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Estimating charitable giving by will bequest for *Giving USA*

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Abstract

In a typical year since 2000, *Giving USA* has estimated that living individuals contributed 75 percent of total charitable gifts and that estates contributed about 7 or 8 percent, with institutional donors donating the balance. The estimating procedure used for estate contributions relies extensively on amounts claimed by estate tax returns as deductions for charitable contributions. *Giving USA* supplements the tax return data with an estimate of giving by estates that fall below the tax filing threshold. As the estate tax filing threshold began increasing and tax rates began decreasing in 2001, a number of authors (Joulfaian 2000; Gale & Bakija; Greene and McClelland) predict declining charitable contributions from bequest gifts. With fewer estates tax returns filed, and the possibility that none will be filed after 2010, the impact of the reduced tax rates must be measured using new methods that do not rely so extensively on tax return data. *Giving USA* has been investigating and continues to investigate alternative methods to estimate charitable bequests that do not rely so heavily on estate tax return data. This paper reports the results of this effort and describes the bequest estimating procedure adopted for use in *Giving USA* beginning with the 2005 edition. This procedure incorporates survey results showing bequest amounts received at higher educational institutions and estimates charitable bequests made by estates below the federal filing threshold. The paper concludes that to track changes resulting from lowered tax rates and higher filing thresholds adequately, alternative data sources will need to be developed.

Background

The more than 66,000 estates filing estate tax returns for 2003 transferred \$194.55 billion in assets to heirs, including \$14.60 billion to charities. The gross estate value of estates filing in 2003 was 1.8 percent of the gross domestic product for that year. The charitable gifts claimed by those estates equated to an estimated 6 percent of all donations made to charities in 2003.

Since 1956, *Giving USA* has been the “yearbook of philanthropy,” estimating private charitable giving in the United States each year. Nonprofit executives, paid and volunteer fundraisers, reporters, and researchers rely on *Giving USA* as a source of data about charitable giving in current and prior years. In general, the charitable giving results reported initially for a given year (usually by June of the following year) are based largely upon carefully created estimates rather than actual data regarding giving levels. In subsequent editions of *Giving USA*, the figures for a given year are adjusted as aggregate tax return data become available. Typically, the estimates are revised twice, unless the IRS revises its own figures further in the future.

Giving USA develops initial estimates in order to have a projection no later than six months after the close of the calendar year. The practice of subsequently revising previously published figures as data become available ensures that an accurate historical record is created. This methodology has been applied consistently during the 50-year history of *Giving USA*. As a result, *Giving USA* presents a useful chronology of charitable giving in the United States.

Over the last few years *Giving USA* has made material adjustments to its estimating procedures for individual giving (Deb) and corporate giving (Brown et al). In a similar manner, researchers at the Center on Philanthropy at Indiana University (which researches and writes *Giving USA* for the *Giving USA* Foundation) undertook in 2004 to evaluate the estimating procedures used over

time to forecast bequest giving. The gradual lifting of federal estate tax filing thresholds since 2001 and potential elimination of the federal estate tax adds urgency to the search for alternative measures of bequest giving. The growth in the amount of charitable bequests during the past 10 years and the potential transfer of at least \$41 trillion in value of estates from 1998 through 2052 further highlights the importance of deriving reliable estimates of charitable bequests (Havens and Schervish, 1999). Each year in the foreseeable future, charitable bequests will be a substantial (billions) component of total giving. As estate tax data becomes more limited or ceases to exist, the ability to measure this component becomes problematic. This paper focuses on *Giving USA*'s efforts to explore and evaluate methods to estimate charitable bequests in light of the potential lack of federal estate tax data in the near future. The paper is organized in two broad sections: the first section reviews patterns and trends in charitable bequests; the second section reviews and evaluates current and potential methods used by GUSA to estimate charitable bequests now and in the future.

This work was aided in part by the counsel of Task Force on Bequest Estimates. Members were: Robert F. Sharpe, Jr. of The Sharpe Group, Reine Shiffman of Shiffman Associates, and Peter Witherell of the American Cancer Society, all of whom are professional gift planners and members of the National Committee on Planned Giving; David Joulfaiian, senior economist with the U.S. Department of the Treasury; Henry (Hank) Goldstein and Leo Arnoult, both representatives from the *Giving USA* Foundation (the publisher of *Giving USA*); Paul Schervish from the Boston College Center on Wealth and Philanthropy; and the authors.

The *Giving USA* estimate for gifts made via estates *is not* a total of “planned gifts.” The bequest total *does not* include contributions made by living individuals to planned gifts such as charitable trusts or pooled income funds, or in exchange for gift annuities. These contributions are claimed (at a discounted present value, per IRS regulations) as charitable deductions on income tax returns filed by individuals and, thus, are reported *Giving USA* as a part of the individual giving estimate. The *Giving USA* estimate refers to allocation of assets from the estate of a decedent to charitable organizations during the calendar year in question.

The IRS has historically provided the best single, continuing source of data about estate giving. While some data is preferable to no data, estate tax return data have some limitations as a measure of “all charitable bequest giving in year x.” Specifically, the gift planners on the Task Force identified the following discrepancies between what organizations receive in a year compared with what the IRS reports. Alternative data sources, when or if adopted, will not be consistent with the IRS records because the IRS data have systematic discrepancies in terms of timing of the gift receipt and sometimes in amount claimed.

- Contributions are claimed on an estate tax return but might have been paid out to the charitable beneficiary years before the estate tax return is filed. For example, the Annenberg Foundation will reportedly receive contributions from Mr. Annenberg's estate over a period of several years. The estate tax return will be filed once the estate closes. There are regular timing delays between receipt by the charitable organization and estate tax reporting to the IRS. *Giving USA* has previously assumed that, from year to year, these timing differences more or less “even out.” However, a spate of recently announced bequests, each in the

billions of dollars, from the estates of William Hewlett, Walter Annenberg, Susan Buffett, and Joan Kroc point out inherent weaknesses in that approach.

- Although it occurs rarely, a specific type of trust may be double-counted (once when the individual claims an income tax deduction for contributions to fund the trust and again when the trust reverts to the estate for final distribution to a charitable beneficiary).

Potential Impact of an Estate Tax Roll-Back, 2001-2010, on the availability of estate tax data regarding charitable bequests

The Economic Growth and Tax Relief Reconciliation Act of 2001 raised the asset threshold at which estates are subject to taxation from \$675,000 (in force for 2001) to \$1,000,000 in 2002 and 2003, with concomitant decreases in the maximum estate tax rate. In general, the estate tax rates are progressive. In 2001, the tax rate started at 37 percent and rose rapidly to the then-maximum of 55 percent. (Rooney and Tempel). Table 1 summarizes filing thresholds and maximum tax rates in force through 2009. Under current law, the estate tax is repealed for 2010 and reinstated in 2011 (AAFRC Trust for Philanthropy, 2002).

Table 1
Filing Thresholds and Maximum Tax Rates, Estate Tax Returns, 2002-2011

Year	Filing Threshold	Maximum Tax Rate
2002	\$1,000,000	50 percent
2003	\$1,000,000	49
2004	\$1,500,000	48
2005	\$1,500,000	47
2006	\$2,000,000	46
2007	\$2,000,000	45
2008	\$3,500,000	45
2009	\$3,500,000	45
2010	No estate tax	00
2011	\$675,000	55

In 2001, the federal estate tax filing threshold was \$675,000 and more than 108,100 estates filed estate tax returns. In 2003, the threshold was \$1 million in gross estate value, and just over 66,000 estates filed federal estate tax returns. For 2004, an estimated 50,000 estates are expected to have filed returns as the federal filing threshold reached \$1.5 million.

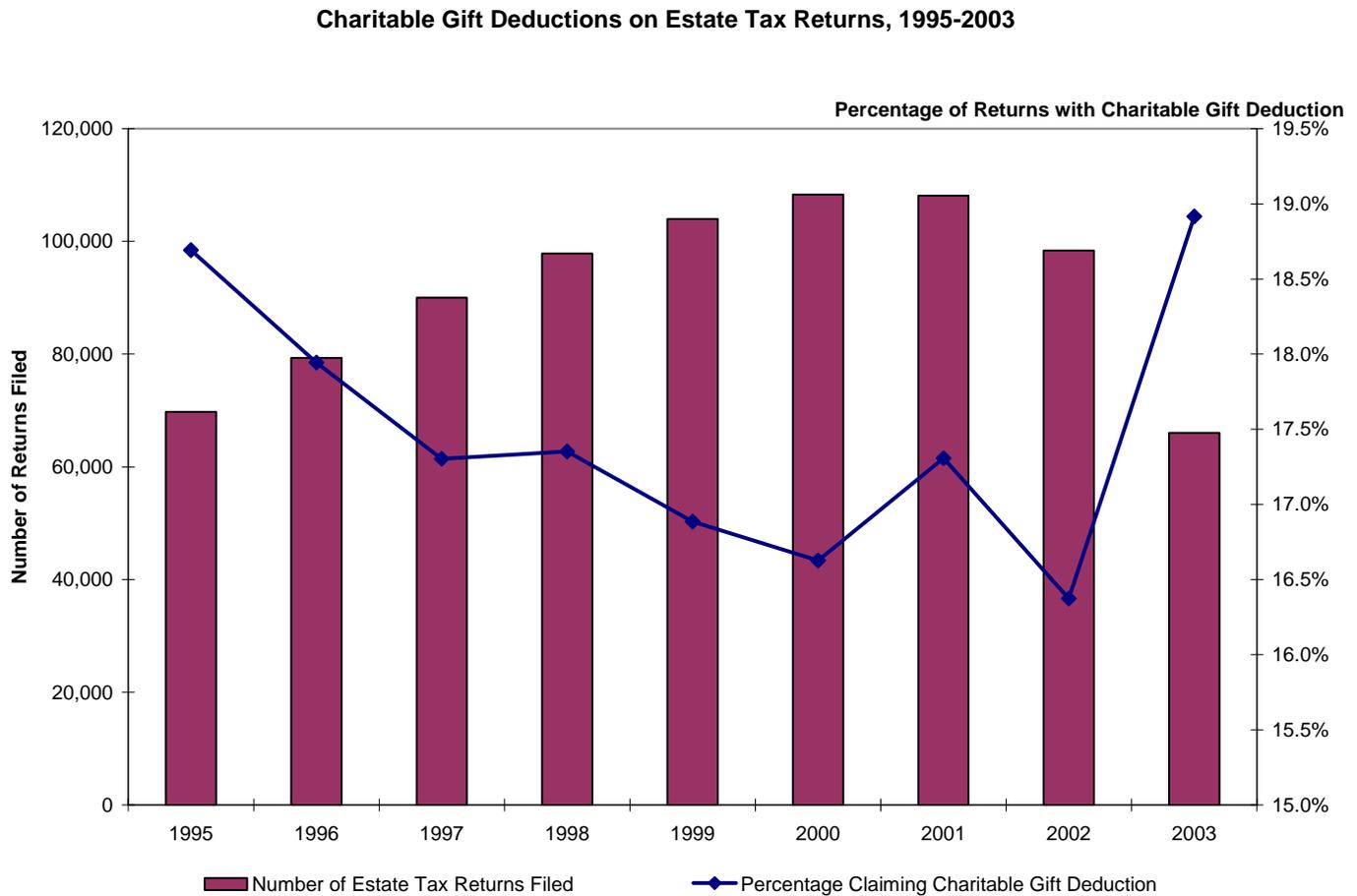
Estates not subject to the estate tax may file estate tax returns for other reasons. One common purpose is to establish the heirs’ basis in assets bequeathed to them, as the basis of the decedent transfers to the heirs (Rooney and Tempel, 2001). While potential permanent repeal of the estate tax jeopardizes the time series data that *Giving USA* has attempted to estimate, there may be some aggregate reports available in the future, either from estate tax returns filed for other purposes or from the income tax returns filed by some estates.

