavior.

Other considerations also factor into the impact of tax reform on charitable giving. Many philanthropic scholars and observers are predicting that donors will have front-loaded their giving by moving some of their planned 2018 donations to the end of 2017 to receive a greater tax benefit.[23] While there is some evidence that this happened before the reduction in tax benefits for charitable gifts between 1986 and 1987,[24] it is difficult to distinguish this trend from other more temporary changes,[25] including changes in income[26] that also affected charitable giving.

YEAR-END GIVING

Although the full extent of year-end giving by individuals/households in 2017 has not yet been assessed, nonprofits across the nation encouraged donors to give prior to implementation of the new tax law—particularly the near doubling of the standard deduction that went into effect on January 1, 2018.

Independent Sector suggested on its website that charities notify donors of the changes and implore donors to take advantage of the charitable deduction while they still could.[27] Some organizations have reported a notable surge in charitable giving at the end of 2017. For example, the Greater Cedar Rapids Community Foundation in Cedar Rapids, Iowa, saw double the amount of donations in December 2017 than it witnessed in December 2016. The Greater Chicago Food Depository also reported receiving donations from supporters who were originally planning to make contributions in 2018.[28]

Additionally, nonprofits including the Community Foundation of Greater Atlanta encouraged donors to give to or start donor-advised funds (charitable accounts that allow donors to take a tax deduction up front, but distribute investments in future years).[29] Indeed, three major providers of donor-advised funds—Charles Schwab, Fidelity Charitable, and Vanguard—saw a substantial rise in new accounts, contributions, and grants to charitable organizations during the second half of 2017.[30] The Combined Jewish Philanthropies of Greater Boston also reported a significant increase in the creation of donor-advised funds, with approximately 25 new funds in the months leading up to the close of 2017.[31]

Implications: Although there are some limitations to the findings, most research concludes that nearly doubling the standard deduction for individuals and couples may substantially reduce household giving. While most research has examined a larger change in the top marginal tax rate, the decrease in the marginal tax rate for individuals and couples under the Tax Cuts and Jobs Act will likely still lead to a slight decline in charitable giving.

The complex, dynamic effects of the Tax Cuts and Jobs Act remain to be seen in the long term. Nevertheless, recent research examining the combination of multiple policy changes indicates that the tax law will likely result in a decrease in charitable giving by individuals/households in the short term. More specifically, should the predicted surge in 2017 year-end giving materialize, this artificial bump would likely be followed by a significant decline in individual giving in 2018.

Some observers also expect the new tax law may lead donors to adopt a "bunching" strategy in which donors double their charitable contributions and itemize their gifts every two or three years, while taking the standard deduction the other years.[32] Using this approach, the amount that donors contribute over the long term may not change, but rather when donors make their gifts on a year-to-year basis.

Bequest Giving

Prior to the passage of the Tax Cuts and Jobs Act, the exemption for estate, gift, and generation-skipping taxes was set at $5 million for individuals and $10 million for couples in 2011, and was indexed for inflation in subsequent years. The Tax Cuts and Jobs Act doubled these rates. With inflation considered, the exemption amount for individuals is $11.2 million, and $22.4 million for couples in 2018.

Estates react slower to policy changes than other sources of giving, in part because: wills may be written well in advance of the passing of the deceased and not modified to reflect policy changes; it can take years for estates to be fully processed and for bequests to be fulfilled; and the general unpredictability of bequest giving, given that people do not plan when they will pass away.

Despite this slower response to policy changes, studies have observed some effects of the estate tax on charitable giving overall. One study found that wealthy taxpayers considered the estate tax an important factor in deciding amounts to give to charity in their wills.[33] Other research has found that donors may be motivated to give more during their lifetime if they know their estates will be subject to the estate tax.[34] Another recent study found that the repeal of the estate tax may decrease lifetime contributions by up to 12%.[35]

Most studies about the estate tax and its impact on charitable giving have focused on repeal of the estate tax, rather than on raising the exemption level as the Tax Cuts and Jobs Act did. We found just one study that indicated a statistically significant link between increasing the exemption level for the estate tax and a decrease in bequest giving.[36]

Research on the effects of abolishing the estate tax on charitable giving presents varying numbers. The Tax Policy Center estimates that removing the estate tax in 2014 would have caused charitable bequests to decline by $4 billion that year.[37] Another study estimated that repeal of the estate tax would mean a 37% decrease in charitable bequests. Research by the Congressional Budget Office replicating the method employed in this study but using a different measure of wealth found that charitable bequests would be reduced by 20%.[38] Yet another study concluded that repeal of the estate tax would decrease charitable bequests by 12%.[39]

Implications: While estate giving tends to be less responsive to policy changes than other giving sources in the short term, some research suggests that fewer estates being subject to the estate tax could lower lifetime giving as well as decrease charitable bequests in the coming years.

Corporate Giving

In addition to reforms affecting individuals/households and estates, the Tax Cuts and Jobs Act also contained changes to the corporate tax code that have implications for charitable giving. However, recent research, as well as the actions of corporations in the aftermath of the law's passage, present varying analyses of the potential impact of these reforms on corporate donations in the coming years.

Historically, giving by corporations and their foundations has been largely dependent on the overall health of the economy. Corporate pre-tax profits are a particularly significant factor in how much corporations donate annually. Since 2004, giving as a percentage of corporate pre-tax profits has remained at 0.8% or 0.9% (with the exception of 0.7% in 2013), holding steady despite changes in the economic and political environment during this time.[40]

Some observers have suggested that the reduction in the top corporate tax rate from 35% to 21% would decrease incentives for corporate giving; one scholar estimates a resulting $1.3 billion reduction in corporate donations—a 7% decrease from the $18.6 billion businesses gave to charity in 2016.[41]

Other scholars have suggested that corporations may spend more in their communities as a result of the increased profits they are likely to see due to tax reform.[42] Indeed, Boeing announced immediate commitments of an additional $300 million in investments to support employees and communities as a result of the new tax law, including $100 million for corporate giving.[43] Wells Fargo stated that it will expand its philanthropy to $400 million in 2018 (up from $281 million in 2016) and commit 2% of its after-tax profits to corporate philanthropy in 2019.[44]

Furthermore, a study by Accounting Professionals revealed that, while many companies planned to provide year-end bonuses to workers in 2017 in anticipation of the tax law, some companies intended to give additional money to charity instead. The study found that, although nearly one-third of companies planned to give year-end bonuses, 38% of those not giving bonuses said they would donate to charity in lieu of employee bonuses—a substantial increase from 7% in 2016 and 5% in 2015.[45]

Implications: While recent research is limited, studies on the impact of lowering the top corporate tax rate, as well as the actions of corporations in the wake of the new tax law, offer mixed predictions for corporate giving. Some observers expect that reducing corporate tax liability will de-incentivize giving; others foresee companies investing their tax savings into their employees and the community. Given the historical link between corporate giving and corporate pre-tax profits, it is also likely that economic factors will be more important drivers of growth in corporate philanthropy than policy changes in 2018 and 2019.

Foundation Giving

Under the Tax Cuts and Jobs Act, tax-exempt organizations, including foundations, are required to calculate each trade or business activity separately (rather than in the aggregate as permitted under previous law) for the unrelated business income tax (UBIT). Additionally, certain employee fringe benefits, such as transportation and on-site gyms, are characterized as taxable unrelated business income under the tax law. The Council on Foundations reported that this requirement complicates the administration of legitimate unrelated business activities. Research is currently pending on the implications of subjecting the value of certain fringe benefits to the UBIT.[46]

Foundations and other tax-exempt organizations are also now subject to an excise tax equivalent to the top corporate rate on compensation over $1 million paid to any of their five highest-paid employees. This provision primarily impacts the largest organizations, but could affect how tax-exempt entities such as foundations report compensation and benefits, according to the Council on Foundations.[47]

Despite these changes, some observers have noted that the new tax law could stimulate foundation giving due to its potential to facilitate the growth of stock portfolios and corporate income. Indeed, foundation endowments performed well in 2017, with the Dow Jones Industrial Average up more than 30%. If tax reform leads to continued asset growth for foundations, payout requirements could result in increased grantmaking in the future.[48]

Implications: Since foundations are the recipient of charitable gifts from individuals/households, corporations, and estates, the separate and combined effects of the tax law on donations from these sources could impact giving by foundations. Furthermore, the overall health of the economy could affect how foundations focus their grantmaking in the coming years. For example, research shows that, although funding priorities tend not to shift significantly during recessions, funders have demonstrated a willingness to respond to increased need and adapt their grantmaking in changing circumstances.[49]

Conclusion

Although many experts expect the Tax Cuts and Jobs Act of 2017 to decrease charitable giving, tax policy is only one factor that impacts the growth or decline of charitable giving. Research shows that charitable giving is closely related to changes in economic factors such as gross domestic product (GDP), the Standard & Poor's 500 Index (S&P 500), and consumer expenditures. Due to the complex interactions among policy and economic factors, it is difficult to categorize donor behavior such as year-end giving as pre-giving due to passage of the tax legislation or as being driven by economic growth.

While tax reform may be top-of-mind for many fundraisers, it is important to acknowledge that the U.S. economy is currently strong. The "Stability of the Variables Used in the Forecast" subsection in the "Conditions That May Affect the Outlook for Giving" section of this report offers a detailed examination of the impact that changes in economic factors may have on the baseline projections contained in this report.

The Philanthropy Outlook's baseline projections were created using an econometric model that incorporates economic variables but does not address policy changes. The conditions for charitable giving created by the tax law and how donors will react to these conditions are still unknown, but merit careful attention in the coming years.

Scenario Analysis: High, Uneven, and Flat Economic Growth

To understand the full scope of the dynamic giving environment in 2018 and 2019, scholars, fundraisers, and other practitioners must consider the macro-economic climate as well as potential behavioral responses to the Tax Cuts and Jobs Act passed at the close of 2017. While no one can know exactly how the confluence of these factors will play out for American philanthropy in the coming years, we present three potential scenarios outlined by economists and reporters in the aftermath of the tax law. These scenarios provide helpful context on the possible effects of specific policy changes and broad economic conditions for users of The Philanthropy Outlook to consider.

The following scenarios assume that the change in giving by individuals due directly to tax reform is negative. While households will have a greater amount of after-tax income, the decrease in tax incentives for giving that virtually all households will see under the new law will likely have a larger effect on giving than the effect of households having greater income. The Indiana University Lilly Family School of Philanthropy and Independent Sector's *Tax Policy and Charitable Giving Results* report, which found that households are responsive to changes in their tax price of giving, supports this assumption.

It is important to note that giving by estates is not mentioned in the following scenarios because bequest giving is slower to react to policy changes, and the timing of bequests can be difficult to predict from year to year since people do not plan when they will pass away or when their estates will be processed. In general, strong market performance typically leads to higher bequest giving, and this can be applied to all scenarios.

