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# Effectiveness is Not Enough: The Total Effect of the Tax Policy Toward Charitable Giving – Boundaries, Take-Up, and Effectiveness

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**Abstract:** Tax benefits for charitable giving are widespread. Governments waive tax revenues, aiming to encourage donors to increase their giving to nonprofits. Accordingly, the effectiveness of tax benefits has been widely researched, asking whether the policy increases donors' giving. However, policy exhaustion is overlooked; therefore, we know very little about the total effect of such policies. In this paper, I suggest we go beyond effectiveness to focus on policy exhaustion as well. That is, exploring the effect of the policy boundaries on the benefit ineligibility range and the patterns of benefit non-take-up by donors. I further suggest that the appropriate approach to assessing the take-up rate of the tax benefit for charitable giving is not calculating the percentage of taxpayers who claim a tax benefit (as sometimes done). Although donors can claim the tax benefit, the "true" target population of the policy is nonprofits' beneficiaries. Thus, the policy seeks not to improve donors' conditions but to induce them to donate more to nonprofits as the providers of services. Therefore, estimating the share of donations for which the benefit is claimed is preferable to estimating the take-up of the tax benefit for charitable giving. Based on administrative data and complementary surveys, studying Israel in 2018 as a test case, I find that 23 % of total donations are ineligible for the benefit due to its boundaries (ceilings, floor, and qualified nonprofits); that 41 % of total donations are eligible for a benefit yet a benefit is not claimed for them (non-take-up); And thus, donors claim a tax benefit for 36 % of their total donations. In this case, then, effectiveness is relevant to 36 % of total donations only, and it seems that the most acute weakness of the policy is its low take-up rate. Two main consequences of the poor take-up rate are discussed. First is the scope of donations to nonprofits: if all eligible donations are claimed for a benefit and if all money received via the credit is donated to nonprofits (resulting in neutral effectiveness), donors in Israel could increase their donations to nonprofits by 13 % without spending an additional private cent. Second, since almost 70 % of unclaimed tax benefits apply to individual

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donations below NIS 20,000 (about €5,000), this pattern significantly undermines the pluralistic agenda implicit in the tax policy, leaving the privilege of allocating public resources to fewer donors. These outcomes are problematic, especially in times of complex crises, such as the COVID-19 health and financial crisis, during which demand for nonprofit services grew while private resources were scarcer, or the current (since 2023) societal-political crisis in Israel in which the liberal democracy is threatened and thus the pluralistic allocation of public resources to civil society via donations' tax benefit is a powerful tool to exercise pluralism. The comprehensive approach proposed in this paper yields a detailed picture that reflects the actual realization of the tax policy and allows for an informed public dissection.

**Keywords:** tax benefit; donations; public policy; philanthropy; pluralism

# 1 Introduction

Most countries worldwide and almost 90 % of high-income countries offer tax benefits for charitable giving to Public Benefit Organizations (PBOs) (Pickering et al. 2014). Such benefits are delivered in different methods (deduction, credit, or matching) and are usually bounded by various conditions (OECD 2020). The method and the boundaries together make the *tax policy* toward charitable giving.

Scholars studying tax policies toward charitable giving usually focus on the effectiveness of the tax policy, asking whether it increases the giving of donors who might enjoy the tax benefit. However, the question of policy *exhaustion* is overlooked. Thus, we know very little about the spectrum of charitable giving for which a tax benefit is not claimed. In this paper, I focus on that spectrum of donations, estimating and characterizing its two main ranges: the range of donations that are ineligible for a tax benefit due to its bounding conditions and the range of eligible donations for which donors (can but in fact) do not claim a tax benefit. I show that both ranges might be substantial and that analyzing them reveals how donors are affected differently by the tax policy. Therefore, I argue that evaluating any tax policy toward charitable giving should not stop at the question of effectiveness but should look at the total effect of the policy.

The scholarly focus on the effectiveness of tax benefits for charitable giving might derive from that policy's primary purpose – creating an incentive for donors. The tax benefit is regarded (and sometimes referred to) as a "tax incentive",[1] since

1 This expression is common among scholars in the field of economics. However, in Hebrew, this tax policy is referred to as "tax benefit" only in the wording of the tax ordinance and in the common language. Thus, in this paper, I will stick to the term "tax benefit."

governments waive tax revenues to incentivize donors to increase their charitable giving to PBOs. Some scholars argue that the tax benefit as an indirect governmental support of public-benefit goals is more efficient than direct funding of PBOs due to its lower cost (Margalioth 2017). Others emphasize the pluralistic advantage that this kind of indirect support brings by enabling a large public to allocate public resources (Solnik 2019). However, the leading argument in favor of the tax benefit is its potential to expand total resources available to public causes, thereby amplifying social utility.

Indeed, the most researched aspect of tax benefits for charitable giving is the question of "effectiveness". That is, estimating whether the tax benefit incentivizes private donors to increase their giving to an extent that exceeds the public cost of the benefit (the government's waiver of tax revenues). There is ample empirical research on the question of effectiveness, beginning with early works (e.g., Clotfelter 1985; Randolph 1995; Steinberg 1990); followed by later works, some complicate the analysis by differentiating between various target fields (Bradley et al. 2005; Brooks 2007), while others provide a meta-analysis of past research (Peloza and Steel 2005); to contemporary works, for example, the collection of chapters on tax effectiveness in the recent handbook edited by Peter and Lideikyte Huber (2021).

However, while effectiveness relates to the potential impact of a tax benefit on increasing total donations, it is limited to benefit-eligible and in-fact-claimed donations only. Therefore, the effectiveness measurement yields only partial information about the total effect of the tax policy. Take, for example, a hypothetical situation where a tax policy is highly effective in giving donors a solid incentive to increase their donations. Nevertheless, donors who claim the benefit give only 30 % of the total donations. Thus, an ostensibly effective policy actually would have a very narrow effect.

Alongside the ample research on effectiveness, there are some accounts of the percentage of taxpayers who claim the tax benefit (e.g., Huber et al. 2021). At face value, this approach answers the quest for measuring the exhaustion of the benefit. However, a simple measure of the percentage of actual benefit claimers is unsatisfactory in this case. The question of exhaustion usually arises regarding social benefits that aim to enhance distributive justice by improving recipients' conditions. Thus, to know whether a policy is meeting its goals, one aspires to a high percentage of beneficiaries who exercise their rights (For a review, see Currie 2004). The case of a tax benefit for charitable giving is different because it aims to improve the conditions of a third party – PBOs' beneficiaries. Although it is donors who can claim the tax benefit, they are not the ultimate target population. The policy seeks not to improve donors' conditions but to induce them to donate more to PBOs as the providers of social services for various beneficiaries. Thus, the realization of the purpose of the benefit – increasing total donations to PBOs – is contingent on the share of donations for which the benefit is received. Therefore, a more suitable indication of the exhaustion of tax benefits for

charitable giving is the *extent of donations* for which the benefit is claimed (better than the *percentage of donors* who claim a benefit). Furthermore, to get a complete picture of the exhaustion of the tax benefits, we should study the benefit-claimed donations against the spectrum of donations for which the benefit is not claimed.