The prospect of limited data to monitor charitable bequests would be less important were charitable bequests declining. But as we will subsequently show, they are increasing and at least one projection indicates they could reach more than \$6 trillion in total from 1998 through 2052, should the \$41 trillion predicted wealth transfer materialize (Schervish and Havens, 2001).

What we know about charitable bequests

At least since the mid-1990s, even before changes in the estate tax filing threshold and reduction of estate tax rates that began in 2001, the percentage of ALL estates claiming deductions for charitable gifts has been trending downward. Figure 1 shows the percentage of all estates that filed an estate tax return that included a charitable gift deduction, along with the number of returns filed each year.

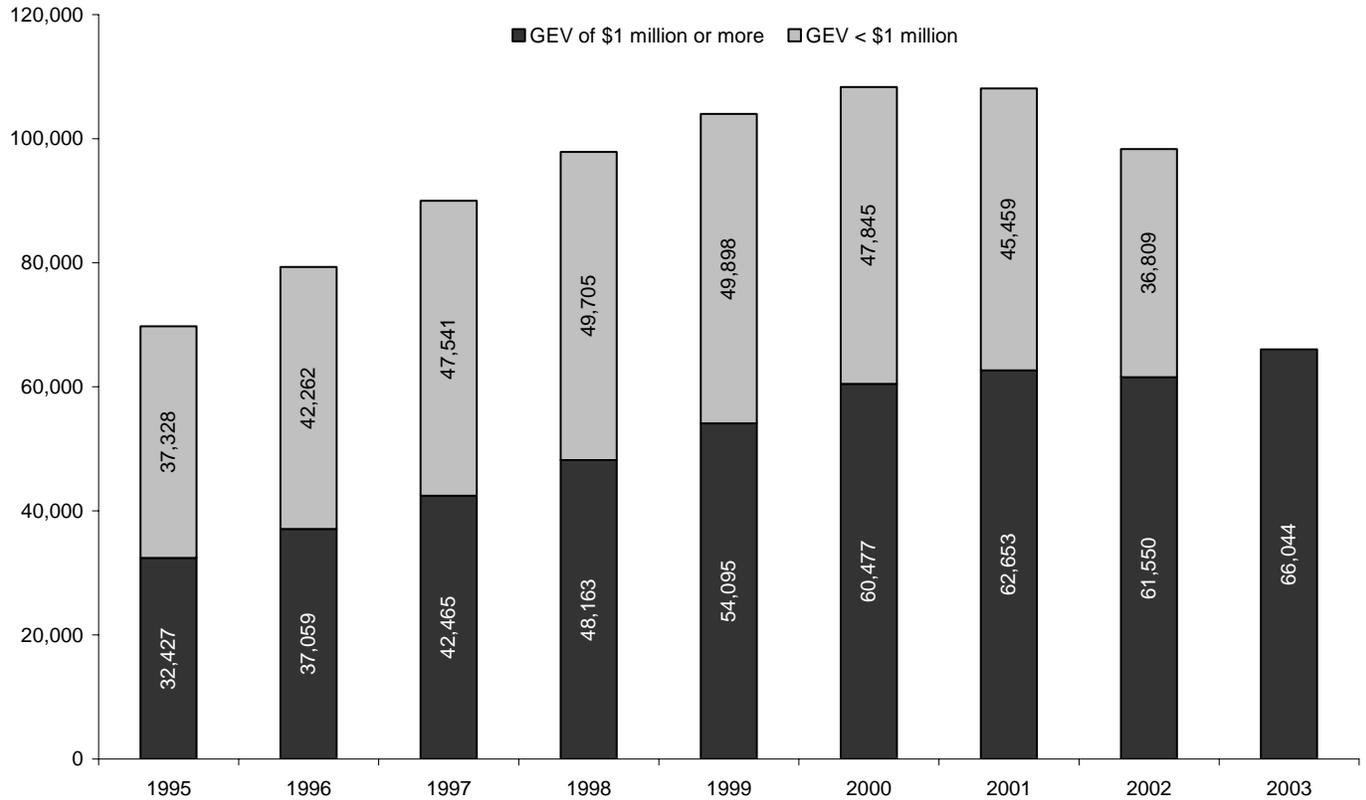
Figure 1



The gradual decline in the percentage of estates claiming charitable deductions occurred contemporaneously with an increase in the number of estates subject to federal estate tax filing requirements. As the filing threshold hit \$1 million in 2002, it is interesting to note that nearly half of the filing estates from 1995 through 2002 has gross estate values below \$1 million. Figure 2 illustrates the number of assets with assets of \$1 million or more and the number with gross estate value below \$1 million.

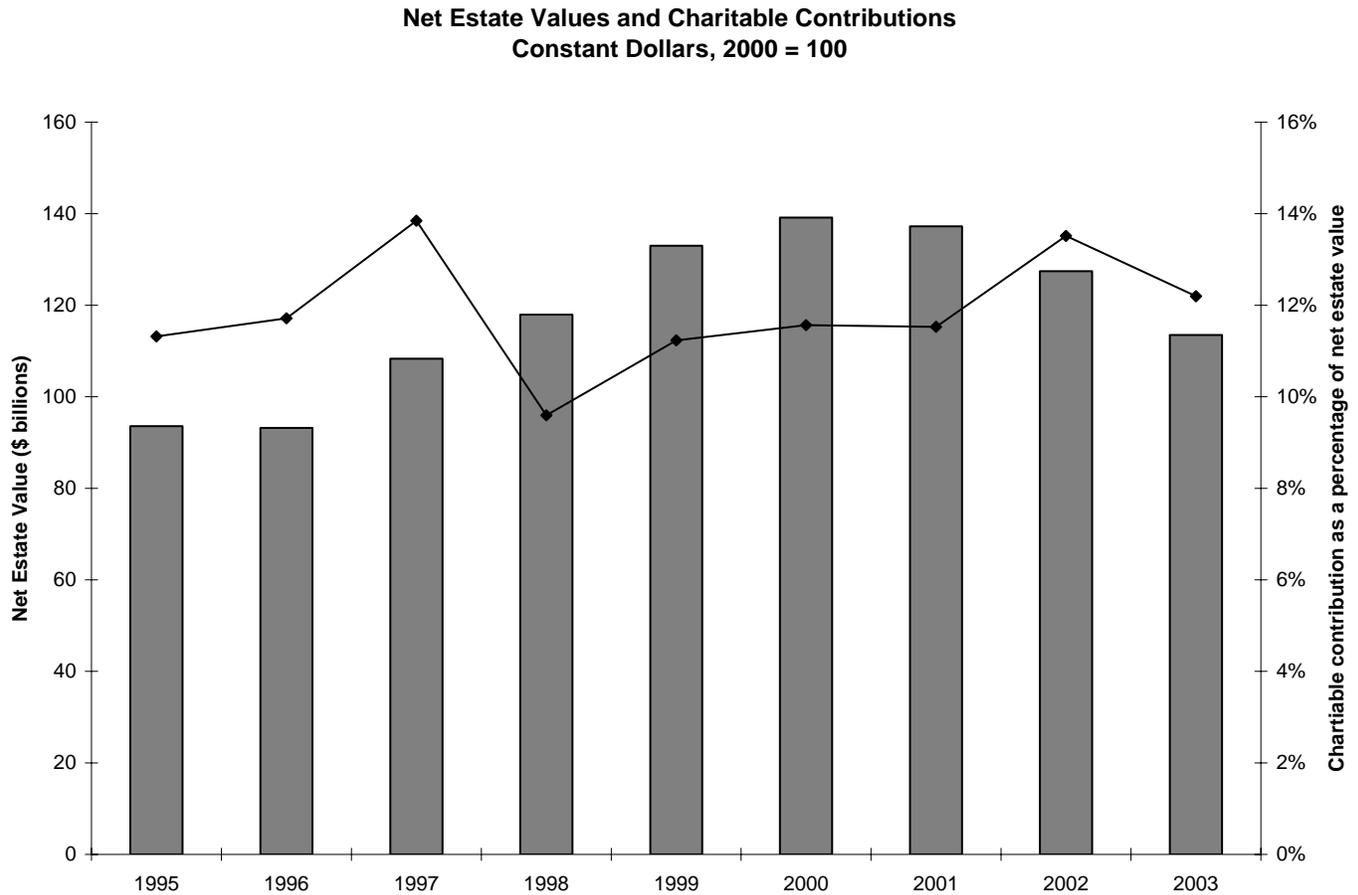
Figure 2

Number of Filing Estates with Gross Estate Value Below \$ 1 million and Number of \$1 million and above



As the number of filing estates climbed, and the percentage of estates claiming a charitable deduction fell, the dollar value of charitable bequests as a percentage of estate value after fees and bequests to a surviving spouse has trended very slightly upward since 1995, according to John Havens' calculations using annual data released by the IRS Statistics of Income Division regarding estate tax returns. Figure 3 illustrates charitable bequests as a percentage of net estate value. The dips in 1998 and 2003 follow peaks in 1997 and 2002 that occurred because of just a few estates that claimed exceptionally high charitable bequests.

