The Philanthropy **Outlook** 2019 & 2020

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

Introduction

With the impact of the Tax Cuts and Jobs Act (TCJA)[i] passed at the end of 2017 still unfolding and the stock market slowdown at year-end, 2018 was a transitional year in the charitable giving landscape. While these developments will continue to shape U.S. philanthropy in 2019 and 2020, the Indiana University Lilly Family School of Philanthropy and Marts & Lundy have taken careful measures to account for potential effects of the TCJA in the baseline projections produced by *The Philanthropy Outlook*'s forecasting model.[i] Meanwhile, the longer-term implications of market volatility at the end of 2018 have yet to be determined.

After a tumultuous year, the S&P 500 finished the year down by 6.2%.[2] At the outset of 2019, concerns persisted about factors such as a bleak manufacturing report from China, sluggish global economic growth, increasing U.S. interest rates, and a drop in oil prices. However, other economic indicators were more positive. Annual GDP growth is expected to have reached about 3% by the close of 2018, performing better than some analysts projected. While several experts have predicted the onset of a recession by the end of 2020, the U.S. is not currently in a prolonged economic downturn.

The Philanthropy Outlook provides nonprofit scholars and practitioners with critical information about the charitable giving environment in 2019 and 2020. This includes projected philanthropic contributions by donor source (individuals/households, foundations, bequests, and corporations) and gifts to three recipient subsectors (education, health, and public-society benefit). While many reports contain anecdotal predictions for charitable giving, *The Philanthropy Outlook* provides empirical data produced through rigorous analysis that fundraisers and nonprofits can use to develop effective strategies for their organizations in the coming years.

This edition of *The Philanthropy Outlook* projects giving for the years 2019 and 2020 in relation to the year 2018.[3] We explain how different economic variables will affect giving by source and to the three subsectors during these years, and provide additional context for the giving predictions. This context includes information about how broad economic conditions, in combination with specific policy changes, may alter the philanthropic landscape. We also offer insight on how overall giving and giving by source may also be affected by these contingencies.

SCENARIO ANALYSIS

To understand the full scope of the dynamic giving environment in 2019 and 2020, the macro-economic climate, as well as ongoing behavioral responses to the TCJA, must be taken into account. While no one can know exactly how the confluence of these factors will play out for American philanthropy in the coming years, we draw on recent economic forecasts and analyses of the law's anticipated effects to present three potential scenarios. These scenarios provide helpful context for the baseline projections outlined in this report.

Following descriptions of the three scenarios, this section of *The Philanthropy Outlook* also contains figures with the giving projections, as well as upper and lower bounds based on 10th and 90th percentile estimates for GDP.[ii]

[i] *Please see the Guide to the Philanthropy Outlook Model for details on how tax policy changes were accounted for in* The Philanthropy Outlook's *estimates for charitable giving in these years.*

[ii] *The 10th and 90th percentile GDP estimates used for these bounds were provided by the University of Pennsylvania Wharton School of Business.*

CONDITIONS THAT MAY AFFECT THE OUTLOOK FOR GIVING

Although the full impact of the TCJA on philanthropy still cannot be determined with certainty, multiple reports were released in 2018 that examine the combined effects of various elements of the legislation on charitable giving. In this section, we provide a recap of the major provisions of the TCJA that are expected to impact philanthropy in the coming years. We then summarize the results of recent analyses that have estimated how the legislation will affect total giving, primarily as a result of changes in individual/household giving.

PHILANTHROPY OUTLOOK 2019 & 2020

This section presents the projections for total giving, giving by source, and giving to the three recipient subsectors included in this report and describes how different economic variables will impact giving. Overall, Americans should expect philanthropic growth in the coming years:

- The growth rate for total giving is expected to rise above the historical 10-year, 25-year, and 40-year annualized average rates of growth.[4]
- All sources of giving are projected to increase their contributions in 2019 and 2020. Giving by foundations will see the largest increases in both years, followed by giving by bequest. Increases in gifts from individuals/households will be higher than the increases in contributions made by corporations.

Among the recipient subsectors, giving to health will increase the most in 2019, while giving to education will increase the most in 2020. In 2019 and 2020, the health subsector will be the only one among those analyzed to see giving rise above the 10-year, 25-year, and 40-year historical trends.

EMERGING TRENDS

In this section, we note important themes in the philanthropic sector and offer recommendations for use by practitioners in the course of their daily work. This year, we concentrate on high-net-worth philanthropy, offering a broad overview of patterns that have emerged before taking a closer look at various elements of high-net-worth giving.

METHODOLOGICAL OVERVIEW

This section provides a high-level summary of our methodology for creating *The Philanthropy Outlook* forecasting model and producing the charitable giving estimates. The Variable Definitions and Sources subsection explains exactly what the variables used in the forecasting model measure and where these variables are sourced. Finally, the Limitations subsection describes the limitations of using scientific methodology to predict future giving outcomes.

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

We hope *The Philanthropy Outlook 2019 & 2020* offers helpful insight on the complex factors influencing the philanthropic environment and assists you in making important decisions for the future of your organization.

Scenario Analysis

To understand the full scope of the dynamic giving environment in 2019 and 2020, the macro-economic climate, as well as ongoing behavioral responses to the Tax Cuts and Jobs Act (TCJA), must be taken into account. While no one can know exactly how the confluence of these factors will play out for American philanthropy in the coming years, we draw on recent economic forecasts and analyses of the law's anticipated effects to present three potential scenarios. These scenarios provide helpful context for the baseline projections outlined in this report.

The scenarios assume that the change in giving by individuals directly due to the TCJA is negative. While individuals/households will have a greater amount of after-tax income, the decrease in tax incentives for giving that virtually all individuals/households will see under the law will likely have a larger effect on giving than the effect of individuals/households having greater income. The 2017 Indiana University Lilly Family School of Philanthropy and Independent Sector *Tax Policy and Charitable Giving Results* report, which found that individuals/households are responsive to changes in their tax price of giving, supports this assumption.[5]

Giving by estates is not mentioned in the following scenarios because bequest giving is slower to respond to policy changes, and the timing of bequests can be difficult to predict from year to year. In general, strong market performance typically leads to higher bequest giving, which can be applied to all scenarios. Following descriptions of the three scenarios this section of *The Philanthropy Outlook* also contains figures with the giving projections, as well as upper and lower bounds based on 10th and 90th percentile estimates for GDP.[iii]

[iii] *The 10th and 90th percentile GDP estimates used for these bounds were provided by the University of Pennsylvania Wharton School of Business and are presented in Tables 1 and 2 of the Guide to the Philanthropy Outlook Model.*

The Uneven Growth Scenario

In June 2018, the Federal Reserve upgraded its economic outlook from earlier in the year, predicting 2.4% GDP growth in 2019 and 2% GDP growth in 2020.[6] The Fed also projected that the core personal consumption expenditures index (a measure of inflation) would hit 2.1% in 2019 and 2020. Additionally, the central bank expected the unemployment rate to drop to 3.5% in 2019 and 2020. In September 2018, the Fed raised its expectations slightly, forecasting 2.5% GDP growth for 2019, but leaving its 2020 GDP growth estimate, as well as most of the other projections, unchanged.[7]

Many studies predict the TCJA will stimulate the economy in the short-term, with GDP growth estimates ranging from an average of 0.3% to 0.9% over the first three years.[8] However, the Tax Policy Center (TPC) writes that the direct effects of the TCJA are regressive. While they benefit every income group overall, they provide the largest tax cuts to the highest income groups. Furthermore, when the notion that the cuts must be paid for is taken into account, the majority of low- and middle-income households would be worse off than if the TCJA had not passed.

Under this scenario, tax cuts to corporations and wealthy business owners would boost the economy, leading to additional jobs and higher wages. Although corporate tax cuts may ultimately increase wages, average Americans will have yet to see the benefits of the TCJA in 2019 and 2020. This trickle-down effect may not occur for several more years.

