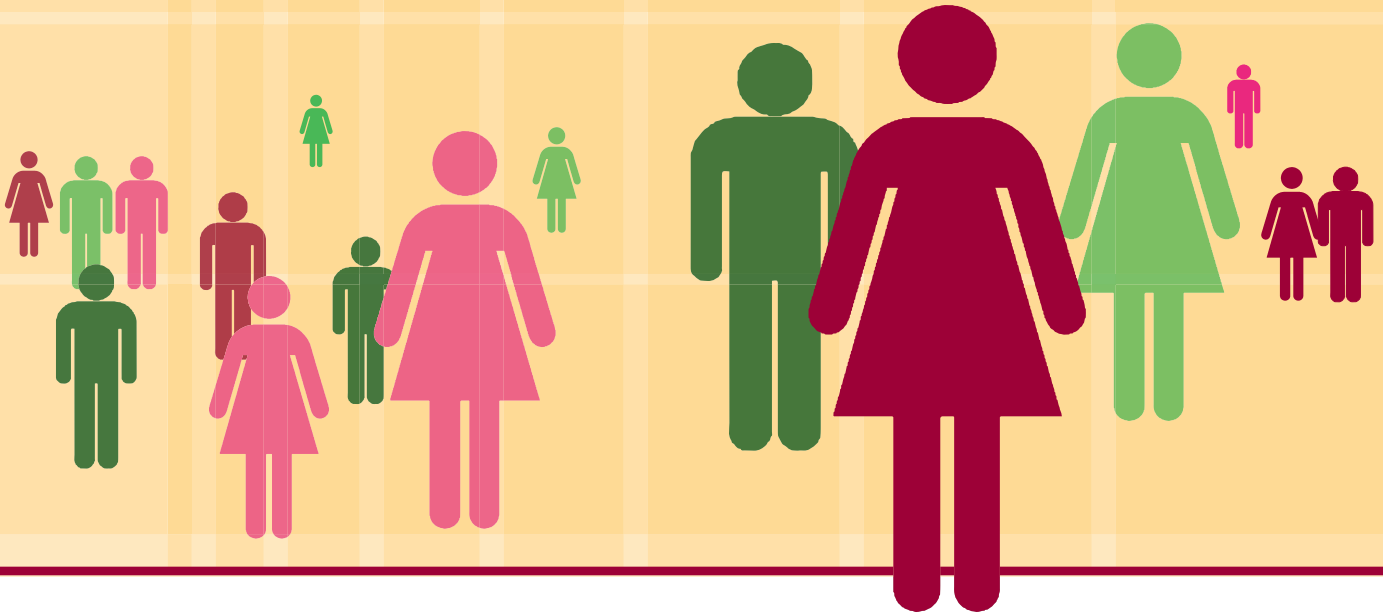


A Look at Individual Donors: Taxpayers' giving patterns in Puerto Rico



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Flamboyant Foundation and Énfasis
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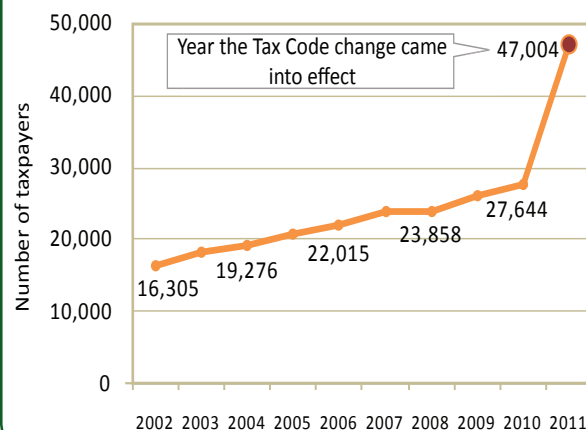
Introduction

This data brief examines figures provided by the Puerto Rico Treasury Department ("Treasury Department") on individual taxpayers who claimed the charitable contribution deduction in Tax Year 2011. **For the first time in Puerto Rico, we have sufficient information that offers new insight into the giving patterns and characteristics of individual donors to begin outlining a donor profile.**

In 2011, the Puerto Rico Tax Code ("Tax Code") underwent a comprehensive revision, and one of the changes enacted includes a 100% tax deduction for all donations made by individuals to nonprofit organizations, up to a maximum of 50% of Gross Adjusted Income.¹ As a result of this change, the number of individual taxpayers who deducted donations on their Individual Income

Tax Return Form ("tax return") increased by 70%, which in turn led to greater information on individual giving in Puerto Rico (see Graph 1).