Figure 3



Among the estates with the highest levels of estate value (\$20 million or more), contributions to charity have, since 1994, averaged 38 percent of net estate value.¹ These estates, which number approximately 300 to 350 annually, regularly account for more than 40 percent of all itemized charitable deductions claimed by estates filing estate tax returns (AAFRC Trust for Philanthropy).

Because bequest giving so highly skewed, among estate tax returns filed in 2003, just 0.4 percent (276 taxable estates with assets of \$20 million or more) accounted for \$6 billion of the \$14 billion total claimed for charitable bequests. Another way to look at the same 276 estates: Two percent of the 12,493 returns that included a charitable bequest accounted for 38 percent of the total amount claimed in charitable bequests. Among estates that claimed a charitable gift, 14.5 percent had a gross estate value of \$5 million and accounted for 65.5 percent of the number of charitable gifts claimed. Thus, even as the filing threshold increases (to 2009, when it will be \$4 million), the largest estates that account for a majority of the giving will continue to be required to file and subject to estate taxation (through 2009 and again in 2011, unless legislation repeals the estate tax permanently). Should the estate tax be repealed permanently, the data on estate tax

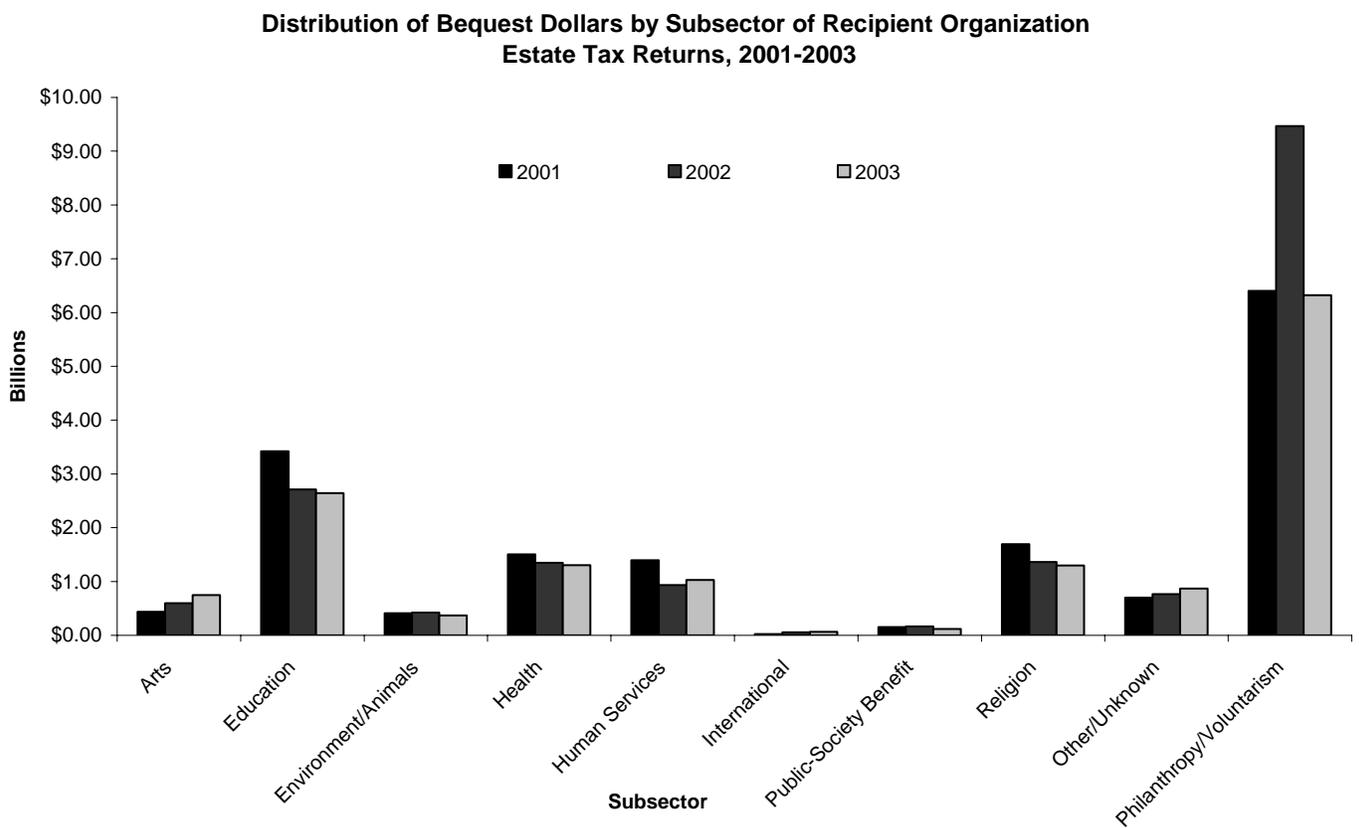
¹ Havens' analysis of IRS data from the Statistics of Income division of the Internal Revenue Service.

filings will no longer exist for years subsequent to repeal. Therefore, another source of data and/or other methods of estimation will have to be developed. We think it makes sense to develop an alternative(s) method now, so that we can compare its performance for several years relative to the “actuals” delineated by the IRS.

Where charitable bequests go

From data provided by the U.S. Treasury, after staff there analyze charitable deductions claimed for charitable bequests, *Giving USA* presents a graph annually showing the distribution of bequest dollars by type of recipient. Figure 4 compiles data available for 2001, 2002, and 2003. As can be seen, “philanthropy and voluntarism” (which includes foundations and family foundations) receives the bulk of the dollars each year.

Figure 4

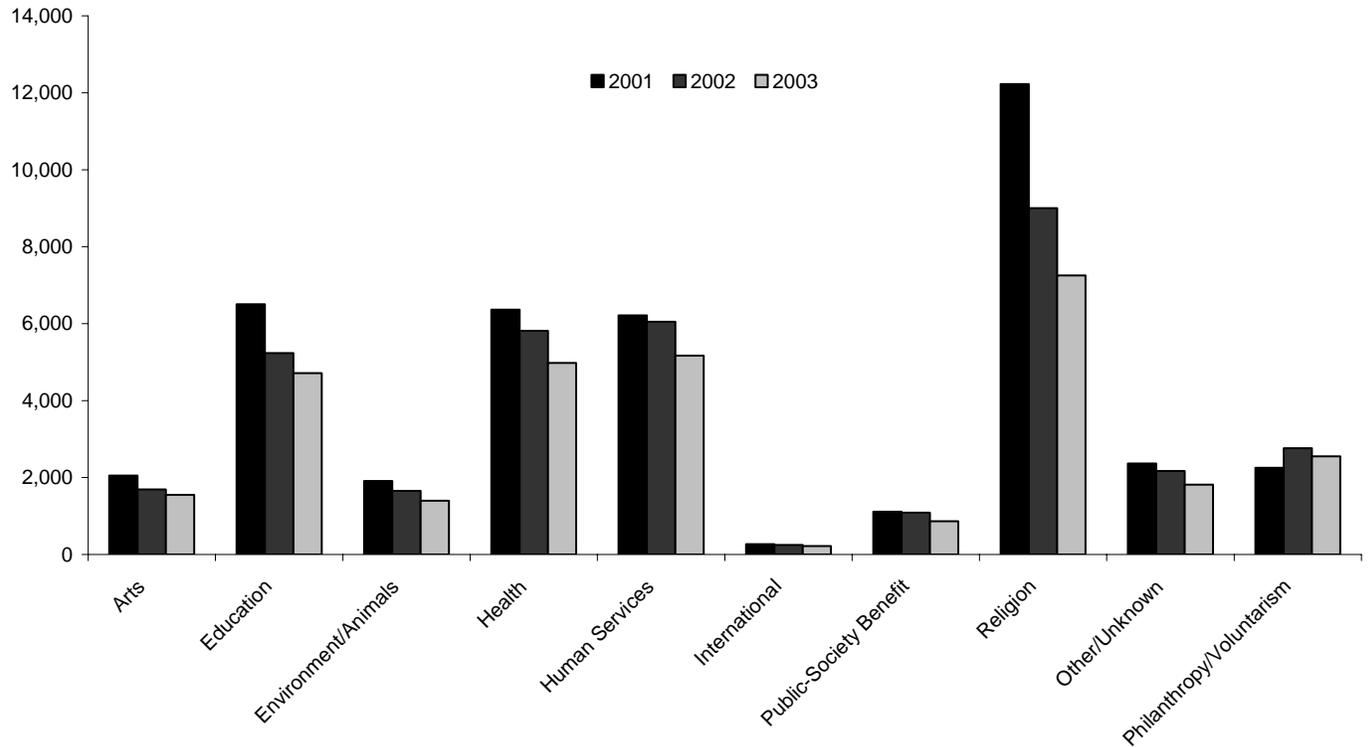


Data: U.S. Department of the Treasury, as reported in *Giving USA* editions of 2003, 2004, and 2005

Despite the highest percentages of dollars going to philanthropy and voluntarism organizations, the largest number of bequests is made to religious organizations. Figure 5 shows the number of bequests made to each type of recipient organization, based on data from estate tax returns, as analyzed by the U.S. Department of the Treasury. There are thus a large number of relatively small bequests made to religious organizations from the estates of wealthy decedents.