Estimates for total charitable giving would make many of the regressive effects of the tax law less apparent. Since high-net-worth individuals/households are already responsible for a large portion of individual/household giving, enough economic growth—even if concentrated almost entirely among the wealthy—would result in growth in individual/household giving. Meanwhile, the picture for corporate philanthropy is less clear: strong economic growth may not do enough to offset the decrease in tax incentives for giving, particularly if overall consumer sentiment is weak. However, foundation giving would be very strong due to S&P 500 and GDP performance.

The Flat Growth Scenario

In its *World Economic Outlook* released in April 2018, the International Monetary Fund (IMF) predicted significant U.S. economic growth in 2019 as a result of the TCJA, but anticipated growth momentum from the law would begin to decline in 2020.[9] The IMF expected that GDP growth would reach 2.7% in 2019, but slow by 2020, possibly even being weaker than it would have been had the TCJA not been enacted. The IMF also expressed growing concern about rising wages and inflation, which could create issues for the economy if the Fed responds with higher interest rates in the coming years.

In October 2018, the IMF reduced its forecast for global economic growth amid U.S. trade tensions with China and other countries that have impacted worldwide economic activity.[10] The IMF also lowered its projection for U.S. GDP growth to 2.5% in 2019. As a result of these developments, as well as possible delayed behavioral responses to the TCJA as individuals/households and corporations learn about its specific provisions, the full economic benefits of the legislation may not yet be realized in 2019 and 2020.

Under this scenario, total giving could stagnate or possibly decline because growth in the market and the economy would flatten by 2020. Individuals/households—still unclear about how to maximize the benefits of giving under the TCJA—may put off charitable contributions until they are more certain, dampening growth in individual/household philanthropy.

Due to S&P 500 and GDP growth realized in previous years, foundation giving would not immediately decline. Corporate giving may increase slightly, although this would largely depend on companies' reactions to the new corporate tax rates under the TCJA. Simultaneously, the law's distributional effects may accelerate long-run trends of divergent growth rates in giving to different nonprofit subsectors. For example, growth in giving to education, a popular recipient of high-net-worth philanthropy, may accelerate in relation to human services, which tends to attract more middle-income donors.

The Economic Downturn Scenario

In June 2018, a panel of National Association for Business Economics (NABE) experts predicted the TCJA would boost economic growth in 2019, but feared the U.S. could enter a new recession[iv] by 2020.[11] The panel projected GDP would rise by 2.7% in 2019, with individual and corporate tax cuts increasing growth by 0.3%. While current economic expansion is expected to continue into 2019, some forecasters expect the positive effects of the individual and corporate tax cuts to rapidly decline after the first two years, leading to recessionary conditions by the end of 2020.

In a poll conducted by NABE in August and September of 2018, two-thirds of U.S. economists predicted that a recession would begin before the close of 2020, with 10% expecting the downturn to start in 2019.[12] The surveyed economists cited trade policy as the main risk, with stock market volatility and higher interest rates also serving as contributing factors. Indeed, the stock market declined significantly in December 2018, with the Dow Jones Industrial Average experiencing its worst week since the height of the financial crisis in October 2008.[13]

Although reduced unemployment and increased wages are usually positive, they will eventually force corporations to raise prices, leading the Fed to increase interest rates more quickly.[14] Simultaneously, tax cuts and government spending will expand the federal deficit, also driving up interest rates and making borrowing more expensive for consumers and companies. Additionally, high asset prices and a sharp market decline will reduce wealth, further lowering household and business confidence and spending. This scenario would result in reductions in charitable giving across the board in 2019 and 2020.

[iv] *The National Bureau of Economic Research defines a recession as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. A recession begins just after the economy reaches a peak of activity and ends as the economy reaches its trough." This definition can be found at https://www.nber.org/cycles/jan2003.html*