The High Growth Scenario

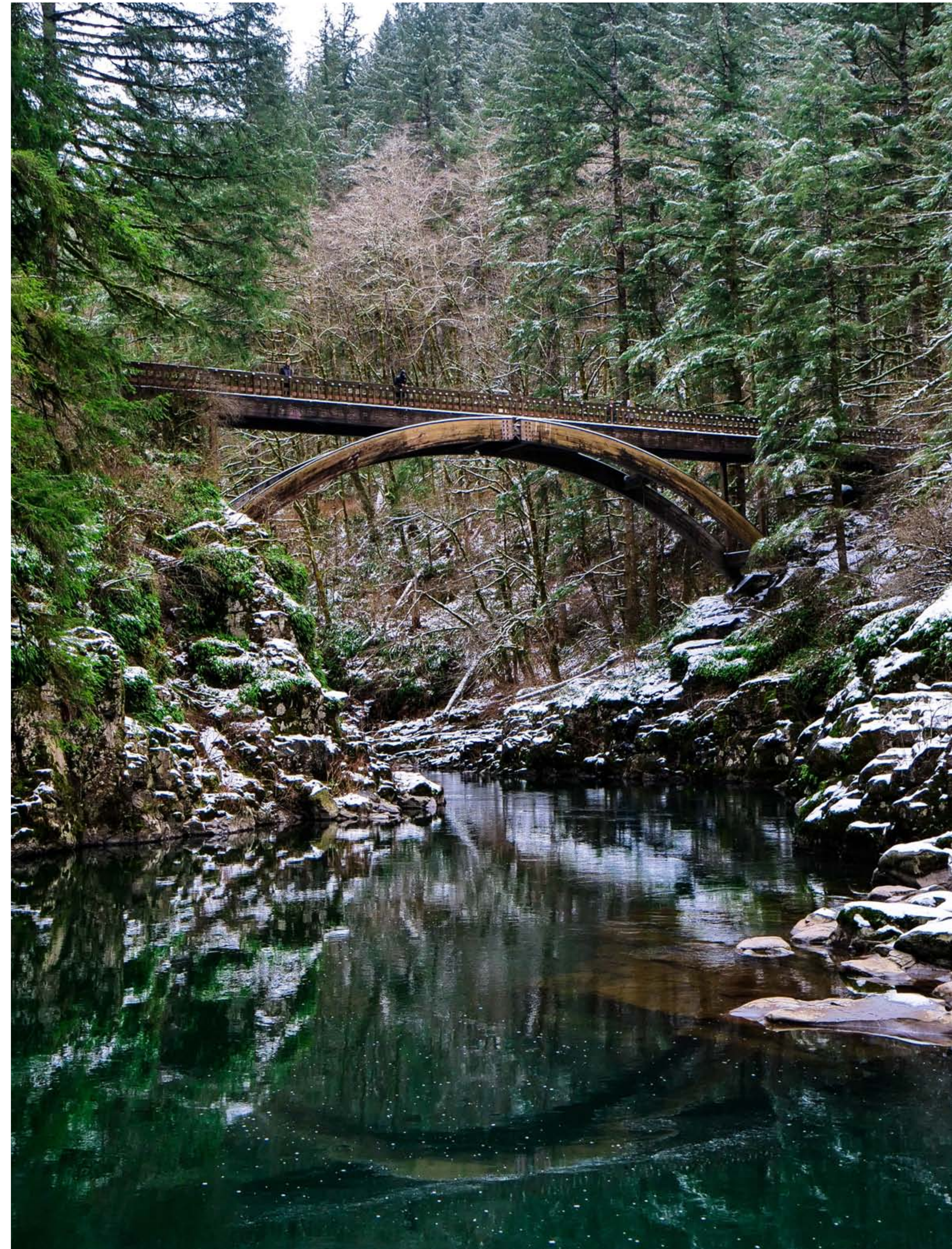
The U.S. economy was growing at a healthy pace at the end of 2017, with the unemployment rate at a 17-year low of 4.1%. Over the course of 2017, two million jobs were added, the stock market had risen 19%, inflation was low, and consumer spending was accelerating. As such, some economists contend that, barring major world events such as an armed conflict or trade war, we can expect more of the same in 2018.[50]

These economists believe that the individual and corporate tax cuts contained in the Tax Cuts and Jobs Act will build on the momentum generated in 2017. For instance, J.P.Morgan projected that leaving money in the hands of individuals and corporations as result of tax savings will add between 0.5 and 1.5 percentage points to GDP growth over the next few years. Although expiration of the new tax cuts for individuals in 2025 makes their long-term impact uncertain, this windfall may translate into a short-term surge in consumer spending.[51]

The same economists concede that the long-term effects of the Tax Cuts and Jobs Act will depend on ongoing capital investment and consumer spending, and that the full impact of the legislation could take many years to realize.[52] They also argue that slow growth in productivity, and thus wages and living standards, could deepen inequality between the wealthiest Americans and the rest of society further in the future.[53]

In the "High Growth Scenario," however, these long-term issues would pose no deterrent to giving in 2018 and 2019. While we would anticipate the loss of tax incentives to have a dampening effect on giving by some households, particularly those who will now use the standard deduction instead of itemizing, the performance of the economy overall—particularly if personal income, net worth, and consumption experience strong growth—would help offset this dampening effect.

In addition, corporate giving, buoyed by corporate savings and strong consumer sentiment, would remain solid. Foundation giving would also be very strong, since market and GDP performance is closely linked to growth in foundation giving, and there is less in the tax reform package that should have any sort of downward effect on foundation giving.



The Uneven Growth Scenario

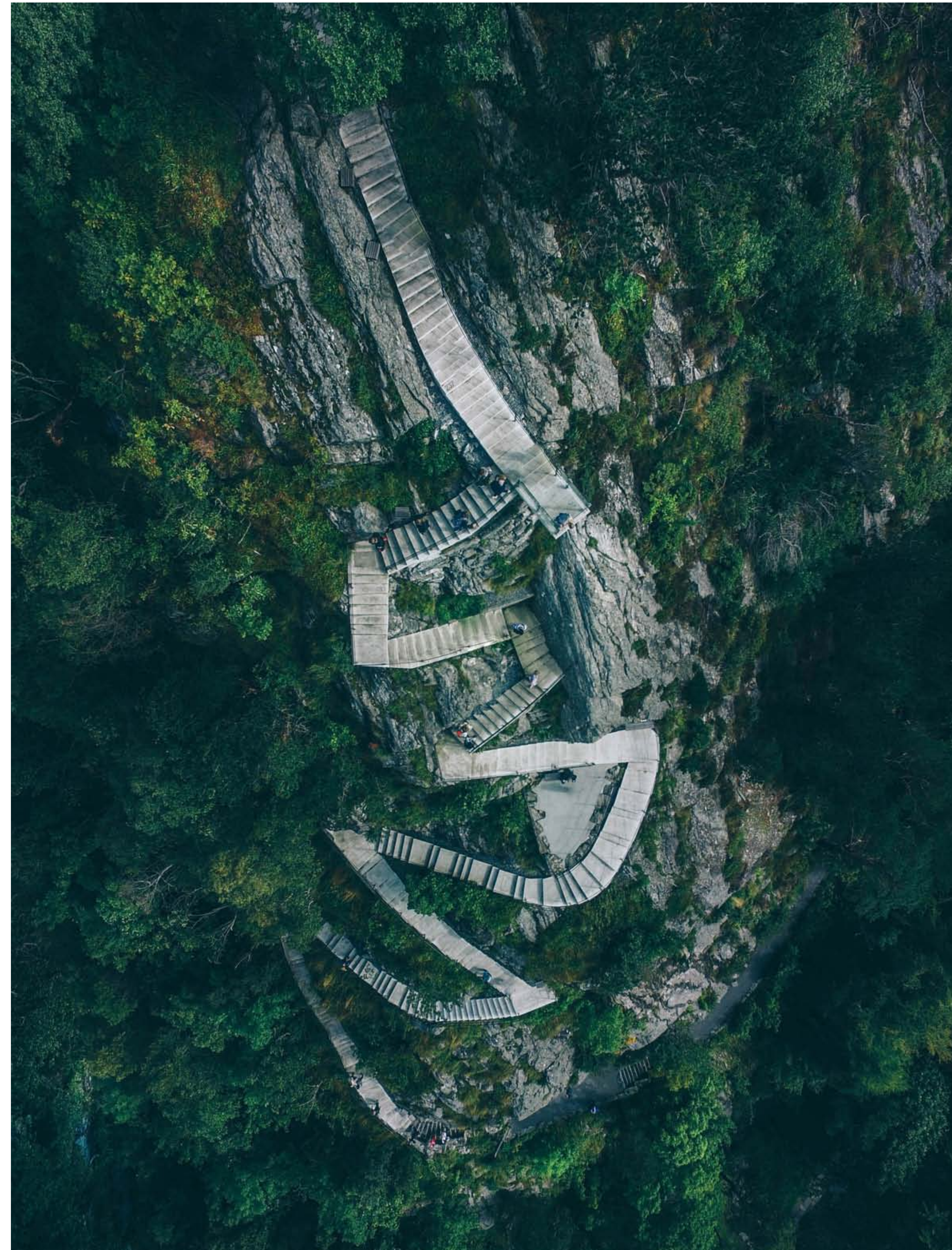
Some economists have emphasized that, when changes were made to the Tax Cuts and Jobs Act as it made its way through the House and Senate, the bill shifted focus away from middle-class families. For example, the legislation made tax cuts for individuals temporary, while leaving the cuts that impact corporations in place. Senators also increased benefits for pass-through businesses—a move that experts have said disproportionately affects the wealthy.[54]

Proponents of the tax law argue that providing tax cuts to corporations and wealthy business owners will boost the economy, leading to additional jobs and higher wages. Others question whether working-class Americans will ultimately reap these benefits or if most of the gains will go to those at the top.[55] Some economists contend that the benefits of the tax legislation may take longer than predicted for the average American to see. They argue that, even if corporate tax cuts may ultimately increase wages, this trickle-down effect will not happen for many years.[56]

The effects of the "Uneven Growth Scenario" would be different across individual subsectors. Organizations more reliant on smaller donations from less wealthy donors would have cause for concern, while nonprofits that receive funding from high-net-worth individuals/households would be better able to weather this change.

Aggregate giving estimates would hide much of this disparity. High-net-worth households are already responsible for such a large portion of individual giving that enough economic growth—particularly in terms of market performance and disposable personal income—even if concentrated almost entirely among high-net-worth households, would result in growth in individual giving. This growth, although lower than in recent years, would likely still be positive.

Corporate giving may or may not increase; strong economic growth may not do enough to offset the decrease in tax incentives, particularly if overall consumer sentiment is weak. Foundation giving would be very strong due to market and GDP performance.



The Flat Growth Scenario

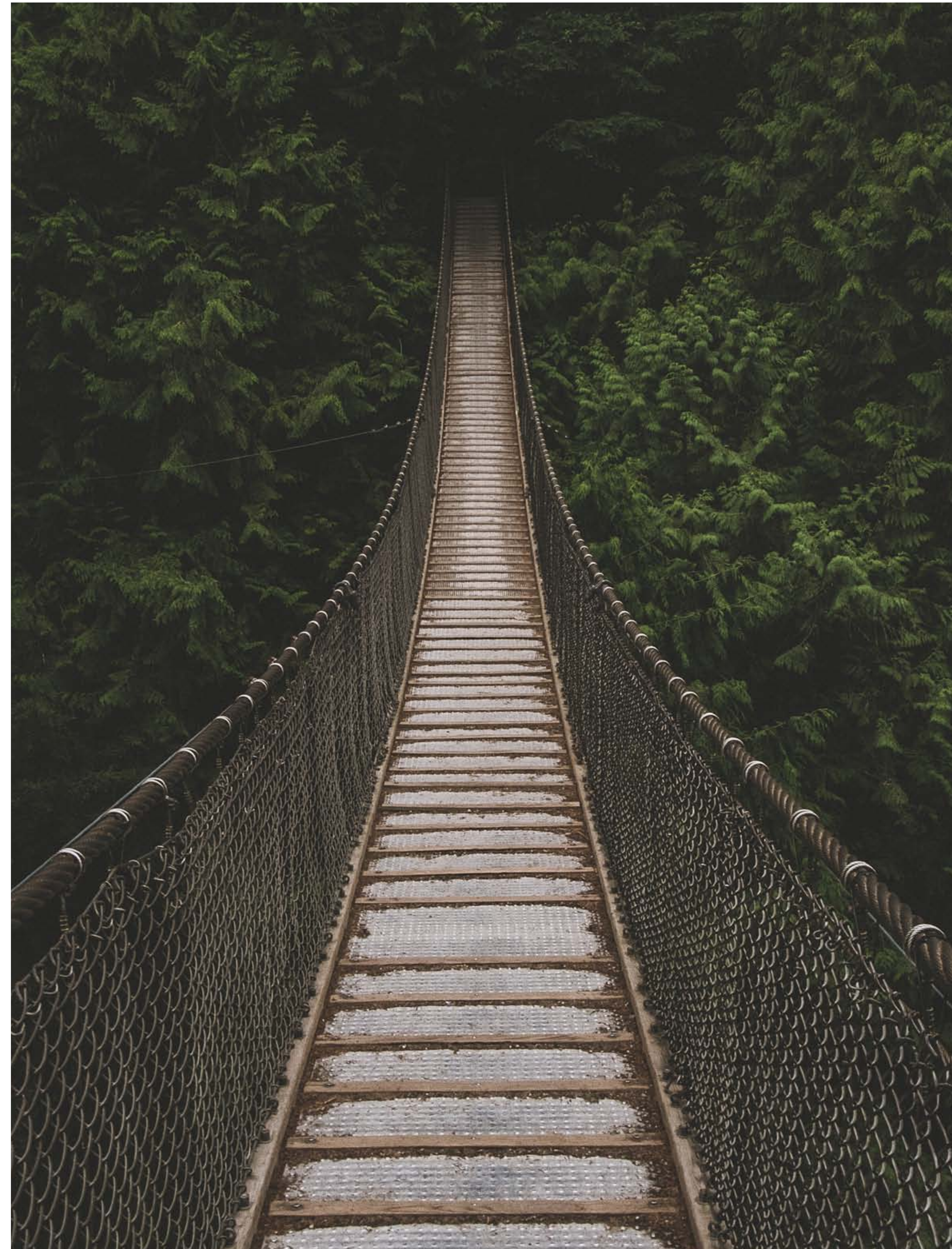
The swift pace at which the Tax Cuts and Jobs Act was passed have left many of those studying the law concerned about potential uncertainties and unintended consequences that the Internal Revenue Service (IRS), the Treasury Department, and the courts will need to resolve over the course of its implementation.[57] These agencies must also quickly write new regulations to implement the new legislation, which governs everything from the tax code for businesses that do not organize as corporations to the endowments of large private universities.[58]

