

**The Generosity of Rich and Poor  
How The Newly Discovered “Middle Rich” Stack Up**

**An Analysis of New IRS Income Categories Sheds Light On The Wealth and  
Charity of The Middle Rich**

**By NewTithing Group**

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## Preface - The Middle Rich: a New Class of Wealth

NewTithing Group has produced the first public IRS-based study that estimates the asset levels, charitable tax strategies, and generosity of U.S. income tax filers with adjusted gross incomes (AGI) of \$1 million to \$10 million and average investment assets of \$8.5 million to \$46 million. NewTithing Group calls these filers “**the middle rich**” and compares their charitable giving habits to those of everyone else, from filers earning under \$25,000 in adjusted gross income, to those earning over \$10 million. Investment assets were estimated by correlating new income data from the IRS Statistics Of Income Bulletin to market returns for the latest available tax-year, 2001. The report thus ranks generosity by analyzing charitable giving levels as a percentage of a donor’s investment assets. The report defines “generosity” by examining how much a filer donated to charity as a percentage of their investment assets. This provided a realistic gauge of giving capacity for well-off filers, whose wealth generally resides in investment assets, which were conservatively estimated by not counting the value of a donor’s personal homes and possessions.

The generosity and tax strategies of “**the middle rich**” were thus compared to average filers in each tax-payer category, including two other well-off groups:

“**The upper middle class**,” meaning filers with AGI ranging from \$200,000 to \$1 million, and average investment assets of \$1.7 million to \$4.46 million; and

“**The super-rich**,” meaning filers with adjusted gross income over \$10 million and average investment assets of \$152 million.

Granted, the accuracy of these labels is open to econometric debate, which exceeds the scope of this study. Nevertheless, the following definitions broadly translate the “numbers” of American wealth into words, which distinguish the comfortably well-off from the very affluent. We hope this creates a clearer snapshot than ever of wealth and charitable giving capacity in America.

### Overview

According to the latest available data (tax-year 2001), NewTithing Group estimates that:

- Average “upper middle class” and “middle rich” filers donated a lower percentage of their investment asset wealth to charity than did average filers in any other tax filer category.

- If average filers in the “upper middle class” and the “middle rich” had donated as high a percentage of their investment wealth in 2001 as did average filers in the lower wealth groups, total individual contributions to charity in 2001 would have been an estimated \$41.6 billion higher, an increase of 23%.
- By selling appreciated assets for taxable gains while donating cash to charity, the “middle rich” and “super-rich” paid over half a billion dollars in avoidable capital gains taxes. Through more tax-advantageous giving strategies, they could have kept or donated to charity an additional \$659 million.

**The Generosity of Rich and Poor**  
**What Proportion of Their Wealth Did U.S. Filers Donate to Charity?**  
 (according to the latest available data, for tax-year 2001)

Except for the super-rich, well-off filers donated on average a lower percentage of their investment asset wealth to charity in 2001 than did lower groups: Both the “upper middle class” and the “middle rich,” filers with incomes ranging from \$200,000 to \$10 million and with average investment assets of \$1.7 million to \$46 million, donated slightly **less than half of one percent** of their wealth to charity in 2001. In contrast, lower wealth groups, with \$25,000 to \$200,000 in income and with average assets ranging from \$83,000 to \$490,000, were more charitable relative to their investment assets, donating to charity **approximately one percent** of their wealth. The super-rich also donated a higher portion of their wealth than the “upper middle class” and “middle rich.” Average filers with incomes over \$10 million and assets of \$152 million donated **over one percent** of their wealth to charity.

The most pronounced difference in generosity was between filers with adjusted gross incomes of \$200,000 to \$500,000, and filers with \$75,000 to \$100,000. While average filers in the less affluent group donated approximately one percent of their investment asset wealth to charity, their wealthier counterparts donated less than half of one percent. Aggregate data for the two groups reflected a similar generosity gap: Although the wealthier group owned in aggregate nearly twice as much in estimated investment assets, their less affluent counterparts donated a total of 21% more to charity, \$3.26 billion more.