Figure 1

PROJECTED GROWTH IN GIVING FOR 2019

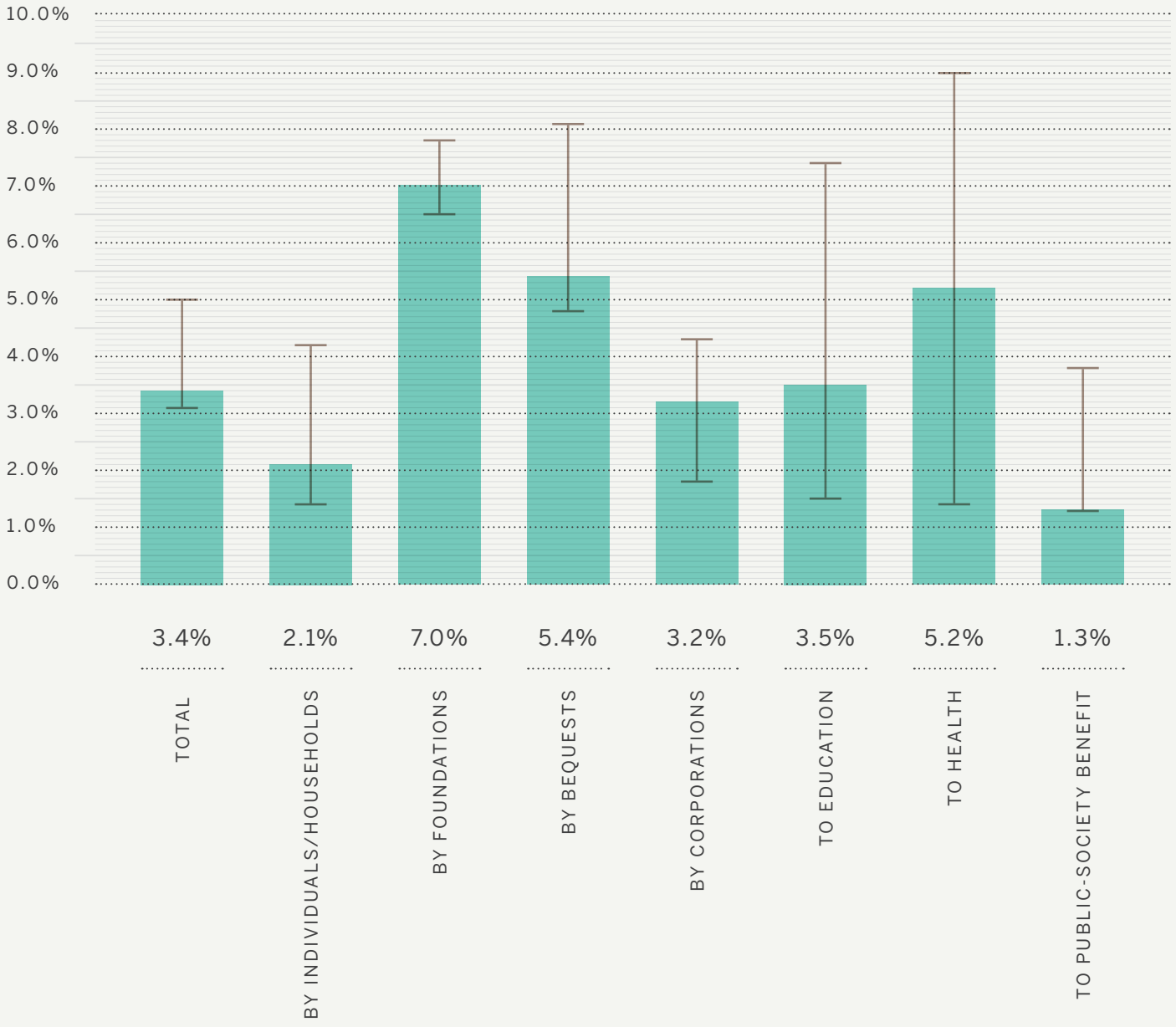
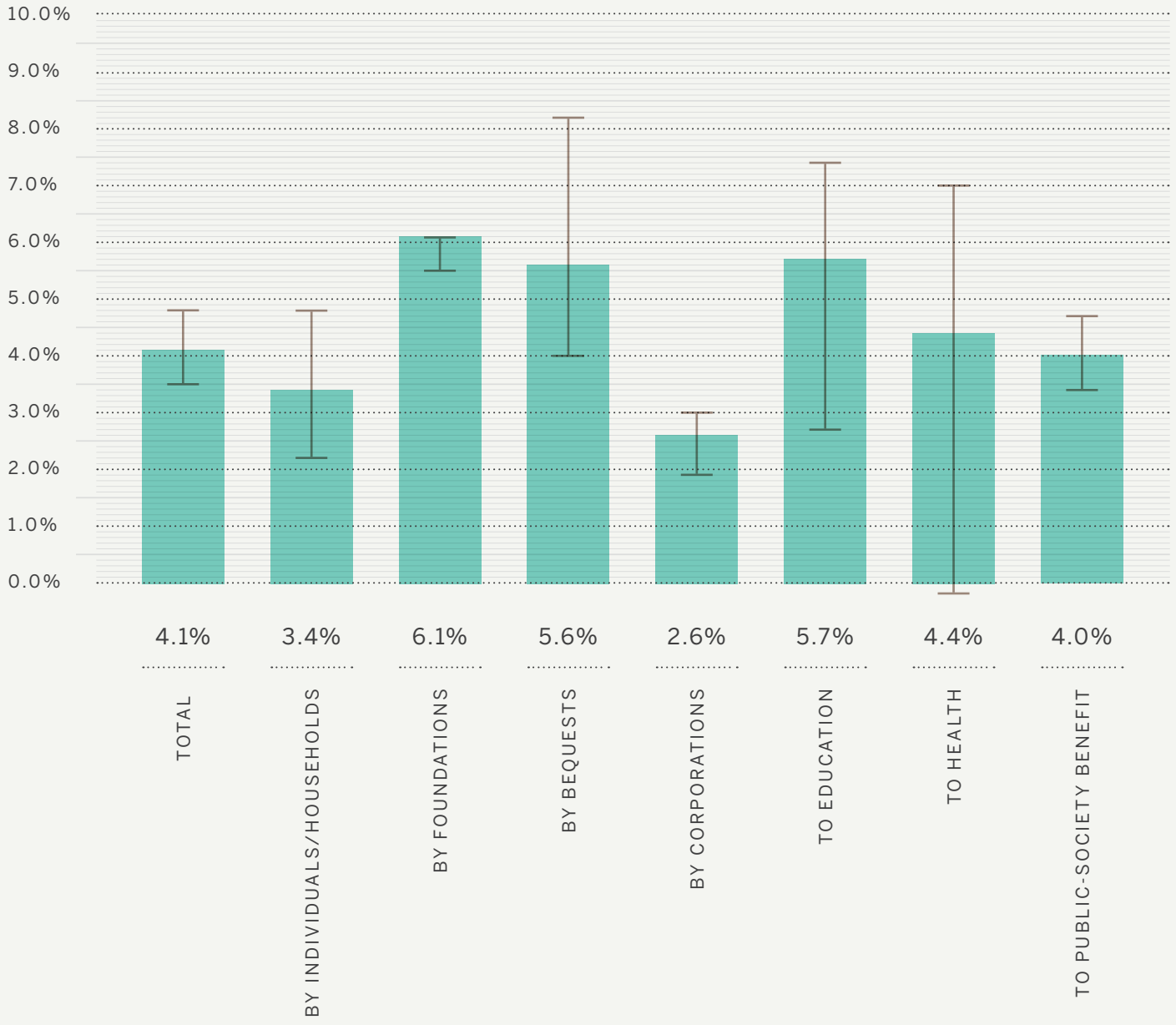
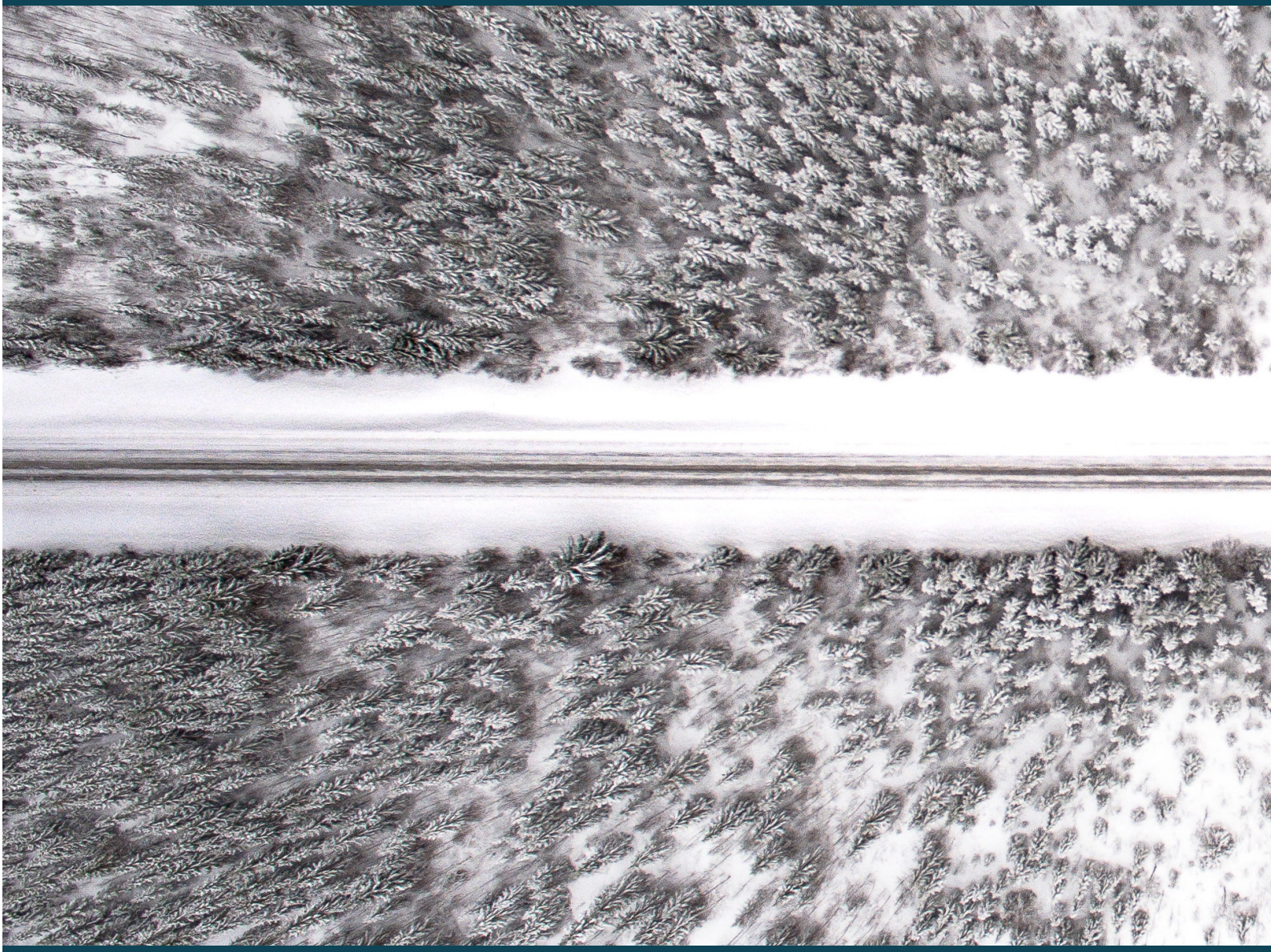


Figure 2

PROJECTED GROWTH IN GIVING FOR 2020



Conditions That May Affect the Outlook for Giving



On December 22, 2017, the Tax Cuts and Jobs Act (Public Law No: 115-97; previously H.R. 1) was signed into law, significantly changing federal tax policy. The law continues to raise questions about the effects of tax policy changes on charitable giving. Historically, research has shown that taxpayers adjust how much they donate to qualified charities in a given year based in part on whether their donations are tax deductible and how this deduction affects their tax liability. However, scholars do not agree on exactly how responsive donors are to changes in tax policy.