For instance, in the immediate aftermath of the tax law's passage at the end of 2017, there was widespread confusion about the provision of the legislation that caps the previously unlimited state and local tax deduction. This provision did not take effect until January 2018 and the law explicitly prevented people from pre-paying their state income taxes. However, it did not address the pre-payment of property taxes, leaving homeowners a narrow window in which to pay their 2018 property taxes in 2017 to try to take advantage of the full deduction.[59]

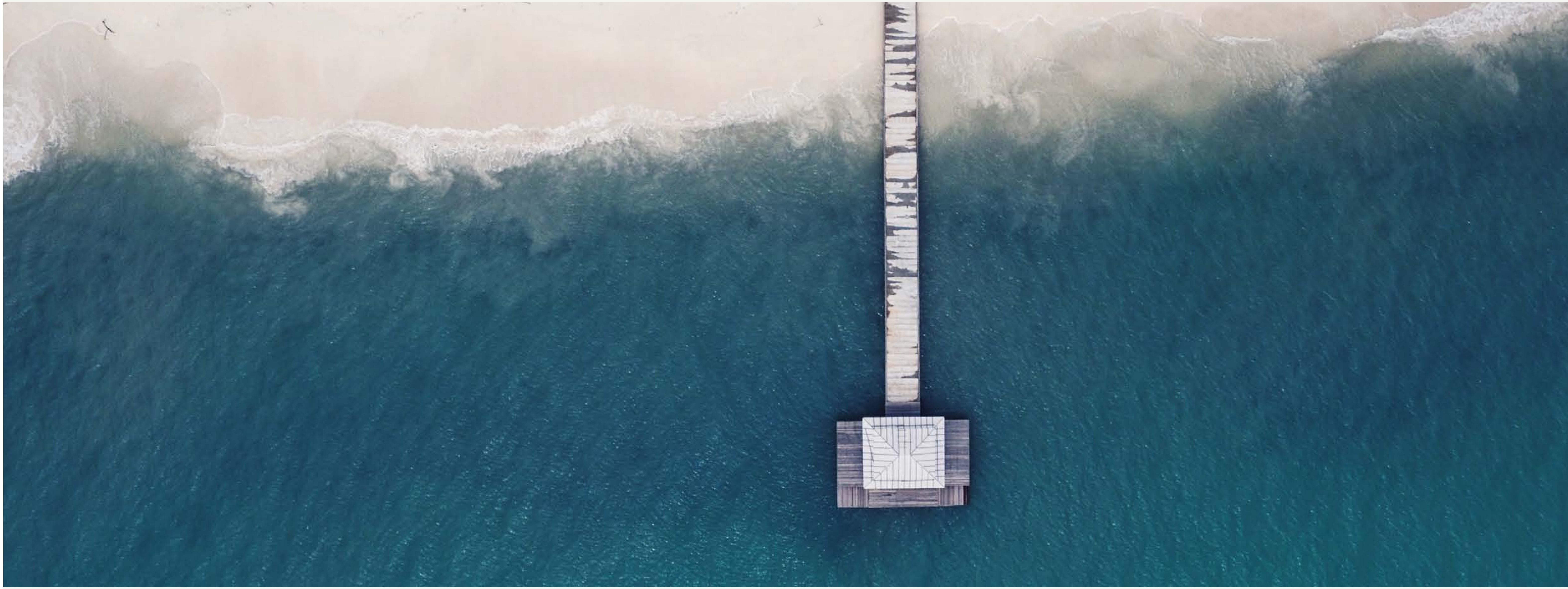
In addition to confusion regarding implementation of the Tax Cuts and Jobs Act, observers have expressed concern about opportunities for loopholes to be exploited. For instance, tax experts have historically questioned the government's ability to protect the tax deduction for businesses that pay taxes through their owners' individual returns from being abused. A potential impact of this confusion would be to further dampen individual giving, at least temporarily. Households tend to be risk-averse, and if it's not clear how to best maximize the benefit of a large gift (i.e., lower their cost of giving the most), they may delay that gift until they're more certain.

Other sources of confusion are less about real gains or losses to the nonprofit sector and more about where money is counted. For instance, officials in high-tax states were considering workarounds to changes in the state and local tax deduction at the start of 2018 that would allow households to donate to charitable entities established by state and local governments.[60]

Under the "Flat Growth" scenario, broad implications for charitable giving are difficult to ascertain. Not only do the effects remain to be seen, but it is difficult to be sure of the specific causes behind the effects. Additional unintended consequences not considered here are possible as well, and the directional impact they would have on giving is unknown. It is likely that the effects would dampen total giving (households would exploit loopholes that would decrease their marginal tax rate, thus lowering their tax incentive to give and leading to less giving overall), but it is unclear whether this would happen in all scenarios. Some cases, such as the property tax workaround, would also introduce a confounding factor into the data, making it a challenge to see any true increase or decrease in giving.



Introduction to the Baseline Projections



Due to the complex nature of the Tax Cuts and Jobs Act and its potential effects on giving, the methodology used by previous editions of the Philanthropy Outlook is not adequate to produce a robust and reliable estimate of giving in 2018 and 2019. In light of these exceptional circumstances, we determined that the best approach for presenting the Philanthropy Outlook 2018 and 2019 was to focus on directional changes in, rather than numerical estimates of, total giving, as well as giving by all sources and to the education, health, and public-society benefit subsectors.

The percent changes that informed the directional changes contained in the proceeding section can be viewed in the "Results of the Forecasting Model" at the beginning of the Guide to the Philanthropy Outlook Model available at www.PhilanthropyOutlook.com. These results are what we would have expected giving to look like had the Tax Cuts and Jobs Act not passed, but instead tax policy instead remained static. As such, they provide a useful baseline around which to adjust our expectations.

Total Giving

According to the econometric baseline projection alone, total giving would have increased in 2018 and 2019. The exceptional circumstances created by tax policy changes have complicated this picture. See pages 12–18 for more detailed analysis.

Specific factors that will significantly and positively influence total giving in 2018 and 2019 include:

- Close-to-average to above-average growth in the S&P 500 in preceding and projected years,
- Close-to-average to above-average growth in personal income, and
- Close-to-average to average growth in preceding year's GDP.

Year-over-year growth in the current year's S&P 500 influences individual/household giving for the subsequent year, especially giving by those with median and higher levels of income. In general, average growth in personal income for all types of households will positively impact total giving for 2018 and 2019. In fact, growth in personal income will have the largest influence on total giving for these years.

Other factors that will positively influence total giving in 2018 and 2019 include an increase in the preceding year's consumption and an increase in the projected year's GDP.

Giving by Individuals/Households

Giving by individuals/households includes cash and non-cash donations contributed by all American individuals and households to U.S. charities—including those who itemize their charitable contributions on their income taxes and those who do not.

According to the econometric baseline projection alone, giving by individuals/households would have increased in 2018 and 2019. The exceptional circumstances created by tax policy changes have complicated this picture. See pages 12–18 for more detailed analysis.

Specific factors that will significantly and positively influence individual/household giving in 2018 and 2019 include:

- Close-to-average growth in personal income,
- Close-to-average growth in household and nonprofit net worth,[61]
- Close-to-average growth in the S&P 500 in preceding years, and
- An increase in the preceding year's consumption.

A large body of work demonstrates, with few exceptions, the link between personal household income and wealth and philanthropic giving.[62] In general, as income and wealth increase, so do the amounts that households give to charity.

Giving by Foundations

Giving by foundations includes grants made by all American foundations to U.S. charities. The foundation types included in this prediction include community, private (including family), and operating foundations.[2]

According to the econometric baseline projection alone, giving by foundations would have increased in 2018 and 2019. The exceptional circumstances created by tax policy changes have complicated this picture. See pages 12–18 for more detailed analysis.

Specific factors that will significantly and positively influence foundation giving in 2018 and 2019 include:

- Close-to-average to above-average growth in the S&P 500 in preceding years,[63] and
- Close-to-average to average growth in preceding year's GDP.

These two factors will account for most of the predicted growth in giving by foundations in these years. Since foundations typically budget their giving based on asset growth, trends in the prior year's S&P 500 impact giving in the current year. As such, average to above-average predicted growth in the S&P 500 in 2017 and 2018 will influence strong foundation giving in 2018 and 2019.

The majority of the increase in projected foundation giving for the years 2018 and 2019 will be influenced by close-to-average to average growth in the prior year's GDP. However, growth in giving positively influenced by rising GDP will be tempered by the projected rise in household and nonprofit net worth in current and preceding years. This result may be due to foundations restraining giving during positive economic periods to save grant funding for economic downturns.[64]

[2] *This prediction does not explicitly break out directional changes in growth for each foundation type.*

Giving by Estates

Giving by estates includes cash and non-cash donations (bequests) contributed by all American estates to U.S. charities—including those that itemize their charitable contributions on their estate taxes and those that do not.

According to the econometric baseline projection alone, giving by estates would have increased in 2018 and 2019. The exceptional circumstances created by tax policy changes have complicated this picture. See pages 12–18 for more detailed analysis.

The amount that an estate bequeaths largely depends on asset health at the time of the donor's passing. If the growth in assets held by estates slows, less will be given in the form of bequests.

The factors that will most significantly and positively influence estate giving in 2018 and 2019 include:

- Above-average growth in the S&P 500, and
- Close-to-average to above-average growth in household and nonprofit net worth in preceding years.[65]

These two factors will account for the majority of the predicted growth in giving by estates in these years.

Giving by estates can vary greatly from year to year. This volatility is mostly due to very large bequests made by a few estates in a given year. Therefore, a significant increase one year will suppress the growth rate in giving the following year. The projected increase in bequest giving in 2018 and 2019 will hold unless substantially large gifts are made in 2017 or 2018.

Giving by Corporations

Giving by corporations includes all IRS itemized cash and non-cash donations contributed by all American corporations and businesses and their foundations to U.S. charities.

According to the econometric baseline projection alone, giving by corporations would have increased in 2018 and 2019. The exceptional circumstances created by tax policy changes have complicated this picture. See pages 12–18 for more detailed analysis.

Specific factors that will significantly and positively influence corporate giving in 2018 and 2019 include:

- Average to above-average growth in GDP, and
- Above-average growth in corporate saving.

These two factors account for the majority of the predicted growth in giving by corporations in these years.

Increases in corporate profit for 2018 and 2019, as well as declines in consumer sentiment for the preceding and projected years, may moderate the positive results projected for corporate giving in 2018 and 2019.[66] The negative influence of current-year corporate profits on corporate giving may reflect a reduced need to use philanthropy as a marketing tool and increased current-year production costs that tap into the same company resources used for philanthropic initiatives.[67]

Giving to Education

Giving to education includes all cash and non-cash donations from itemizing and non-itemizing American households to U.S. education charities, including institutions of higher education, private K-12 schools, vocational schools, libraries, educational research and policy, and many other types of organizations serving educational purposes.

According to the econometric baseline projection alone, giving to education would have increased in 2018 and 2019. The exceptional circumstances created by tax policy changes have complicated this picture. See pages 12–18 for more detailed analysis.