GRAPH 1. Evolution in the number of taxpayers who deducted charitable donations



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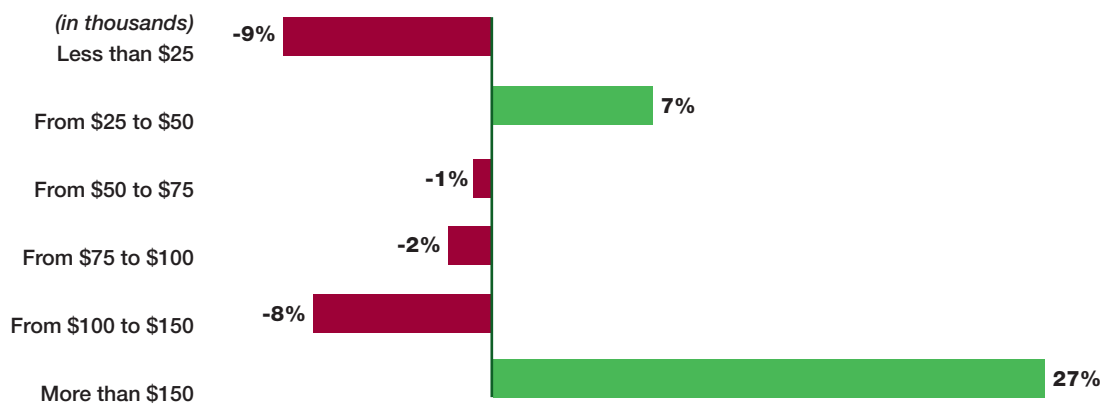
Between 2010 and 2011, the total amount of charitable donations grew by \$5 million. An analysis by income group shows a significant increase in the number of donors across all income groups, although their average annual donation decreased by 39%. The effect of this pattern means that an increase in the amounts donated by some income groups was partly offset by a decrease in others (see Graph 2):

- The total amount of donations declared by taxpayers with annual incomes greater than

\$150,000 increased by \$6 million. Those declared by taxpayers with annual incomes between \$25,000 and \$50,000 increased by \$2.2 million.

- In contrast, there was a reduction of \$1.6 million in the total amount of donations declared by taxpayers with annual incomes below \$25,000, and of \$1.7 million among taxpayers with annual incomes between \$50,000 and \$150,000.

GRAPH 2. Changes in the total amount donated by taxpayers between 2010 and 2011, by 2011 gross income level



DEFINITIONS

Taxpayers:

In this analysis, **taxpayers** are defined as a single individual—male or female—who files an income tax form, married couples who file a joint tax return, or married couples who file separate tax returns to the Treasury Department. The term taxpayer does not include trusts, partnerships, or corporations.

Deduction vs. Donation:

Taxpayers claim a **deduction** for charitable donations to tax-exempt nonprofit organizations, as defined in Section 1101.01 of Chapter 10, Subchapter A of the 2011 Tax Code. It is important to highlight that a deduction is not equivalent to a **donation**. Deductions only account for donations reported on tax returns and do not represent all the donations given by individuals in Puerto Rico.

Unit of analysis:

The unit of analysis in this document is Puerto Rico's **taxpayers**. However, most of the comparisons made throughout the report are done with **households**—which include taxpayers who itemize deductions for donations and those who make donations but do not claim deductions.