Thus, I suggest a more comprehensive two-stage approach to explore the tax policy's total effect. In the first stage, mapping and characterizing donations in light of the policy: a) *ineligible donations*: donations that are ineligible for tax benefits due to the policy bounding conditions; b) *benefit non-take-up*: eligible donations for which donors do not claim the tax benefit; and c) *benefit take-up*: donations that are reported to the tax authority in order to claim the benefit ("reporting" is tantamount to claiming the tax benefit); This draws a spectrum with three ranges that sums up to total donations. Only then can we advance to the second stage: exploring the effectiveness of the policy and estimating the increase in donations due to the tax benefit against its public cost. Of course, these two stages do not add up to one single number. Furthermore, they are not always independent. For example, donors may not take up the benefit due to a weak incentive. Nevertheless, a comprehensive approach such as this may reveal the total effect of a given policy. In this paper, taking 2018 in Israel as a test case, I apply the first stage in detail and provide a partial analysis of the second stage. Since the primary purpose of this paper is to spotlight the overlooked aspects of tax policies for charitable giving, I designate most of the paper to the question of exhaustion, narrowing the exploration of effectiveness. This is not to say that studying effectiveness is not essential; it is just not enough.

In what follows, I describe the tax policies available, elaborate on the methods used in this study, provide descriptive statistics on the data in Israel and gather some comparative data, present the results of this study, and conclude by discussing the findings and offering some insights on their basis.

## 1.1 Tax Benefit for Charitable Giving

Tax benefits for charitable giving are offered through various methods. According to a recent review by the OECD (OECD 2020), 22 of 40 OECD member and participating countries offer a tax *deduction* for individuals' donations (e.g., the U.S., Germany, and Japan). The deduction is given by subtracting the sum donated from the personal income-tax base before the tax liability is computed. Consequently, the benefit is regressive in countries that apply a progressive personal income tax because the "price" of giving is lower as one is wealthier. 12 countries offer a tax *credit* (e.g., Canada, Sweden, and France) – an amount subtracted from the tax liability (assuming the credit sum is smaller than the liability). This sum is usually a fixed percentage of the donation amount and is equal among all donors. Four countries offer a *matching* method in

which the recipient organization can get a fixed share of the donation from the government. In some cases (e.g., the UK and Singapore), high-rate taxpayers can claim a complementary deduction. The tax-deduction method is even more common among the surveyed countries for corporate donations than individual donations.

Every country other than Singapore limits the benefit. The boundaries differ: most countries limit the benefit to donations to qualified nonprofits only; some countries apply a fixed ceiling of benefit or donation or a maximum share of taxable income or tax liability; some apply a fixed floor of donation to claim the benefit; and some countries apply a combination of boundaries. Donations that fail to meet the benefit conditions due to its boundaries are "ineligible donations", since they are nor eligible for claiming the benefit.

In Israel, according to Section 46(a) of the Income Tax Ordinance, an individual donor may claim a tax credit of 35 % of a donation to a "public institution" (a qualified nonprofit). The credit is given for yearly donations above a floor of NIS 207, below a ceiling of NIS 10.4 million (about €50 and €2.5 M, respectively), and up to 30 % of taxable income. A corporate donation may be credited at the company tax rate (23 %) (all limits as of 2024).

# 2 Methods

## 2.1 Source of Data

This study is based mainly on administrative data, some aggregate and some raw, some accessible to the public but most inaccessible and explicitly received for this study. Complementary data were harvested from surveys and published reports alongside published peer-reviewed papers. A detailed account of the data sources and use follows.

**Data from the Israeli Tax Authority (ITA) on claimed tax benefits.** Administrative data at the level of all individual and corporate donations that donors reported to claim the tax benefit for charitable giving. The data includes donations from 1999 to 2018. The variables used were the type of donor, amount of yearly donations, amount of tax credit, and taxable income (only partially). These data were analyzed in the Israel Central Bureau of Statistics (CBS) "research room" after being anonymized by CBS staff.

**Data from the Israeli Corporations Authority (ICA) on large donations**. Since 2018, nonprofits in Israel must fill in an annual online report to the ICA on several aspects of their activity. The reportage includes details on donations above NIS 100 K they received from a single entity during the year, the amount of the donation, and its source (individual, corporate, nonprofit, charitable trust, etc., from

Israel or RoW [Rest of the World]). In addition, I used information on qualified nonprofits for the tax benefits for charitable giving (PBOs) originating in the ITA. All these data were used to compile the *Yearbook of Nonprofits 2018*, and the ICA granted permission to use them for this study.

**Philanthropy of Israelis Survey 2012–2015**. This survey, conducted and published by CBS in cooperation with the "Committed to Give" initiative and the Institute for Law and Philanthropy at Tel Aviv University, yields a reliable estimate of the extent of philanthropy of Israelis by sources and ranges of donations. Nonprofits in Israel were surveyed using a paper questionnaire. They were asked to map their annual income from donations of Israelis by source (households, companies, and bequests) and range of donations. The survey included a statistically representative sample of 408 nonprofits in all fields of activity, representing all nonprofits in Israel that had income exceeding NIS 500 K (about 6,000 nonprofits) (CBS 2017).

**Donations to Israeli nonprofits: a comparative study**. This study provides data on total private donations to Israeli nonprofits from Israel and RoW in 2018. It incorporates sundry administrative data and complementary formal data to yield a reliable, comprehensive sum of donations to nonprofits in Israel subtracted from double counting (Hazan 2021).

**U.S. and Canadian tax-authority data.** The U.S. Internal Revenue Service and the Canadian Revenue Agency publish detailed administrative aggregate national-level data on donations.

## 2.2 Procedure

The year of the test case is 2018. At the time of my research (mid-2021), this was the latest year for which reliable data on total donations in Israel were available. Furthermore, administrative data on reported donations to the ITA for the tax benefit are almost complete about three years after the donation year (although the tax benefit can be claimed six years after the donation is made).

The estimate for **total private donations** to nonprofits in 2018 was taken from the comparative research based on a broad and robust infrastructure of data sources (Hazan 2021). The point of departure is NIS seven billion in total donations.

The **distribution of donations by source** is based on the Philanthropy of Israelis Survey. Individual donations account for 72.2 %, and corporate donations account for 27.8 % of total private donations.[2] CBS's Unpublished data (in the yearly nonprofits survey) support this division.