Specific factors that will significantly and positively influence education giving in 2018 and 2019 include:

- Average to above-average growth in GDP,
- Above-average growth in consumer expenditures on education services in the preceding year, and
- Growth in consumer expenditures on health.[68]

These three factors will account for the majority of the predicted growth in giving to education in these years.

Projected above-average growth in the S&P 500, and close-to-average growth in consumer spending on health in the preceding year will also have a positive effect on giving to education in 2018 and 2019. However, close-to-average growth in consumption and consumer expenditures on healthcare services will temper these positive effects.

Major gifts to higher education are projected to continue in 2018 and 2019, and will impact giving to this subsector.[69]

Since institutions of higher education encompass such a wide range of services and activities, donors can make gifts that reflect their unique interests and priorities. Major gifts to higher education institutions have established everything from health research centers to libraries to new scholarships in recent years.

The billion-dollar campaigns launched by institutions of higher education in recent years are also likely to continue into 2018 and 2019 and will boost overall education giving.[70] Research has shown that, as with giving to other subsectors, the presence of fundraising campaigns and opportunities to give has a positive correlation with education giving.[71]

Research also shows that foundations have increased giving to both K-12 and higher education institutions in recent years.[72] It is likely that giving to education will continue to benefit from giving by individuals, as well as foundations and corporations, in 2018 and 2019.

Giving to Health

Giving to health includes cash and non-cash donations from itemizing and non-itemizing American households to U.S. health charities, including nonprofit community health centers, hospitals, and nursing homes; organizations focused on the treatment and/or cure of specific diseases; emergency medical services; wellness and health promotion; mental healthcare; health research; and other types of health organizations.

According to the econometric baseline projection alone, giving to health would have increased in 2018 and 2019. The exceptional circumstances created by tax policy changes have complicated this picture. See pages 12–18 for more detailed analysis.

Specific factors that will significantly and positively influence health giving in 2018 and 2019 include:

- Average to above-average growth in GDP,
- Above-average growth in household and nonprofit net worth,
- Growth in consumer expenditures on healthcare services (close-to-average) and nursery school to high school education (above average), and
- Growth in consumer expenditures on education services in preceding years.[73]

These factors will account for the majority of the predicted growth in giving to health in these years.

The amount that consumers spend on out-of-pocket healthcare costs rises with age.[74] The oldest age group (over 65) spends five times the average amount the youngest age group (under 25) spends on healthcare. Additionally, on average, more than 12% of older households' annual household expenditures goes to healthcare. However, younger households with children under the age of 18 spend an average of 18% of their total annual child-rearing expenses on childcare and education.[75] It may be, then, that each of these household types responds similarly during positive economic times, both in terms of their health and educational spending, respectively, and their philanthropy.

Giving to Public-Society Benefit

Giving to public-society benefit includes cash and non-cash donations from itemizing and non-itemizing American households to U.S. public-society benefit charities, including independent research facilities, community development organizations, human and civil rights organizations, philanthropy associations, national donor-advised funds, United Ways, federated charities, and other types of organizations.

According to the econometric baseline projection alone, giving to public-society benefit would have increased in 2018 and 2019. The exceptional circumstances created by tax policy changes have complicated this picture. See pages 12–18 for more detailed analysis.

Specific factors that will significantly and positively influence public-society benefit giving in 2018 and 2019 include:

- Average to above-average growth in household and nonprofit net worth,
- Above-average growth in total giving, and
- Growth in consumer expenditures on foreign travel.[76]

These three factors account for the majority of the predicted growth in giving to public-society benefit in these years.

This subsector includes donor-advised funds, United Ways, and federated charities. In particular, donor-advised funds have seen growth in recent years, and it is possible this trend will continue in 2018 and 2019. Additionally, the public-society benefit subsector has seen an increase in the use of innovative funding models such as impact investing and pay-for-success programs, offering new opportunities for donors.[77]

Giving to public-society benefit organizations tends to be affected by trends that influence consumer behavior regarding luxury expenditures, such as foreign travel. This finding implies that this particular subsector may not be as resistant to economic downturns as other areas of giving.

Conditions That May Affect the Outlook for Giving

Each year, a variety of complex conditions influence charitable giving. This year, we address the research findings on giving patterns following natural disasters, a particularly relevant issue following the wave of natural disasters in 2017. In addition, the "Conditions That May Affect the Outlook for Giving" identifies the stability of each variable used in the forecasting model. The effect of the passage of the Tax Cuts and Jobs Act, a development that will significantly impact the giving environment in 2018 and 2019, is detailed in the special "Potential Impact of Tax Reform on Charitable Giving" section.

Disaster Giving

Major natural disasters usually receive an outpouring of charitable donations from individuals and corporations. The series of disasters that occurred in the U.S. and around the world in 2017 raises questions about whether donations for disaster relief will crowd out giving to other charitable causes, and how the events of 2017 will impact giving for any future disasters in 2018 and 2019 due to donor fatigue.

Prior research examining individual/household charitable giving to natural disasters has found no evidence of such a crowding-out effect. In one study, researchers found a positive relationship between giving by U.S. households to support tsunami relief in 2004 and giving to non-disaster causes in 2006 (the next year with available data), controlling for socio-demographics of households.[78] A recent study of individual donors in the U.K. confirmed that disaster relief organizations saw an increase in donations during the 20-week period after a disaster, with no offsetting decline in donations to the organizations within five years.[79] Non-disaster relief organizations did not experience a decrease in donations over the same period.

Additionally, several studies have found that major natural disasters can actually increase prosocial behavior such as charitable giving and volunteering in the long-term.[80] These studies suggest that fundraisers should not expect a decrease in donations or charitable activity more broadly in 2017 or subsequent years due to the fact that numerous disasters took place in 2017.

However, giving to one disaster may crowd out giving to other disasters if they occur in a short time frame. One study examined online giving by U.S. donors in response to a cyclone in Myanmar and to an earthquake in China that occurred one week after the cyclone in May 2008.[81] The study revealed that giving for Myanmar dropped faster than the predicted rate, even when the impact of donor fatigue was taken into account. Given the competition for disaster relief donations between closely occurring events that the study found, practitioners should stay abreast of disasters occurring in the immediate aftermath of other disasters and tailor messaging to potential donors accordingly.

Stability of the Variables Used in the Forecast

To estimate charitable giving in future years, we must generate estimates of the economic variables that affect giving. We can expect the accuracy of these estimates to be higher or lower based on each variable's historical variance. Deviations in the variables would affect our outlook for giving, and the next section, "Conditions That May Impact the Giving Predictions," explains the changes in the variables that would have to take place in order to change the baseline outlook for giving for each source and the three subsectors. Stakeholders can use these two sections to track any updates to the baseline projections throughout the year.

CONSUMER SENTIMENT

Consumer sentiment affects giving by corporations. This variable is generally an unstable economic indicator, meaning the likelihood that the growth rate for this variable will be considerably different than predicted is high.[82]

CORPORATE SAVING AND CORPORATE PROFITS

While these variables have significant influence on corporate giving, they are unstable economic indicators. The likelihood that the growth rates for these variables will be considerably different than predicted is high.[83]

EMPLOYMENT

The employment rate is a stable indicator of giving, meaning the projected growth rate is not likely to differ significantly from what was predicted in this Outlook. Therefore, its predicted impact on giving by corporations is deemed highly reliable.[84]

GDP

GDP is generally a stable indicator of giving, meaning the projected growth rate is not likely to differ significantly from what was predicted in this Outlook. Therefore, its predicted impact on giving by foundations and corporations is deemed highly reliable.[85] However, GDP may fall if the U.S. economic environment experiences an exogenous shock as a result of recession, disaster, war, or other severe situations.

HOUSEHOLD AND NONPROFIT NET WORTH

Household and nonprofit net worth is a stable indicator of giving, meaning the projected growth rate is not likely to differ significantly from what was predicted in this Outlook. Therefore, its predicted impact on giving by individuals/households, foundations, and estates is deemed highly reliable.[86]

INDIVIDUAL/HOUSEHOLD ITEMIZERS AND NON-ITEMIZERS

While this variable has influence on individual giving, it is an unstable indicator, particularly in the short-term given the changes in tax law. The likelihood that the growth rates for this variable will be considerably different than predicted is high.

INTEREST RATE FOR GOVERNMENTAL SECURITIES

The interest rate for governmental securities has significant influence on estate giving, in particular. This variable is a stable economic indicator. Therefore, its predicted impact on giving by estates is deemed highly reliable.[87] This variable plays an overall small role in our predictions, otherwise.

PERSONAL CONSUMPTION

Personal consumption affects giving to education. This variable is generally a stable economic indicator, meaning the projected growth rate is not likely to differ significantly from what was predicted in this Outlook.[88]

PERSONAL CONSUMER EXPENDITURES

Personal consumer expenditures affect giving to education, health, and public-society benefit. There are many different types of personal consumer expenditures, and the majority are stable economic indicators. This means that for most of these indicators, the projected growth rates are not likely to differ significantly from what was predicted in this Outlook.

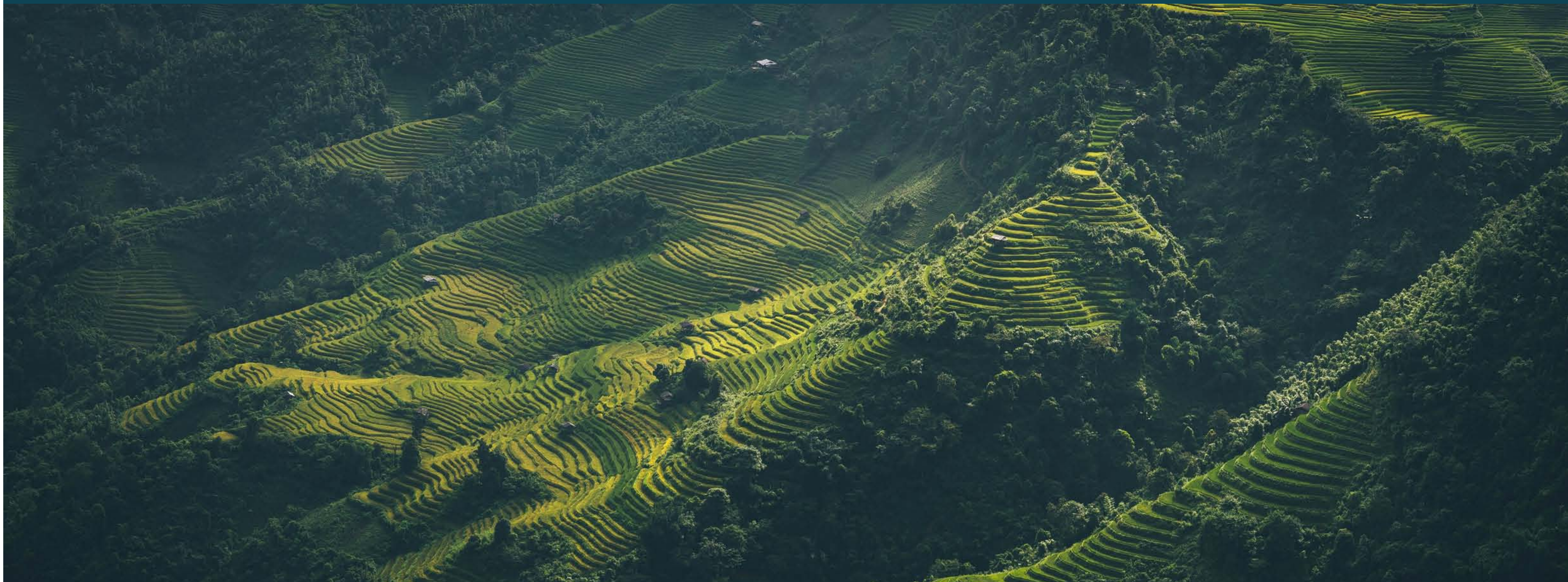
PERSONAL INCOME

Personal income is a stable indicator of giving, meaning the projected growth rate is not likely to differ significantly from what was predicted in this Outlook. Therefore, its predicted impact on giving by individuals/households is deemed highly reliable.[89]

THE S&P 500

While the S&P 500 has significant influence on corporate, individual/household, and foundation giving, this variable is an unstable economic indicator. The likelihood that the growth rate for this variable will be considerably different than predicted is high.[90]

Emerging Trends



Although there are still many unknowns with regard to tax reform, we do know that not every charitable organization will be affected in the same way. Having comprehensive knowledge of one's donor base is especially critical in 2018. The update in tax policy and the impressive performance of the stock market in 2017 (currently expected to continue into 2018) may impact individual donor demographics quite differently.