Figure 5

Distribution of Number of Will Bequests by Type of Recipient Organization, Estate Tax Returns, 2001-2003



Estate tax and its impact on philanthropy

Several studies have demonstrated that the increases in philanthropic giving by estates exceed the federal tax revenues foregone (Boskin; Joulfaian, 1999). Further, charitable bequests increase the corpus available to fund charities in the future. As the graph of dollars above shows, a majority of charitable bequest money is funding endowments (foundations or the like) that will continue to contribute to charity, either in perpetuity or in accordance with the donor's intent. There is to date little work done to show the extent to which a philanthropic gift claimed as a tax deduction in one year by an estate yields continued investment in improved social welfare, either through grants paid by a foundation, through scholarships given to students, or in other ways.

Studies show that people with wealth are very responsive to changes in tax rates and differentials between personal income tax rates and the rates on estate taxes (Joulfaian, 1998; Porterba). This tax rate sensitivity manifests itself in the timing of gifts during life and bequests (Joulfaian, 2000). However, the wealthy seem to have a preference for holding wealth that exceeds the goal to minimize taxes (Joulfaian and McGarry).

A number of studies suggest that eliminating the estate tax would lower charitable bequests (Berhnheim; Joulfaian, 1998; Slemrod and Kopczuk; Greene and McClelland).

Estimating the charitable bequest total for *Giving USA*

Because of the gradually reducing scope of federal estate tax data, the fact that estate tax data reports charitable bequests for only the wealthiest decedents, and the delay between estate tax filings and the release of the data, *Giving USA* estimates the aggregate amount of charitable bequests for a Year x, which is the year immediately preceding the year of publication. The value for Year x-1 is also an estimate. Thus, *Giving USA 2005* estimated charitable bequests for 2004 and 2003. As estate tax data become available, each estimate is replaced by reported data, but aggregate bequests for the two most recent years reported by GUSA are always estimates.

Giving USA has used various different approaches in estimating charitable bequests. They fall into two groups:

- Estimate levels of charitable bequests: Estimate the aggregate amount of bequests, as measured by the total amount received at charitable organizations in Year x, independently of the aggregate amounts in prior years; or
- Estimate the annual rate of change in charitable bequests: Using survey data or other means, estimate the percentage change in charitable bequests from Year x-1 to Year x, and apply that rate of change to the amount of charitable bequests from prior years for which charitable bequest data is available.

Giving USA has historically used the rate of change method. From 1981 through 2000, *Giving USA* received annual survey responses from a sample of about 600 organizations concerning the amount of charitable bequests they had received in the prior two years. Combined with charitable bequest data from the Council for Aid to Education, these data were used to estimate a rate of change in bequest giving, which was then applied to the prior year's estimate (AAFRC Trust for Philanthropy, 2000 and earlier).

In at least some years, no adjustment (revision) was made later to reflect actual itemized gifts claimed on estate tax returns. For estimates of gifts through bequest from 1991 through 1993, for example, the published figures in succeeding editions of *Giving USA* remained unchanged, even as IRS data for those years were released. In another example, the estimate for bequest giving in 1997 of \$12.63 billion was based on a rate of change found through surveys and remained unchanged, even as IRS data appeared for 1997 that showed \$14.27 billion claimed on estate tax returns as charitable gifts from estates with gross estate value of \$600,000 or more. (Note that \$14.27 in gifts from estates above the filing threshold is an unusually high amount for that period.) In recent years, we have typically revised the initial survey-based bequest estimate to reflect the IRS data. Thus, we add \$1.72 billion to the initial figure released for 2000; \$1.20 billion for the initial estimate released for 2001; and \$1.04 billion for the estimate released for 2002. These changes were increases of 10 percent, 7 percent, and 6 percent, respectively.

The methods used to estimate a rate of change in bequest giving have not correlated closely with the actual rates of change found in estate tax return data released by the IRS in the years following the initial estimates from *Giving USA*. Figure 6 illustrates the rate of change generated

through surveys conducted for *Giving USA* from 1990 through 2003, compared with the rates of change reported by the IRS.

Figure 6

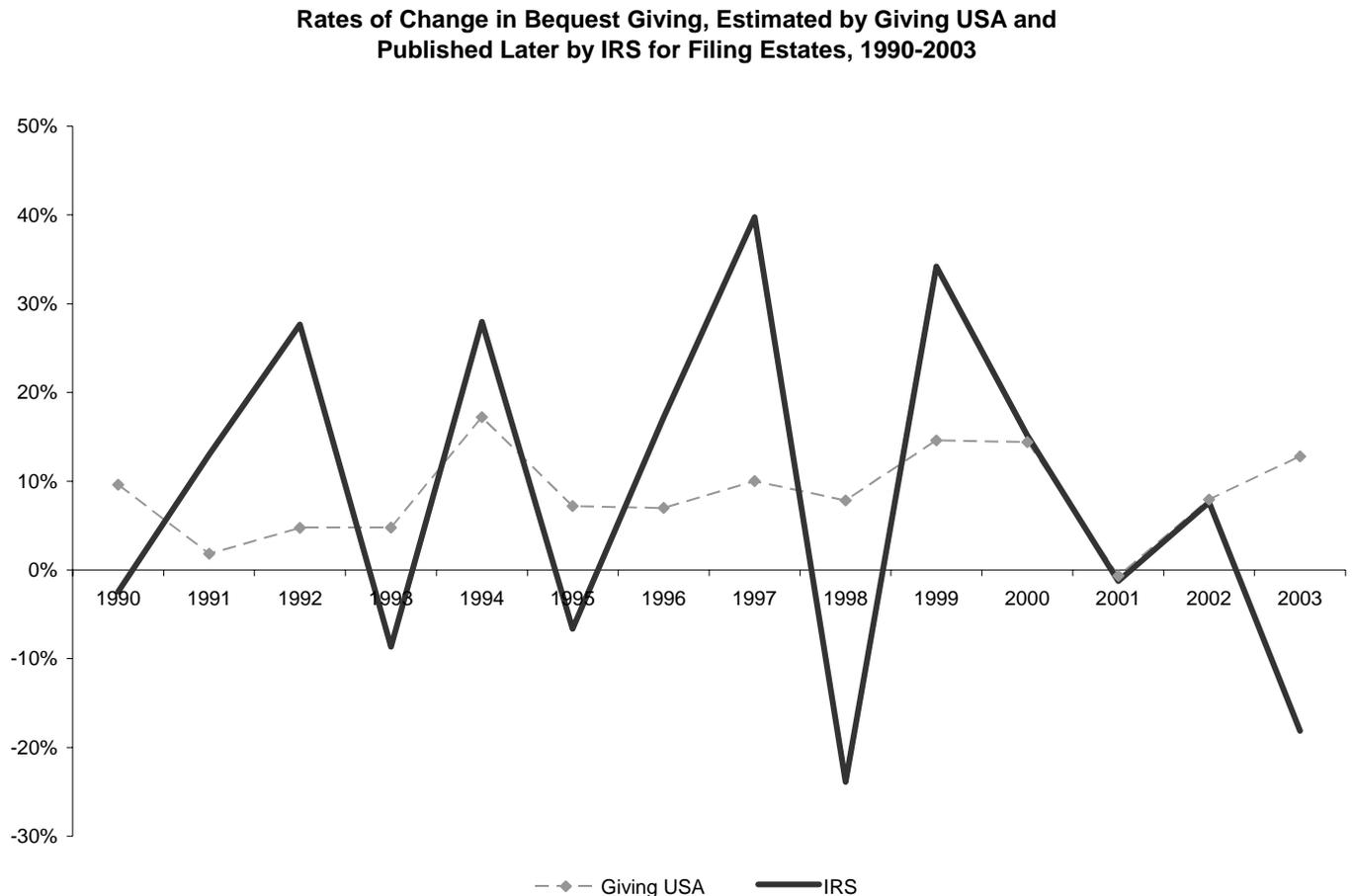


Figure 6 above shows that the *Giving USA* estimates, based on survey responses, move in the same direction as the IRS data in four of the 13 years, and only three times, from 2000 through 2002, did the *Giving USA* estimated rate of change correspond closely (within 5 percentage points) to the IRS rate. The two estimates have been within between 10 and 19 points of one another in six of the past 14 years and more than 20 percentage points apart in 5 of the past 14 years. The rate of change estimates clearly are poor predictors of the changes that have actually occurred – in part due to the low probability of capturing large bequests in a relatively small sample of charitable organizations (especially a sample that does not include religion or foundations).

The IRS data show a great deal of variability in the rate of change in giving through charitable bequest. This is not because elderly wealth holders keep revising their wills but because among elderly wealth holders there is a small subgroup with very large charitable bequests and others with more modest or no charitable bequests in their wills and estate plans. When several of the wealth holders with large charitable bequests pass away, there is an upward change and when few of them pass, there is a downward change. Other factors (such as market conditions)

influence the pattern as well, but the indeterminate number of wealthy decedents with large charitable bequests contributes to the saw tooth pattern of change.

Figure 7 shows the charitable bequest estimates for *Giving USA* as published in 2004 and IRS estate tax data (before correction for 1997). In general, *Giving USA* surpasses the IRS estimate because of the inclusion of an estimate for estates below the federal estate tax filing threshold. In 2003, *Giving USA*'s estimate is recognized to have been far “off the mark,” and it was revised in *Giving USA 2005*. That revision is not shown here.

Figure 7

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Estimation Method Introduced in 2002

The procedure used most recently, beginning with *Giving USA 2002* (to estimate charitable bequests for 2001), focused on estimating a rate of change in bequest receipts based partly on data from charitable organizations in the *Giving USA* survey. The information from the Council for Aid to Education was not incorporated into this method, as it had been for estimates for 1981 through 2000. The method introduced in 2002 developed two estimates which were summed to obtain an aggregate estimate for the year in question. The first is an estimate of charitable bequests from estates required to file Federal Estate Tax returns. The second is an estimate of charitable bequest from estates not required to file a return.

Estimation of Charitable Bequests from Estates Filing Federal Estate Tax Returns

Since we have no data on charitable bequests from Federal Estate Tax returns for the most recent two years, prior to publication, we must estimate these values from other sources. As mentioned previously one source of data is the annual survey of charitable organizations and the other sources is the most recent data reported on charitable bequests from the IRS. Where x is the current year, the survey data provides sufficient information to estimate rates of change in charitable bequests between year $x-1$ to year x and a separate rate of change from year $x-2$ to year $x-1$.

