More Giving or More Givers? The Effects of Tax Incentives on Charitable Donations in the UK*

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Abstract

This paper estimates the effects of tax incentives on charitable contributions in the UK, using the universe of self-assessment income tax returns between 2005 and 2013. We exploit variation from a large reform in 2010 to estimate intensive and extensive-margin tax-price elasticities of giving. Using a predicted-tax-rate instrument for the price of giving relative to consumption, we find an intensive-margin elasticity of about -0.2 and an extensive-margin elasticity of -0.1, yielding a total elasticity of about -0.3. To further explore the extensive-margin response, we propose a model with a fixed cost of declaring donations and obtain a structural estimate of that cost of around £47. We also study the welfare effects of tax incentives, extending the theoretical literature to allow for extensive-margin giving and for a fixed cost of declaring donations. Taking into account these factors, there is a case for increasing the subsidy on charitable giving in the UK.

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1 Introduction

Most tax systems provide preferential treatment to charitable donations through deductions or tax credits. The goal of this subsidy is to support the private provision of goods and services considered beneficial for society. However, this policy is potentially costly for the government. For example, the cost of tax relief for charitable donations through the Gift Aid program in the UK was more than £1.8 billion in foregone revenue in 2015/16 (HMRC, 2018).

Standard economic theory suggests that subsidizing charitable giving may be desirable if it induces a large enough increase in donations (Saez, 2004). Hence, in order to evaluate the welfare implications of these tax reliefs, one of the key parameters needed is the elasticity of charitable donations with respect to their tax price (relative to consumption). Under full deductibility, the tax price of giving is simply one minus the marginal tax rate. Although there is a large empirical literature focused on this tax-price elasticity dating back to Feldstein (1975), the large majority of studies have focused on intensive-margin donation responses, largely ignoring the extensive margin. This may be due to data limitations and, in the case of the US income tax, to the possibility of claiming a "standard deduction" instead of reporting itemized deductions.

Taking into account the extensive-margin donation responses to changes in the price of giving is important for a number of reasons. First, as we show formally in Section 5 below, the key parameter to evaluate the welfare effects of changes in the tax price of giving is the *total* tax-price elasticity of giving, which is the sum of the intensive and extensive-margin tax-price elasticities.

Second, evidence from several countries suggests that shows that most taxpayers who are eligible to deduct donations from their tax liabilities do not report any giving (Fack and Landais, 2010), and that one cause of this might be optimization frictions in the form of a cost of recording and documenting small donations.[1] In the UK, for example, the Charities Aid Foundation conduct a large annual survey of charitable giving behavior, which finds that the proportion of respondents making some monetary donation within a year is around 60 percent (Charities Aid Foundation, 2018). This is in stark contrast with the proportion of self-assessment taxpayers who report a deduction in our data, which is only 11 percent. Second, in a recent paper, Gillitzer and Skov (2018) study a 2008 reform in Denmark that allowed pre-population of tax returns with

[1]Even though the US is often cited as having a high proportion of taxpayers reporting charitable donations, the actual share is lower due to the choice between itemized and standard deductions. While 81 percent of itemizers reported charitable donations in 2015 (`www.irs.com/articles/5-popular-itemized-deductions`), itemizers only represent about 30 percent of all filers. Thus, only 25 percent of US taxpayers actually claim a deduction for donations in their tax returns.

donations recorded by charities. Comparing declarations before and after the reform, they conclude that about half the donors in the pre-2008 period were not reporting their donations. They attribute this to various optimization frictions, including compliance costs. Therefore, understanding these costs of reporting, and how tax policies interact with them to determine extensive-margin donation responses, is particularly important.[2]

In this paper, we use an administrative panel dataset of tax returns from the UK for the period 2005-2013 and exploit a large tax reform in 2010 to study how charitable donations respond to tax incentives at both the intensive and the extensive margin. To our knowledge, this is the first paper to measure extensive-margin donation responses to tax-induced changes in the price of giving. We also make a second original contribution by estimating a structural model of both margins of giving, with the objective of estimating the compliance costs of making a deduction (e.g. cost of record-keeping, etc).[3]

For our empirical analysis, we have access to the universe of self-assessment income tax returns for the fiscal years 2004/05 through 2012/13. Self-assessment tax returns must be submitted by taxpayers above an income threshold (currently £100,000), the self-employed, and other taxpayers with substantial non-labor income or want to claim specific deductions. The administrative panel dataset we use contains more than 75 million taxpayer-year observations from more than 11 million distinct individuals. To have an exogenous source of variation in the tax price, we exploit the 2010 UK income tax reform, which raised the top marginal tax rate from 40 to 50 percent for incomes above £150,000, and also created a short bracket with a 60 percent marginal rate above £100,000. The combination of a large administrative panel dataset and a salient tax reform provides an ideal setting for the estimation of the elasticity of charitable giving and the implicit cost of declaring donations using both reduced-form and structural approaches.

The estimation of the intensive-margin price elasticity of giving poses several well known estimation challenges, such as the endogeneity of the price of giving and the simultaneous choice of income and donations. To jointly address these issues, we combine the standard "first-pound" price instrument (i.e., the hypothetical price with zero

[2]The lack of evidence on extensive-margin donation responses is also at odds with the emphasis given to them in empirical studies that look at other behavioral responses to tax changes (e.g., labor supply responses, see Blundell and Thomas, 1999).

[3]It is of course possible that as well as under-reporting of donations, there is also tax evasion via over-reporting of donations. However, we do not know of any direct evidence that this occurs on a large scale in the UK. Rather, the main form of evasion is to disguise a tax-avoidance scheme as a charity, where the donors enter into arrangements to obtain a financial advantage for themselves, so their donations are recycled back to them, as well as allowing them to claim tax relief. The UK government introduced new anti-avoidance rules (the Tainted Charity Donations rules) in 2011 to prevent this kind of abuse.

donations) with the IV strategy developed by Gruber and Saez (2002) in the context of taxable income elasticities. Specifically, we use lagged values of taxable income to construct an instrument for the *change* in the first-pound price of giving. This instrument isolates changes in price from income responses to the tax reform, so it provides a cleaner identification of the effect of an exogenous change in the price of giving than other instruments that have been used in this literature.

Our reduced-form estimates of the intensive-margin price elasticity are in the range between -0.16 to -0.28, depending on the specification. Regarding the extensive-margin elasticity, our reduced-form estimate is -0.09. Adding this to the intensive-margin elasticity yields a total elasticity of giving in the range between -0.25 to -0.37. We explore how the price and income elasticities of giving vary by income level, given that high-income taxpayers make a disproportionate share of all donations (and therefore receive a large share of the tax reliefs). We find that the intensive-margin price elasticity increases in magnitude with income, while the opposite is true for the extensive-margin elasticity.

One key estimation challenge, particularly for the extensive margin, is the possibility, already discussed above, that some taxpayers make positive donations but choose not to claim the deduction in their tax return due to costs of making a deduction. If there is indeed under-reporting of donations, a standard reduced-form model will not be able to capture properly the extensive-margin response.

To address this, we develop a structural model that incorporates the cost of declaring donations in the taxpayers' optimization problem. In this model, the fixed cost of declaring charitable donations leads some individuals to report zero donations despite having donated positive amounts to charity in a given tax year. In our simulated method of moments approach, we use our reduced-form estimates to recover the structural parameters of our model. Using this structural model, we estimate that the fixed cost of declaring donations is £47, amounting to about 10 percent of the median declared donations in our data. The model also allows us to evaluate counterfactual scenarios. For example, if the fixed cost of reporting donations were to be eliminated, the average reported donation would increase by 18 percent. With reduced costs of giving, the share of the population declaring their donations would increase, as well as the average reported donations. The structural model also provides an estimate the intensive-margin price elasticity of giving to be 0.14, which is close to, but slightly smaller than, our reduced-form estimate.

Our final contribution is to investigate the implications of the fixed cost of making deductions on the welfare effect of increasing the subsidy to charitable giving. For this purpose, we consider a simple setting based on the structural model, which allows for use of structural estimates in assessing this question. We find that the standard results on the optimal level of the subsidy to charitable giving (e.g., Roberts, 1984; Saez, 2004) have to be modified when there is an optimization friction associated with making a deduction and so some households donate small amounts without deducting. We also show that given our estimates, there appears to be a welfare case for further increasing the subsidy to charitable giving in the UK.

Our paper relates to an extensive literature on charitable donations in general, and on the price elasticity of giving in particular. Many of the existing studies that exploit tax reforms to generate variation in the price of giving have focused on the United States, (e.g., Randolph, 1995; Auten, Sieg and Clotfelter, 2002; Bakija and Heim, 2011). These papers generally find large intensive-margin price elasticities, often above one in absolute value.[4] In another recent paper, Fack and Landais (2010) find a smaller elasticity, between 0.2 and 0.6, using a censored model applied to French data. Even though many existing econometric studies on tax return data use strategies to deal with censoring at zero donations, to our knowledge none of them has attempted to directly estimate an extensive-margin price elasticity of giving.

There is an experimental literature that does study the effects of changes in price of charitable giving on the extensive margin via matching treatments. For example, Karlan and List (2007) using a large field experiment in the US, find that a 1:1 match raises the proportion of givers by 22%. But these treatments cannot give us estimates of the effect of a *small* change in the price starting at the initial price of charitable giving in the population of taxpayers, and it is this which is required for evaluation of policy reforms. There are also issues of external validity with any field experiment. For example, the subjects in Karlan and List (2007) were on average much older, more politically liberal, and more male than the average for the US.

This paper also fills a gap in the evidence on tax-price elasticities of giving for the United Kingdom, where there have been very few studies on this topic. Jones and Posnett (1991) use household survey data from the 1980s to estimate price elasticities of giving at the household level. More recently, Scharf and Smith (2015) use an online survey of individual donors to elicit preferences in response to hypothetical variation in the price of giving. They separately estimate the elasticity of donations with respect to tax rebates and matched donations, obtaining much larger elasticities for the latter. Our paper is the first to use administrative tax-return data to study this topic in the UK, despite the fact that proposals for reforming the Gift Aid system have been present in the public debate in recent years (National Audit Office, 2013).

The remainder of the paper is organized as follows. Section 2 describes the insti-

[4] Clotfelter (1997) provides a thorough overview of the early literature, and Peloza and Steel (2005) implement a meta-analysis of pre-2005 studies.

tutional context and data. Section 3 presents the reduced-form estimates. Section 4 derives a structural model of donations and reports estimates of the price-elasticity of giving and the fixed cost of declaring donations. Section 5 derives a subsidy reform rule taking into account the extensive margin and optimization frictions, and Section 6 draws some conclusions.

2 Institutional Context and Data

In this section, we describe the tax incentives for charitable giving in the UK income tax, and the administrative dataset that we use in the estimation. Note that income is taxed at the individual level in the UK, and the fiscal year starts on April 6th and ends on April 5th of the following year. For simplicity, we sometimes refer to fiscal year 2004/05 as 2005, and similarly for other years.

2.1 Gift Aid

The UK income tax system provides for the full deduction of charitable donations from taxable income through the Gift Aid program, which was introduced in the UK's Finance Act of 1990.[5] Gift Aid is composed of two parts, a match rate and a deduction. The combination of these two elements results in full tax deductibility of charitable donations, as we explain below.

When a UK taxpayer makes a donation to charity, she fills out a Gift Aid declaration form, which is given to the charity along with the donation. The charity can claim the income tax paid on the donated amount directly from HM Revenue and Customs (HMRC), the UK's tax administration. Specifically, for a donation of one pound, the charity receives $1/(1-\tau_b)$ pounds, where τ_b is the basic rate of tax (20 percent for most of our study period). For the donor, the tax price of giving in terms of forgone consumption is then $1-\tau_b$. This part of the Gift Aid scheme is sometimes known as the match component, because the government effectively matches every pound donated to a charity at a rate equal to $\tau_b/(1-\tau_b)$.

In addition to the match component, higher-rate taxpayers can claim a deduction equal to the amount donated (including the government match) times the difference between the basic rate of income tax τ_b and the higher rate, τ_h. It is then easy to calculate that the price of giving for a higher-rate taxpayer is $1-\tau_h$.[6]

[5] The main guidance for UK taxpayers on Gift Aid is (i) the guidance notes for the basic income tax form SA100, and (ii) the web page http://www.hmrc.gov.uk/individuals/giving/gift-aid.

[6] If the taxpayer donates one pound, she can claim a deduction equivalent to $(\tau_h-\tau_b)/(1-\tau_b)$, giving

Therefore, whether a UK taxpayer faces a basic marginal rate of income tax or a higher-rate, the tax price of giving is always one minus her marginal tax rate, i.e. the same price as in a system where donations are fully deductible, such as the US income tax.[7] We explain how we calculate the tax price of giving in Section 2.4 below.

2.2 The April 2010 Income Tax Reform

We exploit a major reform of the UK income tax, which took place in April 2010, as the key source of variation for our empirical strategy. The highest marginal rate before this reform was 40 percent, which applied to all taxpayers with taxable income above £37,400, equivalent to £43,875 of gross income (adding the standard personal allowance). Starting in fiscal year 2010/11, an additional bracket with a 50 percent marginal tax rate was introduced for taxable income above £150,000. The reform also established the phasing-out of the personal allowance by £1 for every additional £2 of income, for taxable income above £100,000. Therefore, the effective marginal tax rate increased to 60 percent for taxable income in the interval between £100,000 and £112,950.[8] The top panel of Figure 1 shows the statutory price of giving at different levels of taxable income for the years 2009/10 and 2010/11, immediately before and after the tax reform. The bottom panels show the average price of giving by income bins in our data, which track the statutory price almost exactly.

There were a few smaller changes to the income tax schedule during our sample period. The kinks in the tax schedule at which the basic and higher rates of tax (τ_b, τ_h) start applying have suffered minor modifications over time.[9] The basic tax rate τ_b was 22 percent between fiscal years 2004/05 and 2007/08, and it was reduced to 20 percent

a net cost to the taxpayer of $1-(\tau_h-\tau_b)/(1-\tau_b)$. Then, to ensure that the charity gets one pound, the taxpayer only needs to give $1-\tau_b$, so the price of giving for a higher-rate taxpayer can be expressed as

$$p = (1-\tau_b)\left(1-\frac{(\tau_h-\tau_b)}{1-\tau_b}\right) = 1-\tau_h.$$

[7] There is also limited scope for carry-back of Gift Aid. An individual filing her tax return for year t can ask for her Gift Aid donations made in the first few months of year $t+1$ to be accounted for tax deduction purposes as having been made in the previous year, under two conditions: (i) having paid enough tax in year t to cover both the Gift Aid donations of year $t+1$ and year t; (ii) at the time of the donation, not having filed the income tax form for year t (so only donations made before 31st October, or 31st of January if filing online, are eligible).

[8] The standard personal allowance was £6,475 in 2010/11 and £7,475 in 2011/12. There are higher personal allowances for older taxpayers and those with disabilities, but these are phased-out at much lower levels of income.