Focusing on the fundamental principles of fundraising remains as important as ever. The field still has work to do when it comes to donor knowledge and retention; over the last five years, donor retention rates have consistently been weak—averaging below 50%.[91] This figure underscores the importance of building long-term relationships with donors by understanding donors' personal characteristics and motivations for giving.

The new landscape requires a donor-focused fundraising approach that is sensitive both to the changes in tax policy from a donor perspective and in diversifying funding streams from a nonprofit organization perspective. Additional developments in the giving environment that have facilitated donor-centric behavior are outlined in the following section. Understanding what drives recent giving patterns can help nonprofit organizations of all types cultivate strong relationships with donors and proactively plan for the years ahead.

EMPLOYEE CHOICE DRIVING CORPORATE PHILANTHROPY

In recent years, corporations and their philanthropic arms have begun to recognize the benefits of focusing on the philanthropic interests and goals of employees. Research has confirmed a positive relationship between how employees perceive their company's contributions to the community and employees' commitment to their work.[92] A 2016 study by Cone Communications revealed that 58% of Americans consider a company's social and environmental commitments when deciding where to work.[93]

However, employees are increasingly looking for more than just opportunities to give through their workplace. While America's Charities' *Snapshot 2017* report showed that 46% of survey respondents engaged in giving through their workplace, having choices in the organizations or causes to which they could donate was critical to employees. Of survey respondents, 63% cited this factor as valuable or extremely valuable in their decision to give. In fact, employees identified lack of choice in nonprofits eligible for support through their workplace as the second-biggest detractor from their donation experience.[94]

- Employers can offer a range of charitable choices to increase employee engagement with workplace giving by asking employees about nonprofit organizations and causes that are meaningful to them. Flexibility in giving options is key: provide employees the opportunity to volunteer time inside or outside of work or donate to a workplace-specific campaign, or match donations from employees up to a certain dollar amount. Fundraisers have the opportunity to build strong relationships with donors that also extend to the donor's workplace.

IMPACT INVESTMENT GAINING MOMENTUM

The growth in charitable giving in recent years has been bolstered by the wider range of giving options available to donors who seek to make a major impact. One such option is impact investing, a growing movement in which investments are made in companies, organizations, and funds for the purpose of creating social or environmental impact in addition to a financial return.

Impact investing has challenged conventional wisdom that market investments should concentrate solely on achieving financial returns and that philanthropic donations should address social and environmental issues. According to a recent analysis of global impact investment market activity, assets grew by 18% compounded annually from 2013 to 2015, and investors were consistently satisfied with both financial and impact performance.[95]

Notable recent gifts include $500 million by Open Society Foundations to increase the private sector's role in addressing the needs of refugees and migrants; and Benefit Chicago, a $100 million effort by MacArthur, the Chicago Community Trust, and the Calvert Foundation to mobilize nonprofit impact investments in the city.[96]

Donors are drawn to the flexibility of impact investing. Impact companies, organizations, or funds can be for-profit or nonprofit entities and include many sectors such as sustainable agriculture, renewable energy, microfinance, housing, education, and healthcare. Another benefit of impact investing is a commitment to measuring and reporting on the performance of investments to ensure transparency and accountability.[97] With donors increasingly motivated to make a positive, lasting change, the accountability built in to the impact investing process is attractive.

- Impact investing benefits from strong partnerships. Social-impact-minded companies and organizations can work with financial advisors and wealth managers to find individual and institutional investors whose philanthropic goals align with the goals of the company or organization.

DIVERSITY IN PHILANTHROPY GROWING

The population of the United States is projected to become more diverse by the year 2030, with over half of Americans expected to identify as non-white and 20% of Americans expected to be age 65 or older.[98] These changes have major implications for philanthropy on both the donor and practitioner sides of the giving equation.

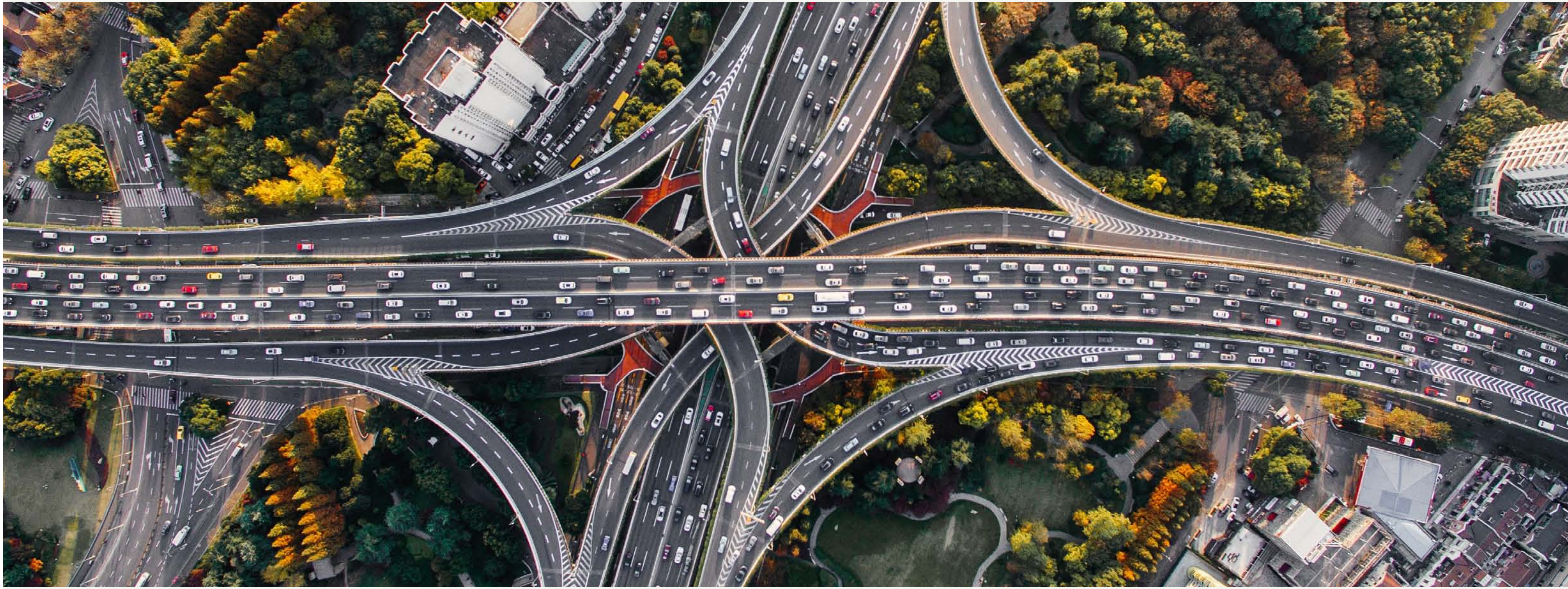
On the donor side, research suggests that organized philanthropy has an opportunity to increase engagement with non-white communities. The majority of all racial and ethnic groups recently surveyed by Blackbaud indicated that it was important to support nonprofit organizations. In fact, African American and Hispanic donors said they would give more to charity if they were asked more often, but felt they were solicited less frequently.[99]

Fundraisers have also tended to overlook unmarried, divorced, widowed, childless, and other single-individual households, which now account for nearly 30% of American households.[100] Fundraisers can benefit from building relationships with and tailoring their approaches to the needs and interests of donors across society.

Some nonprofits are also seeking to increase diversity—from the workforce to the boardroom. A recent study of nearly 300 nonprofit professionals revealed that attracting and hiring diverse talent was the most pressing concern for survey respondents.[101] This concern appears to be moving the needle at some organizations already: the D5 Coalition's most recent *State of the Work* report revealed that the number of foundations that have reported gender and racial/ethnic data for full-time paid staff grew by 31% and 29%, respectively, between 2010 and 2015. There is still work left to do: the report also showed that people of color continue to be underrepresented in foundation staff and leadership positions, despite the U.S. workforce becoming more diverse overall.[102]

- Given the increasingly diverse donor base, it is more important than ever to specialize messaging to ensure organizations are addressing the concerns of different demographic groups. Reaching out to different demographic groups is easiest when there is diversity within the organization's staff and on the board; having a conversation about the needs and interests of a particular population is the best way to ensure an organization is building a relationship with diverse donors that begins from a place of mutual opportunity.

Methodological Overview



To review our complete methodology, please view our Guide to the Philanthropy Outlook Model at www.PhilanthropyOutlook.com.

This edition of the Philanthropy Outlook produces forecasts for the annual growth rates and levels of individual/household, foundation, estate, and corporate giving and giving to education, health, and public-society benefit for the years 2017 through 2019.[103] The forecast for total giving is produced as the sum of the four donor components. Collectively, 27 different variables, plus lagged values for many of these variables, were incorporated into the final models for giving by donor and recipient subsectors.

In the initial stages of methodological development, all possible combinations of variables were compared, resulting in more than 100,000 regressions for individual/household giving alone. Fewer regressions were needed for the three remaining components. For each component, the best model was selected by first considering its explanatory power through 2016. Those models with the best explanatory power were then re-estimated through 2004. One-year-ahead forecasts were constructed through 2016 for these models, and the best model was selected as the one with the lowest root-mean-squared error (RMSE).[104] We relied on historical data from *Giving USA: The Annual Report on Philanthropy* and available IRS data. See Figure 4 in the Guide to the Philanthropy Outlook Model for a comparison of actual versus predicted growth rates for total giving for the years 2005 to 2015 and also the section titled "Variable Definitions and Sources" for a list of the candidate variables. We know that sometimes an event can have a delayed effect on giving. For that reason, we considered previous-year and contemporaneous values of the explanatory variables, as well as previous-year values of the dependent variables (i.e., historical giving values).

For the individual/household and corporate giving models, it is not practical to test all the variables at the same time. Instead, we adopted a three-step approach. In the first step, only the current values of the candidate variables were included in the regression. The best model within this set was referred to as the "base model." The selection procedure was implemented over all possible combinations of the lagged variables added to the base model. The best model following this step was the "revised model." In the third step, the selection procedure was run over all possible combinations of variables in the revised model. The result was the "final model." The estate and foundation models were estimated in a single step, because the number of candidate variables was small enough that the previous and current values of the variables could be evaluated in one program.

The models for estimating giving to the recipient subsectors were developed using a modified version of the aforementioned individual/household and corporate giving models. In general, giving to the recipient subsectors is difficult to predict, as each of the subsectors experiences unique conditions that affect giving.

Moreover, because there are several subsectors that receive gifts from the four major donor types, the subsectors experience more variance in their giving on a year-to-year basis than do the sources of giving. To adjust for these factors, additional steps were added to the original three-step approach. When using the "base model" approach, we tested all combinations of a set of subsector-specific variables. These additional variables were derived from the different types of personal consumer expenditures, which allowed us to evaluate variables more specific to each particular subsector. The variables were then tested with the lag of all personal giving variables, and the resultant list was then tested with the lag of all subsector-specific variables. This "revised model" was then tested against all possible permutations of itself, which resulted in the "final model" for each subsector.[3]

Tables 3 and 4 in the Guide to the Philanthropy Outlook Model describe the models for each source of giving and for giving to the recipient subsectors. Note that for each source of giving, with the exception of giving by estates, the adjusted R2s (coefficients of determination) are high. Moreover, the signs of the coefficients are generally consistent with economic theory that giving responds positively to increases in the ability to give and general economic conditions. See Table 5 in the Guide to the Philanthropy Outlook Model to reference the ratio of RMSE to the standard deviation for each giving prediction.

The forecasts of the different components were processed using the final version of each model. The forecasts covered 2017 to 2019.[105] Implementing the forecasts entailed auxiliary models for the explanatory variables (i.e., independent variables). These auxiliary models are described in the Guide to the Philanthropy Outlook Model.