Starting with hard data for charitable bequests in year $x-2$ (the most recent data available), we multiply this hard data value by the factor, 1 plus the survey-derived estimated rate of change from Year $x-2$ to Year $x-1$. The resulting product is the estimate of charitable bequests in Year $x-1$. Starting with this estimate as the new base year, we apply the same estimating procedure all over again, but with the separate survey-derived estimated rate of change from Year $x-1$ to Year x . To be specific, we multiply our estimate of charitable bequests for year $x-1$ by the factor, 1 plus the survey-derived estimated rate of change from year $x-1$ to year x . The product of these two values is the estimate of charitable bequests for year x .

Relationship to Year of Interest			
	Two years prior = $Y_{(x-2)}$	One year prior = $Y_{(x-1)}$	Year of interest = Y_x
Known value	IRS data per estate tax returns = I		
Survey rate of change		Δ_{x-1}	Δ_x
Estimating formula	I	$I * (1 + \Delta_{x-1}) =$ Estimate for $Y_{(x-1)}$	Estimate for $Y_{(x-1)} * (1 + \Delta_x) =$ Estimate for Y_x

It is important to note that this method only estimates the charitable bequests from estates that file Federal Estate tax forms. As data is released we discover how accurate our estimates have been. This estimate does not include the charitable bequests made from estates not filing Federal Estate Tax returns, which are estimated separately as described below.

Estimating Charitable Bequests for Estates Not Filing Federal Estate Tax Returns

The estimate for charitable bequests from estates not filing Federal Estate Tax returns consists of two estimates which are multiplied together. The first is the number of estates making a charitable bequest but not filing a Federal Estate Tax return. The second is the average value of charitable bequests from these estates. There is limited information available to support these estimates, and unlike the estimates for charitable bequests from estates of Estate Tax returns, there is no subsequent release of data to evaluate our estimates for non filers. The procedure used for estimates from 2001 through 2003 is presented here, and later in the paper, we discuss the revisions made in an effort to support the estimate with better approximations of the average charitable gift per estate making a charitable bequest.

Estimation of the Number of Non-Filing Estates Making Charitable Bequests

The non-filer estimating procedure used for *Giving USA* from the editions of 2002 through the edition of 2004 (about giving in 2001, 2002, and 2003) relied extensively on estimates of :

- Public data about the number of adult deaths, with an estimate for the year just completed;
- An estimate of the percentage of estates among adult deaths that leave a charitable bequest to charity, using data from 1997 estate income tax returns.

The product of these two is then multiplied by an estimated average amount left as a charitable bequest per decedent making such a bequest.

In recent years, more than 2.4 million adults have died annually in the United States (National Vital Statistics). Of those, 66,044 filed an estate tax return in 2003. Within that group, 12,493 (18.9 percent) claimed a deduction for a charitable bequest.

Research in 2000 by the National Committee for Planned Giving indicates that as much as eight percent of adults included some charitable provision in their estate plans. If each of those estates are able to fulfill the decedent's charitable intent after payment of debts and other bequests, approximately 195,000 estates would be expected to make charitable bequests in 2003. This is likely the upper bound of the number of estates that make a charitable gift in a year. This is only an upper bound because household assets are likely to be drawn down to an amount that may not be able to support charitable bequests. In part this is because after retirement, most households gradually draw down their assets to help cover their living expenses. There are thus smaller values of estates to fulfill charitable bequests, which are often contingent on bequests to heirs being fulfilled prior to their implementation. In addition, for many decedents health care and long term care expenditures in their final year of life deplete their wealth and result in estates with few if any financial resources for charitable bequests. Finally, in light of imminent health problems, some decedents may have shifted financial resources to children and other heirs as well as to charitable organizations before the onset of major health care costs in order to implement the intentions of their will before their deaths, thus leaving no assets in their estates.

With 195,000 estates as an upper bound, the number of estates that file an income tax return that includes a charitable deduction provides a lower bound. For 1997, the most recent year for which data are available, 4.7 percent of estates with income tax returns filed claimed a charitable gift as

a deduction (Mikow). That would be 112,800 estates with charitable gifts, assuming 2.4 million adult deaths a year.

Using these upper and lower bounds, an estimated 113,000 to 200,000 estates making charitable bequests annually do not file federal estate tax returns. Although there are no reliable data available specifying the number of charitable bequests made by estates that do not file estate tax returns, an estimated 90 percent of estates making a charitable bequest had gross assets below \$1,000,000 in 2003.

Estimation of Average Charitable Bequest from Estates Not Filing Estate Tax Returns

If there is sparse data concerning the number of non-filing estates with charitable bequests, there is even less concerning the value of charitable bequests made by such estates. In lieu of data concerning the group of non-filers, our estimation method for 2001, 2002, and 2003 made an assumption about the average size of a bequest from an estate below the federal estate tax filing threshold. To estimate the charitable bequest total from non-filing estates, we used as a mean bequest amount the median of the average amount per bequest reported by organizations in the *Giving USA* survey that had an average bequest size below \$100,000. For 2003, the median of the average amount per bequest was \$26,598.

The median was used, instead of the average, as a more conservative approach to estimating a value in the absence of any data to validate the accuracy of the estimate. The average was about \$4,000 above the mean. At the upper bound of the estimated number of estates below the federal filing threshold that made a charitable bequest, using the mean instead of the median would have resulted in an estimate of \$2.48 billion for non-filing estates. With the median, the estimate was \$1.7 billion. Using the mean would result in non-filing estates as 11.1 percent of the total bequest estimate; with the median, they represented 7.8 percent.

Estimating the amount contributed by estates below the Federal Estate Tax threshold is a challenge due to a number of factors, including:

- *Difficulties obtaining information from donors and executors about estates and their financial transactions.*
 - There is no reliable national source of data regarding estates below the Federal Estate Tax threshold;
 - Although research can be conducted at the very local level using probate court records, national or even regional studies would be extremely expensive and time-consuming—if not impossible;
 - Surveys may over or understate the frequency of charitable intent and value of charitable bequests;
 - Even if accurate information could be gathered from living donors about the charitable provisions in their estate plans, estates are not always able to fulfill the charitable intent because of debts and other bequests provisions that must be paid first.

- *Difficulties obtaining information from the recipients of charitable bequest contributions:*
 - Very few religious organizations have responded to past survey efforts; however, these organizations are known to be the most frequent type of recipient of charitable bequests. *Giving USA*'s previous attempt to survey religious organizations had a response rate of less than five percent, far too small to provide data that can be generalized from or to warrant continued survey efforts.
 - The broader response rates to the *Giving USA* survey have been problematic. Of some 7,000 charitable organizations surveyed, approximately 1,500 respond. While this is an adequate overall response rate, most of the responses are from larger organizations, which makes it difficult to generalize about charitable bequest gifts from the entire charitable sector.
 - Charitable organizations do not track whether or not their charitable bequest gifts come from estates required to file a Federal Estate Tax return. Thus, separating bequests that are from estates below the federal filing threshold is impossible.

Results and Evaluation of Alternative Estimation Methods

After reviewing the historical record of charitable bequests presented in *Giving USA* and considering the Task Force considered possible approaches for revising the methods used to develop the estimates. Specifically, the Task Force considered alternative methods for:

- Estimating the amount that will be reported later by the IRS as claimed charitable gifts on estate tax returns; and
- Estimating the two components of the estimate of charitable bequests from estates below the federal filing threshold:
 - the number of estates leaving such charitable gifts; and
 - the average amount from each estate making a charitable bequest.

As a result of these deliberations, procedures were changed for the estimate of charitable bequests claimed on estate tax returns and for the estimate of the average charitable bequest amount per estate below the federal estate tax filing threshold. A small change has been made to the estimating procedure for the number of estates below the federal estate filing threshold that leave a charitable bequest, by focusing on deaths of adults aged 55 and above rather than on all adult deaths.

Evaluation of alternative estimation methods for charitable bequests claimed on estate tax returns

For the estimate of charitable gifts claimed on estate tax returns, after considerable deliberation the Task Force generated a number of alternatives. Alternatives are termed here A, B, and C. Method A relies on survey data from organizations; Method B relies on national data about deaths and estimates of the percentage of gross estate value left in charitable bequests; Method C looks at survey responses from one subsector (education) and uses the historical relationship