Taxpayer base highlights

An approximate total of one million taxpayers filed tax returns in 2011, and of those, 47,000 deducted charitable donations (see Graph 1). This figure represents 4.6% of all taxpayers, a small proportion when compared with the 26% of taxpayers who itemized deductions for charitable donations in the United States in the same year (see Graph 3).² However, the scope of this comparative analysis is limited given the disparity between the tax systems of Puerto Rico and the United States, and because it excludes donations that are not reported in the tax returns. Further, the information makes comparisons with other jurisdictions more difficult, as they use more comprehensive analysis units that provide a more precise picture of individual donors.³

For example, studies of this nature in the United States include various sources of information—household surveys, tax data, and economic indicators, among others—to achieve a more complete picture of individual giving.⁴ For this reason, the United States has a donor base that amounts to 65% of all households (see Graph 3), which includes taxpayers who itemize deductions for charitable donations as well as those who don't.⁵ To clearly understand who donates in Puerto Rico, a similar methodology must be developed locally.

Aside from these limitations, the 4.6% figure—which includes only those taxpayers who claimed deductions for charitable donations—indicates that there is a great opportunity to increase the number of donors in Puerto Rico.

GRAPH 3. How Puerto Rico compares to the United States, 2011



On the other hand, the data indicates that 47,000 taxpayers claimed charitable donation deductions amounting to \$129.7 million in 2011, of which only \$122.7 million were allowed by the Treasury Department. The total amount claimed represents 0.13% of Puerto Rico's Gross Domestic Product (GDP).⁶ In the United States, charitable donations by individuals represent 1.5% of GDP.⁷ Once again, the proportion in Puerto Rico is lower than the corresponding proportion in the United States.

Among taxpayers who claimed a deduction for charitable donations in Puerto Rico, the average donation was \$2,760 and increased to \$3,500 among married couples who filed a joint tax return. This average donation is larger than the average donation per household in the United States, which was \$2,213 in 2011.⁸ It is probable that this figure is higher in Puerto Rico due to the low proportion of taxpayers who donated, as well as the considerable donations made by a small number of wealthy donors.

Moreover, two out of three taxpayers who claimed charitable donation deductions in 2010 also did in 2011, which suggests that there is a stable base of recurring donors. These donors deduct a higher average donation of \$5,100.

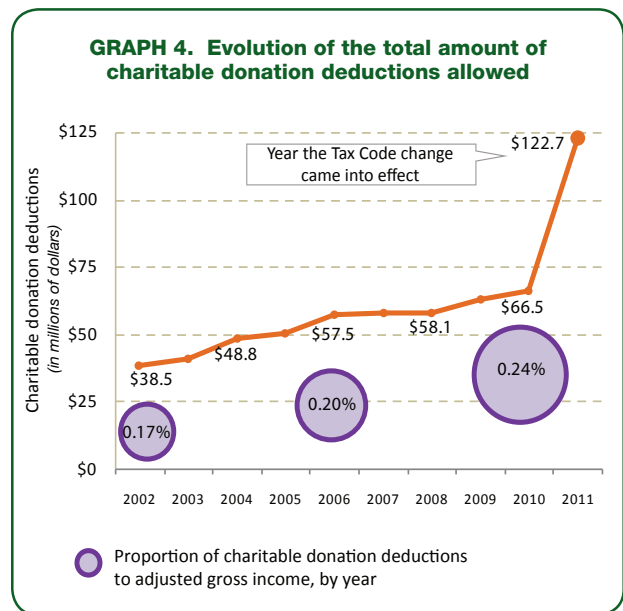
Lastly, it is worth emphasizing that many individuals don't deduct charitable donations on their tax returns for a variety of reasons, be they religious or altruistic. Similarly, informal or small donations—such as money donated in coin collection boxes, through automatic transactions, or directly to a person—are difficult to quantify. Therefore, the number of donors could be significantly higher and the average donation lower.

Historical trends

There is a significant increase in the number of donors claiming the charitable donation deduction, but the increase in the amount donated is not as substantial. Total reported charitable donation deductions were \$130

million in 2011, compared to \$125 million in 2010, an increase of 4%.