[3] *Due to a noticeable drop in explanatory power, the resultant health model was compared to the prior year's model to confirm that any changes improved the accuracy as measured by RMSE.*

Variable Definitions and Sources

Independent Variables[106]

CONSUMER SENTIMENT

Consumer sentiment is an index computed based on monthly surveys covering personal finances, business conditions, and buying conditions. Data for consumer sentiment come from the Consumer Sentiment Index, Federal Reserve Bank of St. Louis (FRED), http://research.stlouisfed.org/fred2/series/UMCSENT

CORPORATE PROFITS

Corporate profits are corporate income after subtracting expenses. Data for corporate profits come from the Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/national/index.htm

CORPORATE SAVING

Corporate saving is corporate profits that are left over after taxes and dividend payments. Data for corporate saving come from the Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/iTable/index_nipa.cfm

EMPLOYMENT

Employment is a measure of the number of U.S. workers in the economy that excludes proprietors, private household employees, unpaid volunteers, farm employees, and the unincorporated self-employed. Data for employment come from FRED, http://research.stlouisfed.org/fred2/series/PAYEMS

GDP

GDP is "the value of the production of goods and services in the United States, adjusted for price changes," according to the Bureau of Economic Analysis, U.S. Department of Commerce. Data for GDP come from Table 1.1.5 at Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/iTable/index_nipa.cfm

HOUSEHOLD AND NONPROFIT NET WORTH

Net worth for households and nonprofits is the net assets of households and nonprofits serving households after subtracting net liabilities. Data for the net worth of households and nonprofits come from FRED, http://research.stlouisfed.org/fred2/series/HNONWRA027N

TAX DUMMY

The Tax Dummy is zero, except for 1986 when its value is one and 1987 when its value is negative one. The Tax Reform Act of 1986 implemented a two-step change in the highest individual tax rate from 50% in 1986, to 38.5% in 1987, and then to 28% in 1988. One would expect a spike in giving in 1986 as households shifted their planned giving forward to take advantage of the higher marginal tax rate in 1986. Likewise, one would expect a trough in giving in 1988 once the new lower tax rates were in effect. The 1987 response could have been positive or negative. In fact, the data show a large spike in 1986, followed by a substantial decline in 1987, and a return to normalcy in 1988. The explanation laid out here does not account for this behavior. Nevertheless, the effects are so large that we elected to model that behavior directly in order to avoid the effect of the one-time tax reform exerting an undue influence on the remaining coefficients.

INDIVIDUAL/HOUSEHOLD ITEMIZERS AND NON-ITEMIZERS

Data for itemized tax returns come from the Internal Revenue Service (IRS), http://www.irs.gov/statistics. Data for non-itemized giving come from the *Philanthropy Panel Study*, Indiana University Lilly Family School of Philanthropy, http://www.philanthropy.iupui.edu/research-and-news, and *Giving USA 2017: The Annual Report on Philanthropy for the Year 2016*, researched and written by Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, http://www.givingusa.org

INTEREST RATE FOR GOVERNMENTAL SECURITIES
The interest rate for governmental securities is the rate of return on an asset after removing the effect of inflation. Data for the interest rates of governmental securities come from FRED, http://research.stlouisfed.org/fred2/series/GS1

PERSONAL CONSUMPTION
Personal consumption is a measure of personal consumption expenditures, a measure of "goods and services purchased by U.S. residents" according to the Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/national/pdf/nipaguid.pdf. Data for personal consumption come from FRED, https://research.stlouisfed.org/fred2/series/PCE

PERSONAL CONSUMER EXPENDITURES
"Personal consumption expenditures is the primary measure of consumer spending on goods and services in the U.S. economy. It accounts for about two-thirds of domestic final spending, and thus is the primary engine that drives future economic growth. Personal consumption expenditures show how much of the income earned by households is being spent on current consumption as opposed to how much is being saved for future consumption."[107] Data on consumer expenditures come from FRED, https://fred.stlouisfed.org/series/PCE

PERSONAL INCOME
Personal income is the income received by persons from participation in production, government and business transfers, and government interest. Data for personal income come from Table 2.1 at the Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/iTable/index_nipa.cfm

THE S&P 500
The S&P 500 is the value of the Standard & Poor's 500 Index on December 31 of a given year. Data for the S&P 500 come from FRED, https://research.stlouisfed.org/fred2/series/SP500

Dependent Variables

GROWTH RATE FOR INDIVIDUAL/HOUSEHOLD GIVING
The growth rate for individual/household giving includes cash and non-cash donations contributed by all American individuals and households to U.S. charities (including those who itemize their charitable contributions on their income taxes and those who do not). Historical data for the growth rate in individual/household giving were derived from *Giving USA 2017: The Annual Report on Philanthropy for the Year 2016*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, https://www.givingusa.org

GROWTH RATE FOR FOUNDATION GIVING
The growth rate for foundation giving includes grants made by all American foundations to U.S. charities. Historical data for the growth rate in foundation giving were derived from *Giving USA 2017: The Annual Report on Philanthropy for the Year 2016*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, http://www.givingusa.org. Foundation giving data in *Giving USA* are based on estimates produced by the Foundation Center (http://www.foundationcenter.org) and include grants from community, private (including family), and corporate foundations.

GROWTH RATE FOR ESTATE GIVING
The growth rate for estate giving includes bequests (cash and non-cash donations) contributed by all American estates to U.S. charities (including those who itemize their charitable contributions on their estate taxes and those who do not). Historical data for the growth rate in estate giving were derived from *Giving USA 2017: The Annual Report on Philanthropy for the Year 2016*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, http://www.givingusa.org

GROWTH RATE FOR CORPORATE GIVING
The growth rate for corporate giving includes cash and non-cash IRS itemized donations contributed to U.S. charities by all American corporations and corporate foundations. Historical data for the growth rate in corporate giving were derived from *Giving USA 2017: The Annual Report on Philanthropy for the Year 2016*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, https://www.givingusa.org

GROWTH RATE FOR EDUCATION GIVING
The growth rate for education giving includes cash and non-cash donations from itemizing and non-itemizing American households to U.S. educational charities, including institutions of higher education, private K-12 schools, vocational schools, libraries, educational research and policy, and many other types of organizations serving educational purposes. Historical data for the growth rate in education giving were derived from *Giving USA 2017: The Annual Report on Philanthropy for the Year 2016*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, https://www.givingusa.org

GROWTH RATE FOR HEALTH GIVING
The growth rate for education giving includes cash and non-cash donations from itemizing and non-itemizing American households to U.S. health charities, including nonprofit community health centers, hospitals, and nursing homes; organizations focused on the treatment and/or cure of specific diseases; emergency medical services; wellness and health promotion; mental healthcare; health research; and other types of health organizations. Historical data for the growth rate in health giving were derived from *Giving USA 2017: The Annual Report on Philanthropy for the Year 2016*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, https://www.givingusa.org

GROWTH RATE FOR PUBLIC-SOCIETY BENEFIT GIVING
The growth rate for public-society benefit giving includes cash and non-cash donations from itemizing and non-itemizing American households to U.S. public-society benefit charities, including independent research facilities, community development organizations, human and civil rights organizations, philanthropy associations, national donor-advised funds, United Ways, federated charities, and other types of organizations. Historical data for the growth rate in public-society benefit giving were derived from *Giving USA 2017: The Annual Report on Philanthropy for the Year 2016*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, https://www.givingusa.org

Limitations

The Philanthropy Outlook was developed using well-established econometric methods. The models selected for producing each component of The Philanthropy Outlook are composed of a linear combination of the growth rates (or 1-year differences) of key indicators. The results produced point toward linkages between specific economic variables and philanthropic giving. These linkages can be positive or negative (inverse), as well as direct or indirect. With these results, we cannot say that a particular variable caused philanthropy to rise or fall. However, the results presented in The Philanthropy Outlook point us toward what is likely to happen and why.

The Philanthropy Outlook is meant to be informational. The Indiana University Lilly Family School of Philanthropy and Marts & Lundy make no guarantees about the accuracy of The Philanthropy Outlook. Similar to other types of predictions, it is impossible to know ahead of time all those factors that will affect giving into the future. While The Philanthropy Outlook is based on scientific methodology, there are limits to the use of such methodology to predict future outcomes.

Citations

[1] Tax Cuts and Jobs Act, H.R. 115 Congress, www.congress.gov

[2] The rate of change for the year 2018 is relative to the year 2017. The rate of change for the year 2019 is relative to the year 2018.

[3] "Tax Policy and Charitable Giving Results," researched and written by the Indiana University Lilly Family School of Philanthropy and commissioned by Independent Sector, May 2017, https://scholarworks.iupui.edu/bitstream/handle/1805/12599/tax-policy170518.pdf?sequence=1&isAllowed=y

[4] An exception occurred between 1982 and 1986, when the charitable deduction became an above-the-line deduction and was available to all taxpayers.

[5] *Giving USA 2017: The Annual Report on Philanthropy for the Year 2016*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[6] Suzanne Garment and Leslie Lenkowsky, "Why Philanthropies Needn't Fear Tax Reform," *The Wall Street Journal*, November 20, 2017, https://www.wsj.com/articles/why-philanthropies-neednt-fear-tax-reform-1511218121

[7] "Tax Policy and Charitable Giving Results," researched and written by the Indiana University Lilly Family School of Philanthropy and commissioned by Independent Sector, May 2017, https://scholarworks.iupui.edu/bitstream/handle/1805/12599/tax-policy170518.pdf?sequence=1&isAllowed=y

[8] "Tax Policy and Charitable Giving Results," researched and written by the Indiana University Lilly Family School of Philanthropy and commissioned by Independent Sector, May 2017, https://scholarworks.iupui.edu/bitstream/handle/1805/12599/tax-policy170518.pdf?sequence=1&isAllowed=y

[9] Joseph Rosenberg and Philip Stallworth, "The House Tax Bill is Not Very Charitable to Nonprofits," Tax Policy Center, November 15, 2017, http://www.taxpolicycenter.org/taxvox/house-tax-bill-not-very-charitable-nonprofits

[10] "Council on Foundations Statement on Passage of the Tax Cuts and Jobs Act," Council on Foundations, December 20, 2017, https://www.cof.org/news/council-foundations-statement-passage-tax-cuts-and-jobs-act

[11] Suzanne Garment and Leslie Lenkowsky, "Nonprofits Have It Wrong About the Tax Law—and Why Their Lobbying Failed," *The Chronicle of Philanthropy*, January 5, 2018, https://www.philanthropy.com/article/Opinion-Nonprofits-Get-It/242154

[12] Kathryn Vasel, "Making sense of the new cap on state tax deductions," CNN Money, December 20, 2017, http://money.cnn.com/2017/12/20/pf/salt-deductions-new-tax-plan/index.html

[13] Jared Walczak, "The State and Local Tax Deduction: A Primer," The Tax Foundation, March 15, 2017, https://taxfoundation.org/state-and-local-tax-deduction-primer/

[14] Jared Walczak, "The State and Local Tax Deduction: A Primer," The Tax Foundation, March 15, 2017, https://taxfoundation.org/state-and-local-tax-deduction-primer/

[15] Herb Jackson, "High-tax states plot ways to get around new limit on federal tax deductions," *USA Today*, January 5, 2018, https://www.usatoday.com/story/news/politics/2018/01/05/states-consider-workaround-trump-tax-law-cap-deductions-spurs-high-tax-states-consider-charity-worka/1003733001/

[16] "Major Enacted Tax Legislation, 1980–1989," Tax Policy Center, http://www.taxpolicycenter.org/laws-proposals/major-enacted-tax-legislation-1980-1989

[17] Charles T. Clotfelter, "The Impact of Tax Reform on Charitable Giving: A 1989 Perspective," National Bureau of Economic Research Working Paper No. 3273, 1990, http://www.nber.org/papers/w3273.pdf; Christopher M. Duquette, "Is Charitable Giving by Nonitemizers Responsive to Tax Incentives? New Evidence," *National Tax Journal*, 1999, 52(2), 195–206

[18] Charles T. Clotfelter, "The Impact of Tax Reform on Charitable Giving: A 1989 Perspective," National Bureau of Economic Research Working Paper No. 3273, 1990, http://www.nber.org/papers/w3273.pdf

[19] "Tax Policy and Charitable Giving Results," researched and written by the Indiana University Lilly Family School of Philanthropy and commissioned by Independent Sector, May 2017, https://scholarworks.iupui.edu/bitstream/handle/1805/12599/tax-policy170518.pdf?sequence=1&isAllowed=y