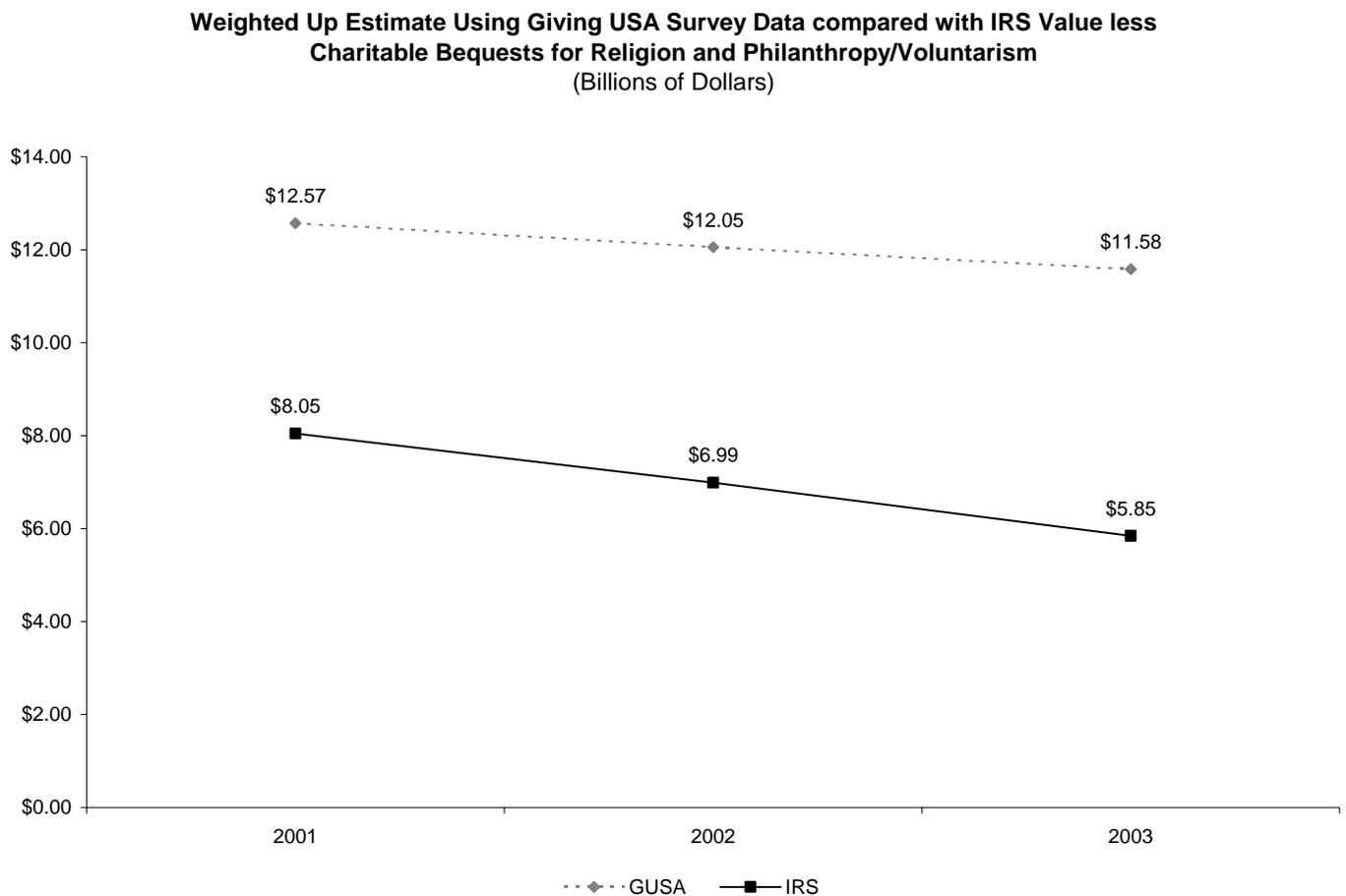
between the results from that survey about charitable bequests and the total amount reported later by the IRS for all charitable bequests on estate tax returns.

Method A: Use of contemporaneous data and information

“Weight up” from the responses in the *Giving USA* survey to develop an estimate of total bequest giving by size and subsector group (big, medium, and small sizes and subsectors from arts through public-society benefit) for Year x on the *Giving USA* survey or non profit organizations. The “weighting up” refers to projecting the charitable bequests reported as received in year x by each participating organization in the survey to a total amount of charitable bequests received in year x by all organizations that could have been included in the survey. Religious organizations and foundations are not included in the survey.

Figure 8 shows the result of this method compared with IRS information for bequests excluding IRS data about charitable bequests made to religion and philanthropy/voluntarism in order to make the IRS data more directly comparable to the *Giving USA* survey data.

Figure 8



This method shows some promise because the lines trend in the same direction and for each of the three years the *Giving USA* estimate is, consistently higher than the IRS figure, because the

Giving USA data include gifts from estates below the federal estate tax filing threshold. However, there are only a few years available for comparison, which makes it difficult to evaluate this approach. *Giving USA* will continue to estimate charitable bequests using this approach and track results against available IRS data in order to build a longer time series for evaluation. However, any variation on Method A using survey data to estimate total bequest giving has two deficiencies for estimating bequest giving a year or more before the estate tax data are available (and in the absence of estate tax data in the future):

- These methods provide no data about bequest gifts to religion – which according to the IRS filings is the type of recipient with the largest number of bequest gifts. Surveys of congregations are difficult.
- These methods have no data about bequest gifts to foundations – which is the type of recipient with the largest dollar amount of bequest gift dollars. The exception may be in the reported bequest gifts in the *Chronicle of Philanthropy*. The Foundation Center does not collect information about whether new contributions are from living or deceased donors. Other than the IRS, no other data source for this is known at this time.

Method B: Estimating charitable bequests from the number of decedents aged 55 and above and estimate gross estate values

National data are released regularly about the number of deaths of people aged 55 and above. While data for the year just concluded is not available by spring, an estimate based on the prior year can be developed. The National Committee on Planned Giving found that people aged 55 and above are most likely to have made wills and to have bequest gifts in their estate plans. The Survey of Consumer Finances reports an average net worth for individuals by age range. Using a conservative estimate that charitable bequests from all decedents equal approximately 2 percent of net worth from all decedents, *Giving USA* can estimate an amount of charitable bequests that fluctuates by the number of deaths and changes in estate value. The estimate of 2 percent of net worth for charitable bequests comes from analysis of charitable contributions deductions claimed by estates of less than \$5 million that file a federal estate tax return. Table 2 presents the estimates used in *Giving USA 2005* and those generated by Method B.

Table 2
Estimate for 2003 using Method B

Line	Component of estimate	2003
1	Number of decedents age 55 to 64 (NVS)	261,506
2	Average net worth, this age group (SCF)	\$754,803
3	Total estimated net worth, decedents (line 2 x line 1)	\$197,385,495,344
4	Percentage of net worth in charitable bequests (IRS)	2%
5	Estimated amount to charity from decedents, 55-65 (line 4xline3)	\$3,947,709,907
6	Number of decedents age 65-74 (NVS)	413,227
7	Average net worth, this age group (SCF)	\$701,911
8	Estimated net worth, decedents (line 7 x line 6)	\$290,048,471,269
9	Percentage of net worth in charitable bequests (IRS)	2%
10	Estimated amount to charity from decedents, 65-74 (line 9xline8)	\$5,800,969,425
11	Number of decedents age 75+ (NVS)	1,390,600
12	Average net worth, this age group (SCF)	\$485,922
13	Estimated net worth, decedents (line 12 x line11)	\$675,723,612,667
14	Percentage of net worth in charitable bequests (IRS)	2%
15	Estimated amount to charity from decedents, 75+ (line14 x line13)	\$13,514,472,253
16	Total estimated amount of charitable bequests (lines 5, 10, 15)	\$23,263,151,586

NVS =National Vital Statistics, 2002 estimate x 1 + rate of change from prior 3 years
 SCF = Survey of Consumer Finances estimate for 2001 adjusted to estimate 2003 value
 IRS = 2 percent is the percentage of gross estate value of ALL estates (not just donor estates) in the lowest asset ranges (<\$5 million) claimed in charitable contributions deductions.

The results of this procedure, applied historically to estimate charitable bequests from 1989 through 2003 yield a series vastly different from *Giving USA*, as shown in Table 3.

Table 3
Giving USA 2005 estimates compared with Method B

	<i>Giving USA</i> 2005**	Deaths age 55+ * SCF mean assets by age * est 2% GEV
1989	6.84	8.35
1990	6.79	9.22
1991	7.68	10.10
1992	9.54	10.98
1993	8.86	11.17
1994	11.13	11.37
1995	10.41	11.57
1996	12.03	12.64
1997	16.25	13.71
1998	12.98	14.78
1999	17.37	17.22
2000	19.88	19.66
2001	19.80	22.10
2002	20.90	23.26
2003	18.13	24.41

** This is the closest value available for checking Method B. Values for charitable bequests in *Giving USA* 2005 include confirmed amounts reported by the IRS plus an estimated amount for charitable bequests made by estates below the federal estate tax filing threshold.

Figure 9 compares the IRS data about charitable bequests claimed on federal estate tax returns with the series estimated in *Giving USA 2005* and the series resulting from application of Method B: number of adult deaths for people aged 55 and above times average net worth times 2 percent.

Figure 9

Error! Not a valid link.

Method B assumes that charitable bequests are a constant percentage of net worth of decedents. Thus, it fluctuates with the number of deaths and with the net worth of the decedents' estates, but does not reflect changes in other factors, such as changes in the prevalence and magnitude planned gift arrangements made by individuals. Because prior work has suggested that individuals will leave less in charitable bequests in the absence of estate taxation, this method is questionable for estimating bequests, especially as IRS data become less available.

Method C: Forecast using historical patterns and national-level data

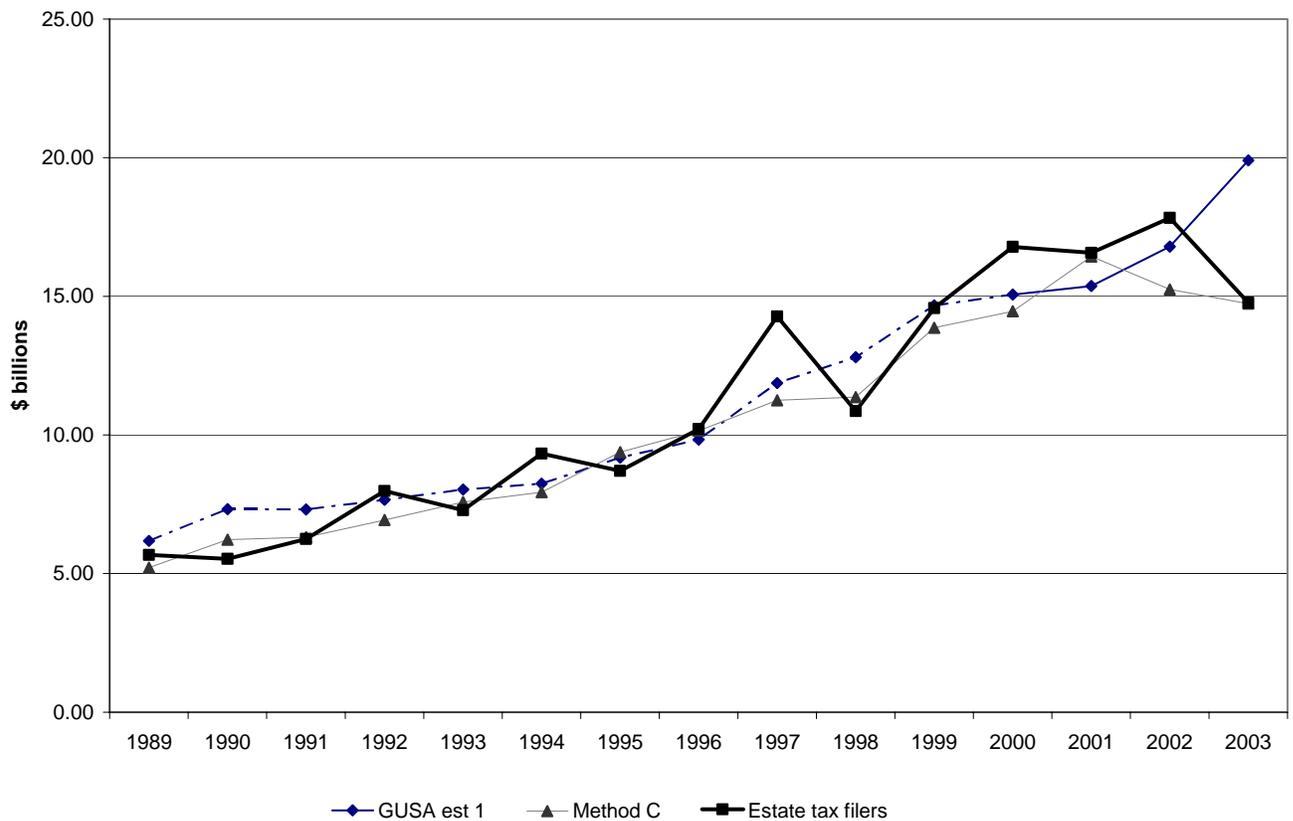
Method C uses contemporaneous data and a historical relationship between that data and total IRS bequest giving. The Council for Aid to Education (CAE) surveys higher educational institutions annually, reaching institutions that account for about 85 percent of total estimated giving to higher education each year. Among the questions is one about the amount received through bequests. A time series of the CAE data from 1987 through 2002 shows that CAE's estimated total giving to higher education through bequest has been between 13 and 17 percent of the amount claimed on federal estate tax returns. The average over that time is CAE at 15.1 percent of the amount claimed on federal estate tax returns. The method in Method C takes the CAE estimate and divides by 0.151 to forecast the IRS number. To that is then added an estimate of giving by estates below the federal filing threshold.