2 Private foundations in Israel are not a primary source of private donations' statistics. Foundations operating in Israel are registered as Israeli nonprofits, out of Israel, or not associated. They do not

The **distribution of donations into ranges** is based on several sources. The primary division into five ranges is based on the Philanthropy of Israelis Survey, in which respondents specified the sum of donations they received from each source by each range (up to NIS 2,000; NIS 2 K–20 K; NIS 20 K–100 K; NIS 100 K–500 K; above NIS 500 K). However, this division is not sufficiently detailed for the current study, in which I aspired to consider the credit floor and ceiling levels. Thus, to further divide the small donations, I used a complete record of online donations in 2018 from JGive, one of the largest crowd-funding platforms in Israel, through which small donations are donated to nonprofits. Small donations (up to NIS 2,000, about €500) were divided into two ranges according to the credit floor as of 2018 (below and above floor: up to NIS 180 and NIS 180–2,000). To further divide the large donations (above NIS 100 K, about €25,000), I used the administrative data of the ICA, to which nonprofits report every donation above NIS 100 K that they receive, disclosing the donors' identity. Although the donors were anonymized in the data I received, the ICA could verify the authenticity of the information on the donor's identity (primarily for donations from an Israeli source) and created a variable indicating the type of donation source (individual, corporate, nonprofit, from Israel or RoW). Based on the distribution of large donations from Israeli sources as recorded in these administrative data, I divided large donations into five ranges (NIS 100 K–500 K,[3] NIS 0.5M–1M, NIS 1M–5M, NIS 5M–9.2 M; and above NIS 9.2 M – with is the credit ceiling in 2018).

Throughout the analysis, I distributed the data by two sources and nine ranges (18 cells). To simplify the presentation below, I parsed the data by only six ranges (12 cells).

Estimating **the share of donations given to qualified nonprofits**. According to the *Yearbook of Nonprofits 2018*, 84 % of total private donations in Israel were given to qualified nonprofits. Using the ICA raw data on large donations, I computed the share of donations to qualified nonprofits separately in each cell (indicating source and range) among the ranges of large donations (the differential shares were 84 %–100 %, except 34 % for individual donations above the ceiling). The share of donations to qualified nonprofits in the smaller ranges (less than NIS 100 K) was a plug number for the known overall share of donations to qualified nonprofits – 84 % (the merged share in the smaller ranges was 83 %).

receive a tax benefit for charitable giving. Accordingly, when a foundation grants nonprofit financial support, its donation is included in donations from RoW, donations from individuals/companies, or double counted. Endowments are pretty rare.

**3** Therefore, I used the ICA data for this range as well.

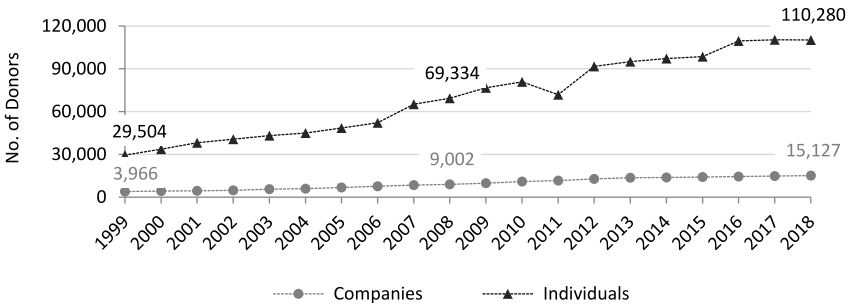


**Figure 1:** Number of donors who claimed a tax benefit for donations by source and year.

# 3 Results

## 3.1 Descriptive Statistics on Reported Donations and Comparative Data

Below is administrative data for Israel on the number of donors who claimed a tax benefit for their donations (Figure 1) and the sum of donations reported (Figure 2) from 1999 to 2018.

Although eight times as many individuals as companies reported donations, the sum of donations reported by individuals is almost equal to that of corporate donations in most years. In the test-case year 2018, 15,127 companies reported NIS 1. Two billion in donations, and 110,280 individuals reported NIS 1.3 billion.

The sum of reported donations increased almost 10 times over (at constant prices) between 1999 and 2018, whereas the number of donors (individuals and

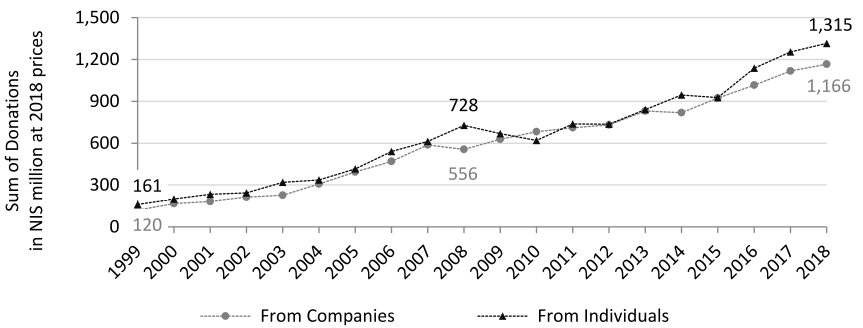


**Figure 2:** The sum of donations reported for claiming a tax benefit by source and year.

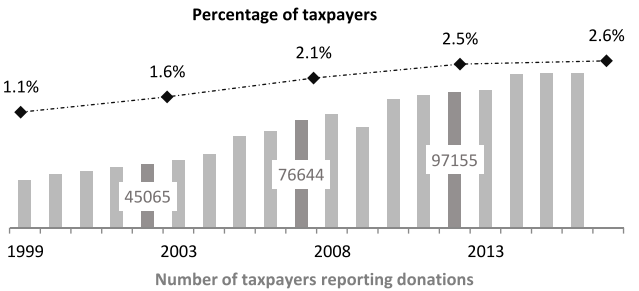


**Figure 3:** Number of individual donors who claimed a tax benefit for donations and their share among taxpayers by year.

companies) quadrupled. The increase in the sum of donations derives mainly from an increase in the number of donors in the upper cohorts (from 20 donors in 1999 to 530 donors in 2018, giving above NIS 500 K each), which is parallel to a growing cohort of very wealthy people in Israel (Swirski, Konor-Atias, and Lieberman 2020). The increase in individual donors (four times larger in 2018 than in 1999) reflects population growth, manifested in an increase from 2.6 million taxpayers in 1999 to 4.3 million in 2018. However, it also reflects a significant increase in the proportion of taxpayers who claimed the tax benefit for donations, from 1.1 % in 1999 to 2.6 % in 2018 (Figure 3, based on state revenue reports).

The proportion of taxpayers who reported donations in Israel is small compared to other countries (Table 1). However, this kind of statistic is limited because, despite

**Table 1:** Share of donors and taxpayers who claimed a tax benefit by country.

| Country | Year | Proportion of taxpayers claiming tax benefit | Proportion of donors claiming tax benefit | Source of data on taxpayers | Source of data on donors |
|---|---|---|---|---|---|
| Israel | 2018 | 2.60 % | 8 % | ITA | CBS |
| The U.S. | 2018 | 9.60 % | 20 % | IRS | Osili et al. (2021) |
| Canada | 2017 | 28.50 % | – | CRA; Lasby and Barr 2018 | |
| United Kingdom | 2016 | 11.00 % | – | Almunia et al. 2020 | |
| Switzerland, Geneva | 2011 | 19.30 % | 27 % | Huber et al. 2021 | Freitag et al. 2016, in Huber et al. 2021; |
| Germany | 2009 | – | 61 % | | Sommerfeld, 2009, in: Adena 2021 |

being highly accurate (derived from administrative data), it tells us very little about the extent of tax benefit exhaustion. Instead of reviewing the percentage of *taxpayers* who report donations, a more interesting question would be: what is the percentage of *donors* who claim the tax benefit? This data can be estimated very roughly from complementary data such as surveys. Although these estimations are not statistically reliable, they convey a sense of the magnitude of exhaustion in terms of donors. Again, Israel's score is low (Table 1).