These figures are not available for previous years, but a historical trend analysis can be made using data on the charitable donation deductions that were allowed. Due to the changes in the Tax Code, total charitable donation deductions increased from \$66.5 million in 2010 to \$122.7 million in 2011. In addition to this change, the past decade has seen clear and sustained growth in donation deductions (see Graph 4). Despite the economic recession that began in 2006, the total amount of



charitable donation deductions allowed showed an average yearly growth of 8%. This represents twice the average annual growth in the United States (4%) during the same period.⁹

Individual giving efforts also increased over time: the percentage of total charitable donation deductions in proportion to taxpayers' adjusted gross income grew from 0.17% of taxpayer income in 2002 to 0.24% in 2010. This means that the total amount donated increased, in part, due to the upward trend in the number of donors, but also because taxpayers donated a larger share of their income.

A first look at donors

The data analysis reveals a series of **socio-demographic characteristics**¹⁰ that serve as a starting point to begin defining the profile of an individual donor in Puerto Rico:



This analysis also allows us to observe certain **economic characteristics** of donors. While Puerto Rico has donors of all income levels, the same trend occurs here as in other countries where this topic has been studied: the higher the income level, the larger the proportion of donors and the amount they donate.

- Among taxpayers with annual incomes of less than \$25,000, only 2% reported charitable donations. In contrast, 21% of taxpayers who

earn above \$150,000 claim deductions for charitable donations (see Graph 5).

- One third of taxpayers who reported making charitable donations in 2011 claimed less than \$250 per year; and one half claimed charitable donations of less than \$1,000.
- Two thirds of taxpayers who claimed charitable donation deductions (29,129), earn below \$50,000 per year. Their donations represent 39% of total charitable donation deductions.

- The average donation¹² among taxpayers with annual incomes below \$25,000 was \$1,481 in 2011, in contrast to the average donation of \$11,862 claimed by taxpayers with annual incomes greater than \$150,000¹³ (see Graph 5).
- Business owners claim larger donations (average donation of \$3,923) than taxpayers who are employees (average donation of \$1,609).¹⁴

The data analysis demonstrates that **there is a significant opportunity to increase the number of taxpayers who make large donations during the next few years.** In fact, the total amount of charitable donations by taxpayers with annual incomes greater than \$150,000 increased by 27% in 2011.

The data illustrates that 21% of these taxpayers claim charitable donations (see Graph 5). This is a relatively small proportion when compared to the number of wealthy households¹⁵ in the United States that make donations, which is 95%.¹⁶ Should Puerto Rico have a similar proportion of donors among taxpayers that earn \$150,000 or more, there would be approximately between 9,000 and 11,000 additional taxpayers who could make yearly donations of more than \$5,000.

Growth in large donations... but not enough

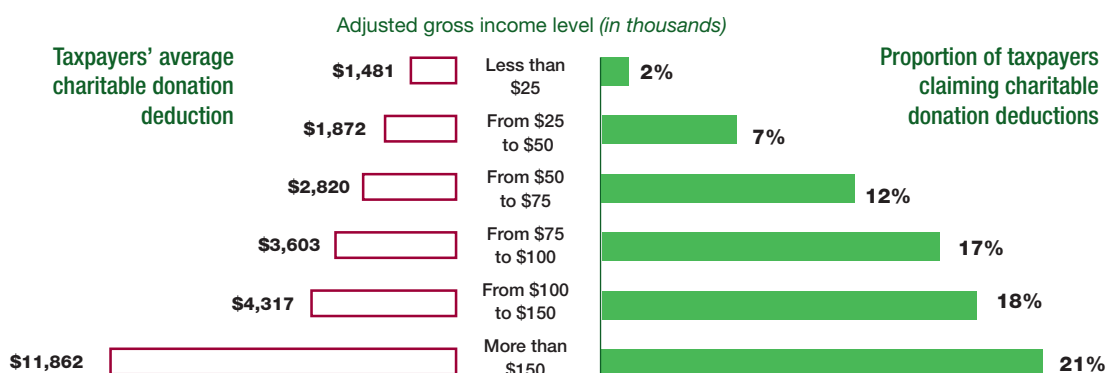
Large donations are less frequent but they have a greater impact: nearly 60% of the \$129.7 million claimed in charitable donation deductions in 2011 comes from a group of 6,400 taxpayers making yearly donations of \$5,000 or more. In fact, one third of total charitable donations comes from 1,700 taxpayers who made contributions greater than \$10,000 per year, and only 57 taxpayers were responsible for \$16.7 million of total charitable donations (see Graph 6). Thus, a high concentration of donations comes from a very small, specific group of taxpayers.