Although the full impact of the Tax Cuts and Jobs Act (TCJA) on philanthropy still cannot be determined with certainty, multiple reports were released in 2018 that examine the combined effects of various elements of the legislation on charitable giving. In this section, we provide a recap of the major provisions of the TCJA that are expected to impact philanthropy in the coming years. We then summarize the results of recent analyses that have estimated how the legislation will affect total giving, primarily as a result of changes in individual/household giving.

Overview of Tax Policy Changes

INDIVIDUAL GIVING

The TCJA increased the standard deduction from $6,350 in 2017 to $12,000 in 2018 for individuals and from $12,700 in 2017 to $24,000 in 2018 for couples with annual increases for inflation. Nearly doubling the standard deduction may substantially reduce individual/household giving due to a projected drop in the number of taxpayers who itemize their deductions. The law also decreased the top marginal tax rate for individuals and couples from 39.6% to 37%. Decreasing the top marginal tax rate could lead to a slight decline in individual/household giving by reducing the tax incentive to make charitable donations.

Additionally, the TCJA capped the state and local income, sales, and property tax deduction at $10,000. Capping the state and local tax (SALT) deduction may decrease individual/household giving by reducing the number of individuals who itemize, as well as affect to whom high-income households give. As of August 2018, several states had passed or were considering workarounds to the SALT deduction cap.[15] For example, New York, New Jersey, Connecticut, and Oregon have approved legislation that provides residents with state tax credits for certain charitable contributions.

Meanwhile, in August 2018, the IRS proposed rules limiting the federal deduction allowable to taxpayers who receive state and local tax credits for charitable donations.[16] With the exception of tax credits for 15% or less of the amount contributed, taxpayers claiming the charitable deduction must now reduce the amount claimed on their federal returns by the amount of the state or local credit they received.

BEQUESTS

The TCJA increased the estate tax exemption from $5.5 million in 2017 to $11.2 million in 2018 for individuals and from $11 million in 2017 to $22.4 million in 2018 for couples. Estates tend to respond more slowly to policy changes than other sources of giving. However, one study found a statistically significant link between increasing the exemption level for the estate tax and a decrease in bequest giving (likely due to a reduction in the tax incentive to give).[17] Donors may also be motivated to give more during their lifetimes if they know their estates will be subject to the estate tax.[18] Thus, fewer estates being subject to the tax under the new legislation could decrease lifetime contributions.

CORPORATIONS

The TCJA changed the corporate tax rate from bracketed tax rates with a top marginal rate of 35% to a flat rate of 21%. Research on the effects of tax reform on corporate giving is mixed. Some suggest that reducing the top corporate tax rate may decrease incentives for corporate giving.[19] Others expect companies to spend more in their communities as a result of the increased profits they are likely to see under the law.[20]

Indeed, several companies credited the TCJA for their increased generosity in 2018. For example, Best Buy allocated an additional $20 million for its corporate philanthropy, and U.S. Bank made a one-time contribution of $150 million to its foundation, both citing the new legislation.[21] However, philanthropy experts caution that this trend could be attributed to strategically timed public relations efforts and is unlikely to continue in the long term.

Impact of Tax Policy Changes on Charitable Giving

In January 2018, the Tax Policy Center (TPC) released a report estimating that the TCJA will lead to a 5% decrease in charitable giving, and that future donations will come from fewer and wealthier donors.[22] TPC projects that the law will reduce the number of households claiming the charitable deduction from approximately 37 million in 2017 to approximately 16 million in 2018.

TPC also predicts that the percentage of middle-income households claiming the charitable deduction will drop from around 17% to around 5.5%.[23] Among those earning between $86,000 and $150,000 annually, the share of households claiming the charitable deduction will fall from about 39% to about 15%. Additionally, TPC expects that the TCJA's changes to individual income tax rates will lower the average marginal benefit of giving from 20.7% to 15.2%. Although the marginal tax benefit of giving will decline substantially for low- and moderate-income itemizers, the highest-income itemizers' marginal tax benefit of giving will remain largely unchanged.

In a June 2018 report, American Enterprise Institute (AEI) predicted that the TCJA will reduce charitable giving by $17.2 billion, or 4%, on a static basis (assuming fixed GDP) and $16.3 billion, or 3.8%, on a dynamic basis (assuming modest economic growth).[24] AEI uses the Open Source Policy Center's Tax Calculator to analyze TCJA's impact on charitable giving by individuals.

The report projects that 83% of the decline in charitable giving will be driven by an increase in the number of taxpayers who claim the standard deduction.[25] AEI expects that 27.3 million taxpayers will switch from itemizing their deductions to claiming the standard deduction in 2018. The remainder of the decline in charitable giving is primarily associated with lower marginal tax rates for high-income Americans. The price of giving for the 19.9 million taxpayers who continue to itemize will increase slightly due to a decline in their marginal tax rate.

Finally, the University of Pennsylvania Wharton School of Business used its tax microsimulation model (Penn Wharton Budget Model) to estimate percent changes in charitable giving by income level in a report released in July 2018. Totaling the results across all income groups, the Penn Wharton Budget Model estimates that the TCJA will decrease total giving by about $22 billion, or 5.1%, in 2018.[26] The model also predicts a 9.6% decline in giving reported on individual tax returns.

Total Giving

2019 3.4% 2020 4.1%

Total giving is predicted to increase by 3.4% in 2019 and by 4.1% in 2020.[v]

In 2019 and 2020, total giving is expected to be higher than the historical 10-year, 25-year, and 40-year annualized average rates of growth.[27]

Specific factors that will significantly and positively influence total giving in 2019 and 2020 include:[vi]

- Above-average growth in the S&P 500 in preceding and projected years,
- Growth in personal income, and
- Growth in preceding years' GDP.

Year-over-year growth in the current year's S&P 500 influences individual/household giving for the subsequent year, especially giving by those with median and higher levels of income. In general, growth in personal income for all types of households will positively impact total giving in 2019 and 2020. In fact, growth in personal income will have the largest influence on total giving during these years.

Other factors that will positively influence total giving in 2019 and 2020 include close-to-average growth in household and nonprofit net worth in the preceding years and above-average growth in the number of itemizers in the projected years.

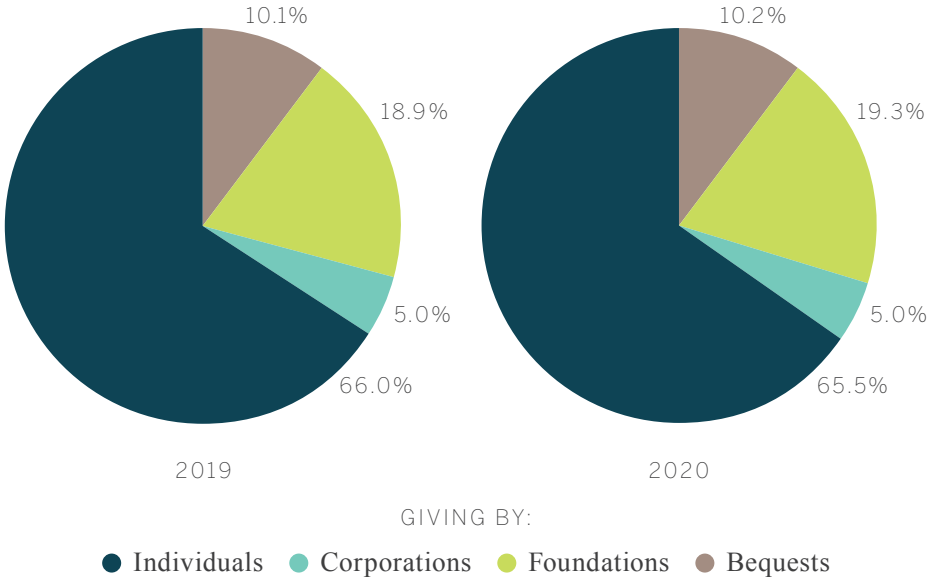
[v] *All growth rates are based on predictions for giving in inflation-adjusted 2017 dollars using 2018 as the base year.* The Philanthropy Outlook *projects the growth rates of variables into 2019 and 2020; predicted growth rates are compared with the variables' historical 10-, 25-, and 40-year annualized means. See Table 1 for these data.*

[vi] *The Scenario Analysis section of this report describes how changes in some of these factors may affect total giving.*

Figure 3

DISTRIBUTION OF TOTAL GIVING BY SOURCE FOR THE YEARS 2019 AND 2020

Figure 3 shows the proportion of total giving by each source for the years 2019 and 2020. In 2019, 66.0% of total giving is expected to derive from individuals/households, followed by 18.9% from foundations, 10.1% from estates, and 5.0% from corporations. In 2020, the proportion of giving from individuals/households will decline slightly, while the proportion of giving from estates and foundations will rise slightly. The proportion of giving from corporations will remain steady between 2019 and 2020.