Even if the numbers were more accurate, we still would not know the extent of benefit exhaustion in total donations. This variable may yield a better way to assess the effect of the tax policy. To fill this lacuna, I move to the core analysis of this study.

## 3.2 Mapping the Policy toward Charitable Giving in Israel

The point of departure is the total sum of domestic donations to nonprofits in Israel by individuals and companies in 2018: NIS seven billion (to be exact, NIS 6,985 million) – NIS five billion from individuals (72 %) and almost NIS two billion from companies.

Total donations comprised NIS 5.4 billion in donations that were eligible for the tax credit, plus NIS 1.6 billion in donations that were ineligible for the tax credit (Table 2). Ineligible donations comprise NIS 593 million below the credit floor (NIS 180) and

**Table 2:** Total donations, eligible and ineligible donations, NIS million, by source and range.

| Range | All donations | | Ineligible donations | | Eligible donations | |
|---|---|---|---|---|---|---|
| | Individual | Corporate | Individual | Corporate | Individual | Corporate |
| Calculation | Total | | = Donations to Unqualified nonprofits and below-floor donations + | | Plug number | |
| **Total** | **6,985** | | **1,612** | | **5.373** | |
| **Total by source** | **5,045** | **1,940** | **1,429** | **183** | **3,616** | **1,757** |
| Up to NIS 180 | 593 | – | 593 | – | – | – |
| NIS 180–2.000 | 1,688 | 55 | 282 | 9 | 1,406 | 46 |
| NIS 2 K–20 K | 1,190 | 166 | 199 | 28 | 991 | 138 |
| NIS 20 K–100 K | 397 | 295 | 67 | 49 | 330 | 246 |
| NIS 100 K – NIS 1 M | 514 | 576 | 69 | 40 | 445 | 536 |
| Above NIS 1 M | 663 | 847 | 219 | 56 | 444 | 791 |

All donations: estimate of the sum total donations from individuals and companies to nonprofits in Israel in 2018. Ineligible donations: donations that do not meet the conditions of the tax benefit and thus are ineligible for claiming a tax credit. Eligible donations: donations that meet the conditions of the tax benefit and thus are eligible for claiming a tax credit.

NIS one billion in donations to unqualified nonprofits. Quite understandably, all the below-floor donations came from individuals. Interestingly, most donations to unqualified nonprofits also originated from individuals (only NIS 183 million out of NIS one billion was given by companies). It would seem that donations above the credit ceiling should also have been included among the ineligible donations. However, since donors report them when claiming a tax benefit (although they would receive only partial credit), they are included in the eligible donations. In 2018, donations above the credit ceiling were estimated at NIS 150 million (2 % of total donations).

Out of the NIS 5.4 billion in eligible donations, donors claimed a tax benefit for NIS 2.5 billion in donations, for an overall take-up rate of 46 % of eligible donations. Corporate donors reported 66 % of their total donations, and individual donors reported 36 % (Table 3). Apart from the difference between corporate and individual donors, it is salient that the take-up percentages are significantly higher for large donations than for small ones. Thus, while less than 10 % of eligible donations in sums smaller than NIS 2,000 are reported (claiming a tax benefit), most donations above NIS one million are reported (96 % of corporate donations and 83 % of individual donations).

**Table 3:** Reported and unreported donations, NIS million, by source and range.

| | **Percent of reported donations out of eligible donations** | | **Reported donations (benefit take-up)** | | **Unreported eligible donations (benefit non-take-up)** | |
|---|---|---|---|---|---|---|
| Calculation | Reported donations (Table 3, middle column)/Eligible donations (Table 2, right column) | | According to administrative data | | Plug number = Eligible donations (Table 2, right column) - Reported donations (Table 3, middle column) | |
| **Total** | **46 %** | | **2,481** | | **2,892** | |
| | Individual | Corporate | Individual | Corporate | Individual | Corporate |
| **Total by source** | **36 %** | **66 %** | **1,315** | **1,166** | **2,301** | **591** |
| **By range:** | | | | | | |
| Up to NIS 180 – ineligible | – | – | – | – | – | – |
| NIS 180–2.000 | 3 % | 9 % | 45 | 4 | 1,361 | 42 |
| NIS 2 K–20 K | 29 % | 36 % | 290 | 49 | 701 | 89 |
| NIS 20 K–100 K | 95 % | 49 % | 313 | 120 | 17 | 126 |
| NIS 100 K – NIS 1 M | 54 % | 63 % | 242 | 336 | 203 | 200 |
| Above NIS 1 M | 95 % | 83 % | 424 | 658 | 20 | 133 |

Percent of reported donations out of eligible donations: the share of eligible donations that were reported to ITA in order to claim tax credit. Reported donations: the sum of donations that were reported to ITA in order to claim tax credit. Unreported donations: the sum of donations that are eligible for tax credit, yet were reported to ITA in order to claim tax credit.

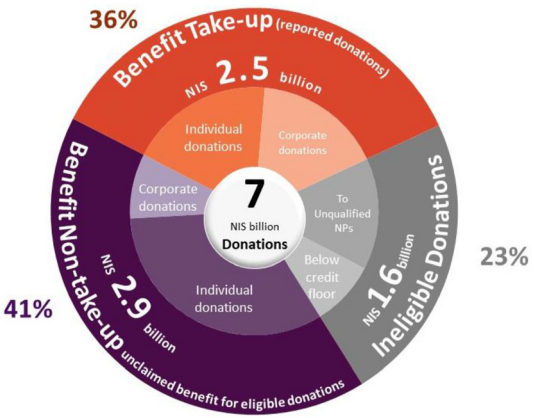


**Figure 4:** The map of realized tax policy toward charitable giving in Israel.

Unreported donations added up to NIS 2.9 billion, meaning that the tax benefit was not taken up for 54 % of eligible donations. Looking at the absolute numbers, one's attention is immediately drawn to individual donations below NIS 20 K: the tax benefit was not claimed for NIS two billion in donations within this range (NIS 1.36 billion in donations below NIS 2,000 and NIS 0.7 billion in donations within the NIS 2 K–20 K range – together, more than 70 % of unreported donations) (Table 3).