[9] The tax schedule for recent years can be consulted at https://www.gov.uk/government/collections/tax-structure-and-parameters-statistics.

from 2008/09 onwards.[10] Between this reform and the beginning of the 2011/12 fiscal year, the matching rate provided by HMRC to all donations remained at 28 percent ($\frac{1}{1-0.22} \simeq 1.28$) in order to offer "transitional relief" to charities. Hence, the matching rate only came down to 25 percent in 2011/12. We incorporate all these reforms into our calculation of the marginal tax rate faced by each taxpayer.

One important issue is whether there could be anticipation effects to the April 2010 reform, potentially leading to inter-temporal shifting of donations. The government first announced in the Pre-Budget Report of 24 November 2008 that it planned to introduce a new top rate of 45 percent starting in April 2011. On 22 April 2009, it was announced that the additional rate would be 50 percent and be introduced one year earlier, in April 2010. Therefore, it is possible that in the fiscal year 2009/10, donations were delayed in order to claim the higher relief introduced in the following fiscal year. We allow for this in robustness checks by including the change in the tax price over the previous year as a regressor.

2.3 Data and Descriptive Statistics

The UK income tax is collected via two systems: pay-as-you-earn (PAYE) and self assessment (SA). Under the PAYE system, employers calculate their employees' tax liability and withhold income tax so that taxpayers do not need to file a tax return. Taxpayers with non-wage sources of income (e.g., self-employment, partnerships, savings, dividends), those who want to claim specific tax benefits (such as charitable donations and contributions to private pension plans) and everyone with income above £100,000 must file a self-assessment tax return.[11] Throughout our sample period, about 25 percent of taxpayers file a SA return and the rest pay through PAYE, with the proportion of SA taxpayers rising steadily over time.

We focus our analysis on self-assessment taxpayers for several reasons. First, SA taxpayers can claim deductions for charitable donations directly on their tax return, while PAYE taxpayers would need to ask their employer to deduct donations directly from their pay through a program called Payroll Giving. While the annual fiscal cost of Gift Aid is substantial, approximately £1.78 billion in 2015/16, the fiscal cost of Payroll Giving is only £0.04bn, indicating that very few taxpayers use the latter system.[12] Second, it

[10] Until 2007/08, there was also a starting rate of income and savings tax of 10 percent for the first £2,000 of taxable income. Since 2008/09, this starting rate has only been applicable to savings income. The starting rate is not relevant for the matching rate in Gift Aid, which is tied to the basic rate as explained above.

[11] The full list of criteria that determine which taxpayers are required to file a self-assessment return can be found at: http://www.gov.uk/self-assessment-tax-returns/who-must-send-a-tax-return.

[12] Of the full cost of Gift Aid, £1.30bn correspond to the match component and £0.48bn to the

is not possible to access the full population of PAYE taxpayers for research purposes, and no micro-level information on Payroll Giving is available. Finally, it is worth noting that SA taxpayers have higher average income than those on PAYE.[13]

In our empirical analysis, we use an anonymized administrative dataset containing the universe of self-assessment income tax returns for the fiscal years 2004/05 through 2012/13, made available to us through the HMRC Datalab. The main dataset we use is called SA203, which contains the key items of the SA tax return.[14] Once a taxpayer files a self-assessment return, she receives the forms from HMRC in every subsequent year, as long as she remains eligible to file through this system. Entry into the dataset is fairly stable in the period under analysis, and only a small fraction of taxpayers (less than two percent) have gaps in reporting between years. Given the high quality of this administrative dataset, panel attrition is a minor concern in the analysis.

Figure 2 shows the distribution of adjusted net income in the years before (left panel) and after (right panel) the 2010 reform. The pre-reform distribution is smooth around £100,000, indicating that the vast majority of wage earners who are just below this income threshold already file a self-assessment return, so there is no sample selection at this threshold. The post-reform figure shows significant bunching of taxpayers around £100,000, suggesting that (at least some) taxpayers are aware of the kink point created by the reform, moving shifting the marginal tax rate from 40 to 60 percent.

Figure 3 shows the share of SA taxpayers reporting positive donations by levels of gross income. The proportion of donors is very low for taxpayers facing the basic tax rate (i.e., those with gross income below £45,000, with some variation across years), and it reaches about 30 percent for higher incomes.[15] It is important to note that basic rate taxpayers do not have any incentive to report their charitable donations in the SA return, as they do not receive any additional tax relief. Therefore, it is surprising to observe taxpayers in this tax bracket reporting *any* donations at all. It might be that some taxpayers report them due to inertia (as the SA return requests information about donations) or inattention, but we cannot test these hypotheses in the current setting.

Including all basic-rate taxpayers in our regressions might lead to overestimation of the price elasticity of giving, because some taxpayers may only report their donations when they are in the higher tax brackets. Then, those with a positive income shock that moves them from the basic to the higher rate bracket would mechanically increase

deduction component. Charities also get substantial tax relief through other exemptions (HMRC, 2018).

[13]They are also more likely to be male (66 percent vs. 53 percent), but there is virtually no difference in the average age (49 years).

[14]We extract the gender and age variables from a separate dataset named ValidView, which is an extended version of SA203.

[15]At each level of income, women are about five percentage points more likely to give than men.

their reported donations, coinciding with their higher tax rate (and hence lower price of giving). Given this potential bias, in our main estimates we only consider taxpayers who were in the higher tax brackets for the whole period of our study. That allows us to focus on those taxpayers who have a tax incentive to report charitable donations in all periods. The only regressions where we include all self-assessment taxpayers are those where we estimate heterogeneous elasticities by income level in Section 3.4.

In Figure 4, we report average annual donations as a share of pre-tax income. This share is remarkably stable at 0.5 percent for all taxpayers above £50,000.[16] As a comparison, "itemizers" in the US income tax report donations equivalent to 3.2 percent of their total income, a ratio that is only reached by taxpayers in the top 0.01 percent of the income distribution in the UK.[17]

2.4 Calculating the Tax Price of Charitable Giving

The administrative dataset does not contain the marginal tax rate faced by each taxpayer and there is no publicly available tax calculator for the UK income tax (such as the NBER's TAXSIM for the US) that can be applied to this particular dataset. Hence, we construct our own tax calculator in order to determine the tax price of giving faced by each taxpayer, following the income tax guidance provided by HMRC. Our calculator uses the information available in the SA dataset and incorporates all of the details of UK personal income tax provisions to estimate the overall tax liability for each taxpayer.

In order to calculate the individual tax price of giving for an individual i at time t (represented by the subscript it in the mathematical expressions below), we follow standard methods from the literature on responses to tax reforms (Bakija and Heim, 2011; Kleven and Schultz, 2014). Specifically, for each individual i at time period t we add a fixed amount, Δg, to their observed donations, g_{it}, and then compare their resulting tax liability at time t with their originally reported tax liability at time t.

Denoting the individual's tax liability at any taxable income z by $T(z)$, we calculate the individual's period t tax price of giving relative to after-tax consumption, p_{it}, as follows:

$$p_{it} \equiv 1 - \tau_b - \frac{\left[T\left(z_{it} - g_{it}\right) - T\left(z_{it} - g_{it} - \Delta g\right)\right]}{\Delta g}, \tag{1}$$

[16] Throughout the income distribution, women donate a slightly higher proportion of their income than men.

[17] For the US, we calculate the ratio using SOI tax statistics published by the IRS for the fiscal year 2014. Table 2.1 for that year is available at https://www.irs.gov/pub/irs-soi/14in14ar.xls. The figures for top income groups in the UK are reported in Appendix Table A.1.

where $(1-\tau_b)$ accounts for the match provided automatically to all donations by UK taxpayers, and the last term represents the additional reduction in the price of giving due to the deduction that is awarded to higher-rate taxpayers. Specifically, we calculate the decline in tax liability due to an increase of $\Delta g = £100$ in the amount donated, divided by 100. Note that the estimated tax prices of giving are robust to using other small values of Δg.

3 Reduced-Form Estimates

In this section, we present reduced-form estimates of the price-elasticity of giving on both the intensive and the extensive margin. We first describe the standard instrumental variables (IV) strategy from the earlier literature, which uses the first-pound price of giving as an instrument for the observed price. Then, we construct a predicted-tax-rate instrument using lagged values of income to instrument for the change in the first-pound price of giving. We report estimates of the price elasticity of giving using both methods and discuss the potential limitations of each empirical strategy.

3.1 Empirical Strategies

A standard static theoretical analysis of the donation problem predicts that both the donation of individual i at time t, and the decision whether to donate at all, will depend on the price of giving p_{it} and income y_{it}. The panel structure of the data allow us to estimate the effects of changes in an individual's tax price of giving on donations at both the intensive and extensive margins.

To estimate individual donors' intensive-margin donation responses in a simple way that is broadly consistent with standard theory, when strictly positive donations are observed, we can estimate:

$$\ln g_{it} = \varepsilon_{INT} \ln p_{it} + \eta_{INT} \ln y_{it} + \delta X_{it} + \alpha_i + \alpha_t + u_{it} \tag{2}$$

where p_{it}, y_{it} are the tax price and disposable income of i in year t, ε_{INT} and η_{INT} are the intensive-margin price and income elasticities of giving, α_i and α_t are individual and year fixed effects, and u_{it} is i's random error at time t. The individual fixed effects, α_i, control for all time-invariant individual characteristics that may affect giving, such as generosity, religious affiliation or gender. The year fixed effects, α_t, control for any events that affect all taxpayers at the same time (e.g. the financial crisis of 2008-09). The vector of individual control variables, X_{it}, includes a dummy for having used a tax advisor in the past and the square of age.[18]

The extensive margin response for individual i at time t can be estimated using a similar specification:

$$D_{it} = \beta \ln p_{it} + \gamma \ln y_{it} + \delta X_{it} + \alpha_i + \alpha_t + v_{it} \quad (3)$$

where D_{it} is a dummy that takes on the value one if a positive donation is observed ($g_{it} > 0$) and zero otherwise, with other variables as in (2). This linear probability model seems appropriate in this setting because the fitted probabilities always lie within the $(0, 1)$ interval.[19] In (3), our main focus is the extensive margin price and income elasticities, which can be calculated as $\varepsilon_{EXT} = \beta/\overline{D}$ and $\eta_{EXT} = \gamma/\overline{D}$, where $\overline{D}$ is the sample mean of D_{it} (i.e., the proportion of individuals in our sample that made donations in year t).

Identification Challenges: Pre-Reform Trends, Endogeneity, Simultaneity and Censoring

Identification of the price elasticities of giving in (2) and (3) comes from exogenous variation in the price of giving due to the 2010 tax reform. Essentially, we rely on a difference-in-differences strategy where the treatment group includes taxpayers who were affected by the reform, and the control group includes those who were not affected.

In order to check whether donations by the treatment and control groups followed parallel trends before the 2010 reform, Figure 5 plots the evolution of average donations over time for four groups of taxpayers, according to their taxable income in the year prior to the reform (2009/10): (1) those with adjusted net income below £100,000, (2) between £112,950 and £150,000, (3) between £100,000 and £112,950, and (4) above £150,000. Groups (1) and (3) belong to the control group and groups (2) and (4) belong to the treatment group. The top panel of Figure 5 includes all taxpayers, and the bottom panel only donors (i.e., those declaring positive donations). Donations are in real terms and we normalize them to one in the pre-reform year (2009/10) to facilitate interpretation.

There are two key findings from Figure 5. First, the parallel trends assumption is broadly fulfilled, as the pre-reform trends in giving are similar for treatment and control

[18] We use $(age/100)^2$ instead of age^2 to facilitate the interpretation of the regression coefficient on this variable. We do not include a linear term for age because the combination of individual and year fixed effects mechanically controls for age.

[19] As an alternative, the elasticities ε_{EXT}, η_{EXT} could be estimated from a Probit model. However, due to the incidental parameters problem, the fixed-effects model is biased in this case, meaning that we must use a random effects approach. The results obtained using this model are similar to the ones reported for the linear probability model and are available upon request.

groups (both conditional and unconditional on giving). Second, only taxpayers in group 4 increased their average donations in response to the reform, while the other three groups followed roughly their pre-reform trends. This is surprising because taxpayers in group 2 experience a large drop in their price of giving from 0.6 to 0.4 after the reform. One possible explanation for their lack of response is that this change in the price of giving was less salient, since it is an artifact of the withdrawal of the personal allowance. However, we cannot text this hypothesis directly. Taken together, these patterns suggest that the tax reform had an effect on giving behavior at the top of the income distribution. However, we cannot infer precise estimates from them as they are likely a mix of intensive and extensive-margin responses.

Despite the fact that the parallel trends assumption holds, estimating equations (2) and (3) by ordinary least squares (OLS) is likely to yield biased estimates. This is due to (at least) three identification issues that have been widely discussed in the charitable giving literature: endogeneity of the price of giving, simultaneous choice of income and donations, and censoring in the dependent variable (in the intensive-margin equation). In what follows, we discuss how we deal with the first two issues, while we describe our approach to censoring in Section A.3.

The observed "last-pound" price of giving is potentially endogenous because an increase in donations could push the taxpayer to a lower tax bracket, yielding a mechanical negative correlation between the price and the amount donated. To address this issue, we follow the standard approach of using the "first-pound" price as an instrument for the last-pound price (which dates back to Feldstein and Taylor, 1976). Formally, the first-pound price can be defined as p_{it}^f, where p_{it}^f is the right-hand side of equation (1), evaluated at $g_{it} = 0$ denotes donations.

Regarding the second issue, changes in income due to the tax reform could affect both donations–through a wealth effect–and the price of giving–through the marginal tax rate. To address the potential bias in the coefficient on price, we adapt the IV strategy developed by Gruber and Saez (2002) in the literature of taxable income elasticities. Specifically, we use lagged values of taxable income to construct an instrument for the *change* in the first-pound price of giving. Formally, the instrument is given by:

$$\ln\left(\frac{p_{it}^f(z_{i,t-k})}{p_{i,t-k}^f(z_{i,t-k})}\right). \tag{4}$$

where the numerator contains the first-pound price that individual i would have faced in year t if she had declared her year $(t-k)$ taxable income (evaluated in real terms) in year t instead of her actual taxable income for that year.

This instrument isolates changes in price from income responses to the tax reform, so it provides a cleaner identification of the effect of an exogenous change in the price of giving than the standard instruments that have been used in this literature. The first-stage coefficient is expected to be highly significant, as the instrument is strongly correlated with the actual change in the tax price of giving. Moreover, pre-reform income fulfills the exclusion restriction as long as it is not correlated with current donations, other than through the current tax price of giving.[20]

When using this predicted-tax-rate instrument, the regression specification is the first-differenced version of equation (2):

$$\Delta \ln g_{it} = \varepsilon_{INT} \Delta \ln p_{it}^{f} + \eta_{INT} \Delta \ln y_{it} + \delta' \Delta X_{it} + \Delta u_{it}, \tag{5}$$

where $\Delta \ln g_{it} = \ln \left(\frac{g_{it}}{g_{i,t-k}} \right)$ is the change in log donations (similar for the other variables) and k is the number of periods over which we take differences. In the empirical analysis, we report results for all $k \in \{1, 2, 3\}$ so that we can compare differences between short-term ($k = 1$) and medium-term ($k = 3$) response to the reform.[21]

Under this IV strategy, the identifying assumption is that there are no other time-varying factors that differentially affect taxpayers in the groups affected and unaffected by the tax reform.[22] Notice, finally, that we do not implement a similar specification to estimate the extensive margin elasticity because the dependent variable would no longer be binary, and therefore the interpretation is not straightforward.