Figures 4 and 5 show total giving in 10-year segments over the 40-year periods ending in 2019 and 2020. At 3.4%, the projected rate of growth for giving in 2019 is higher than the average growth rate of 2.9% in the 10-year period ending in 2019, as shown in Figure 4. At 4.1%, the rate of growth for giving in 2020 is also higher than the average growth rate of 3.1% in the 10-year period ending in 2020, as shown in Figure 5.

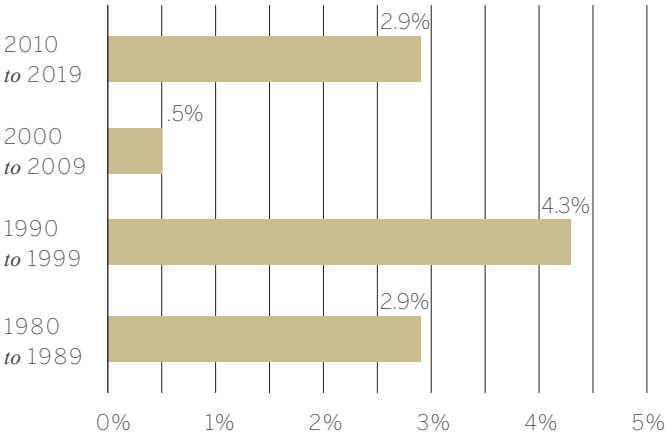


Figure 4

AVERAGE RATES OF CHANGE FOR GIVING, SELECTED TIME PERIODS, 1980–2019 *(Data are in inflation-adjusted dollars)*

Figure 4 shows that the estimated average rate of growth for giving in the 2000–2009 period (which includes the Great Recession) is the lowest of the last four decades, at 0.5%.[28] The 1990–1999 period saw the highest rate of growth in total giving, at 4.3%, reflecting the economic boom of the 1990s.

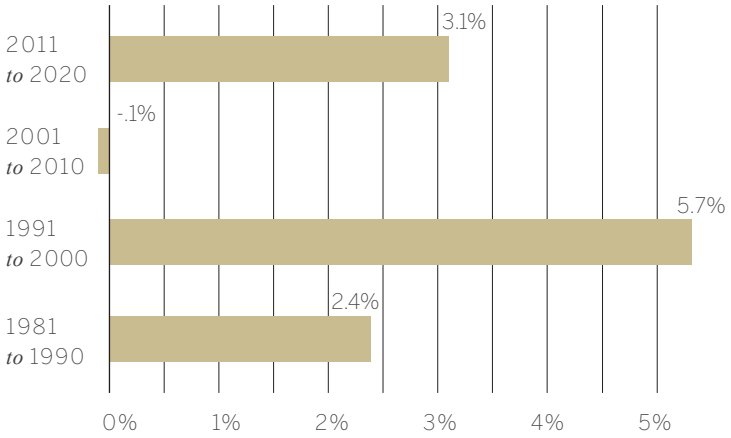


Figure 5

AVERAGE RATES OF CHANGE FOR GIVING, SELECTED TIME PERIODS, 1981–2020 *(Data are in inflation-adjusted dollars)*

Figure 5 shows the average annual rate of growth for giving in 10-year periods from 1981 to 2020.[29] The effects seen in Figure 4 are amplified here: the economic boom of the 1990s resulted in the largest increase in giving occurring during the 1991–2000 period (5.7%). Additionally, the sharp decline in giving during the Great Recession is responsible for a 0.1% decline in giving during the 2001–2010 period. Compared with Figure 4, the 2011–2020 period appears to demonstrate that total giving will return to long-term historical norms following the Great Recession.

Giving by Individuals/ Households

2019 2.1% 2020 3.4%

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

Giving by American individuals/households is predicted to increase by 2.1% in 2019 and by 3.4% in 2020.[vii]

The projection for giving by individuals/households in 2019 is above the flat rate of change for giving of this type during the prior 10-year period, but below the historical 25-year and 40-year annualized average rates of growth. In 2020, giving by individuals/households is expected to surpass the historical 10-year, 25-year, and 40-year annualized average growth rates.[30]

Contributions from itemizing households and non-itemizing households are included in the forecasts for individual/household giving for the years 2019 and 2020.[31]

Specific factors that will significantly and positively influence individual/household giving in 2019 and 2020 include:[viii]

- Growth in personal income,
- Close-to-average growth in household and nonprofit net worth, and
- Above-average growth in the number of itemizers.

A large body of work demonstrates, with few exceptions, the link between household income and wealth and philanthropic giving.[32] In general, as income and wealth increase, so do the amounts that households give to charity. An increase in the number of households that itemize deductions on their taxes suggests that median U.S. household income and wealth are growing.

The positive relationship between nonprofit net worth and giving likely reflects a connection between household giving and the financial health of charities. As charities grow, they are better able to invest in fundraising programs that drive household giving at the same time that households are in a better financial position to give.

[vii] *All growth rates are based on predictions for giving in inflation-adjusted 2017 dollars using 2018 as the base year.* The Philanthropy Outlook *projects the growth rates of variables into 2019 and 2020; predicted growth rates are compared with the variables' historical 10-, 25-, and 40-year annualized means. See Table 1 for these data.*

[viii] *The Scenario Analysis section of this report describes how changes in some of these factors may affect individual/household giving.*

Giving by Foundations

2019 7.0% 2020 6.1%

Giving by foundations includes grants to U.S. charities made by all American foundations. Community, private (including family), and operating foundations are among the types included in this prediction.[ix]

Giving by foundations is predicted to increase by 7.0% in 2019 and by 6.1% in 2020.[x]

The projections for giving by foundations (grantmaking) in 2019 and 2020 are above the historical 10-year annualized average growth rate of 3.5% and the historical 40-year annualized average growth rate of 5.4%. The foundation giving projection for 2019 is above the 25-year annualized average of 6.1%, while the grantmaking projection for 2020 is level with the 25-year annualized average.[33]

Specific factors that will significantly and positively influence foundation giving in 2019 and 2020 include:[xi]

- Above-average growth in the S&P 500 in the preceding and projected years, and
- Growth in the preceding year's GDP.[34]

These two factors will account for most of the predicted growth in giving by foundations in these years. Since foundations typically budget their giving based on asset growth, trends in the prior year's S&P 500 impact giving in the current year. As such, above-average predicted growth in the S&P 500 in 2018 and 2019 will influence strong foundation giving in 2019 and 2020.