Figure 4 summarizes the data and maps the actual outcomes of the tax policy toward charitable giving in Israel 2018. The map departures from NIS seven billion in total private donations from individuals and companies. 23 % of this total donation is ineligible due to the policy boundaries (Figure 4, the grey circular sectors). The rest is eligible for the tax benefit. The scope of eligible donations reflects the actual *potential* of the tax benefit – 77 % of donations. The most considerable portion of donations – 41 % of total donations – are eligible donations that donors do not report to the ITA, resulting in zero benefit take-up. Most of these donations come from individuals (Figure 4, the purple circular sectors). This leaves us with 36 % of total donations reported by donors who claimed the benefit and received partial or full tax credit (Figure 4, the orange circular sectors).

The scope of take-up reflects the scope of *influence* of the tax benefit. "Scope of influence" denotes the extent of the potential effect of the benefit since only donors who claim the benefit may (or may not) increase their donation sums *due* to the benefit. Drawing the scope of influence allows us to move to the next stage, estimating the "effectiveness" of the tax benefit. The benefit is "effective" only if it

increases total donations by an amount that exceeds its cost to the public. Thus, effectiveness is bounded by the extent of claimed donations.[4]

## 3.3 Partial Analysis of the Effectiveness of the Tax Credit in Israel

Evaluating the effectiveness of the tax policy using the common method of exploring price elasticities is primarily suitable for countries that apply the deduction method. In countries that apply the credit method, measuring effectiveness by price elasticity is possible either when the percent of the credit is revised, triggering changes over time in the "price" of donating (i.e. Fack and Landais 2010; Huber and Pittavino 2022); or in cases of differentiation in credit percentage between organizations/causes that allow for differences between donors (i.e. Duquette et al. 2018; Svalling 2022; Teles 2016). In Israel, the credit policy has been the same for all donors to all causes since 1985 – about 40 years ago. Since 1985, changes have been applied only to the credit floor and ceiling levels. Thus, evaluating the effectiveness of Israel's tax policy requires measures other than price elasticity. While this endeavor is beyond the scope of the current paper, it is worth presenting here the aggregate data that roughly indicate to what extent the policy changes were effective.

In principle, effectiveness relates not only to the effect of the tax policy on donations' increase. It is about increasing donations above and beyond the benefits' cost (the waiver of tax revenues). Otherwise, the state would not be *encouraging* private donations but *funding* them from public resources. Therefore, I explore the "net utility" of the tax policy, that is, total donations less the given tax credit, hereinafter: "net sum of donations" (for a similar practice, see Rooney et al. 2020).

Looking separately at the floor and ceiling changes, it is evident that the floor level changes influenced the number of individual donors (Figure 5). In 2011, the floor was raised to NIS 410; in 2012, it dropped significantly to NIS 180–190. The respective net sum of donations in the relevant range (below NIS 500) dropped in 2011, increased in 2012, and was relatively steady thereafter (at constant prices). Furthermore, the numbers of donors followed the same patterns, indicating that the count of individual donors, and not their average donation, changed. However, no similar changes are evident in the "next" range, NIS 500–1,000, indicating that the floor level induced

**4** One may differentiate between intensive and extensive elasticity, representing effectiveness in terms of the influence of the tax incentive on regular/repeat donors (intensive elasticity) versus new donors (extensive elasticity) (Almunia et al. 2020). The take-up scope relates only to intensive effectiveness, whereas extensive effectiveness may either move donors from the unclaimed donation range to the take-up range or bring in brand-new donors and allow the total donation pie to grow.

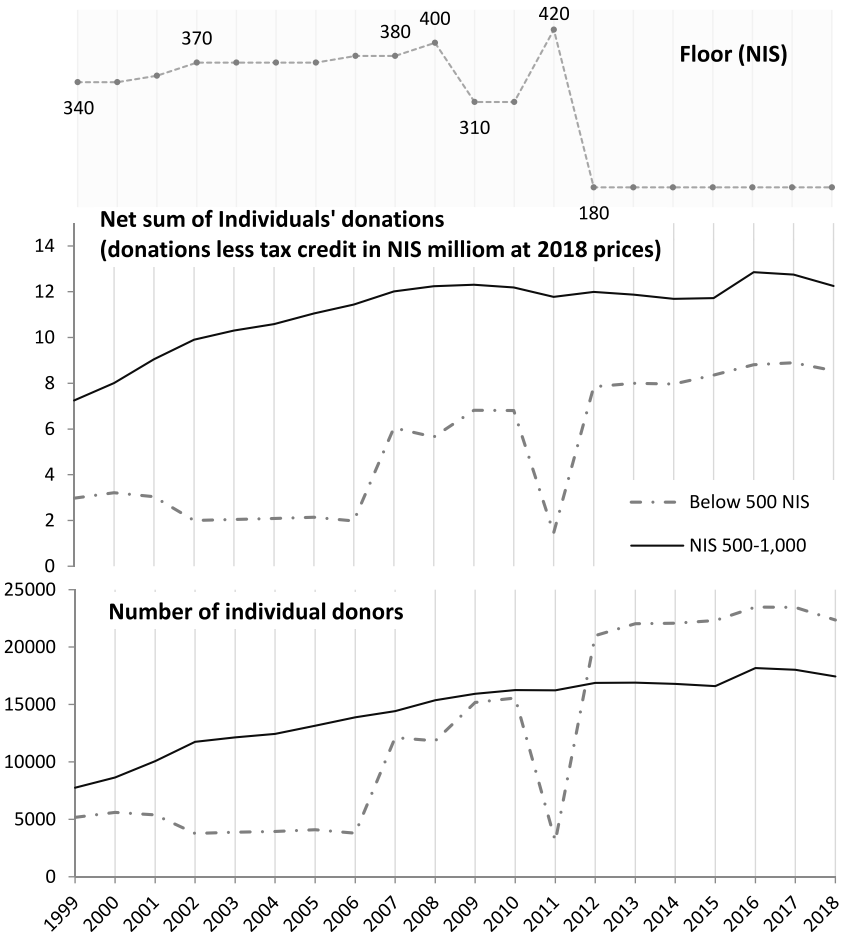


**Figure 5:** Scope of individuals' small donations in respect of the changes in credit floor.

changes in donors' behavior. Nonetheless, whether the changes reflect the increase in donating, reporting on donations, or both is unknown.