[20] Charles T. Clotfelter, "Charitable Giving Behavior and the Evaluation of Tax Policy" in *Federal Tax Policy and Charitable Giving*, Chicago: University of Chicago Press, 1985; "The 2014 U.S. Trust Study of High Net Worth Philanthropy," U.S. Trust and the Indiana University Lilly Family School of Philanthropy, 2014, http://newsroom.bankofamerica.com/files/press_kit/additional/2014_US_Trust_Study_of_High_Net_Worth_Philanthropy.pdf; René Bekkers and Pamela Wiepking. "A Literature Review of Empirical Studies of Philanthropy: Eight Mechanisms that Drive Charitable Giving." *Nonprofit and Voluntary Sector Quarterly*, 2010, 40(5), 924–973; Sara Konrath and Femida Handy, "The Development and Validation of the Motives to Donate Scale," *Nonprofit and Voluntary Sector Quarterly*, 2017, 1–29

[21] Lise Vesterlund, "Why do people give?" in *The Nonprofit Sector: A Research Handbook, Edition 2*, eds. Walter W. Powell and Richard Steinberg, New Haven, CT: Yale University Press, 2006, 168–190; René Bekkers and Pamela Wiepking. "A Literature Review of Empirical Studies of Philanthropy: Eight Mechanisms that Drive Charitable Giving." *Nonprofit and Voluntary Sector Quarterly*, 2010; Charles T. Clotfelter, "Charitable Giving Behavior and the Evaluation of Tax Policy" in *Federal Tax Policy and Charitable Giving*, Chicago: University of Chicago Press, 1985; James Andreoni, "Impure Altruism and Donations to Public Goods: A Theory of Warm-Glow Giving," *The Economic Journal*, 1990, 100(401), 464–477

[22] Charles T. Clotfelter, "The Impact of Tax Reform on Charitable Giving: A 1989 Perspective," National Bureau of Economic Research Working Paper No. 3273, 1990, http://www.nber.org/papers/w3273.pdf

[23] Ashlea Ebeling, "Why 2017 Is the Year to Give to Charity (If You Want a Tax Break)," *Forbes*, December 12, 2017, https://www.forbes.com/sites/ashleaebeling/2017/12/13/why-2017-is-the-year-to-give-to-charity-if-you-want-a-tax-break/

[24] Charles T. Clotfelter, "The Impact of Tax Reform on Charitable Giving: A 1989 Perspective," National Bureau of Economic Research Working Paper No. 3273, 1990, http://www.nber.org/papers/w3273.pdf

[25] James Andreoni, "Philanthropy," in *Handbook of the Economics of Giving, Altruism and Reciprocity, Volume 2*, eds. Serge-Christophe Kolm and Jean Mercier Ythier, Amsterdam: North-Holland, 2006; Jon Bakija and Bradley Heim, "How Does Charitable Giving Respond to Incentives and Income? New Estimates from Panel Data," *National Tax Journal*, 2011, 64(2), 615–650; Nicholas J. Duquette, "Do Tax Incentives Affect Charitable Contributions? Evidence from Public Charities' Reported Revenues," *Journal of Public Economics*, 2016, 137, 51–69

[26] Joel Slemrod, "High-Income Families and the Tax Changes of the 1980s: The Anatomy of Behavioral Response," in *Empirical Foundations of Household Taxation*, eds. Martin Feldstein and James Poterba. Chicago: University of Chicago Press, 1996.

[27] Carolyn Mollen, "Consider Tax Policy in Year-End Appeals," Independent Sector, December 20, 2017, https://independentsector.org/news-post/consider-tax-policy-year-end-appeals/

[28] Douglas Belkin and Shayndi Rice, "Charities See Surge of Giving Ahead of Change in Tax Law; Some organizations fear expansion of standard deduction could lead to drop in donations," *The Wall Street Journal*, December 30, 2017, https://www.wsj.com/articles/charities-see-surge-of-giving-ahead-of-change-in-tax-law-1514635202

[29] Timothy Sandoval, "As Tax Changes Loom, Charities Encourage Donors to Give Now," *The Chronicle of Philanthropy*, December 8, 2017, https://www.philanthropy.com/article/How-Some-Charities-Are-Talking/242004?key=GZ3aBSEidVRLvR2lInxwPj-ybe4qk3pVFVIcwGrVBJWWUnRN6CujmXyzQUVqf59VQmtkdVJ1MDc3cm1uS2RXaUxFMTA2R1NuelBOSlZY3kxa09yelZxMV9hTQ

[30] Mary Beth Franklin, "Interest in donor-advised funds surges in response to tax changes," InvestmentNews, December 20, 2017, http://www.investmentnews.com/article/20171220/FREE/171229990/interest-in-donor-advised-funds-surges-in-response-to-tax-changes

[31] Andy Rosen and Jonathan Saltzman, "Facing uncertainty, charities use new tax law to push for donations," *The Boston Globe*, December 28, 2017, https://www.bostonglobe.com/business/2017/12/27/facing-uncertain-charities-use-tax-bill-push-for-donations/uCZWqz7GMbqGzps2xh6gEL/story.html

[32] Ann Carrns, "How to Write Off Donations Under the New Tax Plan: Consider Bunching," *The New York Times*, December 20, 2017, https://www.nytimes.com/2017/12/20/your-money/tax-plan-donations-charities.html

[33] David Joulfaian, "Estate Taxes and Charitable Bequests by the Wealthy," *National Tax Journal*, 2000, 53, 743–763, http://www.nber.org/papers/w7663

[34] David Joulfaian, "What Do We Know About the Behavioral Effects of the Estate Tax?" *Boston College Law Review*, 2016, 57(3), http://lawdigitalcommons.bc.edu/cgi/viewcontent.cgi?article=3511&context=bclr

[35] Gerald Auten and David Joulfaian, "Charitable Contributions and Intergenerational Transfers," *Journal of Public Economics*, 1996, 59(1), 55–68, http://www.sciencedirect.com/science/article/pii/0047272794014752

[36] Patrick Rooney, "Why Nonprofits Should Weigh In on Proposals to Repeal Estate Tax," *Nonprofit Quarterly*, October 23, 2017, https://nonprofitquarterly.org/2017/10/23/nonprofits-weigh-proposals-repeal-estate-tax/

[37] Daniel Berger, "The Unintended Consequences of Killing the Estate Tax," Tax Policy Center, October 9, 2017, http://www.taxpolicycenter.org/taxvox/unintended-consequences-killing-estate-tax

[38] Jon M. Baua and William Gale, "Effects of Estate Tax Reform on Charitable Giving," Tax Policy Center, 2003, http://ww.taxpolicycenter.org; Robert McClelland, "Charitable Bequests and the Repeal of the Estate Tax," Congressional Budget Office, https://www.cbo.gov/sites/default/files/108th-congress-2003-2004/workingpaper/2004-8_0.pdf

[39] David Joulfaian, Estate Taxes and Charitable Bequests by the Wealthy, 53 National Tax Journal, 2000.

[40] *Giving USA 2017: The Annual Report on Philanthropy for the Year 2016*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[41] Patrick Rooney, "The pall that the tax law is casting over charities," The Conversation, December 23, 2017, https://theconversation.com/the-pall-that-the-tax-law-is-casting-over-charities-89440

[42] Suzanne Garment and Leslie Lenkowsky, "Nonprofits Have It Wrong About the Tax Law—and Why Their Lobbying Failed," *The Chronicle of Philanthropy*, January 5, 2018, https://www.philanthropy.com/article/Opinion-Nonprofits-Get-It/242154

[43] "Boeing CEO Mulienburg Applauds Tax Law, Announces $300 Million in Employee-Related and Charitable Investments to Spur Innovation and Growth," PR Newswire, December 20, 2017, https://www.prnewswire.com/news-releases/boeing-ceo-muilenburg-applauds-tax-law-announces-300-million-in-employee-related-and-charitable-investments-to-spur-innovation-and-growth-300574021.html

[44] Mark Calvey, "Companies cite tax overhaul in plans to boost wages, pay bonuses," December 21, 2017, The Business Journals, https://www.bizjournals.com/bizwomen/news/latest-news/2017/12/companiescite-tax-overhaul-in-plans-to-boost-wages.html?page=all

[45] "New Survey Finds While Holiday Payouts Are Up 66 Percent, Holiday Bonuses Are Becoming More Scarce in 2017," Accounting Principles, October 25, 2017, https://www.accountingprincipals.com/about-accounting-principals/news-room/holiday-payouts-up-bonuses-down-2017/

[46] "Summary and Analysis of the Final Tax Reform Legislation," Council on Foundations, January 2, 2018, https://www.cof.org/page/summary-and-analysis-final-tax-reform-legislation

[47] "Summary and Analysis of the Final Tax Reform Legislation," Council on Foundations, January 2, 2018, https://www.cof.org/page/summary-and-analysis-final-tax-reform-legislation

[48] Suzanne Garment and Leslie Lenkowsky, "Nonprofits Have It Wrong About the Tax Law—and Why Their Lobbying Failed," *The Chronicle of Philanthropy*, January 5, 2018, https://www.philanthropy.com/article/Opinion-Nonprofits-Get-It/242154; David McKay Wilson, "Tax reform could hurt charitable giving with few itemizing deductions," *The Journal News*, January 4, 2018, http://www.lohud.com/story/money/personal-finance/taxes/david-mckay-wilson/2018/01/04/tax-reform-could-hurt-charitable/1000312001/

[49] "Smart Funding in Tough Times: Philanthropic Funding in an Economic Downturn," Institute for Philanthropy for Credit Suisse, 2013, https://www.credit-suisse.com/media/sites/philanthropy/doc/philanthropic-funding-in-an-economic-downturn.pdf

[50] David Wessel, "What to expect from the U.S. economy in 2018," Brookings Institution, December 26, 2017, https://www.brookings.edu/blog/up-front/2017/12/26/what-to-expect-from-the-us-economy-in-2018/

[51] Jim Glassman, "3 Impacts of the Tax Cuts and Jobs Act," J.P.Morgan, January 3, 2018, https://commercial.jpmorganchase.com/pages/commercial-banking/executive-connect/tax-cuts-jobs-act

[52] Jim Glassman, "3 Impacts of the Tax Cuts and Jobs Act," J.P.Morgan, January 3, 2018, https://commercial.jpmorganchase.com/pages/commercial-banking/executive-connect/tax-cuts-jobs-act

[53] David Wessel "What to expect from the U.S. economy in 2018," Brookings Institution, December 26, 2017, https://www.brookings.edu/blog/up-front/2017/12/26/what-to-expect-from-the-us-economy-in-2018/

[54] Heather Long, "How an unequal tax cut grew more unequal," *The Washington Post*, December 2, 2017, https://www.washingtonpost.com/business/economy/as-tax-bill-evolved-benefits-for-corporations-and-the-wealthy-grew/2017/12/01/17f1478e-d6c0-11e7-b62d-d9345ced896d_story.html?utm_term=.332cce4214e8

[55] Heather Long, "How an unequal tax cut grew more unequal," *The Washington Post*, December 2, 2017, https://www.washingtonpost.com/business/economy/as-tax-bill-evolved-benefits-for-corporations-and-the-wealthy-grew/2017/12/01/17f1478e-d6c0-11e7-b62d-d9345ced896d_story.html?utm_term=.332cce4214e8

[56] Paul Krugman, "Trickle Down? Not Now, and Not for a While at Best," *The New York Times*, December 24, 2017, https://www.nytimes.com/2017/12/24/opinion/trickle-down-not-now-and-not-for-a-while-at-best-wonkish.html

[57] Ben Casselman and Jeffery C. Mays, "Last-Minute Rush to Pre-Pay Taxes Gives Way to Confusion and Anger," *The New York Times*, December 28, 2017, https://www.nytimes.com/2017/12/28/business/economy/irs-prepay-property-tax.html

[58] Bernie Becker, "Confusion and chaos ahead as new tax rules take immediate effect," Politico, December 20, 2017, https://www.politico.com/story/2017/12/20/new-tax-rules-create-chaos-and-confusion-306316

[59] Ben Casselman and Jeffery C. Mays, "Last-Minute Rush to Pre-Pay Taxes Gives Way to Confusion and Anger," *The New York Times*, December 28, 2017, https://www.nytimes.com/2017/12/28/business/economy/irs-prepay-property-tax.html

[60] Herb Jackson, "High-tax states plot ways to get around new limit on federal tax deductions," *USA Today*, January 5, 2018, https://www.usatoday.com/story/news/politics/2018/01/05/states-consider-workaround-trump-tax-law-cap-deductions-spurs-high-tax-states-consider-charity-worka/1003733001/

[61] The relationship between nonprofit net worth and total giving likely reflects a symbiotic relationship between the health of nonprofits that receive personal contributions and overall giving levels. It could also be that nonprofits with growing assets are more likely to employ sophisticated fundraising programs that positively impact giving by individuals and households.