Method C incorporates all bequest giving before the nonfiler estimate (that is, it includes foundations and religious organizations).

Figure 10 illustrates the actual IRS reported amounts, the initial *Giving USA* estimates for each of the years shown (net of estimate of gifts from estates below the filing threshold), and the estimate that would have been generated had *Giving USA* used Method C (using CAE's estimate for bequest gifts to higher education divided by 0.151).

Figure 10

**Estimating charitable bequests to be claimed on Estate Tax Returns:
Method C (CAE) Compared with Giving USA Prior Methods and with IRS Data, 1989-2003**



In this data, there are no corrections for changes in threshold level and marginal rates for estate tax filing. This estimate also does not take into account any possible changes in the ratio between CAE values and amounts claimed on estate tax returns due to very large bequests anticipated to foundations from the estates of Susan Buffett, Walter Annenberg, and William Hewlett, among others.

As illustrated in Figure 10, estimates based upon CAE data track closely to the actual amounts deducted as charitable contributions on estate tax returns. The use of the CAE- derived number would have been more accurate than *Giving USA*'s estimates had it been applied in the seven years, 1990, 1991, 1993, 1996, 1998, 2001, and 2003. *Giving USA*'s estimate was closer in six years (1992, 1994, 1997, 1999, 2000, and 2002), and in two years (1989 and 1995) both CAE and *Giving USA* were about equally distant from the final IRS figure. In general, when the CAE number used as the basis, the estimate is lower than the IRS actual figure, having been higher only three times since 1989 and only by a small amount in each of those years (1990, 1995, and 1998). *Giving USA*, however, has been higher in seven years since 1989, and in some of those years, substantially higher (see especially 1990, 1998, and 2003).

Table 4 summarizes the differences found between the IRS estimates of charitable bequests based on a sample of estate tax returns analyzed and the estimates generated, first those

developed by *Giving USA* for the years 1989 through 2003 and then estimates generated using the Council for Aid to Education bequest estimate for the year, divided by 0.151.

Table 4
Average differences between estimates of charitable bequests, 1989-2003

Average dollar differences

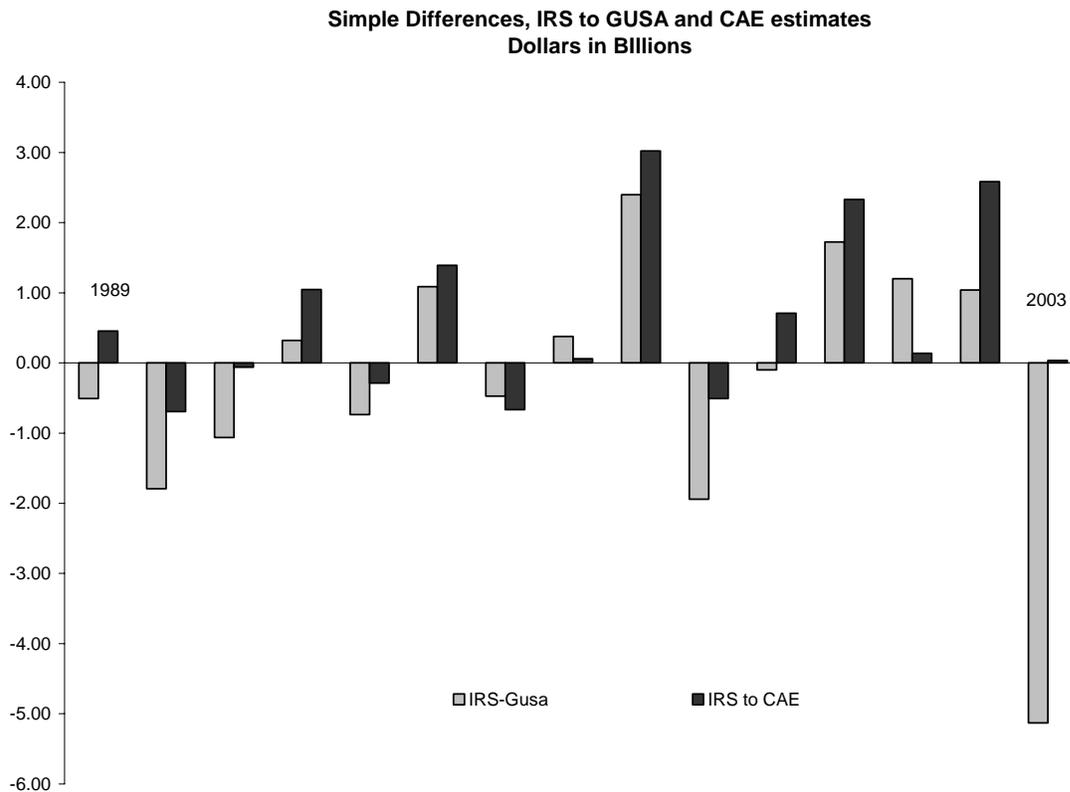
	IRS- <i>Giving USA</i>	IRS-CAE
Simple difference	-0.24	0.64
Square of differences	3.21	1.75
Absolute value	1.33	0.93

Average percentage differences

Simple percentage	-2%	5%
Square	2%	1%
Absolute value	11%	9%

The *Giving USA* methods yielded an average simple difference that is slightly lower than the IRS estimates, whereas the CAE method is, on average, slightly higher than the IRS figure. This is true for the simple dollar difference and for the percentage difference. Figure 12 illustrates the simple dollar value differences obtained. The two methods—*Giving USA*'s approach and the use of the CAE estimate as a base—moved in the same direction in all but three of the years from 1989 through 2003.

Figure 12



Over the years analyzed, the CAE method is closer to the IRS value, with an average absolute value of 0.93 compared with 1.33 for the absolute value of the difference between IRS and *Giving USA*. The 2003 *Giving USA* estimate, with a simple difference of -5.13 compared with the IRS's figure, plays a role in the averages. When 2003 is removed from the series, the *Giving USA* methods are close in terms of simple difference and slightly preferable in terms of differences squared, but they are still slightly higher by absolute value. Table 5 shows the error terms for the series 1989 through 2002, with the outlier for 2003 excluded.

Table 5
Average differences between estimates of charitable bequests, 1989-2002

Average dollar differences

	IRS- <i>Giving USA</i>	IRS-CAE
Simple difference	0.11	0.68
Square of differences	1.45	1.75
Absolute value	0.98	0.93

Average percentage differences

Simple percentage	-0.7%	5.4%
Square	1.4%	1.4%
Absolute value	9.6%	9.0%

Because the CAE method yielded results closer to the actual IRS reported values than did the *Giving USA* method, and because the series available for comparison covers 14 years, this method was adopted by the Advisory Council on Methodology for *Giving USA 2005* and forward. As noted earlier, *Giving USA* will continue to monitor the weighting up method, which may prove robust enough to adopt in the future.

Nonfiler estimating method reviewed and revised

The estimate of charitable bequest giving by estates below the federal filing threshold (nonfilers) uses the number of adult deaths multiplied by the lower bound of a percentage of adult estates with a charitable bequest. After the revision accepted for *Giving USA 2005*, that product is multiplied by a different measure of average bequest amount. Instead of using the median of the average bequest amount from the *Giving USA* survey, the revised method applies an average percentage of gross estate value (stratified by age) that is left to charity multiplied by an estimated sum of gross estate values by age. The average percentage of gross estate value left to charity is based on reported averages from estate tax returns. That is, the assumption is made that whether or not an estate files an estate tax return, a decedent with a charitable bequest provision bequeathed the same percentage of gross estate value to charity as other decedents (on average) in the same age range.

Estimating the number of adults age 55 and above who left a charitable bequest

Giving USA elected to restrict its estimate to deaths of adults aged 55 and above because prior research by the National Committee on Planned Giving found that age group to be the most likely to have a will. The number of deaths is reported annually by National Vital Statistics; however, there are timing issues with the release of each year's data. For 2004, the figure is estimated based on values reported for 2003, and will be adjusted in future reports as new data are available.

Among decedents aged 55 and above, the assumption continues that the percentage with a charitable bequest can be based on the more than 411,000 estates that filed an income tax return in 1997 and that included a charitable contribution deduction (IRS). That number, 4.7 percent, is assumed to be representative of the proportion of all estates that make and fulfill a charitable bequest.