The changes in the credit ceiling, however, seem somewhat less effective. The ceiling was raised significantly four times (in 2000, 2007, 2009, and 2012). The net sum of the largest individual donations (above NIS one million), to which the credit ceiling may be relevant, has grown over the years. However, the patterns of increase do not appear to match the changes in the ceiling (Figure 6). For example, the ceiling was almost twice as high in 2009–2010 as before, yet the net sum of the largest donations dropped. Furthermore, unlike donors who made small donations, the number of

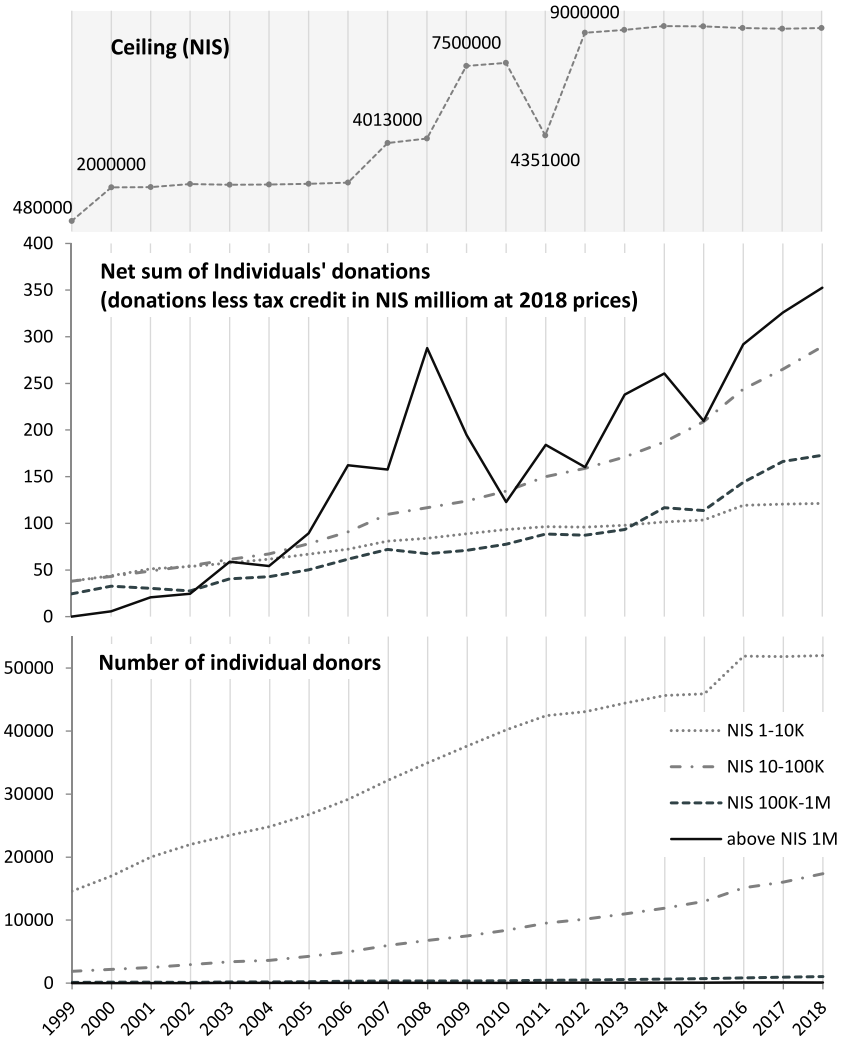


**Figure 6:** Scope of individuals' medium and large donations in respect of the changes in credit ceiling.

large-scale donors showed no particular increase after the ceiling was raised – especially compared to the number of medium donors (see the slopes).

The net sum of the largest corporate donations (above NIS one million) also increased over the years (Figure 7). Although the upturn does not perfectly track the ceiling raises, it still follows the trend. It is worth noting that the tax-credit rate for companies has fallen over the years (along with the company tax rate), thus

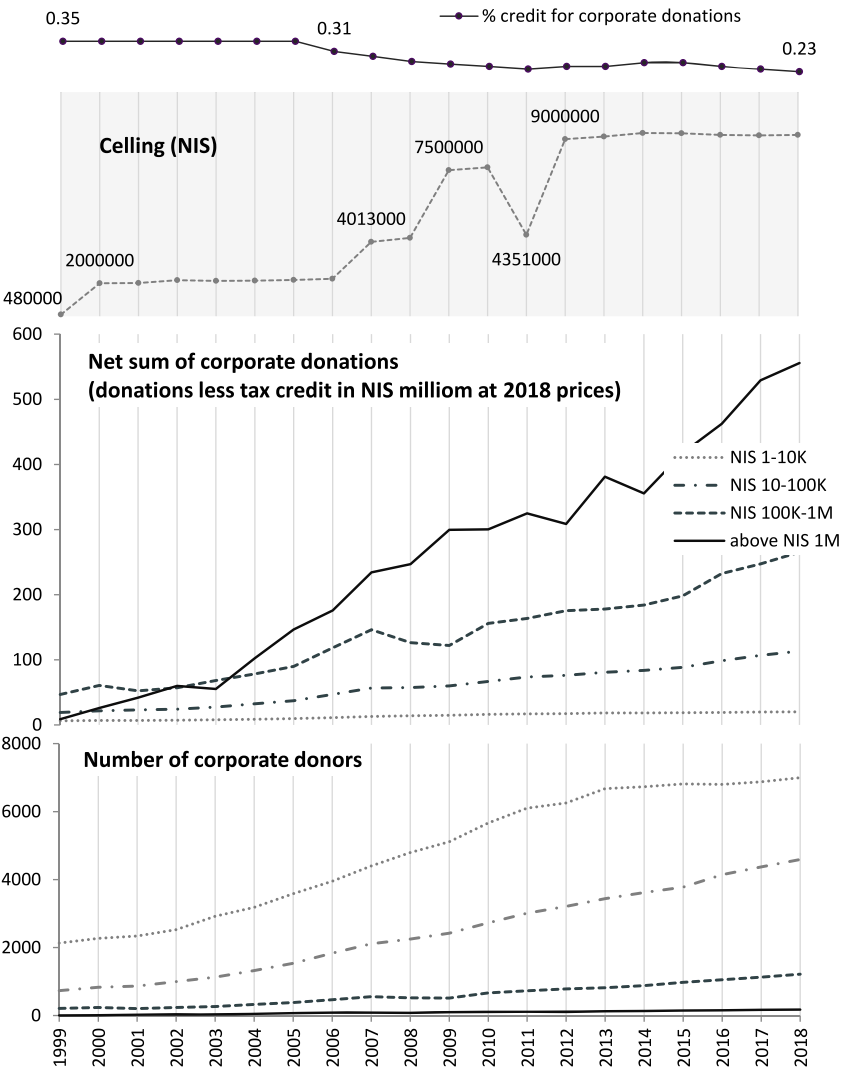


**Figure 7:** Scope of corporate medium and large donations in respect of the changes in credit ceiling.

increasing the "price" of donating but allowing greater net profit from which to donate.

