

## **“How America Gives”: The Data Don’t Add Up**

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In its October 9, 2014 edition, *The Chronicle of Philanthropy* published the results of its study, “How America Gives.” We have grave misgivings about the data, the methodology, and some of the prominent findings of the study as it appeared in print and in its interactive web site. We are grateful to *The Chronicle* editor, Stacy Palmer, for inviting us to submit this explanation of our reservations.

“How America Gives” examines itemized charitable deductions and associated adjusted gross income in 2012 by state, metropolitan area, county, and zip code area and in 2006 by state, metropolitan area, and zip code area. It uses the ratio of aggregate charitable deductions to aggregate adjusted gross income among itemized federal income tax returns for each geographic area to characterize the so-called “generosity” of the residents (who *itemized* their tax returns) from these areas.

We welcome *The Chronicle’s* developing its own research findings and not just reporting those of other entities. We regret that “How America Gives” contains substantive flaws in the data and methodology. This renders the findings inaccurate and ultimately a disservice to the body of knowledge about charitable giving. The study inaugurates new myths and perpetuates others; it showcases invidious comparisons picked up by national and local media; and, in general, sets back accurate knowledge about the patterns of philanthropy by state, by political orientation, and by financial wherewithal.

From the outset, the ratio used in the study is itself inadequate for comparing geographic differences in charitable giving. It is based only on the minority of the population that itemizes tax returns, does not account for geographic differences in tax burden, and fails to account for differences in cost of living between and within regions.

In this essay, we focus on the methodological problems that transcend *The Chronicle’s* failure to take account of taxes and cost of living in its measure of income that serves as the denominator for its ratio. The problem we address here is the numerator of the ratio. The values for itemized charitable contributions that *The Chronicle* derives from zip code data produce inaccurate findings on charitable giving for states, metropolitan areas, and many zip codes, especially those areas that have high-income tax filers.

In deriving its measure of charitable giving *The Chronicle* uses the tabulations provided by the Statistics of Income (SOI) division of the IRS, which provides information for all itemized returns for the nation as a whole, for states, for counties, and for zip code areas. The problem is *The Chronicle's* reliance on zip code data for its estimates of charitable giving for states and metropolitan areas, and even for zip code area. Before the study was undertaken, we cautioned *The Chronicle* that the zip code data were probably invalid for drawing conclusions about states and metropolitan areas and that it should investigate this problem before going forward. Now having examined the SOI data carefully we can confirm that the itemized charitable deductions contained in the zip code data are substantially lower than the value provided by the SOI in its national and state tabulations. Moreover, the bulk of the discrepancy is concentrated in the higher income category.

First, for the *nation as a whole*, the reported itemized charitable deductions from the zip codes are 9.6% too low in 2012, and 10.8% too low in 2006 than the corresponding SOI tabulations for the nation. Moreover, the underestimates in the zip code data are concentrated in the study's highest adjusted gross income (AGI) category of \$200,000 and above. Using zip code instead of national tabulations results in estimates of charitable giving that are 19.7% too low for this high-income category in 2012 and 21.2% too low in 2006.

Second, *The Chronicle* sums up zip code data for its estimates of itemized charitable giving for *states and metropolitan areas*. Using the erroneous zip code data (as it did in its previous August 19, 2012 study) to calculate its ratio of itemized charitable giving to AGI for states and metropolitan areas, *The Chronicle* ends up with inaccurate ratios to rank states and metropolitan areas.

Why do the zip code data create such a problem? Zip code data are inaccurate due to the limitations purposefully introduced by the SOI to protect the confidentiality of tax filers. The SOI "Guide to the Use of Zip Code Data" states that the SOI excludes "tax returns representing a specified percentage of the total of any particular [zip code] cell. For example, if one return represents 75 percent of the value of a given cell, the return is suppressed from the tabulation." Although this example talks about a threshold of 75%, the SOI uses different threshold percentages as well. It states, "The actual threshold percentage used [to suppress a filer's information] cannot be released." In addition, the SOI moves some filers from their correct AGI category to an adjacent one. As a result, these SOI procedures introduce considerable error in the zip code data for the value of itemized charitable deductions.

By using the SOI-censored zip code data, *The Chronicle's* findings for states and metropolitan areas undercount itemized charitable deductions. These undercounts are large and concentrated at the high end of the AGI distribution. Because the levels of undercounts vary from one geographic location to another, it distorts the ratio in different ways and by different amounts in each geographic area. As a

result, *The Chronicle's* zip code ratios are inaccurate, and the ranking of states and metropolitan areas are problematic.

We give three examples of how using zip code data incorrectly capture the amount of itemized charitable giving in a state.

1. In Massachusetts, *The Chronicle's* reported itemized charitable contributions are \$525 million lower (10.7% of the state total) than the SOI state itemized contributions in 2012, and (adjusted for inflation to 2012 dollars) lower by \$554 million (11.0% of the state total) in 2006, with 98% of the discrepancy in 2012 and 94% in 2006 resulting from an underestimate of giving by the highest income category.
2. In Mississippi, reported itemized charitable contributions are too low by \$56 million (3.5% of the state total) in 2012 and (in 2012 dollars) by \$121 million (7.5% of the state total) in 2006, with 105% of the discrepancy in 2012 and 73% in 2006 resulting from an underestimate of giving by the highest income category. The 105% figure indicates that the zip code data overestimate itemized charitable deductions at lower income levels in Mississippi in 2012.
3. In North Dakota, reported itemized charitable contributions are too low by \$41 million (13% of the state total) in 2012 and (in 2012 dollars) also by \$41 million (17% of the state total) in 2006, with 71% of the discrepancy in 2012 and 70% in 2006 resulting from an underestimate of giving by the highest income category.

Let's look at two misleading highlights of *The Chronicle* study, both of which are due to the use of zip code data. To the extent itemized charitable giving for a state is inaccurate, *The Chronicle's* verdict about the superiority of red states in charitable giving for 2012 is likely invalid. We do know that the zip code based state rankings of red and blue states for 2008 published by *The Chronicle* in its previous 2012 report also resulted in higher charitable giving ratios for red states. Our state rankings for 2008 are based on the more elaborate ratio of all household charitable giving (not just itemized) relative to income adjusted for taxes and cost of living (not just AGI). Our rankings turn out to be the color purple, with neither red nor blue states more charitably inclined.

A second conclusion of *The Chronicle* study that is tarnished by the use of zip code data concerns the percentage of income given by upper income households. As we noted, undercounts in the zip code data of itemized deductions are concentrated in the highest income category. This casts doubt on *The Chronicle's* finding that high-income filers are relatively less charitably inclined than lower income groups.

We ask *The Chronicle* to recalculate the values of itemized charitable contributions for states and metropolitan areas based on state and county data and to note prominently that the zip code data under report itemized contributions, especially for high income filers.

In the meantime, we suggest *The Chronicle* consider retracting its study and suspend access to the erroneous state, metro area and zip code findings on its interactive website. At a minimum it should prepare and provide a much more detailed methodological statement than what is now available, and should include the appropriate cautions about its procedures.

Of course, *The Chronicle* has the right to publish and disseminate what it considers to be appropriate. We expect, however, that published findings be accurate, conclusions based on those findings be seriously researched, that implications of the research be presented with relevant caveats, and that the general limitations of the research be made known to readers.