Charitable Giving and the Universal Charitable Deduction

Since 1917, the charitable deduction has served as a powerful incentive encouraging Americans to give more to those in need. For most of that history, the deduction was reserved for itemizing taxpayers, usually those with the highest incomes. In 1981, we saw the passage of a temporary nonitemizer deduction, but it expired with the tax reform bill of 1986. Over 30 years later, faced with an unprecedented global health crisis and a declining number of American households giving to charity, lawmakers once again seized the opportunity to incentivize more giving.

The Universal Charitable Deduction Works

In 2020 and 2021, all nonitemizing taxpayers were eligible to take up to a $300 charitable deduction for their gifts to charity, and in 2021 joint filers were eligible to deduct up to $600. Initial data from the Fundraising Effectiveness Project (FEP) shows the incentive worked – more taxpayers made gifts of $300 and $600 than in previous years, supporting charities in their communities at record levels.

Gifts of $300
- Individual gifts of $300 – the exact amount of the temporary universal charitable deduction for individuals – increased by 7.5 percent in both 2020 and 2021, compared to 2019.
- On December 31, when we historically see the most charitable donations, charitable gifts of $300 increased by 33 percent in 2020 and 7 percent in 2021, both compared to 2019. While 2020 was a banner year for giving, the 7 percent increase in 2021 suggests the temporary giving incentive encouraged repeat behavior.

Gifts of $600
- In December 2020, Congress extended the universal charitable deduction through 2021 and increased the cap for joint filers to $600. This encouraged giving behavior as well.
- In 2021, the first full year joint filers could claim the $600 universal charitable deduction, gifts of $600 increased 5 percent, compared to 2019. On December 31, 2021, there was a 5.1 percent increase in gifts of $600, compared to 2019.

Unfortunately, the universal charitable deduction expired at the end of 2021. We know the charitable deduction encourages generous Americans to give away more of their income and is a lifeline for nonprofits. Restoring the universal charitable deduction for nonitemizers will democratize giving and ensure that the charitable and faith-based organizations serving our communities can continue to provide vital services.