[62] John J. Havens, Mary A. O'Herlihy, and Paul G. Schervish, "Charitable Giving: How Much, by Whom, to What, and How?" in *The Nonprofit Sector: A Research Handbook, Edition 2*, eds. Walter W. Powell and Richard Steinberg, New Haven, CT: Yale University Press, 2006, 542–567; Pamela Wiepking and René Bekkers, "Who Gives? A Literature Review of Predictors of Charitable Giving, Part Two," *Voluntary Sector Review*, 2012, 3(2), 217–245; Russell N. James and Deanna L. Sharpe, "The Nature and Causes of the U-Shaped Charitable Giving Profile," *Nonprofit and Voluntary Sector Quarterly*, 2007, 36(2), 218–238; The Philanthropy Panel Study, Indiana University Lilly Family School of Philanthropy, 2010, 2012, www.philanthropy.iupui.edu

[63] Growth in charitable giving is often driven by prior-year growth of specific economic variables. For foundation giving, this is true for GDP, the S&P 500, consumer sentiment, and net worth of households and nonprofits.

[64] This is one hypothesis. Foundations will adopt various strategies given various funding priorities.

[65] Growth in charitable giving is often driven by prior-year growth of specific economic variables. For estate giving, this is true for individual/household net worth.

[66] Growth in charitable giving is often driven by prior-year growth of specific economic variables. For corporate giving, this is true for consumer sentiment.

[67] Note that these generalizations are based on national-level data and are not necessarily indicative of a single corporation's philanthropy program or strategy.

[68] Other factors that will affect education giving, both positively and negatively, include growth in the following: personal giving and consumer expenditures on nonprofit services, education in the preceding year, recreation services in the preceding year, health in the preceding year, and community school services in the preceding year.

[69] The projected increases in giving to education in 2018 and 2019 will hold unless substantially large gifts were made in 2017 or will be made in 2018 but not in subsequent years. Information about large gifts comes from *Giving USA 2017: The Annual Report on Philanthropy for the Year 2016*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[70] *Giving USA 2017: The Annual Report on Philanthropy for the Year 2016*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[71] René Bekkers and Pamela Wiepking, "A Literature Review of Empirical Studies of Philanthropy: Eight Mechanisms That Drive Charitable Giving," *Nonprofit and Voluntary Sector Quarterly*, 2010, http://nvs.sagepub.com/content/early/2010/09/10/0899764010380927.full.pdf

[72] "Colleges and Universities Raise $41 Billion in 2016," Council for Aid to Education, 2017, www.cae.org; Sarah Reckhow and Jeffrey W. Snyder, "The Expanding Role of Philanthropy in Education Politics," *Educational Researcher*, 2014, http://doi.org/10.3102/0013189X14536607

[73] Other factors that will affect health giving, both positively and negatively, include growth in the following: total giving and consumer expenditures on clothing, nonprofit sales, pharmaceuticals, education services in the preceding year, and foreign travel in the preceding year.

[74] Ann Foster, "Consumer Expenditures Vary by Age," Bureau of Labor Statistics, December 2015, www.bls.gov; Ann Foster, "A Closer Look at Spending Patterns of Older Americans," Bureau of Labor Statistics, March 2016, http://www.bls.gov/opub/btn/volume-5/pdf/spending-patterns-of-older-americans.pdf

[75] This percentage reflects only those households that have that expense. Mark Lino, "Expenditures on Children by Families," U.S. Department of Agriculture, 2013, https://www.cnpp.usda.gov/sites/default/files/expenditures_on_children_by_families/crc2013.pdf

[76] Consumer expenditures on foreign travel is an indication of increases in luxury spending, in general.

[77] *Giving USA 2017: The Annual Report on Philanthropy for the Year 2016*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[78] Sarah Brown, Mark N. Harris, and Karl Taylor, "Modelling charitable donations to an unexpected natural disaster: Evidence from the U.S. Panel Study of Income Dynamics," *Journal of Economic Behavior & Organization*, 2012, https://www.sciencedirect.com/science/journal/01672681/84/1

[79] Kimberley A.Scharf, Sarah Smith, and Mark Wilhelm, "Lift and Shift: The Effect of Fundraising Interventions in Charity Space and Time," CESifo Working Paper Series No. 6694, 2017, https://ssrn.com/abstract=3074331

[80] Pierre-Guillaume Méon and Philip Verwimp, "Pro-social behavior after a disaster: parochial or universal? Evidence from a natural experiment in Belgium," CEB Working Paper No. 16/054, 2016, https://dipot.ulb.ac.be/dspace/bitstream/2013/242497/3/wp16054.pdf

[81] Phil Brown and Po Yin Wong, "Types of News Coverage and Donations to Disaster Relief: Evidence from the 2008 Cyclone in Myanmar," 2009, https://ssrn.com/abstract=1489909

[82] Data for consumer sentiment come from the Consumer Sentiment Index, Federal Reserve Bank of St. Louis (FRED), http://research.stlouisfed.org/fred2/series/UMCSENT

[83] Data for corporate saving come from Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/iTable/index_nipa.cfm; Data for corporate profits come from Bureau of Economic Analysis, U.S. Department of Commerce, http://www.bea.gov/national/index.htm

[84] Although not included in the final model for the Philanthropy Outlook 2017 & 2018, the predicted growth rate for employment in 2016 was 2.1%, while the preliminary actual growth rate was 1.7%. Preliminary 2017 values were not yet available at the time this report was released.

[85] In the Philanthropy Outlook 2017 & 2018, the predicted growth rate for GDP in 2016 was 3.6%, while the preliminary actual growth rate was 1.5%. Preliminary 2017 values were not yet available at the time this report was released.

[86] The actual value of household and nonprofit net worth was not yet available for 2017.

[87] Data for the interest rates of governmental securities come from Federal Reserve Bank of St. Louis (FRED), http://research.stlouisfed.org/fred2/series/GS1

[88] In the Philanthropy Outlook 2017 & 2018, the predicted growth rate for personal consumption in 2016 was 3.7%, while the preliminary actual growth rate was 2.7%. Preliminary 2017 values were not available at the time this report was released.

[89] In the Philanthropy Outlook 2017 & 2018, the predicted growth rate for personal income in 2016 was 3.8%, while the preliminary actual growth rate was 1.2%. Preliminary 2017 values were not yet available at the time this report was released.

[90] In the Philanthropy Outlook 2017 & 2018, the model predicted a 2016 growth rate for the S&P 500 of 4.0%, while the realized value was 7.8%. This difference is well within the expected variance.

[91] "The Fundraising Effectiveness Project," Association of Fundraising Professionals, 2017, http://afpfep.org/reports/

[92] "2016 Cone Communications Employee Engagement Study," Cone Communications, 2016, http://www.conecomm.com/2016-cone-communications-employee-engagment-pdf. "The 50 Best Workplaces for Giving Back," Fortune, February 9, 2017, http://fortune.com/2017/02/09/best-workplaces-giving-back/

[93] "2016 Cone Communications Employee Engagement Study," Cone Communications, 2016, http://www.conecomm.com/2016-cone-communications-employee-engagment-pdf

[94] "Snapshot 2017: What U.S. Employees Think About Workplace Giving, Volunteering, and CSR," America's Charities, 2017, https://www.charities.org/sites/default/files/AC_2017-Snapshot_102617.pdf?_cldee=dGJza2lkbW9AaW5kaWFuYS5lZHU%3d&recipientid=lead-954a736468e6e71180ed00155dc8ad7c-6fd54293da1a4795b0ed1be7c41e5063&esid=bb5b196c-68e6-e711-80dc-001dd8b71c58

[95] "Impact investing Trends: Evidence of a Growing Industry," Global Impact Investing Network, 2016, https://thegiin.org/assets/GIIN_Impact%20InvestingTrends%20Report.pdf

[96] David Callahan, "Philanthropy Forecast: Trends and Issues to Watch," Inside Philanthropy, January 18, 2017, https://www.insidephilanthropy.com/home/2017/1/18/philanthropy-forecast-2017

[97] What You Need to Know about Impact Investing, Global Impact Investing Network, https://thegiin.org/impact-investing/need-to-know/#why-impact-investing. "A Short Guide to Impact Investing," The Case Foundation, 2015, http://casefoundation.org/wp-content/uploads/2014/09/Short-Guide-Oct2015-Digital-FINAL.pdf

[98] Sandra L. Colby and Jennifer M. Mortman, "Projections of the Size and Composition of the U.S. Population: 2014 to 2060," 2015, https://www.census.gov/content/dam/Census/library/publications/2015/demo/p25-1143.pdf

[99] "Diversity In Giving: The Changing Landscape of American Philanthropy," Blackbaud, 2015, https://institute.blackbaud.com/wp-content/uploads/2015/02/DIG.pdf

[100] Megan O'Neil and Eden Stiffman, "Going It Alone," *Chronicle of Philanthropy*, September 6, 2017, https://www.philanthropy.com/article/Fundraising-From-the-Modern/241072

[101] 2017 Nonprofit Talent Management Priorities, Nonprofit HR, 2017, https://www.nonprofithr.com/wp-content/uploads/2017/02/priorities-infographic-3.pdf

[102] "State of the Work: Stories from the Movement to Advance Diversity, Equity, and Inclusion," D5 Coalition, 2015, http://www.d5coalition.org/tools/state-of-the-work-final/

[103] Only the percentage changes for projected giving in 2018 and 2019 are reported in the Philanthropy Outlook 2018 & 2019.

[104] RMSE is a standard measure of forecast quality, with lower values of the RMSE indicating greater predictive ability. See the Guide to the Philanthropy Outlook Model at www.PhilanthropyOutlook.com for the formula.

[105] Only the percentage changes for projected giving in 2018 and 2019 are reported in the Philanthropy Outlook 2018 & 2019.

[106] Also referred to as the "explanatory variables."

[107] "Chapter 5: Personal Consumption Expenditures," Bureau of Economic Analysis, https://www.bea.gov/national/pdf/NIPAhandbookch5.pdf

About Indiana University Lilly Family School of Philanthropy

IUPUI | LILLY FAMILY SCHOOL OF PHILANTHROPY
INDIANA UNIVERSITY
Indianapolis

The Indiana University Lilly Family School of Philanthropy is dedicated to improving philanthropy to improve the world by training and empowering students and professionals to be innovators and leaders who create positive and lasting change. The School offers a comprehensive approach to philanthropy—voluntary action for the public good—through its academic, research and international programs and through The Fund Raising School, Lake Institute on Faith & Giving and the Women's Philanthropy Institute. For more information, visit www.philanthropy.iupui.edu

Follow the school on Twitter @IUPhilanthropy or "Like" the school on Facebook at https://www.facebook.com/IUSchoolofPhilanthropy

About Marts & Lundy

Marts&Lundy

Marts & Lundy has been the innovative leader in fundraising and philanthropy consulting for nearly 90 years. With nearly 40 full-time Senior Consultants and Analysts, Marts & Lundy offers clients an unparalleled depth of expertise and breadth of perspective on philanthropy. Since 1926 the firm has served thousands of clients, whose annual giving programs range from hundreds of thousands to millions of dollars and whose campaigns range from a few million to several billion. Founded in the belief that philanthropy has the power to transform not only institutions but, more importantly, the world in which we live, Marts & Lundy remains steadfastly committed to contributing innovative thinking and thought leadership to the profession of fundraising.

You can find Marts & Lundy on Twitter @MrtsAndLndy and on LinkedIn and Facebook.

Marts&Lundy

IUPUI

LILLY FAMILY
SCHOOL OF PHILANTHROPY

INDIANA UNIVERSITY
Indianapolis