In order to estimate the average value left as charitable bequests by estates below the federal estate tax filing threshold, *Giving USA* has made some assumptions that people act similarly based on their age. That is, older decedents leave a greater share of their estate to charitable purposes) which is confirmed in the estate tax filings). Thus, this method applies to non-filers the same percentages of gross estate value, by age stratification left to charity by decedents whose estates filed Federal Estate Tax returns claiming a charitable contribution deduction (Joulfaian, 2005).

Table 6
IRS reported values

Decedent age	Percentage of gross estate value in charitable bequests
55-64	2.2
65-74	5.2
75+	7.8

Data from : D. Joulfaian, Basic facts about charitable giving, 2005.

The percentage left in charitable bequests is applied to an estimate of gross estate value of all estates of decedents, by age range, based on average net worth data from the Survey of Consumer Finances. Table 7 presents the estimate for 2004 for contributions made by estates below the federal estate tax filing threshold.

Table 7

Estimate of charitable gifts from estates below the federal estate tax filing threshold, 2004

1	Number of decedents age 55 to 64	267,461	
2	Percentage leaving charitable bequest	4.7%	
3	Number leaving bequest (line 1 x line 2)	12,571	
4	Average net worth, this age group (SCF)	\$776,829	
5	Total estimated net worth for estates leaving bequests (line 3 x line 4)	\$9,765,271,429	
6	Percentage of net worth or gross estate value going to charity (Treas)	2.2%	
7	Estimated amount to charity from estates of decedents, 55-64 (line 5 x line 6)		\$214,835,971
8	Number of decedents age 65-74	404,642	
9	Percentage leaving charitable bequest	4.7%	
10	Number leaving bequest (line 8 x line 9)	19,018	
11	Average net worth, this age group (SCF)	\$741,384	
12	Total estimated net worth for estates leaving bequests (line 10 x line 11)	\$14,099,767,311	
13	Percentage of net worth or gross estate value going to charity (Treas)	5.2%	
14	Estimated amount to charity from estates of decedents, 65-74 (line 12 x line 13)		\$733,187,900
15	Number of decedents age 75+	1,410,833	
16	Percentage leaving charitable bequest	4.7%	
17	Number leaving bequest (line 15 x line 16)	66,309	
18	Average net worth, this age group (SCF)	\$512,631	
19	Total estimated net worth for estates leaving bequests (line 17 x line 18)	\$33,992,119,922	
20	Percentage of net worth or gross estate value going to charity (Treas)	7.8%	
21	Estimated amount to charity from estates of decedents, 75+ (line 19 x line 20)		\$2,651,385,354
23	Includes estate tax returns and non-filing estates (line 7 + line 14+ line 21)		\$3,599,409,225

SCF = Survey of Consumer Finances, released every three years by the Federal Reserve Board. Values for 2004 are estimated based on the 2001 edition of the survey, as 2004 data were not available in early 2005.

Treas. = U.S. Department of the Treasury.

The \$3.6 billion estimate is more than double previous *Giving USA* estimates of charitable bequest gifts from estates below the Federal Estate Tax threshold. The increase results from more precise information about assets and percentage of assets donated to charity by decedents

in given age ranges. The previous method was limited by its use of median for average bequest gift size as reported by charitable organizations responding to the *Giving USA* survey. That median was \$26,568. The new methodology yields an average total amount contributed per donor estate of \$36,767. In order to preserve the value of *Giving USA* as a record of historical trends, the new methodology has been applied retroactively to the years 1989 through 2003. The newly revised figures appear in Table 8, compared with an earlier edition and showing the percentage change from the initial to the revised estimates

Table 8
Initial and Revised Estimates of giving through bequest
(Billions of dollars)

	<i>Giving USA</i> 2004	IRS data for amount claimed on estate tax returns for year	Revised est. for non-filing estates	<i>Giving USA</i> 2005	% change GUSA 2004 to GUSA 2005
1989	6.97	5.67	1.17	6.84	- 1.9%
1990	7.64	5.53	1.26	6.79	-11.1%
1991	7.78	6.25	1.43	7.68	- 1.3%
1992	8.15	7.98	1.56	9.54	17.1%
1993	8.54	7.29	1.57	8.86	3.7%
1994	10.01	9.33	1.80	11.13	11.2%
1995	10.73	8.71	1.70	10.41	- 2.9%
1996	11.48	10.21	1.82	12.03	4.8%
1997	12.63	14.27	1.98	16.25	28.7%
1998	13.62	10.86	2.12	12.98	- 4.7%
1999	15.61	14.58	2.80	17.37	11.3%
2000	17.86	16.78	3.09	19.88	11.3%
2001	17.74	16.57	3.23	19.80	11.6%
2002	19.15	17.83	3.07	20.90	9.1%
2003	21.60	14.77	3.35	18.13	-16.1%

Summary of findings

This work reviews alternative methods for estimating charitable bequests and identifies the approach selected for use in *Giving USA* beginning with the 2005 edition.

One method for estimating bequest receipts relies on bequest receipt information provided by the 1,500 or so nonprofit organizations responding to the *Giving USA* survey each year. To an estimate based on those data is added gifts to foundations and to religious organizations found in the estate tax return data for the same year. *Giving USA* does not survey foundations or religious congregations on an annual basis. In time, as estate tax data are restricted to fewer and fewer estates or eliminated entirely if the estate tax is permanently repealed, this survey-based alternative may replace the current method. *Giving USA* will be developing these estimates and tracking them against available IRS data in order to evaluate this method more completely before implementing any further changes.

A second method takes national data to estimate the number of deaths of people aged 55 and above and using some projections for gross estate value and assumptions about charitable bequests as a percentage of estate value, estimates total charitable bequest contributions for the year. This method requires assumptions that could, with further research and field studies, be

tested and better quantified. Specifically, what percentage of decedents with estates of various sizes actually leave charitable bequests and what is the mean percentage of gross estate value that is distributed to charitable organizations through bequests. This method was tested with the other two and given the current lack of data about mean giving through bequest, it was not adopted. It remains, however, an option to consider should other data sources be developed or disseminated (e.g., if more states require returns from estates and share the data collected from them).

The third alternative, which was selected, combines survey results and the historical relationship between that survey and IRS data about bequest contributions. This approach uses survey results from the survey conducted annually by the Council for Aid to Education (CAE), which gathers responses from higher educational institutions that account for approximately 85 percent of all giving to colleges and universities. Historically, the CAE estimate for bequest contributions to higher education has been between 13 and 17 percent of the total amount that appears on estate tax returns once those data are available. From 1989 through 2003 the CAE figure has averaged 15.1 percent of the actual total ultimately reported by the IRS.

To the estimate of the amount that will be claimed as a charitable deduction on estate tax returns is an amount estimated to come from charitable bequests made by the estimated 113,000 to 200,000 estates that are currently below the federal estate tax filing threshold but that are believed to have estate plans that include bequests to charity.

Table 9 illustrates the two new components of the charitable bequest giving estimate for 2004.

		Note
Council for Aid to Education (CAE) estimate for 2003-2004	\$2.445	1
CAE result divided by 0.151 to yield estimate of giving by estates that file estate tax returns	16.20	2
Estimate, giving by estates below \$1 million, 2004	+ 3.60	
Bequest estimate	\$ 19.80	

1. Council for Aid to Education/RAND, Voluntary Support of Education, released spring 2005. See www.cae.org.
2. See Table 7 above.

Implications of this research

From 1995 through 2003, charitable bequests remained a substantial and growing amount of total charitable giving. Charitable bequest giving is most common, and at the highest amounts, among the wealthiest decedents. With nearly 20,000 “ultra-rich” (assets of \$30 million or more) in the U.S, according to a 2004 report released by CapGemini, including U.S. 200 billionaires on the Forbes 400 list of the world’s wealthiest, it is likely that charitable bequests will continue to be an important vehicle for charitable giving for some households. In interviews with high-net

worth individuals done by the Boston College Center on Wealth and Philanthropy have led researchers Paul Schervish and John Havens to conclude that in the absence of estate taxation, some donors might shift their giving toward *inter vivos* contributions such as creation of family foundations, charitable trusts, gift annuities, and pooled income funds (Schervish and Havens, 2003). But other work indicates that for some wealth holders, retaining ownership and control is a vital dimension. For these people, charitable bequests—even in the absence of taxation—are an important strategy for estate planning.

Many studies, using panel data over years of income tax and eventually estate tax, from the same individuals have found that gifts made by estates decrease as taxation is lowered. Tracking gifts by estates becomes especially important in light of the policy implications and for the information needs of nonprofit organizations. In the absence of tax data, alternatives must be found for measuring charitable bequests, otherwise no one will know the true impact of the repeal.

The revisions made in *Giving USA 2005* in estimating charitable bequests are one step in a longer process to prepare for the possibility that the estate tax may be repealed. This work looks at some alternative methods for estimating bequest giving and argues for a method that relies on a survey that has yielded an estimate for bequests to higher education that has historically been between 13 and 17 percent of total charitable bequests claimed on estate tax returns. This method has the advantage of monitoring changes in bequests received at higher educational institutions, which tracks shifts in estate planning methods, shifts in asset levels, and shifts in age at death. At the same time, *Giving USA* will continue to use its own organizational survey to estimate charitable bequests made to organizations other than foundations and religious organizations. Other data sources about bequests made to foundations (such as IRS Form 990-PF donor information or work by the Foundation Center) might be possible.

As charitable bequest data become less available at the federal level through 2010, we need to develop a method for evaluating *Giving USA*'s bequest estimates and for evaluating all estimates of charitable bequests made by non-filers (which will become a large fraction—possibly 100%—of the total estimate). Alternative data sources to be investigated include:

- Organizational surveys to gather more and more comprehensive data about charitable bequests received;
- Probate and other estate closing processes that could produce some public record of the financial value of estates;
- Surveys of financial advisors to collect and aggregate information about estate plans written by clients; and
- Household surveys to try to measure intent to leave a charitable bequest.

Throughout the period from 2005 through 2010, *Giving USA* must continue to seek methods to improve its estimation of charitable bequests. Should the estate tax be repealed permanently, an alternative estimating procedure must be tested and ready to put in place.

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