The majority of the projected increase in foundation giving for the years 2019 and 2020 will be influenced by growth in the prior years' GDP. However, growth in giving positively influenced by rising GDP will be tempered by the projected rise in household and nonprofit net worth in the current and preceding years. This result may be due to foundations restraining giving during positive economic periods to save grant funding for economic downturns.[35]

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

[x] *All growth rates are based on predictions for giving in inflation-adjusted 2017 dollars using 2018 as the base year.* The Philanthropy Outlook *projects the growth rates of variables into 2019 and 2020; predicted growth rates are compared with the variables' historical 10-, 25-, and 40-year annualized means. See Table 1 for these data.*

[xi] *The Scenario Analysis section of this report describes how changes in some of these factors may affect foundation giving.*

Giving by Estates

2019 5.4% 2020 5.6%

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

Giving by estates is predicted to increase by 5.4% in 2019 and by 5.6% in 2020.[xii]

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

The projections for giving by estates in 2019 and 2020 are above the historical 10-year, 25-year, and 40-year annualized average rates of growth for giving of this type.[36]

Specific factors that will significantly and positively influence estate giving in 2019 and 2020 include:

- Above-average growth in the S&P 500, and
- Close-to-average growth in household and nonprofit net worth in the preceding years.[37]

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

Giving by estates can vary greatly from year to year. This volatility is mostly due to very large bequests made by a few estates in a given year. Therefore, a significant increase one year will suppress the rate of growth in giving the following year. The projected increase in bequest giving in 2019 and 2020 will hold unless substantially large gifts are made in 2018 or 2019.

[xii] *All growth rates are based on predictions for giving in inflation-adjusted 2017 dollars using 2018 as the base year.* The Philanthropy Outlook *projects the growth rates of variables into 2019 and 2020; predicted growth rates are compared with the variables' historical 10-, 25-, and 40-year annualized means. See Table 1 for these data.*

Giving by Corporations

2019 3.2% 2020 2.6%

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

Giving by corporations is predicted to increase by 3.2% in 2019 and by 2.6% in 2020.[xiii]

The projections for giving by corporations in 2019 and 2020 exceed the historical 10-year annualized average rates of growth. In 2019, corporate giving is expected to surpass the historical 25-year and 40-year annualized average growth rates, while corporate giving is predicted to be below the 25-year and 40-year annualized averages in 2020.[38]

Specific factors that will significantly and positively influence corporate giving in 2019 and 2020 include:[xiv]

- Growth in GDP, and
- Above-average growth in corporate saving.

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

Increases in corporate profit for 2019 and 2020, as well as declines in consumer sentiment for the preceding and projected years, may moderate the positive results projected for corporate giving in these years.[39] The negative influence of current-year corporate profits on corporate giving may reflect a reduced need to use philanthropy as a marketing tool and increased current-year production costs that tap into the same company resources used for philanthropic initiatives.[40]

[xiii] *All growth rates are based on predictions for giving in inflation-adjusted 2017 dollars using 2018 as the base year.* The Philanthropy Outlook *projects the growth rates of variables into 2019 and 2020; predicted growth rates are compared with the variables' historical 10-, 25-, and 40-year annualized means. See Table 1 for these data.*

[xiv] *The Scenario Analysis section of this report describes how changes in some of these factors may affect corporate giving.*

Giving to Education

2019 3.5% 2020 5.7%

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

Giving to education is predicted to increase by 3.5% in 2019 and by 5.7% in 2020.[xv]

The projection for giving to education in 2019 is higher than the historical 10-year and 40-year annualized average growth rate for giving of this type, but lower than the 25-year annualized average.[41] In 2020, education giving is predicted to exceed the 10-year, 25-year, and 40-year annualized averages.

Specific factors that will significantly and positively influence education giving in 2019 and 2020 include:

- Growth in GDP,
- Growth in consumer expenditures on education services in the preceding years, and
- Growth in consumer expenditures on health in the preceding and projected years.

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

Above-average growth in the S&P 500, as well as growth in consumer expenditures on social services and religion and consumer expenditures on community school services in the preceding years, will also have a positive effect on education giving in 2019 and 2020. However, growth in personal disposable income and close-to-average growth in consumer expenditures on nonprofit services in the preceding and projected years will temper these positive effects.[42]

[xv] *All growth rates are based on predictions for giving in inflation-adjusted 2017 dollars using 2018 as the base year.* The Philanthropy Outlook *projects the growth rates of variables into 2019 and 2020; predicted growth rates are compared with the variables' historical 10-, 25-, and 40-year annualized means. See Table 1 for these data.*

Giving to Health

2019 5.2% 2020 4.4%

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

Giving to health is predicted to increase by 5.2% in 2019 and by 4.4% in 2020.[xvi]

The current projections for giving to health in 2019 and 2020 are higher than the historical 10-year, 25-year, and 40-year annualized average rates of growth for giving of this type.[43]

Specific factors that will significantly and positively influence health giving in 2019 and 2020 include:

- Growth in GDP,
- Close-to-average growth in household and nonprofit net worth,
- Growth in consumer expenditures on healthcare services,
- Growth in consumer expenditures on nursery to high school education, and
- Growth in consumer expenditures on education services in the preceding years.

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

However, above-average growth in consumer expenditures on pharmaceuticals and growth in consumer expenditures on nonprofit services in the preceding and projected years will temper these positive effects.[44]

[xvi] *All growth rates are based on predictions for giving in inflation-adjusted 2017 dollars using 2018 as the base year.* The Philanthropy Outlook *projects the growth rates of variables into 2019 and 2020; predicted growth rates are compared with the variables' historical 10-, 25-, and 40-year annualized means. See Table 1 for these data.*

Giving to Public-Society Benefit

2019 1.3% 2020 4.0%

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

Giving to public-society benefit is predicted to increase by 1.3% in 2019 and by 4.0% in 2020.[xvii]

The projections for giving to public-society benefit in 2019 are below the historical 10-year, 25-year, and 40-year annualized average rates of growth for giving of this type.[45] In 2020, public-society benefit giving is predicted to surpass the historical 10-year annualized average growth rate, but will be lower than the 25-year and 40-year annualized averages.

Specific factors that will significantly and positively influence public-society benefit giving in 2019 and 2020 include:

- Close-to-average growth in household and nonprofit net worth,
- Above-average growth in total giving,
- Growth in consumer expenditures on foreign travel, and
- Growth in consumer expenditures on recreation services in the preceding years.

These factors account for the majority of the predicted growth in giving to public-society benefit in these years.[46]

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

[xvii] *All growth rates are based on predictions for giving in inflation-adjusted 2017 dollars using 2018 as the base year.* The Philanthropy Outlook *projects the growth rates of variables into 2019 and 2020; predicted growth rates are compared with the variables' historical 10-, 25-, and 40-year annualized means. See Table 1 for these data.*

Table 1

HISTORICAL ANNUALIZED AVERAGE RATES OF CHANGE FOR GIVING

	10-Year Average	*25-Year Average*	*40-Year Average*
TOTAL	1.1%	3.0%	2.7%
INDIVIDUALS	0.4%	2.6%	2.2%
FOUNDATIONS	3.5%	6.1%	5.4%
BEQUESTS	2.1%	2.8%	3.1%
CORPORATIONS	2.4%	3.1%	3.6%
EDUCATION	1.6%	3.8%	3.4%
HEALTH	2.5%	3.8%	2.2%
PUBLIC-SOCIETY BENEFIT	2.3%	4.5%	4.4%

These data are drawn from historical giving data found in *Giving USA 2018: The Annual Report on Philanthropy for the Year 2017.*
Data are adjusted for inflation to 2017 dollars.

Emerging Trends

According to several reports, the number of donors, especially those with mid-level incomes or below, is shrinking.[47] In addition, volunteering rates are declining, hitting a 15-year low in 2015.[48] One recent report by the Association for Fundraising Professionals found that the number of smaller gifts (those of $1,000 or less), as well as the number of donors, had slightly decreased compared with 2017 as of the third quarter of 2018.[49]

At the same time, several recent studies have found that the vast majority of high-net-worth donors continue give to charity, and consider philanthropy a priority.[50] These trends suggest that giving by high-net-worth individuals will likely continue to become more prominent in the next two years, especially as mid-level donors navigate the way the Tax Cuts and Jobs Act (TCJA) may impact their filing status.[51] This section offers a broad overview of patterns that have emerged before taking a closer look at the various elements within high-net-worth giving.