All in all, other factors seem to play a much more critical role than the credit ceiling. For example, the process of wealth accumulation in Israel, establishing a culture of high net-worth giving, and the state of the economy (such as the 2008

**Table 4:** Received tax credit and estimated unclaimed credit, NIS million, by source and range.

| | **Effective credit rate** | | **Received credit** | | **Estimated unclaimed credit** | |
|---|---|---|---|---|---|---|
| *Calculation* | Received credit (Table 4, middle column)/Reported donations (Table 3, middle column) | | According to administrative data | | Effective credit rate (Table 4, left column) * Unreported eligible donations (Table 3, right column) | |
| **Total** | | | **577** | | **907** | |
| | Individual | Corporate | Individual | Corporate | Individual | Corporate |
| **Total by source** | **28 %** | **18 %** | **366** | **211** | **787** | **120** |
| **By range:** | | | | | | |
| Up to NIS 180 – ineligible | – | – | – | – | – | – |
| NIS 180–2.000 | 35 % | 22 % | 16 | 1 | 475 | 9 |
| NIS 2 K–20 K | 35 % | 23 % | 101 | 11 | 244 | 20 |
| NIS 20 K–100 K | 34 % | 22 % | 107 | 26 | 6 | 28 |
| NIS 100 K – NIS 1 M | 29 % | 21 % | 69 | 70 | 58 | 42 |
| Above NIS 1 M | 17 % | 16 % | 72 | 102 | 3 | 21 |

Effective credit rate: the percentage of total credit given to donors out of the total donations reported. Received credit: The tax credit received by donors for the donations they reported to ITA in order to claim tax credit.\ Estimated unclaimed credit: estimate of the credit that would have been given for unreported donations had donors claimed them.

financial crisis and its imprints in subsequent years). These findings are fascinating, given the common perception among philanthropists in Israel that the credit ceiling is a substantial barrier to high net-worth giving.

## 3.4 Estimating the Tax-Benefit Cost under Hypothetical Full Take-Up Conditions

The analysis above presents the tax policy in terms of donations. However, assessing the policy in terms of governmental cost is also of interest. I begin by presenting administrative data on the tax credit "given" (credit *given* is tax revenues actually waived and thus the governmental cost). In 2018, the waiver of tax revenue amounted to NIS 577 million: NIS 366 million in credits to individual donors and NIS 211 million to corporate donors (Table 4).

Based on the actual tax credits given, I calculated the average percentage of the credit by source and range. Although the credit rate is constant for all donors (35 % for individuals and 23 % for companies), the credit may be lower due to the ceiling boundaries. First and foremost, the income ceiling is relevant to all ranges of donations, limiting the maximum sum of accreditable donations to 30 % of yearly income. Thus, the income ceiling creates a subjective effective credit rate for every

donor. Second, the credit for large donations is bounded by the credit ceiling (NIS 9.211 million in 2018). Due to the ceiling boundaries, the average effective rates were 28 % for individual donors (against a maximum of 35 %) and 18 % for corporate donors (against a maximum of 23 %). As expected, the lowest average credit rate attested in the uppermost range of donations, including donations that exceed the credit ceilings (17 % for individual donations and 16 % for corporate donations).

Imputing the average percentage of tax credit to the unreported yet eligible donations by source and range, we can estimate the unclaimed credit that would have been given for unreported donations had donors claimed them. Overall, donors could potentially receive additional credit amounting to NIS 907 million. 87 % of "saved" or "lost" credit was due to individual donations, primarily for donations below NIS 20 K (80 % of unclaimed credit) (Table 4).

# 4 Discussion

The current research aimed to analyze the policy embedded in the implemented tax benefit for charitable giving. Based on administrative data and complementary surveys and taking 2018 in Israel as a test case, the findings show that donors claim a tax benefit for 36 % of their total donations, that 23 % of total donations are not benefit-eligible due to boundaries: ceilings, floor, and qualified nonprofits (ineligible donations), and that 41 % percent of total donations are eligible but no tax benefit is claimed for them (benefit non-take-up).

This research demonstrates why studying the effectiveness of the tax policy is not enough. Indeed, the common understanding of effectiveness as the increase in donations to PBOs less the governmental cost of the benefit (practically estimated by price elasticity) is needed in order to determine whether a particular benefit is better or worse than another and whether a given policy change elevates the public good as a whole. This, however, is not enough if we wish to assess the total effect of the policy as implemented. To that end, we better adopt a comprehensive approach that begins with a preliminary analysis stage to estimate the policy's exhaustion. Specifically, this stage includes calculating and analyzing the characteristics of the scope of ineligibility, the scope of non-take-up, and the scope of influence of the policy.

*The scope of influence* of the policy is simply the share of reported donations from total donations, in this case, 36 %. The benefit is expected to influence primarily those who claim it and thus is *relevant* as an incentive to their donations. This research reveals that in Israel, although individuals donate 72 % of total donations, they claim a benefit for only 26 % of their donations. In contrast, companies that donate 28 % of total donations claim a benefit of 60 % of their donations. Before going into the

reasons, be it due to benefit boundaries or donors' non-take-up, one must be aware that corporate donors exploit the tax benefit more than individuals do. It seems, however, that the public debate on the tax treatment of giving refers mainly to giving by individuals. Analyzing the scope and patterns of influence is thus valuable in assessing the limits of the potential influence of the benefit and checking whether the policy hits the intended targets.

The scope of influence is the perimeter for the next stage of examining effectiveness. Since effectiveness needs no further discussion, I move to elaborate on the rest of the preliminary stage. After subtracting the reported donations, we are left with "the rest" of donations that were not reported (64 % of total donations in this case) due to ineligibility or non-take-up.

Estimating the *scope of ineligibility* means evaluating the extent of donations that fail to qualify for the benefit due to the boundaries of the benefit. In such an inquiry, the policy may be found too harsh or too inclusive, thus missing its goals. The variety of policies reviewed by the OECD (2020) makes it clear that the various tax policies in different countries are as concerned with the boundaries of the benefit as with the benefit method. No two countries apply the exact boundaries. The boundaries of the benefit appear to be an essential tool for countries to navigate policy according to their values and preferences. However, only actual data can produce a reflection "from the ground" that would be a basis for reviewing whether the policy, in terms of its boundaries, actually meets its goals. For instance, Israel applies a credit floor. This study's findings show that donations below the floor come from numerous individual donors and add up to a significant amount. Although floors may increase efficiency in terms of governmental cost since they prevent subsidizing donations that people would probably donate anyway (Steinberg 2021), the legislator should reconsider whether it is fair to exclude a significant portion of donors from the benefits policy and deny them the benefit.

Moving on to *benefit non-take-up*: the scope of eligible yet unclaimed donations. This figure is relatively easy to extract, having data on claimed donations and once estimating the ineligible donations. It is essential to consider the extent of unclaimed donations compared to claimed donations. Since (in our case) the former is greater, one must wonder why donors would waive their right to a benefit and, especially, what role the government plays in this waiver.