3.2 Results from the Standard IV Specification

We begin by estimating equation (2) on all higher-rate taxpayers who report positive donations. We implement the standard first-pound price instrument and take disposable income (net of donations) as exogenous. The estimates are reported in Table 2.[23] The first three specifications include only $\ln p_{it}$ as a regressor, and the last three also include

[20] In the first-differenced equation, i.e. when $k = 1$, this may be a concern because of anticipation responses to the tax reform. But when we set $k = 2$ or $k = 3$, the exclusion restriction is more likely to be fulfilled. See Weber (2014) for a discussion of related issues.

[21] The taxable income literature has settled on 3-year differences as the standard period to evaluate responses to tax reforms so as to avoid capturing re-timing and shifting responses in the years immediately before and after the reform.

[22] Like any IV estimator, this identifies the local average treatment effect (LATE) on "compliers", as defined by Imbens and Angrist (1994). In our context, compliers are defined as taxpayers whose price of giving decreases in response to a positive income shock. "Defiers" in this context would be taxpayers for whom a positive income shock reduces the price of giving. The latter scenario can be ruled out in our setting, so we do not worry about potential violations of the monotonicity assumption.

[23] Table A.2 in the online Appendix reports the results for the OLS specification. As predicted by our theoretical framework, the OLS estimates of ε_{INT} are biased upwards compared to the IV estimates, yielding a positive and significant elasticity in column (6).

$\ln y_{it}$. Specification (1) includes only individual fixed effects, (2) adds year fixed effects, and (3) additionally includes controls for gender, age squared and using a tax advisor. We follow a similar progression in columns (4)-(6). In all specifications, we cluster standard errors at the individual level.

Looking across all specifications, we see that ε_{INT} is always negative and highly significant. The estimate is sensitive to the inclusion of year effects.[24] Once these are included, the estimate is stable around -0.21 when not controlling for income (columns 2-3), and around -0.17 when controlling for income (columns 5-6). Our estimates of η_{INT} in the last three specifications are generally stable and significant at about 0.20.

Table 3 reports estimates of equation (3) to evaluate the extensive-margin elasticity, following the same structure as the previous table. We report both the coefficients β, γ in (3) and the associated elasticities ε_{EXT}, η_{EXT}, evaluated at the mean value of all the explanatory variables.[25] These regressions include all higher-rate taxpayers, not only donors, and therefore have a much larger number of observations than those of Table 2.

Looking across all specifications, we see that ε_{EXT} is always negative and highly significant. As in the intensive margin case, the results are sensitive to the inclusion of year dummies. When year fixed effects are included, the extensive margin price elasticity ε_{EXT} is quite stable between -0.09 and -0.14, and the income elasticity is between 0.06 and 0.08. So, while the extensive margin price elasticity is about two-thirds of the intensive margin one, the extensive margin income elasticity is substantially lower at about one third of the intensive margin one.

As noted in the Introduction, this specification may not properly capture extensive-margin responses if there are fixed costs of claiming deductions, leading some donors to not report any donations. We discuss this issue at length in Section 4.

3.3 Results from the Differenced Specification

Here, we report the estimates of equation (5), where we estimate the effects of log changes in price and income on the log change in donations over a period of time, using the instrument for the log change in price described above. Table 4 reports the results

[24] One possible explanation for the importance of the year fixed effects in this setting are the trends in charitable giving around the financial crisis, which may have affected high-income taxpayers differently from medium and lower-income taxpayers. Regressions without year fixed effects assign the entire change in giving by top earners (most affected by the tax increase) to the price change, yielding large price elasticity estimates (around -0.8). Once we control for year fixed effects, we isolate the price effects and the elasticity estimates become smaller in absolute value.

[25] We report the OLS estimates for this specification in Table A.3 in the online Appendix. As in the intensive-margin case, the estimated price elasticities are biased upwards compared to the IV results, although the difference in this case is smaller.

in three different panels for the cases of one, two, and three-year differences ($k = 1, 2, 3$). For each case, we show four different specifications, all of which include both individual and year fixed effects. Including individual fixed effects in this specification allows us to control for individual-specific time trends. In the first two specifications, we only include the price variable, while in columns (3) and (4) we include the change in log net disposable income, $\ln(y_{it}/y_{i,t-k})$ (assuming zero donations). In each case, we report results with and without the additional controls for age squared, gender and the use of a tax advisor.

In the specifications where we do not control for the change in log income, the price elasticity ε_{INT} becomes smaller (in absolute value) as we increase the lag over which changes are calculated. However, when we include the change in log income, ε_{INT} becomes highly significant and stable across all lags k, at a value between -0.21 and -0.32. The income elasticity η_{INT} is also highly significant and stable across all lags k, at values of between 0.13 to 0.21. These estimates are somewhat larger in absolute value than those obtained with the standard specification in Table 2.

3.4 Heterogeneous Elasticities

In this section, we report estimates of the price and income elasticity of giving by income level. We focus on this dimension of heterogeneity because most donations come from the highest-income taxpayers within the self-assessment group, and therefore they receive most of the tax relief.[26] During our sample period, 55 percent of donations are made by those above the 95th percentile of the income distribution, and 84 percent by those above the 75th income percentile.

One challenge to this exercise is that, for reasons explained in Section 2, our main estimation sample only includes taxpayers who were in the higher-rate tax brackets (above £45,000, approximately the 80th percentile of the income distribution) for the period under study. We now include taxpayers below that income threshold, with the caveat that the elasticity estimates for middle and lower income taxpayers could be biased. To construct stable income groups over time, we calculate the average real pre-tax income reported by each taxpayer across the whole sample period, and divide the sample (at the individual level) by percentiles. The first four groups include taxpayers with average income below the 25th percentile of the distribution, between the 25th-50th, 50th-75th and 75th-95th, respectively. The final group includes taxpayers above the 95th percentile.[27]

[26] In online Appendix Table A.5, we report additional heterogeneity analyses by gender and age.

[27] The average pre-tax incomes at the relevant percentiles are $p25$ =£8,389, $p50$ =£17,126,

Table 5 reports the price and income elasticity estimates by income groups for both the intensive and extensive margin. In short, we find that the intensive-margin price elasticity of giving increases with income. Indeed, up to the 50th percentile, we cannot reject the hypothesis that the price elasticity is zero. This is consistent with results from the US (Bakija and Heim, 2011). It is also consistent with the institutional features of the taxation of donations for UK, where basic-rate taxpayers do not have a monetary incentive to report donations on their tax return. Intensive-margin income elasticities also rise with income, but the relationship is flatter.

Regarding the extensive-margin, the pattern of both price and income elasticities across income groups is the reverse. Both the price and income elasticities *fall* as incomes rise, with the decrease in the price elasticities being particularly sharp. These results should be interpreted with some caution because the reporting incentives for basic-rate taxpayers are weak. However, the pattern does suggest that there might be some type of reporting cost preventing some taxpayers from declaring their donations. We return to this issue in Section 4.

3.5 Discussion

The total elasticity of giving with respect to price can be calculated by adding up the IV estimates of ε_{INT} from Tables 2 and 4, and the IV estimates of ε_{EXT} from Table 3. Regarding the intensive-margin elasticity, ε_{INT}, specifications that include year effects from Table 2 give estimates between -0.16 and -0.22, and specification (4) from Table 4 gives estimates between -0.21 and -0.28. For the extensive margin, specification (6) from Table 3 gives $\varepsilon_{EXT} = -0.09$. Adding these up gives a total price elasticity of giving ($\varepsilon_{INT} + \varepsilon_{EXT}$) between -0.25 and -0.37. This elasticity estimate is significantly different from -1, the "consensus" estimate obtained in US studies, with the notable recent exception of Hungerman and Wilhelm (2016), who obtain estimates similar to ours. In contrast, the estimates are close to the price elasticity found in France by Fack and Landais (2010). Keeping in mind that all prior studies focused exclusively on the intensive-margin elasticity, our findings are clearly towards the lower end of the distribution of available estimates.

It is worth noting that the estimates of the intensive-margin price elasticity obtained with the standard IV strategy from the literature and our differenced specification are quite similar. The latter yields a slightly larger (in absolute value) intensive-margin price elasticity. Another interesting finding is that the estimated intensive-margin elasticity becomes larger as we increase the length of the time differences (from one to three years),

$p75$ =£33,747, and $p95$ = £96,163.

suggesting that taxpayers may learn about the effects of the reform over time, rather than immediately. In any case, the differences in the estimates between the $k = 1$ and $k = 3$ cases is not too large. This suggests that short-run re-timing responses are not too important in this setting, contrary to the results obtained by Randolph (1995), but broadly in line with the results of Auten, Sieg and Clotfelter (2002).

In the online Appendix, we consider three potential issues that could affect our estimates: dynamic donation responses, potential bias due to taxpayers bunching at kink points and selection bias due to censoring. To account for dynamic responses, we explore specifications including leads and lags of the price and income variables. To ensure that bunching at kink points does not affect the estimates in a substantial way, we exclude taxpayers within £2,000 intervals around each kink point. The results from these alternative specifications, reported in Tables A.6 and A.7, are again broadly in line with our main elasticity estimates. To deal with the potential selection bias of our intensive-margin elasticity estimates, we implement a Heckman-style two-step procedure proposed by Wooldridge (1995). Even though there is some evidence of selection into giving, the alternative estimates of the intensive-margin price elasticity of giving are in the range between -0.20 and -0.26, in the same ballpark as our main estimates (see Table A.9).

4 Structural Estimation

4.1 Theoretical Framework

There are two possible reasons why we observe a zero line-item deduction in our data. One is simply that the individual decides not to donate anything. The other is that a donation is made, but due to compliance costs or some other optimization friction, the deduction is not reported on the tax return. As already mentioned in the introduction, there is evidence that the second possibility is important in practice.

First, it appears that for the UK, there is a very large gap between the fraction of people who say they donate to charity at least annually in the UK, at 60 percent, and the proportion of self-assessment taxpayers who report a deduction, which is 11 percent. Second, in an important study, Gillitzer and Skov (2018) find explicit evidence that Danish taxpayers under-report charitable donations on their tax returns. Specifically, a reform in 2008 which allowed pre-population of tax returns with donations recorded by charities showed that before the reform, approximately half the donors were not reporting their donations. They attribute this to various optimization frictions, including compliance costs.

In this section, motivated by Gillitzer and Skov (2018), we develop a model with a simple lump-sum cost of deducting any donation made which captures the attention and money costs of keeping track of and documenting the donations. We then implement a simulated method of moments procedure to estimate the structural parameters of this model, including the fixed cost.

We model an individual i who values consumption c_i, her own donation to charity g_i, and aggregate donations G. This is reflected in the following utility function:

$$U(c_i, g_i, G) = c_i - D_i K + \theta_i \frac{g_i^{1-\frac{1}{\gamma}}}{1-\frac{1}{\gamma}} + V(G) \tag{6}$$

Also, $\gamma > 0$ and V is assumed strictly increasing and concave. The dependence of utility on g_i and G via u and V captures warm glow and altruistic motives for giving respectively, as in Saez (2004). Here, in addition to variables already defined, c_i is private consumption, and θ_i is a taste parameter measuring the strength of $i's$ warm glow motive.

Finally, $D_i = 1$ if the household chooses to deduct g_i from taxable income and $D_i = 0$ otherwise, and K is the fixed cost, in units of private consumption, of making a deduction in its tax return. So, the reported deduction on the tax return is g_i only if $D_i = 1$, and 0 otherwise. This fixed cost is the main focus of our analysis and captures the attention and money costs of keeping track of and documenting the donations.[28]

As we are modelling the UK tax system, donations are assumed fully deductible from taxable income. With this in mind, we can write the household's budget constraint as follows:

$$c_i + g_i = y_i - D_i T(y_i - g_i) - (1 - D_i)T(y_i) \tag{7}$$

Here, y_i is exogenous income, and $T(z)$ the income tax liability given any taxable income z. This budget constraint implies that if $D_i = 0$, the marginal price of giving an additional pound is 1, and if $D_i = 1$, the marginal price is one minus the marginal tax rate i.e. $1 - T'(y_i - g_i)$.

We now turn to the household's optimization problem. Following Saez (2004), we assume that each household is so small that it ignores its own contribution to aggregate donations G, and so the term $V(g)$ can be ignored.[29] Also, because utility is quasi-linear in private consumption, we can substitute (7) into (6) to write the the individual's

[28] To rule out a particular type of corner solution, we assume that everyone donates at least £1, regardless of whether they claim. One example of a popular small donation made by many people in the UK is grocery stores' charity collection box.

[29] This term comes into play in Section 5.

optimization problem as:

$$\max_{g_i, D_i} \left\{ y_i - g_i - D_i K - D_i T(y_i - g_i) - (1 - D_i) T(y_i) + \theta_i \frac{g_i^{1-\frac{1}{\gamma}}}{1 - \frac{1}{\gamma}} \right\} \tag{8}$$

To characterize the solution to this problem, note first that it is clear from (8) that the deduction decision for a given donation is:

$$D_i = \begin{cases} 1, & T(y_i) - T(y_i - g_i) \geq K \\ 0, & T(y_i) - T(y_i - g_i) < K \end{cases} \tag{9}$$

That is, the individual decides to deduct only if the tax saving from doing so exceeds the fixed cost.

We now turn to the optimal level of donations. The key point here is that *conditional on deduction being observed,* g_i must exceed a strictly positive minimum value, as long as the tax function $T(\cdot)$ is strictly increasing in taxable income. However, we cannot solve for g_i in closed form, because the tax schedule $T(\cdot)$ for the UK is non-linear.

We proceed by using this model to simulate the choice of g_i and D_i of 200,000 individuals whose income is drawn from nine different income groups given by our income data, and whose generosity parameter is drawn from a lognormal distribution. Formally, we assume

$$\theta_i = \exp(\mu + x_i), \quad \xi \sim \mathcal{N}(0, \sigma^2). \tag{10}$$

Then, for this simulated data, we calculate the average $\ln g_i$ and D_i for the pre-reform period. We also compute the regression coefficients ε_{INT} in (2) and β in (3) on our simulated data. In particular, we run the regressions (2), (3), on our simulated data, using the first-pound price as an instrument. These regression coefficients will be the second set of moments that we wish to fit. The idea is to be able to fit our model to both (i) the pre-reform data; (ii) the intensive- and extensive-margin responses to the exogenous change in the tax price of giving caused by the reform, as measured by ε_{INT} and β.