RISE IN HIGH-NET-WORTH GIVING

Since wealth is associated with charitable giving, the growth in high-net-worth philanthropy may reflect changes in household income over the last twenty years. According to the Census Bureau, the top 20% of U.S. households received 51.1% of U.S. income in 2015 (the last year for which data is available).[52] The top 40% took in 74.3% of U.S. income. That year, the top 5% of U.S. households alone took in 22.1% of U.S. income.

By comparison, in 1995, the top 20% of U.S. households received 48.7% of U.S. income. The top 40% took in 72% of U.S. income.[53] That year, the top 5% of U.S. households alone took in 21% of U.S. income. Though these margins may seem small, the dollar amount is substantial.

One study finds that the causes associated with high-net-worth giving have shown long-term growth. *The Chronicle of Philanthropy* released America's Favorite Charities 2018, a list of the top 100 cause-driven nonprofit organizations that received the most cash and stock in the previous calendar year.[54] Charities associated with high-net-worth giving, such as gifts to higher education, health, and medical centers, have fared especially well over time, growing 44% from 2007 to 2017.

High-net-worth giving is expected to continue to be an important part of charitable giving in the next few years in the wake of the TCJA. It should be noted that high-net-worth donors are not entirely insulated from the changes brought on by the TCJA: one recent study found that 59% of high-net-worth individuals planned to itemize their income tax returns in 2018 (down from 72% in 2017). Nevertheless, 84% of survey respondents also said they plan to continue to maintain their level of charitable giving even after the TCJA.[55]

ULTRA-HIGH-NET-WORTH GIVING

Among the wealthiest Americans, assets continue to grow. The net worth of the 400 wealthiest U.S. residents grew from $2.7 trillion in 2017 to a record $2.9 trillion in 2018, according to the annual *Forbes 400* list.[56] Each *Forbes 400* member was worth an average of $7.2 billion in 2018, an increase from $6.7 billion in 2017. Many of these ultra-high-net-worth donors have made a long-term commitment to philanthropy through the Giving Pledge.

The Giving Pledge is an initiative started by Bill Gates and Warren Buffet, in which participants promise to give away more than half of their fortunes during their lifetime or after their deaths.[57] The Giving Pledge is not a legally binding obligation to disburse funds, but rather a way to publicly commit to philanthropic activities and encourage other high-net-worth individuals to donate to charitable causes.

Created in 2010, the Giving Pledge includes 187 of the world's wealthiest individuals and families as of December 2018.[58] Among them, at least 143 reside in the United States.[59] Giving Pledge participants are interested in a diverse range of areas and causes, but patterns do emerge. Consistent with academic research on high-net-worth giving trends, their primary areas of interest are health, human services, education, and arts and culture.[60]

ENGAGING DIVERSE HIGH-NET-WORTH DONORS

Although some patterns in high-net-worth giving have been found, the group is far from homogenous. Recent studies have highlighted patterns that arise when high-net-worth donors are separated by age, gender, and race/ethnicity. Researchers are just beginning to study and better understand the motivations and patterns associated with high-net-worth donors of color.[61]

A recent report found that African-American donors prioritized giving back to their communities, and were highly strategic about their philanthropic goals.[62] Another recent study found unique differences in the African-American high-net-worth donor population as well. According to the Indiana University Lilly Family School of Philanthropy's most recent *U.S. Trust Study of High Net Worth Philanthropy*, 72% of African-American high-net-worth donors gave to basic needs charities, far outpacing the rate of giving to basic needs charities by the overall study population (54%).[63] In addition, 49% of the overall study population gave to religious organizations, but a far greater percentage of African-American donors (64%) and Latino/Hispanic donors (59%) gave to these causes.

Women tend to give in patterns that differ from male donors. Not only are women more likely to volunteer than men, but they also reported participating in impact investing at a higher rate than the general study population of the *U.S. Trust Study of High Net Worth Philanthropy*.[64] One study found that within women's giving patterns, differences emerge between women of different generations, with Millennial women more likely to donate to many different charities and use new giving vehicles, and Baby Boomer women more likely to focus their giving strategically on only a handful of organizations.[66]

These patterns are particularly important to observe as the number of high-net-worth women continues to grow: 57 women were named on the most recent *Forbes 400* list, growing from 55 female *Forbes 400* members in the previous year.[66] The wealth of the women on the list also grew 4.8%, from $315 billion in 2017 to $330 billion in 2018.[67]

Methodological Overview

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

This edition of *The Philanthropy Outlook* produces forecasts for the annual growth rates and levels of individual/household, foundation, estate, and corporate giving, as well as giving to education, health, and public-society benefit for the years 2018 through 2020.[68] The forecast for total giving is produced as the sum of the four donor components. Collectively, 29 different variables, plus lagged values for many of these variables, were incorporated into the final models for giving by donor and recipient subsectors.

In the initial stages of methodological development, all possible combinations of variables were compared, resulting in more

than 100,000 regressions for individual/household giving alone. Fewer regressions were needed for the three remaining components. For each component, the best model was selected by first considering its explanatory power through 2017. The models with the best explanatory power were then re-estimated through 2006. One-year-ahead forecasts were constructed through 2017 for these models, and the best model was selected as the one with the lowest root-mean-squared error (RMSE).[69] We relied on historical data from *Giving USA: The Annual Report on Philanthropy* and available IRS data.

See Figure 1 in the Guide to the Philanthropy Outlook Model for a comparison of actual versus predicted growth rates for total giving for the years 2006 to 2016, as well as the "Variable Definitions and Sources" section for a list of the

candidate variables. We know that events can sometimes have a delayed effect on giving. For that reason, we considered previous-year and contemporaneous values of the explanatory variables, as well as previous-year values of the dependent variables (i.e., historical giving values).

For the individual/household and corporate giving models, it is not practical to test all variables at the same time. Instead, we adopted a three-step approach. In the first step, only the current values of the candidate variables were included in the regression. The best model within this set was referred to as the "base model." The selection procedure was implemented over all possible combinations of the lagged variables added to the base model. The best model following this step was the "revised model."

In the third step, the selection procedure was run over all possible combinations of variables in the revised model. Any variables included in the final models from previous editions of *The Philanthropy Outlook* were also included for testing. The result was the "final model." The estate and foundation models were estimated in a single step because the number of candidate variables was small enough that the previous and current values of the variables could be evaluated in one program.

The models for estimating giving to the recipient subsectors were developed using a modified version of the aforementioned individual/household and corporate giving models. In general, giving to the recipient subsectors is difficult to predict, as each of the subsectors experiences unique conditions that affect giving. Moreover, because there are several subsectors that receive gifts from the four major donor types, the subsectors experience more variance in giving on a year-to-year basis than do the sources of giving. To adjust for these factors, additional steps were added to the original three-step approach.

When using the "base model" approach, we tested all combinations of a set of subsector-specific variables. These variables were derived from the different types of personal consumer expenditures, which allowed us to evaluate variables specific to each subsector. Next, the variables were tested with the lag of all personal giving variables, and the resultant list was tested with the lag of all subsector-specific variables. This "revised model" was then tested against all possible permutations of itself, along with variables from prior years' models, which resulted in the "final model" for each subsector.

Tables 4 and 5 in the Guide to the Philanthropy Outlook Model describe the models for each source of giving and for giving to the recipient subsectors. Note that for each source of giving, with the exception of giving by estates, the adjusted R^2s (coefficients of determination) are high. Moreover, the signs of the coefficients are generally consistent with economic theory that giving responds positively to increases in the ability to give and general economic conditions. See Table 6 in the Guide to the Philanthropy Outlook Model to reference the ratio of RMSE to the standard deviation for each giving prediction.

The forecasts of the different components were processed using the final version of each model and covered 2018 to 2020.[70] Implementing the forecasts entailed auxiliary models for the explanatory variables (i.e., independent variables). These auxiliary models are described in the Guide to the Philanthropy Outlook Model.