The data obtained for this analysis does not allow us to determine a profile or the motivations of these donors who make large donations. However, given the relationship between income levels and average annual donations, we can estimate that a significant number of these donors have annual incomes above \$150,000.

Strategic Philanthropy: A motor to drive social change

The act of giving at all income levels, regardless of the size of the donation, is important, and reflects a person's desire to contribute to the common good. Puerto Rico has a significant number of people who donate. However, there is ample opportunity to increase the number of donors and the amount they give. High net worth individuals in particular have the power of multiplying social impact through philanthropy, especially when they contribute their entrepreneurial knowledge and abilities to developing social strategies.

GRAPH 5. Proportion of taxpayers claiming donation deductions and average donation, by adjusted gross income in 2011

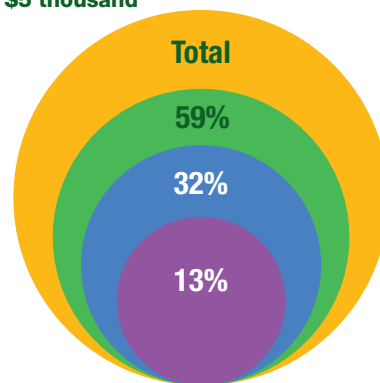


GRAPH 6. Proportion of total charitable donation deductions relative to donation deductions greater than \$5 thousand

6,383 taxpayers donate more than \$5 thousand per year, a total of \$76.3 million

1,674 taxpayers donate more than \$10 thousand per year, a total of \$43.7 million

57 taxpayers donate more than \$50 thousand per year, a total of \$16.7 million



Strategic giving—an approach that focuses on identifying problems, setting goals, developing strategies and evaluating results to guide a donor’s philanthropic dollars—is becoming a common practice around the world, particularly among high net worth individuals: investors, entrepreneurs, and private sector leaders. Given the socioeconomic challenges we face in Puerto Rico, this approach is imperative.

Puerto Rico’s nonprofit organizations and leaders have successfully implemented strategies that effectively address some of our most serious social issues. The strategic donor takes responsibility for seeking out promising practices among these successful local nonprofit organizations and scaling them up so that dramatic change can take place in specific communities or populations. It is necessary to increase the number of individuals who invest in social progress and can contribute with their resources and knowledge to drive positive change.

As with business ventures, strategic philanthropy must allow for a margin of error; it requires following a process and a commitment to learn and make appropriate adjustments as impact is measured. On the other hand, once a donor learns and is convinced of the effectiveness of strategic philanthropy, then he or she has the opportunity to mobilize resources and to influence public policy and the systems necessary to sustain long-term, systemic change.

By adopting the approach of strategic philanthropy, a donor creates and invests in opportunities for

collective action through specific recommendations, opens pathways to innovation and, most importantly, convinces others that one is able to make a difference and can indeed eliminate some of our most serious social problems.

Conclusion

This analysis is only part of the greater effort needed to measure and clarify charitable activity among individuals in Puerto Rico. It also generates new questions for expanding our knowledge of the subject.

- What factors motivate people to donate? How do motivations vary in relation to donors’ characteristics?
- How can effective practices improve communication and collaboration between donors and nonprofit organizations?
- What causes, problems, or issues receive greater funding? Which ones are unattended?
- How can we measure the impact of these taxpayers’ charitable donations?

By improving the way in which we document and disseminate data and statistics on philanthropic activity, we could better understand Puerto Rico’s individual donor behavior. This type of information will also allow us to raise Puerto Rico’s visibility in an international philanthropic context. Further, we will be able to draw a clearer picture to plan effectively and maximize social and economic returns of local strategic philanthropy dollars.