We then choose the structural parameters (γ, K, μ, σ) to minimize the weighted distance between the simulated and empirical moments. While each of the simulated moments depends on multiple parameters, we can give an intuitive idea of how each moment relates to each of the parameters of interest.

Our main parameters of interest are the fixed cost of declaring donations, K, and the elasticity of giving, γ. The share of individuals declaring their donations and the extensive-margin elasticity response of individual declaration decisions identify K. The coefficients on the cost of giving for the two IV regressions identify γ. The parameters that capture the distribution of generosity across the population are pinned down by the average amount of giving (conditional on giving) and the share of the population declaring their donations.

4.2 Estimation and Results

We estimate the full model that we have laid out in Section 4.1 using an indirect inference approach (Gallant and Tauchen, 1996; Gourieroux, Monfort and Renault, 1993). In our method of simulated moments (MSM) procedure, we simulate individuals over unobserved ξ_i characteristics and use the percentiles of the income distribution in the population of self assessment tax returns to place simulated individuals in different tax brackets. We then minimize the weighted distance between the moments from our simulated data and the moments from the population of self assessment tax returns. Our structural estimates minimize the MSM criterion function, which takes the form:

$$L(\Theta) = h(\Theta)' W_N h(\Theta) \tag{11}$$

where $\Theta = (K, \gamma, \mu, \sigma)$ is the vector of structural parameters of interest. $h(\Theta)$ is the vector of M moment conditions constructed as the difference between simulated moments computed over S simulated individuals and empirical moments computed over the population of self assessment tax returns composed of N individuals. As the weight matrix, we use the diagonal elements of the inverse variance-covariance matrix of empirical moments. For simplicity, and to assist identification, we set σ equal to μ.[30] All estimates are highly statistically significant.

For identification, we exploit the exogenous policy reforms in 2010 and the different prices of giving at different marginal tax rate brackets in the income tax schedule. The introduction of an additional marginal tax rate bracket for high income earners, coupled with the removal of the personal allowance for individuals with incomes greater than £100,000 (thereby creating an additional bracket with a 60 percent tax rate) render our reduced-form difference-in-difference estimates from Section 3 suitable moments to match with the corresponding moments in simulated data.

Analogous to our preferred reduced-form estimates, we use the first-pound price of giving as instrument for the price of giving in the auxiliary regressions of (i) log of reported donations on the price of giving to identify γ and (ii) the positive declaration

[30] This simplification does not have a substantive impact on the main parameters of interest.

dummy on the price of giving to identify the cost of declaring donations, K. The average generosity parameter μ and the dispersion of generosity across individuals in the population, σ, are identified by the cross-sectional variation in donations, which we capture using the mean and the median of the pre-reform level of reported donations. In addition, we use the share of individuals declaring their donations to help in identifying K. This mapping between the matched moments and estimated parameters is intuitive, but more generally, each moment is also related to the other elements of Θ.

We obtain our estimates using a combination of quasi-MCMC (Chernozhukov and Hong (2003)) and the simplex method of Nelder and Mead (1965). We construct standard errors using the standard GMM gradient formula. We present our estimation results for the structural model in Table 6. The estimated fixed cost of declaring donations to the tax authority is £47, amounting to around 10 percent of the average declared donations in our data. This is a substantial cost which arises from a combination of inattention on the part of the taxpayers and the red tape involved in gathering the necessary paperwork related to Gift Aid in self assessment tax returns. It is also worth noting that this estimate of £47 is close to Gillitzer and Skov (2018)'s estimate of the average annual value of forgone tax benefits due to under-deduction of around US $59.

Using our structural model, a counterfactual policy experiment that eliminates this cost shows that absent the fixed cost of giving, the average donation would increase by 18 percent. Our estimated intensive margin elasticity of giving is 0.14, which is close to, but slightly smaller than our reduced form estimates. Finally, we estimate that the average generosity μ is around 16.

Our simulated moments are very close to their empirical counterparts. Empirically, we observe in the pre-reform period that 10.3 percent of the population declare their donations, compared with our simulation, where 9.9 percent declare their donations. In simulated data, the average log gross donations is 6.4, compared with 6.1 in the data. As our empirical moments that capture the coefficients on the price of giving in Equations 2 and 3, we use the regression coefficients in the first columns of Tables 2 and 3 (-0.89 and -0.74, with simulated counterparts -3.71 and -0.72, respectively). Our simulated moments are qualitatively similar to these estimates, with a larger magnitude on the simulated counterpart for the estimated price coefficient in Equation 2. This should not surprise us given the static nature of our model rather than a more complex dynamic framework.

5 Subsidy Reforms

In this section, we assess whether the current level of subsidy for charitable giving in the UK is too low, too high, or about right, given our estimates. The theoretical framework is an extension of our structural model, which allows us to use the structural estimates obtained in the previous section. Our analysis shows that standard results on the optimal level of the subsidy to charitable giving (e.g., Roberts, 1984; Saez, 2004) have to be modified when there is an optimization friction that makes reporting donations costly.

As in Section 4.1, we allow for a number of individuals i indexed by a taste parameter θ_i, which measures the individual's preference for donations. Each individual is assumed to have utility as in (6), but we generalize by allowing utility over donations, $u(\cdot)$, to be any strictly concave function, not just an iso-elastic one i.e.

$$U(c_i, g_i, G) = c_i - D_i K + \theta_i u(g_i) + V(G) \tag{12}$$

We also assume for simplicity that the tax system is proportional, with marginal tax τ, so the budget constraint (7) simplifies to

$$c_i + D_i p g_i + (1 - D_i) g_i = p y_i \; p = 1 - \tau, \tag{13}$$

where as before, $D_i = 0, 1$ records the decision to deduct.

In this setting, we can solve out for the household's optimal donation and deduction decisions as functions of p. Given these in hand, we can then define a government objective W in a standard way as the sum of indirect utility of all households, minus the cost of the tax subsidy to giving and any direct government grant B to the charity. Note that W takes into account both the "warm glow" benefit from giving via $\theta u(g)$ and the altruistic benefit via $V(G)$. All this is relatively standard and is done in the Appendix to the paper.

In that Appendix, we then develop a condition under which a decrease in the price (increase in the subsidy to charitable giving) will raise welfare, i.e., $\frac{dW}{dp} < 0$. To state this condition, we define g^0 and g^1 as aggregate undeclared and declared donations respectively.[31] Then, the condition says that the aggregate elasticity of declared donations with respect to the price p needs to be large enough. Formally:

$$\varepsilon \geq \frac{\lambda - 1}{\lambda} + \frac{g_p^0}{g^1}, \quad \varepsilon = -\frac{p g_p^1}{g^1} \tag{14}$$

[31] In deriving this condition, we assume, following Saez (2004), that the government can optimize its own lump-sum grant B to the charity.

Here, λ is the marginal cost of public funds, and g_p^0, g_p^1 are the derivatives of g^0, g^1 respectively with respect to p.

This condition is a generalization of Roberts (1984)'s well-known condition, which says that an increase in the subsidy induces an increase in donations bigger than the cost of the subsidy iff $\varepsilon \geq 1$. It is a generalization in two ways. First, it allows for a weight on household welfare, not just on government revenue, by allowing $\lambda < \infty$. Second, it includes the term $\frac{g_p^0}{g^1} > 0$. This is because in our setting, due to the cost K, a decrease in p will cause fewer households to make donations but not deduct them.

To check this condition for the UK, we can proceed as follows. First, it is easily checked that the overall elasticity ε in (14) can be expressed as the absolute value of the sum of ε_{INT} and ε_{EXT}, which according to our main estimates is between 0.25 and 0.37.

To calculate $(\lambda-1)/\lambda$, we use Kleven and Kreiner (2006), which is a well-known study that estimates the marginal cost of public funds for the UK, allowing for both intensive and extensive-margin responses to income taxes, and also for these responses to vary across the income distribution. This study gives a range of values for λ of between 1.13 and 1.36 for a proportional change in the income tax across all brackets, yielding a range of values for $(\lambda - 1)/\lambda$ of 0.12 to 0.27.

As a final step, using our structural estimates, we can evaluate $\frac{g_p^0}{g^1}$ by considering a small shift of size δ in the marginal tax rate across the tax schedule. Given our discrete choice approach, the choice of δ is an important one, and we evaluate $\frac{g_p^0}{g^1}$ at the smallest possible δ that induces a shift in the share of taxpayers declaring their donations. We obtain an estimate of 0.01 for $\frac{g_p^0}{g^1}$.

So, it seems that condition (14) holds in the UK case. This implies that there is a case for increasing the subsidy to charitable giving in the UK. However, it should be noted that such a reform will be at a net financial cost to the government, as condition (14) does not hold at $\lambda = \infty$ in the UK case. It should also be noted that this conclusion is conditional on some other assumptions of the model, for example that the government views private donations and government support for charity as perfect substitutes.[32]

[32] It may be, for example, that the government views private contributions as less valuable than direct government support. This may be due to a paternalistic component of government objectives ("merit goods"), or due to a divergence between donors' preferences and the preferences of a majority-elected government (Horstmann and Scharf, 2008). This could be captured formally by weighting private contributions by $\alpha < 1$ in the function V in the online Appendix.

6 Conclusions

In this paper, we have analysed an administrative panel of UK income tax returns for the period 2005-2013 to identify intensive and extensive-margin donor responses to the tax price of charitable giving. Using the 2010 major tax reform of the UK income tax schedule as a source of exogenous variation in the tax price, we have estimated the price elasticity of giving using reduced-form methods, obtaining an intensive-margin elasticity estimate in the range between -0.16 and -0.28 and an extensive-margin elasticity of about -0.09, yielding a total elasticity between -0.25 and -0.37.

Motivated by the low proportion of self-assessment taxpayers reporting charitable donations (11 percent) compared to available survey evidence for the UK suggesting that this proportion is about 60 percent in the population, we developed a structural model that incorporates the cost of declaring donations in the taxpayers' optimization problem. Using this structural model, we estimate that the fixed cost of declaring donations is £47, amounting to about 10 percent of the median declared donations in our data.

For our welfare analysis, we extended the theoretical framework of Saez (2004) to allow for extensive-margin giving and for a fixed cost of declaring donations. Taking into account these factors, and well-established estimates of the marginal cost of public funds for the UK, there is a case for increasing the subsidy on charitable giving in the UK.

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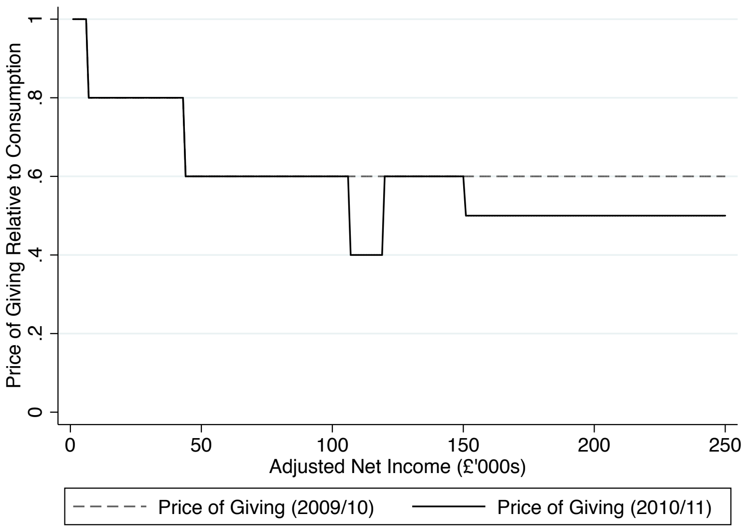
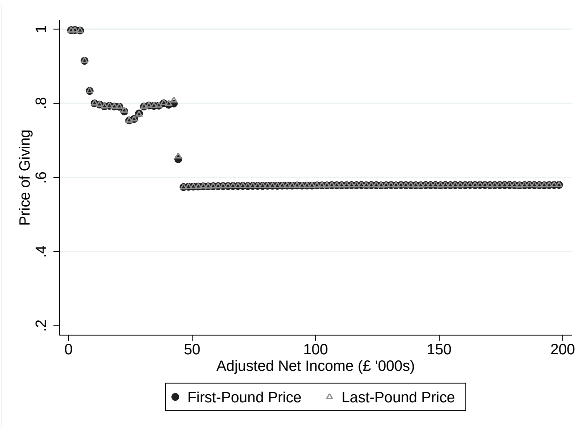
Figures

Figure 1: Price of Giving by Income Level

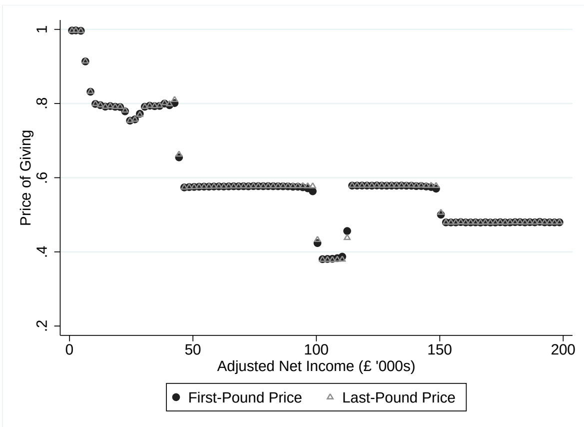
(a) Statutory Tax Price of Giving, Before and After 2010 Reform



(b) Measured Price of Giving (2009/10)

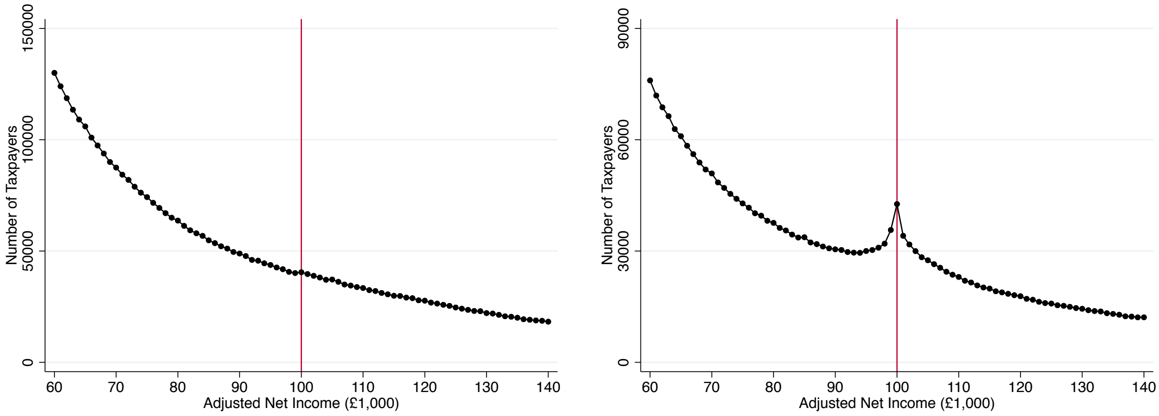


(c) Measured Price of Giving (2010/11)



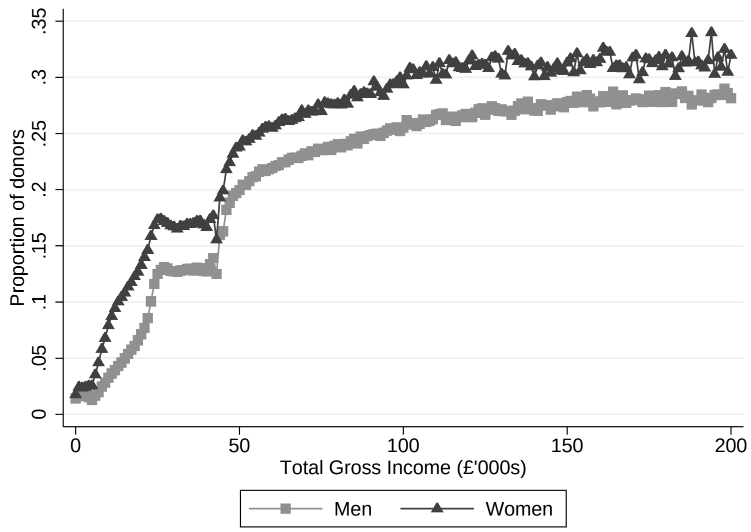
Notes: the top panel (a) plots the statutory price of giving in the fiscal years 2009/10 and 2010/11, i.e. before and after the April 2010 tax reform. The picture shows that there are two groups of taxpayers affected by the reform: those with adjusted net income (z) between £100,000 and 112,950, and those with $z >$ £150,000. The bottom panels (b and c) show the actual average price of giving observed in the data using our tax calculator. We create £2,000-wide bins of adjusted net income in the horizontal axis and calculate the average first-pound and last-pound prices in each bin. As expected, the averages are nearly identical in each bin for the two price measures. The small dip in the price of giving around £30,000 is due to the withdrawal of the extra personal allowance awarded to individuals above 65 years. Some bins include taxpayers on either side of a tax kink, which explains why their average price of giving is different from the contiguous bins.