Variable Definitions and Sources

Independent Variables[71]

CONSUMER SENTIMENT

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

CORPORATE PROFITS

Corporate profits are corporate income after subtracting expenses. Data for corporate profits come from the Bureau of Economic Analysis, U.S. Department of Commerce, https://fred.stlouisfed.org/series/CPROFIT#0

CORPORATE SAVING

Corporate saving is corporate profits that are left over after taxes and dividend payments. Data for corporate saving come from the Bureau of Economic Analysis, U.S. Department of Commerce, https://fred.stlouisfed.org/series/B057RC1Q027SBEA#0

EMPLOYMENT

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

GROSS DOMESTIC PRODUCT

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

HOUSEHOLD AND NONPROFIT NET WORTH

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

TAX DUMMY

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

INDIVIDUAL/HOUSEHOLD ITEMIZERS AND NON-ITEMIZERS

Itemizers refer to those taxpayers who can itemize certain expenses on their household taxes, as opposed to taking the standard deduction. Data for the number of itemizers come from the Internal Revenue Service (IRS), https://www.irs.gov/statistics. Data for non-itemized giving come from the Philanthropy Panel Study, Indiana University Lilly Family School of Philanthropy, https://philanthropy.iupui.edu/research/current-research/philanthropy-panel-study.html, and *Giving USA 2018: The Annual Report on Philanthropy for the Year 2017*, researched and written by Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, https://www.givingusa.org

INTEREST RATE FOR GOVERNMENTAL SECURITIES

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

PERSONAL CONSUMPTION EXPENDITURES

Personal consumption is a measure of personal consumption expenditures, or goods and services purchased by U.S. residents. Data for personal consumption come from FRED, from https://fred.stlouisfed.org/series/PCEC96#0

PERSONAL CONSUMER EXPENDITURES INDEX[72]

"Personal consumer expenditures is the primary measure of consumer spending on goods and services in the U.S. economy. It accounts for about two-thirds of domestic final spending, and thus it is the primary engine that drives future economic growth. Personal consumer expenditures shows how much of the income earned by households is being spent on current consumption as opposed to how much is being saved for future consumption."[73] Data on consumer expenditures come from FRED, https://fred.stlouisfed.org/series/PCECTPI#0

PERSONAL INCOME

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

THE S&P 500

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

Dependent Variables

GROWTH RATE FOR INDIVIDUAL/HOUSEHOLD GIVING

The growth rate for individual/household giving includes cash and non-cash donations to U.S. charities contributed by all U.S. individuals and households (including those who itemize their charitable contributions on their income taxes and those who do not). Historical data for the growth rate in individual/household giving were derived from *Giving USA 2018: The Annual Report on Philanthropy for the Year 2017*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, https://www.givingusa.org

GROWTH RATE FOR FOUNDATION GIVING

The growth rate for foundation giving includes grants to U.S. charities contributed by all U.S foundations. Historical data for the growth rate in foundation giving were derived from *Giving USA 2018: The Annual Report on Philanthropy for the Year 2017*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, https://www.givingusa.org. Foundation giving data in *Giving USA* are based on estimates produced by the Foundation Center (www.foundationcenter.org) and include grants from community, private (including family), and corporate foundations.

GROWTH RATE FOR ESTATE GIVING

The growth rate for estate giving includes cash and non-cash donations (bequests) to U.S. charities contributed by all U.S. estates (including those who itemize their charitable contributions on their estate taxes and those who do not). Historical data for the growth rate in estate giving were derived from *Giving USA 2018: The Annual Report on Philanthropy for the Year 2017*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, https://www.givingusa.org

GROWTH RATE FOR CORPORATE GIVING

The growth rate for corporate giving includes cash and non-cash IRS itemized donations to U.S. charities contributed by all U.S. corporations and corporate foundations. Historical data for the growth rate in corporate giving were derived from *Giving USA 2018: The Annual Report on Philanthropy for the Year 2017*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, https://www.givingusa.org

GROWTH RATE FOR EDUCATION GIVING

The growth rate for education giving includes cash and non-cash donations from itemizing and non-itemizing U.S. households to U.S. educational charities, including institutions of higher education, private K-12 schools, vocational schools, libraries, educational research and policy, and other types of organizations serving educational purposes. Historical data for the growth rate in education giving were derived from *Giving USA 2018: The Annual Report on Philanthropy for the Year 2017*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, https://www.givingusa.org

GROWTH RATE FOR HEALTH GIVING

The growth rate for health giving includes cash and non-cash donations from itemizing and non-itemizing U.S. households to U.S. health charities, including nonprofit community health centers, hospitals, and nursing homes; organizations focused on the treatment and/or cure of specific diseases; emergency medical services; wellness and health promotion; mental healthcare; health research; and other types of health organizations. Historical data for the growth rate in health giving were derived from *Giving USA 2018: The Annual Report on Philanthropy for the Year 2017*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, https://www.givingusa.org

GROWTH RATE FOR PUBLIC-SOCIETY BENEFIT GIVING

The growth rate for public-society benefit giving includes cash and non-cash donations from itemizing and non-itemizing U.S. households to U.S. public-society benefit charities, including independent research facilities, community development organizations, human and civil rights organizations, philanthropy associations, national donor-advised funds, United Ways, federated charities, and other types of organizations. Historical data for the growth rate in public-society benefit giving were derived from *Giving USA 2018: The Annual Report on Philanthropy for the Year 2017*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, https://www.givingusa.org

Limitations

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

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

This year's edition of *The Philanthropy Outlook* is also limited by the effects of the Tax Cuts and Jobs Act (TCJA) that are still unfolding. While we have confidence in the measures we have taken to adjust for this policy change (i.e., our data partnership with the University of Pennsylvania Wharton School of Business and the inclusion of key variables directly affected by TCJA in the models), these sweeping reforms represent an out-of-sample change, with possible behavioral effects that are difficult to predict.

For instance, some theorize that the predicted drop in individual giving due to some households losing access to the charitable deduction will not be fully realized until those households have filed their 2018 taxes and determined they are no longer itemizers. This would manifest in the data as the predicted decrease being spread out over 2018 and 2019, instead of being entirely felt in 2018. This is just one example of how the unpredictable impact of the TCJA may affect the accuracy of *The Philanthropy Outlook*'s predictions.

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

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

[36] Prior-year projections are not included in this report. Data for years prior to 2018 come from *Giving USA 2018: The Annual Report on Philanthropy for the Year 2017*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[37] Growth in charitable giving is often driven by prior-year growth in specific economic variables. For estate giving, this is true for household and nonprofit net worth.

[38] Prior-year projections are not included in this report. Data for years prior to 2018 come from *Giving USA 2018: The Annual Report on Philanthropy for the Year 2017*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

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

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

[41] Prior-year projections are not included in this report. Data for years prior to 2018 come from *Giving USA 2018: The Annual Report on Philanthropy for the Year 2017*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[42] Other factors that will affect education giving, both positively and negatively, include the difference in the personal savings rate, growth in the number of itemizers, growth in individual/household giving, and growth in consumer expenditures on recreation in the preceding years.

[43] Prior-year projections are not included in this report. Data for years prior to 2018 come from *Giving USA 2018: The Annual Report on Philanthropy for the Year 2017*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[44] Other factors that will affect health giving, both positively and negatively, include growth in total giving and growth in consumer expenditures on clothing.

[45] Prior-year projections are not included in this report. Data for years prior to 2018 come from *Giving USA 2018: The Annual Report on Philanthropy for the Year 2017*, researched and written by the Indiana University Lilly Family School of Philanthropy and published by Giving USA Foundation, www.givingusa.org

[46] Other factors that will affect public-society benefit giving, both positively and negatively, include above-average growth in the S&P 500 in the preceding years, the difference in the personal savings rate in the preceding years, growth in personal savings in the preceding years, growth in consumer expenditures on foreign travel in the preceding years, growth in consumer expenditures on pharmaceuticals in the preceding years, and growth in consumer expenditures on recreation in the preceding years.

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