ACKNOWLEDGMENTS

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NOTAS

- ¹ In 2010, Flamboyant Foundation, Kinesis Foundation, and Mr. Jaime Martí commissioned The Urban Institute—in collaboration with the Center for a New Economy—to conduct the study “An Analysis of Potential Tax Incentives for Increasing Charitable Donations in Puerto Rico,” which analyzes different scenarios for reforming tax incentives in Puerto Rico and to stimulate philanthropic donations to nonprofit organizations. One of the research findings shows that lifting the ceiling of charitable contributions could be a cost effective way for taxpayers to contribute to services provided by nonprofit organizations, rather than increasing direct government grants to these organizations.
- ² Internal Revenue Service. (2014). *SOI Tax Stats—Individual Statistical Tables by Size of Adjusted Gross Income* [Data file]. Retrieved from <http://www.irs.gov/uac/SOI-Tax-Stats—Individual-Statistical-Tables-by-Size-of-Adjusted-Gross-Income>.
- ³ The *World Giving Index*—prepared by *Charities Aid Foundation*—is a reference that presents giving data from across the globe, based on household surveys. 2010 was the only year in which this index included Puerto Rico, and it estimated that 30% of the island’s households made donations during the month prior to the survey. This 30% is similar to the average number of households in Latin American countries that make donations. Charities Aid Foundation. (2010). *World Giving Index 2010*. Kent, UK: CAF, and reports after Charities Aid Foundation’s *World Giving Index* for 2011, 2012 and 2013.
- ⁴ Giving USA.(sf). *Methodology*. Retrieved from <http://www.givingusareports.org/resources/methodology.aspx>.
- ⁵ The Center on Philanthropy at Indiana University. (2012). *Giving USA 2012: The Annual Report on Philanthropy for the year 2011*. Chicago: Giving USA Foundation.
- ⁶ This amount is equal to 0.2% of Puerto Rico’s Gross National Product.
- ⁷ The Center on Philanthropy at Indiana University. (2012). *Giving USA 2012: The Annual Report on Philanthropy for the year 2011*. Chicago: Giving USA Foundation.
- ⁸ National Philanthropic Trust. (2014). *Charitable Giving Statistics*. National Philanthropic Trust. Retrieved from <http://www.nptrust.org/philanthropicresources/charitable-giving-statistics>.
- ⁹ The Center on Philanthropy at Indiana University. (2012). *Giving USA 2012: The Annual Report on Philanthropy for the year 2011*. Chicago: Giving USA Foundation.
- ¹⁰ It was not possible to include age in the set of socio-demographic characteristics presented because the data is not available. Given that these characteristics coincide with international trends, we can estimate that for Puerto Rico as well, the proportion of donors tends to increase with age.
- ¹¹ 21,403 married taxpayers who filed a joint tax return (representing two persons), and 3,033 married taxpayers who filed separately claimed charitable donation deductions in 2011, compared to 22,568 single taxpayers who claimed deductions for donations.
- ¹² The average is only used because there isn’t enough information available to calculate the median for each income bracket. This is a limitation because a small number of large donations among taxpayers of a specific category can result in a much higher average.
- ¹³ A limitation of this data is that it exclusively refers to income that taxpayers must declare in their tax returns. Donations can come from other sources of income or savings, especially among retirees.
- ¹⁴ *Taxpayers who own their own businesses* include those who file Appendix K (industry or business income) or Appendix M (income from professional services and commissions). Taxpayers whose principal source of income is a job in the private sector or in the Commonwealth of Puerto Rico government, municipalities, public corporations, or the federal government, are considered *employees*.
- ¹⁵ *High Net Worth Households* are defined as those households with incomes greater than \$200,000 and/or more than \$1 million in assets, excluding the value of their home. Bank of America and The Center on Philanthropy at Indiana University. (2012). *The 2012 Bank of America Study of High Net Worth Philanthropy*. Boston: Bank of America Philanthropic Management.
- ¹⁶ These households customarily give to charity a median of 3%. The average donation is 9% of income.