Figure 2: Distribution of Adjusted Net Income, Before and After 2010 Reform



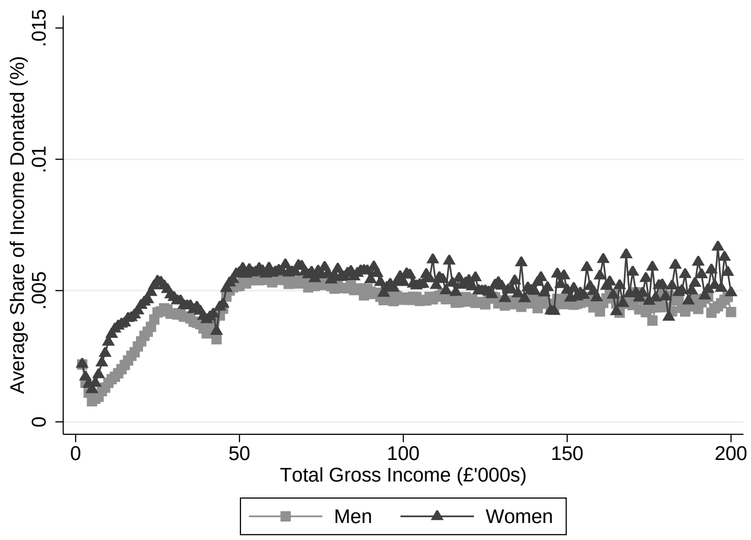
Notes: this figure shows the distribution of adjusted net income for the population of self-assessment taxpayers in the UK. The left panel includes pre-reform years (2005-2010) and the right panel post-reform years (2011-2013). Bins are £1,000 wide and the vertical red line marks the £100,000 threshold, which determines eligibility to file self-assessment for wage earners with no other sources of income, and is also a kink point where the marginal tax rate jumps from 40 to 60 percent in the post-reform period.

Figure 3: Fraction of Donors, by Income and Gender



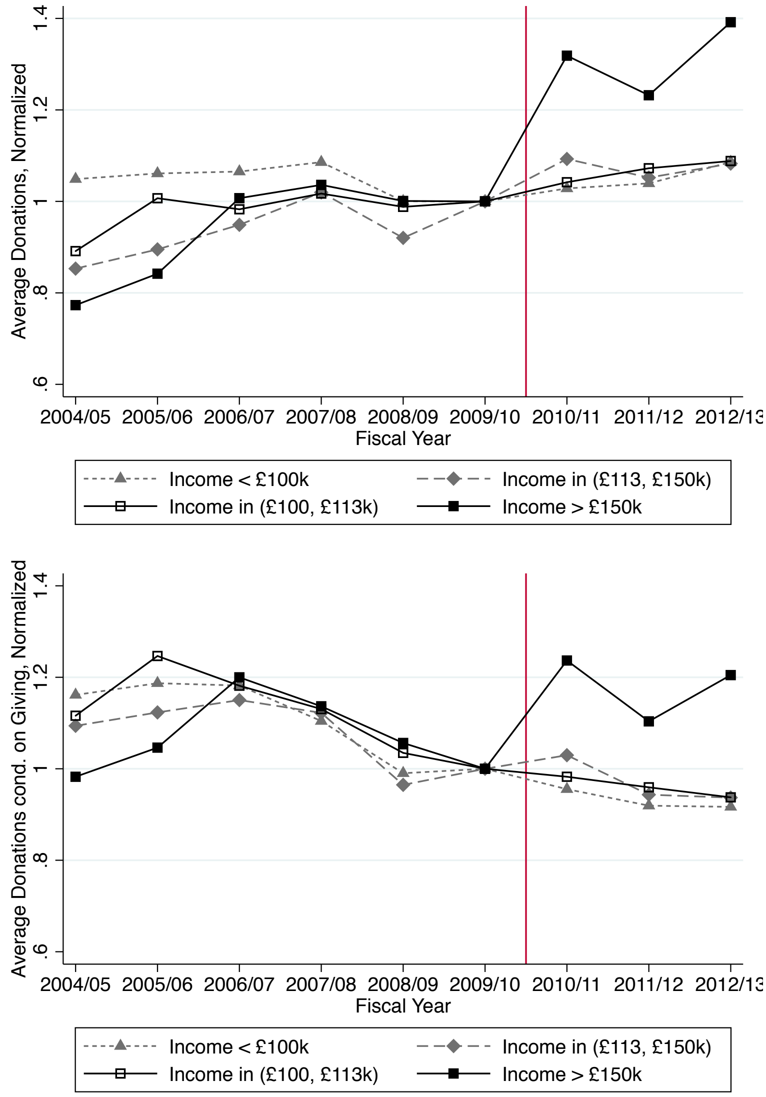
Notes: this figure plots the proportion of taxpayers reporting positive donations (donors), against total gross income in bins of £1,000. Solid triangles represent the averages for women and light-grey squares represent the averages for men. Taxpayers with gross income below £45,000 are generally in the basic rate bracket, so they do not get any additional tax relief by reporting their donations on the self-assessment form.

Figure 4: Average Share of Income Donated, by Income and Gender



Notes: this figure shows the average share of gross (pre-tax) income donated, by gender and by levels of gross income. Throughout the income distribution, women donate a slightly higher proportion of their income than men. The share donated grows with income up to about £50,000, and it is remarkably stable at about 0.5 percent for all taxpayers above that income level.

Figure 5: Normalized Average Donations by Income Group



Notes: the top panel shows the evolution of average donations for four groups of taxpayers. Average donations are normalized to equal 1 in fiscal year 2009/10 (just prior to the April 2010 reform) for all groups. The groups are defined based on how taxpayers might have been affected by the tax reform depending on their adjusted net income (z) in fiscal year 2009/10. Taxpayers with net income $z \in (0, 100]$ thousand pounds in 2009/10 were not affected by the reform, and neither were those with net income $z \in (113, 150]$ thousand pounds. The evolution of normalized average donations for these two groups are depicted in grey. Taxpayers with net income $z \in (100, 113]$ in year 2009/10 were affected by the reform, as the marginal tax rate for that income range went from 40 percent to 60 percent (so their tax price of giving declined from 0.6 to 0.4). Similarly, taxpayers with net income $z \in (150, \infty)$ saw their marginal tax rate increase from 40 percent to 50 percent (so their tax price of giving declined from 0.6 to 0.5). The bottom panel shows the evolution of normalized average donations only for individuals reporting positive donations (i.e., donors). The groups are defined as above, and the group averages are also normalized to be one in fiscal year 2009/10 for all groups.

Tables

Table 1: Summary Statistics

	Mean	**Std. Dev.**	**p10**	**p50**	**p90**	**Observations**
Panel A: Universe of Self-Assessment Taxpayers						
Donations (g)	211	25,632	0	0	59	75,646,776
Donations (if $g > 0$)	1,927	77,376	63	382	2,796	8,296,291
Adjusted Net Income (z)	36,072	878,780	3,592	18,799	70,031	75,646,776
Disposable Income (y)	29,098	533,810	3,873	17,186	55,886	75,646,776
Price of Giving (p)	0.79	0.14	0.60	0.78	1.00	75,646,776
Age	49.92	15.02	31	49	70	74,007,168
Female	0.34	0.47	0	0	1	75,646,776
Used a Tax Advisor	0.67	0.47	0	1	1	75,646,776
Panel B: Higher-Bracket Taxpayers (Main Estimation Subsample)						
Donations (g)	707	3,685	0	0	1,188	6,869,602
Donations (if $g > 0$)	2,320	6,389	89	593	5,118	2,093,152
Adjusted Net Income (z)	154,746	401,238	56,006	97,368	254,366	6,869,602
Disposable Income (y)	110,514	289,111	45,399	72,615	173,409	6,869,602
Price of Giving (p)	0.58	0.06	0.50	0.60	0.60	6,869,602
Age	50.25	12.62	36	48	68	6,787,973
Female	0.18	0.39	0	0	1	6,869,602
Used a Tax Advisor	0.61	0.49	0	1	1	6,869,602

Notes: this table reports summary statistics for the universe of self-assessment income tax returns for the fiscal years between 2004/05 and 2012/13 (Panel A), and for the subsample of taxpayers that always facing a marginal tax rate of 40 percent or higher (Panel B). For each variable, we report the mean, standard deviation, the 10th, 50th and 90th percentiles and the total number of non-missing observations. **Donations** (g) are measured in pounds and are expressed gross of the Gift Aid match. The second row shows summary statistics for donations among donors, i.e. taxpayers reporting $g > 0$ in a given year. **Adjusted net income** (z) is the measure of income that is used for the calculation of income-related deductions to the personal allowance. It is equal to net income minus the grossed-up amount of Gift Aid donations and pension contributions, plus any tax relief received for certain payments (e.g., trade union quotas). In turn, net income is the sum of all employment income, profits, pensions, and income from property, savings and dividends, after subtracting related deductions (e.g., trading losses and gross payments to pension schemes). **Disposable income** is defined as total gross income minus the total tax liability, setting donations to zero. As described in the text, we can write this down as $y = z - T(z)$, where we set $g = 0$ to ensure that, when including this variable in the regression, tax incentives for giving are incorporated only in the price of giving, rather than in disposable income. The **price of giving** (p) is defined as one minus the marginal tax rate. Note that the summary statistics for the first- and last-pound price of giving are essentially identical, so we only report them once. **Age** is measured in years and **female** takes value one for women and zero for men. There are some errors in these two variables in the original SA302 data. For example, age is sometimes reported inconsistently by taxpayers across years. In those cases (about 8 percent of all observations), we calculate the implied year of birth for each observation and assign the most frequent value for all observations of a given taxpayer. Since age is missing for all years for some taxpayers, we have some missing values for about 2 percent of observations. We do a similar exercise with the female dummy, as some taxpayers report a different gender across years. This might be due to the fact that HMRC assigns gender based on first names when that variable is missing. **Used a Tax Advisor** is a dummy variable that takes value one if the taxpayer used a tax advisor to file their return at any point in the past. Hence, this does not refer only to the current year.

Table 2: Intensive-Margin Elasticity, Standard IV Specification

	Dependent Variable: Log Donations ($\ln g_{it}$)					
	(1)	(2)	(3)	(4)	(5)	(6)
Log Price of Giving	-0.890***	-0.223***	-0.189***	-0.829***	-0.185***	-0.160***
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Log Disposable Income				0.254***	0.205***	0.195***
				(0.003)	(0.003)	(0.003)
Individual FE	y	y	y	y	y	y
Year FE	n	y	y	n	y	y
Other controls	n	n	y	n	n	y
Observations	1,966,204	1,966,204	1,957,876	1,966,204	1,966,204	1,957,876
R-squared	0.006	0.052	0.054	0.017	0.059	0.060
Unique IDs	345,533	345,533	343,821	345,533	345,533	343,821

Note: standard errors in parentheses, clustered at the individual level. The estimated equation is

$$\ln g_{it} = \varepsilon \ln p_{it} + \eta \ln y_{it} + \alpha_i + \alpha_t + \delta' X_{it} + u_{it}$$

where $\ln g_{it}$ denotes log donations; $\ln p_{it}$ denotes the log of the last-pound price of giving, which is instrumented in all specifications by the log of the first-pound price of giving $\ln p^f_{it}$; $\ln y_{it}$ is the log of disposable income setting $g = 0$; X_{it} is a vector of control variables including $(age/100)^2$, a female dummy and a tax advisor dummy; and α_i, α_t are individual and year fixed effects, respectively. Statistical significance: ***=1%, **=5%, *=10%.

Table 3: Extensive-Margin Elasticity, Standard IV Specification

	Dependent Variable: Donor Dummy, $D_{it} \equiv (g_{it} > 0)$					
	(1)	(2)	(3)	(4)	(5)	(6)
Log Price of Giving	-0.224***	-0.044***	-0.033***	-0.206***	-0.038***	-0.029***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Log Disposable Income				0.047***	0.026***	0.020***
				(0.000)	(0.000)	(0.000)
Implied Price Elasticity, ε_{EXT}	-0.735***	-0.145***	-0.108***	-0.676***	-0.124***	-0.094***
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Implied Income Elasticity, η_{EXT}				0.155***	0.085***	0.065***
				(0.001)	(0.001)	(0.001)
Individual FE	y	y	y	y	y	y
Year FE	n	y	y	n	y	y
Other controls	n	n	y	n	n	y
Observations	6,869,602	6,869,602	6,787,973	6,869,602	6,869,602	6,787,973
Unique IDs	1,341,324	1,341,324	1,310,284	1,341,324	1,341,324	1,310,284
R-squared	0.0002	0.0041	0.0248	0.0022	0.0058	0.0235

Note: standard errors in parentheses, clustered at the individual level. The estimated equation is

$$D_{it} = \varepsilon \ln p_{it} + \eta \ln y_{it} + \delta^{'} X_{it} + \alpha_i + \alpha_t + u_{it}$$

where $D_{it} \equiv 1(g_{it} > 0)$ is a dummy variable that takes value one for positive donations and zero otherwise; $\ln p_{it}$ denotes the log of the last-pound price of giving, which is instrumented by the log of the first-pound price of giving $\ln p^f_{it}$, and the rest of variables are defined as in Table 2 above. The implied price and income elasticities are evaluated at the means of all the explanatory variables. Statistical significance: ***=1%, **=5%, *=10%.