To answer these questions, we need to analyze the unclaimed benefit, for example, by source and size of donations. Such an analysis is more complicated and requires data that are rarely available. However, such an analysis may reveal a "density map," the characteristics of donations for which most donors waive the benefit. For example, based on this study, we know that in Israel, almost 50 % of unclaimed benefits pertain to individuals' donations below NIS 2,000. Based on this knowledge, we can better tackle the puzzle of non-take-up. Within this range of

donations, the expediency of claiming the benefit is modest in terms of the amount of money saved. Furthermore, the modest benefit stands against the considerable bureaucratic hassle involved and is perceived as a barrier to claiming the benefit (State Comptroller 2021). Thus, the cost-effectiveness ratio of claiming the benefit is relatively high. The cost-effectiveness ratio was the main factor in explaining the non-take-up of social benefits, compared with the minor role of lack of knowledge and stigma (Currie 2004). Thus, although the findings (re the multitude of unclaimed benefits for small donations) support the common assumption, being based on actual data, they matter: By drawing attention to a specific cohort of donors, findings suggest focusing the efforts invested in making benefit take-up more accessible for small donors. Such efforts are occasionally proposed even by the ITA's professionals but are not quickly adopted by the tax authority system or approved by the parliament. Generally, the private sector is faster and more efficient in finding solutions to poor benefit take-up (Currie 2004). Indeed, in Israel, there have been several initiatives lately of fundraising digital platforms to simplify and facilitate the reporting process (and claiming the benefit) for individual donors. Findings also join earlier studies (Saeri et al. 2023) in encouraging nonprofits, as the recipients of the donations, to leverage their fundraising efforts by removing the obstacles to tax-benefit take-up. The current study validates a substantial "market" of unclaimed benefits and points to a specific cluster of donors to target.

This study shows that in Israel, the most acute weakness of the policy is its low take-up rate. Thus, the consequences and implications of a broad/poor take-up of the tax benefit for charitable giving are worth articulating explicitly. The first consequence relates to the scope of donations to the nonprofit sector. According to scholars (e.g., Brooks 2007) and policymakers,[5] the goal of the benefit is to increase private donations to civil society. However, even if the benefit offered is extraordinary in terms of its effectiveness, it will make a scant impact if its take-up rate is low. Research that maps the extent and patterns of unreported eligible donations yields a reliable estimate of the extent of unclaimed benefit: the total sum of the tax credit/deduction donors would receive if they claimed the benefit for unreported donations. According to the study reported here, if all eligible donations are claimed for a benefit and if all money received via the credit is donated to nonprofits (resulting in neutral effectiveness), donors in Israel could increase their donations to nonprofits by 13 % (about NIS one billion) without withdrawing a single cent from their pockets! This potential increase in donations is significant at all times but can be crucial in times of crisis. For example, during the first year of the COVID-19 pandemic, the total domestic donations to nonprofits in Israel decreased by 2 % (ILP 2023) since

5 For example, a background document prepared by the legal advisor to the Finance Committee dated May, 2021 (in Hebrew).

households and businesses suffered from declining income. The decrease in donations harmed mainly small nonprofits depending solely on donations (ILP 2023). This outcome could have been easily prevented if private donors had claimed the tax benefit for their donations and donated the money to nonprofits. Furthermore, assuming the tax benefit in Israel is effective, the government could encourage the private sector to increase its support for nonprofits by *more* than 13 %. Just for the sake of proportion, in 2018, direct government transfers to nonprofits amounted to NIS 2.8 billion (excluding funding for universities, teaching hours in schools, and paying for outsourced social services). These are all substantial figures that are overlooked in the absence of data on the actualization of the policy.

The second consequence of the extent of take-up derives from the principle on which the tax benefit for charitable giving is based. The benefit manifests a pluralistic value: donors choose nonprofits to support following their ideology preferences and values. By claiming the benefit, the donor makes the state participate in his or her donation because the state waives tax revenue and partially funds the donation. Therefore, the general meaning of the tax benefit for charitable giving is that the state allows donors to allocate public resources in keeping with their preferences, thereby actualizing a pluralistic agenda. In democratic regimes, although the majority determines the composition of parliament and thus the governing policies, giving voice to multiplicity, to voices as plural as the public, is essential. The state's support of a vibrant civil society is established on this notion with the intention to address the "government failure" that causes deficient diversification of governmental services (Hansmann 1987). The tax benefit for charitable giving is an extension of this notion. However, this pluralistic agenda is not realized if most donors do not claim the benefit. The current study reveals that only about 8 % of Israeli donors claim the benefit and that most non-claimers are modest donors who, one assumes, belong to lower-income cohorts. Thus, according to this study, large numbers of individual donors in Israel, mostly in low-and-medium-income cohorts, waive their right to allocate public resources according to their values, thereby weakening the pluralistic support in civil society. Actualizing the pluralistic agenda of the tax benefit is ever more critical in times of societal crises, such as the ongoing crisis in Israel (beginning in 2023), in which many feel trampled by the elected majority. Since civil society represents pluralism and the tax benefit supports and enhances the various voices, higher tax-benefit-take-up would be a powerful tool to exercise societal pluralism in turbulent times when the democratic spirit is threatened. Further research is needed, though, to clarify whether donors perceive the benefit claiming as an act of exercising pluralism.

One limitation of this study concerns the missing underlying mechanisms or motivations. While able to present patterns of non-take-up, I could only assume the reasons for it. Beyond cost-effectiveness considerations, however, there may be a

cultural issue concerning the convention of claiming a tax benefit for charitable giving and the meaning ascribed to this social institution (Lawrence and Suddaby 2006). It may be that religious people who see charity as part of their religious practice (Khan 2012) regard claiming a benefit as sullying the act of giving (even though they could use the benefit money to increase their giving). There are mixed findings about the relationship between religiosity and philanthropy (Bekkers and Wiepking 2007), indicating that research into the more profound beliefs of donors toward philanthropic practices is needed, as well as differentiating among religions. Also needed is future research to fine-tune the profile of the non-take-up donors and explore their perceptions and motivations.

Another limitation of this study is the lack of comparison. An evaluative comparison of the policy (in principle) appears in the Global Philanthropy Index. One of the sub-indexes in this publication is the tax policy toward charitable giving. The world average score on this index is 3.52; Israel's score is 3.50. However, further research is needed to compare policy *realization* on the ground. There is no anchor to evaluate whether a 36 % rate of reported donations in Israel is low, average, or high. Using administrative data and state-wide surveys, I could extract the reported donations as a percentage of total donations in the United States (IRS, Giving USA) and Canada (CRA, Lasby and Barr 2018) – 67 % in both. These, however, are only rough data that tell us nothing about the share of ineligible donations against unclaimed benefits for eligible donations nor about the characteristics of donors who take up the benefit versus those who do not. International studies are needed to generate comparative data.

A third limitation of this study is the lack of systematic data on donations by source and size. This study was based on a unique survey done in 2017; it is not expected to be conducted again. Thus, detailed and up-to-date follow-up research in Israel is impossible for the foreseeable future.

Despite these limitations, this study offers a new and comprehensive approach, enabling us to review the tax policy toward charitable giving as it is implemented. I genuinely hope that researchers will apply this approach in other countries. By going beyond specific cases, we may be able to characterize the effect of the tax benefits for giving and better understand its strengths and weaknesses. The impact of philanthropy on society is much discussed; a body of research proposed here would address the impact of public (tax) policy on philanthropy.

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