

ABSTRACT

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Consistent Estimation of the Tax-Price Elasticity of Charitable Giving with Survey data

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Abstract:

There is an extensive literature that seeks to estimate the effect of tax incentives for charitable giving in United States. We provide theoretical and empirical evidence of a large downward bias in the estimator of the price (or tax-price) elasticity using survey data when non-itemizers are included in the sample. Such studies account for nearly half of the published work in this area and have generally found price elasticities in excess of -1 and larger (in absolute value) than those found using samples of itemizers from tax-filer data. We provide an intuitive modification to the standard model which we show yields a consistent and efficient estimator of the price elasticity for the average tax payer under a simple testable restriction. We find empirical support for this restriction and estimate a bias in the price elasticity in the standard model of around -1 indicating that the estimates of the price elasticity for the average taxpayer have been systematically over-estimated. Our results suggest an inelastic tax-price elasticity for the average taxpayer where only for those individuals with income in the top decile do we find a statistically significant price elasticity of a magnitude consistent with those estimated on tax-filer data.

Most important references:

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