Table 4: Intensive-Margin Elasticity: Regressions in Differences (IV)

	Dep. Var.: Log change in Donations ($\ln(g_{it}/g_{i,t-k})$)			
	(1)	(2)	(3)	(4)
First Difference ($k = 1$)				
Change in Log First-Pound Price	-0.164***	-0.156***	-0.224***	-0.213***
	(0.016)	(0.016)	(0.016)	(0.016)
Change in Log Disposable Income			0.133***	0.129***
			(0.003)	(0.003)
Observations	2,008,682	2,000,382	2,008,682	2,000,382
R-squared	0.001	0.002	0.003	0.004
Second Difference ($k = 2$)				
Change in Log First-Pound Price	-0.105***	-0.094***	-0.230***	-0.211***
	(0.018)	(0.018)	(0.017)	(0.018)
Change in Log Disposable Income			0.181***	0.175***
			(0.003)	(0.003)
Observations	1,299,998	1,294,756	1,299,998	1,294,756
R-squared	0.001	0.003	0.006	0.008
Third Difference ($k = 3$)				
Change in Log First-Pound Price	-0.003	0.018	-0.317***	-0.283***
	(0.024)	(0.025)	(0.023)	(0.024)
Change in Log Disposable Income			0.210***	0.201***
			(0.004)	(0.004)
Individual FE	y	y	y	y
Year FE	y	y	y	y
Other controls	n	y	n	y
Observations	738,685	735,739	738,685	735,739
R-squared	0.000	0.002	0.008	0.010

Notes: standard errors in parentheses, clustered at the individual level. The estimated equation is

$$\Delta \ln g_{it} = \varepsilon_{INT} \Delta \ln p^f_{it} + \eta_{INT} \Delta \ln y_{it} + \delta' \Delta X_{it} + \alpha_i + \alpha_t + v_{it}$$

where $k = 1, 2, 3$ years, as indicated at the top of each panel. The dependent variable $\Delta \ln g_{it} \equiv \ln(g_{it}/g_{it-k})$ denotes the log change in donations between years $t-k$ and t; $\Delta \ln p^f_{it} \equiv \ln\left(p^f_{it}(z_{it})/p^f_{it-k}(z_{it-k})\right)$ denotes the log change in the price of giving between years $t-k$ and t; $\Delta \ln y_{it} \equiv \ln(y_{it}/y_{it-k})$ denotes the log change in disposable income (setting $g_{it} = 0$); $\Delta X_{it} \equiv (X_{it}/X_{it-k})$ denotes the change in the control variables (age/100 squared, female and tax advisor dummies); α_i, α_t denote individual and year fixed effects, respectively; and v_{it} represents a random error term. In the IV specifications (columns 5-8), the log change in the price of giving is instrumented by $\ln\left(p^f_{it}(z_{it-k})/p^f_{it-k}(z_{it-k})\right)$ as described in Section 3. Statistical significance: ***=1%, **=5%, *=10%.

Table 5: Heterogeneous Elasticities by Income Range: Intensive and Extensive Margin

	Dep. Var.: Change in Log Donations ($\ln g_{it}/\ln g_{i,t-k}$)				
	$p0-p25$	$p25-p50$	$p50-p75$	$p75-p95$	$p95-p100$
Intensive Margin	(1)	(2)	(3)	(4)	(5)
Change in Log First-Pound Price	0.089	-0.048	-0.055**	-0.098***	-0.220***
	(0.065)	(0.043)	(0.025)	(0.013)	(0.028)
Change in Log Disposable Income	0.045***	0.077***	0.088***	0.100***	0.114***
	(0.004)	(0.004)	(0.003)	(0.003)	(0.004)
Individual FE	y	y	y	y	y
Year FE	y	y	y	y	y
Other controls	y	y	y	y	y
Observations	100,089	526,510	1,483,141	2,167,162	909,509
R-squared	0.005	0.007	0.006	0.007	0.007

	Dep. Var.: Donor Dummy $I(g_{it}>0)$				
	$p0-p25$	$p25-p50$	$p50-p75$	$p75-p95$	$p95-p100$
Extensive Margin	(1)	(2)	(3)	(4)	(5)
Log Price of Giving	-0.034***	-0.054***	-0.054***	-0.056***	-0.050***
	(0.000)	(0.001)	(0.001)	(0.000)	(0.001)
Log Disposable Income	0.002***	0.005***	0.009***	0.015***	0.022***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Implied Price Elasticity, ε_{EXT}	-1.583***	-0.998***	-0.455***	-0.270***	-0.170***
	(0.018)	(0.010)	(0.005)	(0.002)	(0.004)
Implied Income Elasticity, η_{EXT}	0.091***	0.092***	0.079***	0.075***	0.076***
	(0.002)	(0.001)	(0.001)	(0.001)	(0.001)
Individual FE	y	y	y	y	y
Year FE	y	y	y	y	y
Other controls	y	y	y	y	y
Observations	13,772,160	18,005,842	19,684,814	15,780,001	4,607,184
Unique IDs	3,385,342	3,422,862	3,434,745	2,757,835	699,679
R-squared	0.002	0.006	0.010	0.022	0.037

Notes: the **top panel** reports the intensive-margin elasticities by levels of income. For the income groups, we calculate the average real pre-tax income reported by each taxpayer across the whole sample period, and divide the sample (at the individual level) by percentiles. All intensive-margin elasticities are estimated using the differenced specification with $k=1$ year. The estimation equation is

$$\Delta \ln g_{it} = \varepsilon_{INT}\Delta \ln p^f_{it} + \eta_{INT}\Delta \ln y_{it} + \delta' \Delta X_{it} + \alpha_i + \alpha_t + v_{it}$$

where all variables are defined as in the note to Table 4. The **bottom panel** reports extensive-margin elasticities estimated using a linear probability model. The estimation equation is

$$D_{it} = \varepsilon \ln p_{it} + \eta \ln y_{it} + \delta' X_{it} + \alpha_i + \alpha_t + u_{it}$$

where the first-pound price $\ln p_{it}$ is instrumented by the first-pound price $\ln p^f_{it}$, and the other variables are defined as in the notes to Tables A.3 and 3 above. The implied price and income elasticities are evaluated at the means of all the explanatory variables. Statistical significance: ***=1%, **=5%, *=10%.

Table 6: Estimates of Structural Parameters

Cost of declaring donations (K)	46.699***
	(0.075)
Elasticity of giving (γ)	0.142***
	(0.0003)
Average generosity across the population (μ)	15.960***
	(0.725)

Notes: This table reports the estimated structural parameters following the model and estimation methodology as described in Section 4. Standard errors in parentheses. Statistical significance: ***=1%, **=5%, *=10%.

Appendix: Derivation of Equation (14)

For convenience, we capture the idea that households are “small" by assuming a continuum of housholds, indexed by a taste parameter θ distributed continuously on the interval $\left[\underline{\theta}, \overline{\theta}\right]$, with density $f(.)$. A household of type θ will then choose g, D to maximize household utility with c substituted out via the budget constraint i.e. will maximise

$$\theta u(g) - Dpg - (1-D)g + py, \tag{A.1}$$

Define $g(p;\theta)$, $g(1;\theta)$ to be the optimal levels of donation for a for $D = 1, 0$ respectively. Then we can write indirect utility for a donor of a type θ, not including the fixed cost of making a deduction, or the term $V(g)$ as

$$v(p;\theta) = \theta u(g(p;\theta)) - pg(p;\theta),\ v(1;\theta) = \theta u(g(1;\theta)) - pg(1;\theta) \tag{A.2}$$

depending on whether they deduct or not. The it is easy to check that the household of type θ will deduct iff

$$\Delta v(p;\theta) \equiv v(p;\theta) - v(1;\theta) \geq K$$

It is then easy to see, using the properties of the indirect utility function, that that

$$\frac{\partial \Delta v}{\partial \theta} = u(g(p;\theta)) - u(g(1;\theta)) \tag{A.3}$$

We will assume a “single-crossing” condition that the RHS of (A.3) is strictly increasing in θ. This certainly holds for the iso-elastic specification of $u(.)$ of the structural model. Note also that without further restrictions on $u(.)$, $g(1;\theta) = 0$ is possible for θ low enough i.e. the individual may decide to make a zero donation. Then there are values $\theta', \theta''(p)$ such that (i) households with $\theta \leq \theta'$ give nothing; (ii) households with $\theta \in (\theta', \theta''(p)]$ donate but not declare; and (iii) households with $\theta > \theta''(p)$ donate and declare. In particular, $\theta''(p)$ is defined by

$$v(p;\theta'') - v(1;\theta'') = K$$

and so clearly, as p rises, the benefit of declaring declines, so θ'' is increasing in p. This is the extensive margin response to the price of giving.

We now turn to identifying conditions under which the price of giving should be increased or decreased. As a first step, note that the aggregate donation to the charity, G, can be written

$$G = g^0(p) + g^1(p) + B, \quad g^1(p) = \int_{\theta''(p)}^{\overline{\theta}} g(p;\theta) f(\theta) d\theta,\ g^0(p) = \int_{\theta'}^{\theta''(p)} g(1;\theta) f(\theta) d\theta$$

where $g^0(p)$, $g^1(p)$ are total donations by non-declarers and declarers respectively, and B is a government grant. The government's objective is then

$$W = V(G) + \int_{\theta''(p)}^{\overline{\theta}} (v(p;\theta) - K) f(\theta) d\theta + \int_{\theta'}^{\theta''(p)} v(1;\theta) f(\theta) d\theta - \lambda[(1-p)g^1(p) + B] \tag{A.4}$$

where λ is the marginal cost of public funds. This is the integral of utilities across all types, minus the revenue cost of the subsidy, $(1-p)g^1(p)$, and the direct grant B, to the government. Note that only donations that are declared and thus attract the subsidy are costly in terms of public funds.

Now using (A.4), consider the effect of a small tax reform dp on welfare:

$$dW = V'(g_p^0 + g_p^1)dp - g^1 dp - \lambda[-g^1 + (1-p)g_p^1]dp \tag{A.5}$$

where the "p" subscript denotes a derivative with respect to p and where we now suppress the dependence of g^0, g^1 etc. on p. So, we see from (A.5) that there are three effects of an increase in the price; first, aggregate provision of the public good is decreased, second, household welfare is directly lowered, as the subsidy to giving is lower, and third, the government subsidy to charitable giving is affected, measured by the term in the square brackets.

We further assume, following Saez (2004)), that the grant B is chosen optimally by government i.e. $V' = \lambda$ in which case (A.5) simplifies to

$$dW = \lambda(g_p^0 + g_p^1)dp + (\lambda - 1)g^1 dp - \lambda(1-p)g_p^1 dp \tag{A.6}$$

So, from (A.6), after some manipulation, we see that an decrease in the price i.e. increase in the subsidy to charitable giving will raise welfare i.e. $\frac{dW}{dp} < 0$ if

$$\varepsilon \geq \frac{\lambda - 1}{\lambda} + \frac{g_p^0}{g^1}, \quad \varepsilon = -\frac{pg_p^1}{g^1} \tag{A.7}$$

which is equation (14) in the paper, as required.

ONLINE APPENDIX

NOT INTENDED FOR PUBLICATION IN JOURNAL

"More Giving or More Givers? The Effects of Tax Incentives on Charitable Donations in the UK"

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A Additional Results

A.1 Heterogeneous Elasticities by Gender and Age

We present here the analysis of heterogeneous elasticities by gender and age. For these estimates, we use the restricted dataset with only high-bracket taxpayers. Table A.5 reports the results. The intensive margin elasticity is estimated using our preferred first-difference estimator. Looking first at gender, we see that the intensive-margin price elasticity is somewhat larger for men (-0.17) than for women (-0.13), while the income elasticity is almost the same. The extensive-margin price and income elasticities on the other hand, seem the same for men and women. As regards age, the intensive-margin price elasticity is highest for those aged over 65 years. The extensive-margin price elasticities decline with age. Adding the intensive and extensive margin price elasticities together, we see that the total price elasticity is somewhat greater for men than women, and that the total price elasticity is U-shaped in age, being smallest for the 40-65 age group.

A.2 Poisson Estimates of the Total Elasticity of Giving

As a consistency check, we estimate the total elasticity directly using a Poisson pseudo-maximum likelihood estimator (PPML, see Silva and Tenreyro, 2006). we use the PPML approach to deal with censoring. This approach deals with all of the problems associated to a Tobit specification: there is no incidental parameters problem, the distributional assumptions on the error term are weaker, the elasticities are constant, and the dependent variable is in levels and can take value zero (Silva and Tenreyro, 2006). The estimated equation in this case can be written as:

$$g_{it} = exp\left(\varepsilon \ln p_{it} + \eta \ln y_{it} + \alpha_i + \alpha_t + \delta X_{it}\right) + u_{it} \tag{A.8}$$

where g_{it} denotes donations (in levels) and the other variables are defined as before. That is, the conditional mean of g_{it} is an exponential function of the covariates, rather than a linear function, as in OLS.

Due to the properties of logarithms, the coefficients ε and η in (A.8) can be interpreted as the total price and income elasticities of giving i.e. $\varepsilon = \varepsilon_{INT} + \varepsilon_{EXT}$ and $\eta = \eta_{INT} + \eta_{EXT}$. The main advantage of this model over the log-log model in equation (2) is that it allows the dependent variable to take on a value of zero so that we can include both donors and non-donors in the regression. A drawback of this method is that it does not allow a decomposition of the aggregate effect of a change in the price of giving or income into an intensive or extensive part. However, as shown in Section 5, the overall tax-price elasticity of giving is a sufficient statistic for policy evaluation.

One potential concern with the separate estimation of the intensive and extensive-margin tax-price elasticities of giving, as specified in equations (2) and (3), is that donors may be selected in a way that could bias the estimation of the intensive-margin equation. That is, there may be unobserved factors that determine both the decision to donate at all and how much to donate. To deal with this potential issue, we allow for selection bias using a Heckman-type procedure described below.

A.3 Robustness Checks: Dynamic Effects and Bunching

Second, our baseline specification does not control directly for potential dynamic effects of changes in price and income on donations. In the existing life-cycle models of charitable giving (Randolph, 1995; Auten, Sieg and Clotfelter, 2002), it is argued that transitory and permanent changes in the price of giving (and income) could have different effects (although the predictions are somewhat different). Bakija and Heim (2011) propose using leads and lags of changes in price and income to account for transitory effects and obtain elasticities with respect to permanent shocks. We do not take their approach in our first-differenced regressions because our strategy for instrumenting current pre-tax income with lagged income relies on the exclusion restriction that lagged income (or anything that depends on lagged income, such as the lagged tax price) does not affect donations directly. Specifically, we modify equation (2) to estimate:

$$\begin{aligned}\ln g_{it} = {} & \varepsilon_{INT} \ln p_{it} + \eta_{INT} \ln y_{it} + \delta X_{it} + \alpha_i + \alpha_t \\ & + \gamma_1 \Delta \ln p_{it} + \gamma_2 \Delta \ln p_{it+1} + \gamma_3 \Delta \ln y_{it} + \gamma_4 \Delta \ln y_{it+1} + u_{it},\end{aligned} \tag{A.9}$$

and we make analogous changes to equation (3) for the extensive margin.

Third, as with any progressive income tax schedule, some taxpayers may bunch at the kink points. The relevant thresholds in our setting are at $z =$ £100,000 and $z =$£150,000, and also around the kink between the basic and higher tax rates (located at $z \approx$ £45,000, with some variation across years). We investigate whether bunching in taxable income around kink points of the tax schedule has an effect on the estimated price elasticities by re-estimating regressions (2) and (3) excluding individuals in an interval of ±£2,000 around each kink point.

The results for the latter two robustness exercises are reported in Tables A.6 (intensive margin) and A.7 (extensive margin) in the Appendix. Table A.6 re-estimates (2) using p_{it}^f as an instrument for p_{it}. In columns (1)-(4), we exclude individuals around kink points. We find that the intensive-margin price elasticity slightly increases in absolute value:

from -0.58 and -0.34 in columns (4) and (8) of Table 2 to -0.65 and -0.38 in columns (2) and (4) of Table A.6, respectively. For the extensive-margin case, columns (1)-(4) of Table A.7 re-estimate (3), again using the IV specification and excluding potential bunchers. The estimates of the extensive-margin price elasticity also increase a little in absolute value: from -0.91 and -0.79 in columns (4) and (8) of Table 3 to -0.99 and -0.86 in columns (2) and (4) of Table A.7, respectively. Given that the changes in both intensive and extensive-margin elasticities are modest, these results are consistent with bunchers not changing their donations much in response to a change in the tax price of giving.

In columns (5)-(8) of Tables A.6 and A.7, we report the results for the dynamic specifications. The coefficients on the lagged and future changes ($\gamma_1, ..., \gamma_4$) are statistically significant in most cases, but they are small in size compared to the estimates of the persistent price and income elasticities ($\varepsilon_{INT}, \varepsilon_{EXT}$). The permanent intensive-margin elasticity is -0.42 (column 8 of Table A.6), which is a bit larger in absolute value than the equivalent estimate without the lagged and future changes (-0.34; column 8 of Table 2). The same applies to the permanent intensive-margin income elasticity (0.18 vs. 0.12). These results are consistent with those obtained in the differenced regressions with one vs. three lags.

A.4 Regression Results Correcting for Selection Bias

A potential problem with the baseline results is that they do not allow for correlation in the error terms u_{it}, v_{it} in equations (2), (3). If there is correlation, then the key coefficients $\varepsilon_{INT}, \eta_{INT}$ in (2) could be biased when ignoring selection bias. As a robustness check, we estimate (2) controlling for selection into giving, following the procedure proposed by (Wooldridge, 1995) specifically to correct for selection bias in panels, which is in three steps.

1. For each t separately, estimate the equation

$$Pr(D_{it} = 1 \,|Z_{i1}, ...Z_{iT}) = \Phi(\delta_{t0} + Z_{i1}\delta_{t1} + ...Z_{iT}\delta_{tT}) \tag{A.10}$$

where Z_{it} is a vector of variables that determines the decision to give. In our estimation, these are log of the first-pound price of giving, the log of real disposable income (setting donations to zero, as in the main regressions), and a dummy variable indicating whether the taxpayer used a tax advisor in preparing the tax return.

2. Construct the inverse Mills ratio variable

$$\lambda_{it}(\hat{\delta}_{t0} + Z_{i1}\hat{\delta}_{t1} + ...Z_{iT}\hat{\delta}_{tT}) = \frac{\phi(\hat{\delta}_{t0} + Z_{i1}\hat{\delta}_{t1} + ...Z_{iT}\hat{\delta}_{tT})}{\Phi(\hat{\delta}_{t0} + Z_{i1}\hat{\delta}_{t1} + ...Z_{iT}\hat{\delta}_{tT})} \tag{A.11}$$

3. Estimate the following equation by pooled OLS:

$$\ln D_{it} = \varepsilon \ln P_{it} + \eta \ln Y_{it} + \theta' X_{it} + \alpha_t + Z_{i1}\psi_1 + ...Z_{iT}\psi_T + \gamma_t \lambda_{it} + e_{it} \tag{A.12}$$

By construction, e_{it} has mean zero. Then, the estimates of ε, η, in equation (A.12) will be consistent.

We hypothesize that the tax advisor dummy will affect the decision to give but not how much to give, and so we exclude it from the X_{it} in equation (A.12). Thus, X_{it} comprises only the log of the first-pound price and income. The tax advisor dummy helps in the identification of the ψ_t coefficients.

We first report report the estimates of the coefficients δ_{ti} in the selection equation (A.11) in Table A.8. We consider two different specifications. The first is similar to the Wooldridge procedure, but treats the panel as a pooled times-series cross-section. That is, the Probit (A.10) is estimated on the entire sample. In this case, we impose $\delta_{ti} = \delta_i, i = 1, ..., T.$. The result of this are shown in column (1) of Table A.8. It is clear that both current and lagged values of the first-pound price and disposable income are important in determining D_{it}. The second estimates reported in the remaining columns of Table A.8 report the estimates of δ_{ti} when δ can vary with i. Again, is clear that both current and lagged values of the first-pound price and disposable income are important in determining D_{it}.

We now turn to steps 2 and 3. Clearly, the two ways of estimating the selection equation give us two different inverse Mills ratios, which we refer to as *pooled* and *annual* respectively. In turn, for each of these two, we can estimate (A.12) in two ways. First, we can impose the restriction that the coefficient on the inverse Mill ratio is not time-varying i.e $\gamma_t = \gamma$, and second, we can allow γ_t to be time-varying. We refer to these as the *one effect* and *diff effects* specifications respectively.

This gives us four possible specifications for (A.12). In A.9, we report the coefficient estimates $\varepsilon_{INT}, \eta_{INT}$ which are also the intensive-margin price and income elasticities for each of these four specifications. We see that these estimates are quite stable across the four specifications. Also, they are not too different from our preferred elasticity estimates from the first-difference specification reported in 4 above. Finally, we report an-F-test for the joint significance of the $\lambda_{it} + e_{it}$ in (A.12). These are always highly significant.

Appendix Tables

Table A.1: Donations as a Share of Gross Income for Top Income Groups

Year	p90-p100	p90-p99	p99-p99.99	p99.99-p100
2005	0.46%	0.33%	0.49%	2.36%
2006	0.50%	0.35%	0.62%	1.61%
2007	0.57%	0.37%	0.66%	2.27%
2008	0.63%	0.38%	0.61%	3.27%
2009	0.48%	0.37%	0.54%	1.34%
2010	0.51%	0.43%	0.54%	0.84%
2011	0.67%	0.45%	0.85%	2.36%
2012	0.63%	0.42%	0.74%	2.76%
2013	0.67%	0.42%	0.81%	3.31%

Note: this table reports the ratio of donations (net of Gift Aid payments) over total gross income (excluding capital gains) for different income groups. The percentiles are calculated from the distribution of gross income among self-assessment taxpayers in each year. We denote fiscal year 2004/05 as 2005.

Table A.2: Intensive-Margin Elasticity, OLS specification

	Dependent Variable: Log Donations ($\ln g_{it}$)					
	(1)	(2)	(3)	(4)	(5)	(6)
Log Price of Giving	-0.618***	-0.035***	-0.005	-0.557***	0.004	0.025***
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Log Disposable Income				0.263***	0.209***	0.199***
				(0.003)	(0.003)	(0.003)
Individual FE	y	y	y	y	y	y
Year FE	n	y	y	n	y	y
Other controls	n	n	y	n	n	y
Observations	2,093,152	2,093,152	2,082,867	2,093,152	2,093,152	2,082,867
R-squared	0.008	0.053	0.055	0.018	0.059	0.060
Unique IDs	472,481	472,481	468,812	472,481	472,481	468,812

Note: standard errors in parentheses, clustered at the individual level. The estimated equation is

$$\ln g_{it} = \varepsilon \ln p_{it} + \eta \ln y_{it} + \alpha_i + \alpha_t + \delta^{'} X_{it} + u_{it}$$

where $\ln g_{it}$ denotes log donations; $\ln p_{it}$ denotes the log of the last-pound price of giving; $\ln y_{it}$ is the log of disposable income setting $g = 0$; X_{it} is a vector of control variables including $(age/100)^2$, a female dummy and a tax advisor dummy; and α_i, α_t are individual and year fixed effects, respectively. Statistical significance: ***=1%, **=5%, *=10%.

Table A.3: Extensive-Margin Elasticity (OLS specification)

	Dependent Variable: Donor Dummy, $D_{it} \equiv (g_{it} > 0)$					
	(1)	(2)	(3)	(4)	(5)	(6)
Log Price of Giving	-0.204***	-0.032***	-0.021***	-0.186***	-0.025***	-0.017***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Log Disposable Income				0.048***	0.026***	0.020***
				(0.001)	(0.001)	(0.001)
Implied Price Elasticity, ε_{EXT}	-0.670***	-0.105***	-0.068***	-0.611***	-0.083***	-0.054***
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Implied Income Elasticity, η_{EXT}				0.158***	0.086***	0.066***
				(0.002)	(0.002)	(0.002)
Individual FE	y	y	y	y	y	y
Year FE	n	y	y	n	y	y
Other controls	n	n	y	n	n	y
Observations	6,869,602	6,869,602	6,787,973	6,869,602	6,869,602	6,787,973
Unique IDs	1,341,324	1,341,324	1,310,284	1,341,324	1,341,324	1,310,284
R-squared	0.007	0.034	0.037	0.010	0.035	0.037

Note: standard errors in parentheses, clustered at the individual level. The estimated equation is

$$D_{it} = \varepsilon \ln p_{it} + \eta \ln y_{it} + \delta' X_{it} + \alpha_i + \alpha_t + u_{it}$$

where $D_{it} \equiv 1(g_{it} > 0)$ is a dummy variable that takes value one for positive donations and zero otherwise; $\ln p_{it}$ denotes the log of the last-pound price of giving; $\ln y_{it}$ is the log of disposable income setting $g = 0$; X_{it} is a vector of control variables including $(age/100)^2$, a female dummy and a tax advisor dummy; and α_i, α_t are individual and year fixed effects, respectively. Since the dependent variable is binary, the coefficients on $\ln p_{it}$ and $\ln y_{it}$ represent semi-elasticities. To obtain the implied price and income elasticities, we divide by the proportion of donors and evaluate at the means of all the explanatory variables. Statistical significance: ***=1%, **=5%, *=10%.

Table A.4: Total Elasticity: Poisson Regressions

	Dependent Variable: Donations in Levels (g_{it})			
	(1)	(2)	(3)	(4)
Log First-Pound Price	-0.516***	-0.452***	-0.486***	-0.431***
	(0.018)	(0.018)	(0.018)	(0.018)
Log Disposable Income			0.277***	0.263***
			(0.007)	(0.007)
Individual FE	y	y	y	y
Year FE	y	y	y	y
Other controls	n	y	n	y
Observations	2,962,967	2,948,881	2,962,967	2,948,881
Unique IDs	418,077	415,856	418,077	415,856

Note: robust standard errors in parentheses. The estimated equation is

$$g_{it} = \exp(\varepsilon \ln p_{it} + \eta \ln y_{it} + \delta' X_{it} + \alpha_i + \alpha_t) + u_{it}$$

where g_{it} denotes donations (in levels); $\ln p_{it}$ denotes the log price of giving (in columns 5-8, we use the first-pound price, $\ln p_{it}^f$); $\ln y_{it}$ denotes the log of disposable income (setting $g = 0$); X_{it} is a vector of control variables including $(age/100)^2$, a female dummy and a tax advisor dummy; and α_i, α_t denote individual and year fixed effects, respectively. Statistical significance: ***=1%, **=5%, *=10%.

Table A.5: Heterogeneous Elasticities by Age and Gender

	Dep. Var.: Change in Log Donations ($\ln g_{it}/\ln g_{i,t-k}$)				
Intensive Margin	Men (1)	Women (2)	Age <40 (3)	Age $40-65$ (4)	Age >65 (5)
Change in Log First-Pound Price	-0.170***	-0.132***	-0.155***	-0.142***	-0.184***
	(0.009)	(0.018)	(0.022)	(0.010)	(0.022)
Change in Log Disposable Income	0.196***	0.192***	0.277***	0.176***	0.182***
	(0.004)	(0.008)	(0.009)	(0.004)	(0.009)
Individual FE	y	y	y	y	y
Year FE	y	y	y	y	y
Other controls	y	y	y	y	y
Observations	1,576,733	390,233	293,051	1,225,235	411,327
R-squared	0.059	0.064	0.081	0.051	0.040

	Dependent Variable: Donor Dummy $I(g_{it}>0)$				
Extensive Margin	Men (1)	Women (2)	Age <40 (3)	Age $40-65$ (4)	Age >65 (5)
Log Price of Giving	-0.030***	-0.031***	-0.038***	-0.024***	-0.023***
	(0.001)	(0.003)	(0.003)	(0.001)	(0.004)
Log Disposable Income	0.020***	0.020***	0.032***	0.016***	0.013***
	(0.000)	(0.001)	(0.001)	(0.000)	(0.001)
Implied Price Elasticity, ε_{EXT}	-0.101***	-0.094***	-0.174***	-0.079***	-0.046***
	(0.004)	(0.009)	(0.014)	(0.005)	(0.007)
Implied Income Elasticity, η_{EXT}	0.066***	0.061***	0.145***	0.054***	0.026***
	(0.001)	(0.003)	(0.004)	(0.001)	(0.002)
Individual FE	y	y	y	y	y
Year FE	y	y	y	y	y
Other controls	y	y	y	y	y
Observations	5,621,250	1,247,409	1,593,786	4,438,534	836,339
Unique IDs	1,079,304	256,750	512,543	931,479	151,643
R-squared	0.0273	0.0123	0.00735	0.000216	0.00291

Notes: the **top panel** reports the intensive-margin elasticities by gender and age. All intensive-margin elasticities are estimated using the differenced specification with $k=1$ year. The estimation equation is

$$\Delta \ln g_{it} = \varepsilon_{INT}\Delta \ln p^f_{it} + \eta_{INT}\Delta \ln y_{it} + \delta^{'}\Delta X_{it} + \alpha_i + \alpha_t + v_{it}$$

where all variables are defined as in the note to Table 4. The **bottom panel** reports extensive-margin elasticities estimated using a linear probability model. The estimation equation is

$$D_{it} = \varepsilon \ln p_{it} + \eta \ln y_{it} + \delta^{'} X_{it} + \alpha_i + \alpha_t + u_{it}$$

where the first-pound price $\ln p_{it}$ is instrumented by the first-pound price $\ln p^f_{it}$, and the other variables are defined as in the note to Tables A.3 and 3 above. The implied price and income elasticities are evaluated at the means of all the explanatory variables. Statistical significance: ***=1%, **=5%, *=10%.

Table A.6: Intensive-Margin Elasticity: Robustness Checks

	Dependent Variable: Log Donations ($\ln g_{it}$)							
	Excluding Intervals Around Kinks				*Adding Lead/Lags of Changes in p, y*			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Log Price of Giving	-0.226***	-0.177***	-0.175***	-0.139***	-0.309***	-0.228***	-0.278***	-0.222***
	(0.010)	(0.010)	(0.010)	(0.010)	(0.019)	(0.020)	(0.019)	(0.020)
Log Disposable Income			0.210***	0.199***			0.284***	0.272***
			(0.003)	(0.003)			(0.006)	(0.006)
$\ln p_{it} - \ln p_{it-1}$					0.035***	0.014	0.044***	0.029***
					(0.011)	(0.011)	(0.011)	(0.011)
$\ln p_{it+1} - \ln p_{it}$					-0.055***	-0.032***	-0.031***	-0.015**
					(0.007)	(0.007)	(0.007)	(0.007)
$\ln y_{it} - \ln y_{it-1}$					0.001	0.005*	-0.098***	-0.091***
					(0.003)	(0.003)	(0.003)	(0.003)
$\ln y_{it+1} - \ln y_{it}$					-0.054***	-0.050***	0.050***	0.049***
					(0.003)	(0.003)	(0.003)	(0.003)
Individual FE	y	y	y	y	y	y	y	y
Year FE	y	y	y	y	y	y	y	y
Other controls	n	y	n	y	n	y	n	y
Observations	1,853,526	1,845,726	1,853,526	1,845,726	1,333,436	1,328,131	1,333,436	1,328,131
R-squared	0.053	0.055	0.059	0.060	0.043	0.044	0.049	0.050
Unique IDs	333,989	332,335	333,989	332,335	264,523	263,422	264,523	263,422

Note: standard errors in parentheses, clustered at the individual level. The estimated equation is

$$\ln g_{it} = \varepsilon \ln p_{it} + \eta \ln y_{it} + \delta' X_{it} + \alpha_i + \alpha_t + u_{it}$$

where $\ln g_{it}$ denotes log donations, $\ln p_{it}$ denotes the log price of giving, which is instrumented by the log first-pound price, $\ln p^f_{it}$; $\ln y_{it}$ is the log of net disposable income (setting $g_{it} = 0$); X_{it} is a vector of control variables including $(age/100)^2$, a female dummy and a tax advisor dummy; and α_i, α_t are individual and year fixed effects, respectively. In columns (1-4), we exclude observations where the taxable income is within £2,000 of each kink point in the tax schedule, to avoid potential biases due to bunching behavior. In columns (5-8), we add leads and lags of changes in price and income to account for transitory effects and obtain elasticities with respect to permanent shocks. In those specifications, the coefficient on log price can be interpreted as the effect on long-run giving of a permanent change in the tax price that remains in place for at least three years. Statistical significance: ***=1%, **=5%, *=10%.

Table A.7: Extensive-Margin Elasticity: Robustness Checks

	Dependent Variable: Donor Dummy, $D_{it} \equiv (g_{it} > 0)$							
	Excluding Intervals Around Kinks				*Adding Lead/Lags of Changes in P, Y*			
	-0.250***	-0.032***	-0.039***	-0.027***	-0.092***	-0.066***	-0.085***	-0.063***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.003)	(0.003)	(0.003)	(0.003)
Log Disposable Income			0.026***	0.020***			0.032***	0.024***
			(0.000)	(0.000)			(0.001)	(0.001)
$\ln p_{it} - \ln p_{it-1}$					0.029***	0.021***	0.029***	0.022***
					(0.002)	(0.002)	(0.002)	(0.002)
$\ln p_{it+1} - \ln p_{it}$					-0.018***	-0.010***	-0.014***	-0.008***
					(0.001)	(0.001)	(0.001)	(0.001)
$\ln y_{it} - \ln y_{it-1}$					0.001*	0.002***	-0.010***	-0.007***
					(0.000)	(0.000)	(0.000)	(0.000)
$\ln y_{it+1} - \ln y_{it}$					-0.004***	-0.003***	0.007***	0.006***
					(0.000)	(0.000)	(0.000)	(0.000)
Implied Price Elasticity (ε_{EXT})	-0.832***	-0.106***	-0.128***	-0.088***	-0.282***	-0.203***	-0.261***	-0.193***
	(0.004)	(0.005)	(0.005)	(0.005)	(0.008)	(0.008)	(0.008)	(0.008)
Implied Income Elasticity (η_{EXT})			0.086***	0.066***			0.097***	0.074***
			(0.001)	(0.001)			(0.002)	(0.002)
Individual FE	y	y	y	y	y	y	y	y
Year FE	y	y	y	y	y	y	y	y
Other controls	n	y	n	y	n	y	n	y
Observations	6,597,261	6,517,565	6,597,261	6,517,565	4,316,287	4,279,200	4,316,287	4,279,200
Unique IDs	1,346,697	1,315,294	1,346,697	1,315,294	849,926	841,752	849,926	841,752
R-squared	0.000387	0.0260	0.00628	0.0246	0.00313	0.0254	0.00356	0.0241

Note: standard errors in parentheses, clustered at the individual level. The estimated equation is

$$D_{it} = \varepsilon \ln p^f_{it} + \eta \ln y_{it} + \alpha_i + \alpha_t + \beta X_{it} + u_{it}$$

where $D_{it} \equiv 1(g_{it} > 0)$ is a dummy variable that takes value one for positive donations and zero otherwiseln p_{it} denotes the log price of giving, which is instrumented by the log first-pound price, $\ln p^f_{it}$; $\ln y_{it}$ is the log of net disposable income (setting $g_{it} = 0$); X_{it} is a vector of control variables including $(age/100)^2$, a female dummy and a tax advisor dummy; and α_i, α_t are individual and year fixed effects, respectively. The implied extensive-margin elasticities are evaluated at the sample mean of all covariates. In columns (1-4), we exclude observations where the taxable income is within £2,000 of each kink point in the tax schedule, to avoid potential biases due to bunching behavior. In columns (5-8), we add leads and lags of changes in price and income to account for transitory effects and obtain elasticities with respect to permanent shocks. In those specifications, the coefficient on log price can be interpreted as the effect on long-run donation behavior of a permanent change in the tax price that remains in place for at least three years. Statistical significance: ***=1%, **=5%, *=10%.

Table A.8: Two-Step Model: Selection Equation

VARIABLES	(1) Pooled Probit	(2) Probit 2005	(3) Probit 2006	(4) Probit 2007	(5) Probit 2008	(6) Probit 2009	(7) Probit 2010	(8) Probit 2011	(9) Probit 2012	(10) Probit 2013
lnpf_2005	-0.226***	-0.417***	-0.300***	-0.255***	-0.212***	-0.192***	-0.194***	-0.168***	-0.157***	-0.162***
	(0.009)	(0.011)	(0.011)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)
lnpf_2006	-0.152***	-0.138***	-0.274***	-0.199***	-0.169***	-0.151***	-0.124***	-0.122***	-0.114***	-0.107***
	(0.009)	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)	(0.010)	(0.010)	(0.010)	(0.010)
lnpf_2007	-0.107***	-0.085***	-0.106***	-0.241***	-0.144***	-0.123***	-0.092***	-0.067***	-0.072***	-0.056***
	(0.009)	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)	(0.010)	(0.010)	(0.010)	(0.010)
lnpf_2008	-0.144***	-0.106***	-0.112***	-0.128***	-0.253***	-0.175***	-0.150***	-0.137***	-0.124***	-0.114***
	(0.009)	(0.011)	(0.011)	(0.011)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)
lnpf_2009	-0.318***	-0.254***	-0.242***	-0.263***	-0.283***	-0.424***	-0.365***	-0.353***	-0.330***	-0.331***
	(0.008)	(0.010)	(0.010)	(0.010)	(0.010)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
lnpf_2010	-0.335***	-0.272***	-0.287***	-0.279***	-0.279***	-0.308***	-0.458***	-0.388***	-0.375***	-0.358***
	(0.008)	(0.010)	(0.010)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
lnpf_2011	0.046***	0.084***	0.093***	0.100***	0.077***	0.064***	0.056***	-0.063***	0.014*	0.033***
	(0.007)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
lnpf_2012	-0.040***	0.005	0.008	0.005	-0.010	-0.010	-0.009	-0.037***	-0.166***	-0.094***
	(0.007)	(0.009)	(0.009)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
lnpf_2013	-0.176***	-0.145***	-0.142***	-0.137***	-0.149***	-0.144***	-0.151***	-0.149***	-0.184***	-0.337***
	(0.006)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.007)	(0.007)	(0.007)	(0.007)
lnyd_2005	0.094***	0.193***	0.139***	0.115***	0.093***	0.081***	0.074***	0.072***	0.068***	0.062***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
lnyd_2006	0.042***	0.043***	0.088***	0.062***	0.046***	0.037***	0.034***	0.027***	0.028***	0.026***
	(0.002)	(0.003)	(0.003)	(0.003)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
lnyd_2007	0.014***	-0.001	0.007***	0.044***	0.025***	0.015***	0.009***	0.011***	0.004*	0.004**
	(0.002)	(0.002)	(0.002)	(0.003)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
lnyd_2008	-0.003*	-0.022***	-0.020***	-0.009***	0.030***	0.005**	-0.002	-0.005**	-0.008***	-0.009***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
lnyd_2009	0.028***	0.015***	0.015***	0.016***	0.027***	0.065***	0.042***	0.028***	0.021***	0.015***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
lnyd_2010	-0.020***	-0.029***	-0.030***	-0.030***	-0.029***	-0.022***	0.015***	-0.011***	-0.021***	-0.025***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
lnyd_2011	0.044***	0.027***	0.029***	0.033***	0.032***	0.031***	0.045***	0.086***	0.061***	0.048***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
lnyd_2012	0.023***	0.011***	0.014***	0.011***	0.010***	0.012***	0.012***	0.023***	0.069***	0.041***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
lnyd_2013	0.063***	0.052***	0.048***	0.049***	0.047***	0.050***	0.051***	0.058***	0.075***	0.139***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
adv_2005	0.009	0.008	0.042***	0.044***	0.018**	0.008	0.010	-0.002	-0.010	-0.018**
	(0.006)	(0.008)	(0.008)	(0.008)	(0.008)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
adv_2006	-0.057***	-0.072***	-0.094***	-0.065***	-0.038***	-0.046***	-0.059***	-0.053***	-0.049***	-0.051***
	(0.009)	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)	(0.010)	(0.010)	(0.010)	(0.010)
adv_2007	-0.017*	-0.015	-0.020*	-0.049***	-0.033***	-0.006	-0.012	-0.011	-0.011	-0.004
	(0.009)	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)	(0.010)	(0.010)	(0.010)
adv_2008	-0.072***	-0.060***	-0.069***	-0.071***	-0.138***	-0.091***	-0.051***	-0.056***	-0.058***	-0.053***
	(0.010)	(0.013)	(0.013)	(0.013)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)
adv_2009	-0.027**	-0.024	-0.019	-0.024	-0.036**	-0.093***	-0.038***	-0.011	0.002	0.002
	(0.012)	(0.015)	(0.015)	(0.015)	(0.014)	(0.014)	(0.015)	(0.014)	(0.014)	(0.014)
adv_2010	-0.054***	-0.036**	-0.044***	-0.037**	-0.040***	-0.044***	-0.118***	-0.063***	-0.049***	-0.052***
	(0.013)	(0.016)	(0.016)	(0.016)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)
adv_2011	-0.033**	-0.020	-0.034**	-0.047***	-0.019	-0.022	-0.038**	-0.085***	-0.039**	0.006
	(0.013)	(0.016)	(0.016)	(0.016)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)
adv_2012	-0.099***	-0.081***	-0.088***	-0.073***	-0.093***	-0.098***	-0.090***	-0.109***	-0.169***	-0.085***
	(0.013)	(0.017)	(0.016)	(0.016)	(0.016)	(0.016)	(0.015)	(0.015)	(0.015)	(0.016)
adv_2013	-0.189***	-0.179***	-0.157***	-0.168***	-0.165***	-0.163***	-0.168***	-0.182***	-0.195***	-0.326***
	(0.009)	(0.012)	(0.012)	(0.012)	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)
Constant	-3.994***	-4.180***	-4.191***	-4.193***	-3.972***	-3.886***	-3.907***	-3.982***	-4.034***	-4.071***
	(0.015)	(0.018)	(0.018)	(0.018)	(0.018)	(0.017)	(0.017)	(0.017)	(0.017)	(0.017)
Observations	34,850,763	3,872,307	3,872,307	3,872,307	3,872,307	3,872,307	3,872,307	3,872,307	3,872,307	3,872,307

Note: standard errors clustered at the individual level. This table reports the results from the selection equation in the two-step selection model described in Appendix A.4. Column (1) reports the results for a pooled probit estimated on the entire period 2005-2013. Columns (2-10) report the results for annual probits conducted on the data for each individual year, from 2004/05 through 2012/13. Statistical significance: ***=1%, **=5%, *=10%.

Table A.9: Two-Step Model: Intensive-Margin Elasticities

Inverse Mills Ratio (IMR):	(1) Pooled One effect	(2) Pooled Diff effects	(3) Annual One effect	(4) Annual Diff effects
Price Elasticity of Giving	-0.201***	-0.213***	-0.229***	-0.260***
	(0.006)	(0.006)	(0.006)	(0.006)
Income Elasticity of Giving	0.145***	0.142***	0.160***	0.157***
	(0.002)	(0.002)	(0.002)	(0.002)
P-value on IMR terms	0.000	0.000	0.000	0.000
Observations	4,963,034	4,963,034	4,963,034	4,963,034
R-squared	0.101	0.101	0.100	0.101

Note: this table reports the results from the main equation of the two-step selection model described in Appendix A.4, using a balanced panel of taxpayers for the period 2004/05-2012/13. The regressions are estimated only on the subsample of donors (i.e., observations with $g_{it} > 0$, including the estimated inverse Mills ratios (IMR) as controls. Hence, the coefficients can be interpreted as intensive-margin elasticities of price and income. Column (1) includes the IMR obtained from the pooled probit regression. Column (2) includes the IMR obtained from the pooled probit regression, interacted with year dummies to allow the effect of selection to vary by year. Column (3) includes the IMRs obtained from the annual probit regressions, restricting the coefficient to be the same across years. Column (4) includes the IMRs obtained from the annual probit regressions, allowing the coefficients vary across years. The latter is our preferred specification, and it is the baseline model derived by Wooldridge (1995). Standard errors clustered at the individual level. Statistical significance: ***=1%, **=5%, *=10%.