Granted, when measured as a proportion of income, the wealthy are donating a higher percentage than are the lower wealth groups, 3.08% for filers with adjusted gross incomes of \$200,000 to \$10 million, vs. 2.79% for low-end filers with incomes of \$25,000 to \$200,000. But since assets dwarf income for most affluent filers, measuring their charitable donations as a proportion of investment assets -- not income -- provides a more meaningful gauge of giving capacity.

**Conclusion:** If average filers in the “upper middle class” and the “middle rich” had donated as high a percentage of their investment wealth in 2001 as did average filers in the lower wealth groups, then total individual contributions to charity in 2001 would have been **\$41.6 billion higher**<sup>[1]</sup> This would have increased total individual giving by 23%.<sup>[2]</sup>

## **A Closer Look: How The Middle Rich and Super-Rich Compare To Other US Tax Filers**

- Average tax filers with under \$25,000 in adjusted gross income made annual charitable donations of \$286. This amounted to 0.64% of their \$45,021 in estimated investment assets. <sup>[3]</sup>
- Average tax filers with \$25,000-\$50,000 in adjusted gross income made annual charitable donations of \$1,340. This amounted to 1.61% of their \$83,275 in estimated investment assets.
- Average tax filers with \$50,000-\$75,000 in adjusted gross income made annual charitable donations of \$1,380. This amounted to 0.96% of their \$143,652 in estimated investment assets.
- Average tax filers with \$75,000-\$100,000 in adjusted gross income made annual charitable donations of \$2,150. This amounted to 0.96% of their \$223,114 in estimated investment assets.
- Average tax filers with \$100,000-\$200,000 in adjusted gross income made annual charitable donations of \$3,298. This amounted to 0.67% of their \$490,158 in estimated investment assets.
- Average tax filers with \$200,000-\$500,000 in adjusted gross income made annual charitable donations of \$7,868. This amounted to 0.46% of their \$1,693,200 in estimated investment assets.
- Average tax filers with \$500,000-\$1,000,000 in adjusted gross income made annual charitable donations of \$19,122. This amounted to 0.43% of their \$4,462,870 in estimated investment assets.
- Average tax filers with \$1 million to \$1.5 million in adjusted gross income made annual charitable donations of \$47,232. This amounted to 0.55% of their \$8.5 million in estimated investment assets.
- Average income tax filers with \$1.5 million to \$2 million in AGI made annual charitable donations of \$58,042. This amounted to 0.46% of their \$12.5 million in estimated investment assets.
- Average income tax filers with \$2 million to \$5 million in AGI made annual charitable donations of \$105,375. This amounted to 0.51% of their \$20.68 million in estimated investment assets.

- Average income tax filers with \$5 million to \$10 million in AGI made annual charitable donations of \$274,798. This amounted to 0.60% of their \$46 million in estimated investment assets.
- Average income tax filers with \$10 million or more in AGI made annual charitable donations of \$1.83 million. This amounted to 1.21% of their \$152 million in estimated investment assets.

### **The “Middle Rich” and The Super-Rich: Room To Be More Tax-Savvy?**

**Well-Off Filers Paid Over Half a Billion Dollars In Avoidable Capital Gains Taxes**  
NewTithing Group estimates that the “middle rich” and “super-rich,” filers with adjusted gross incomes of \$1 million or more, paid \$659 million in avoidable capital gains taxes in 2001, the latest year for which IRS data is available. If they had replaced their cash donations with the same amount of long term appreciated assets that they sold, the “middle rich” could have avoided a combined \$449.3 million in long term capital gains taxes, while the “super-rich” could have avoided a combined \$209.9 million. Instead of paying these amounts in taxes (as they did), such filers could have either kept these savings -- or donated them to charity.

#### **Why Well-Off Filers Paid Avoidable Capital Gains Taxes**

U.S. tax filers may donate long-term appreciated assets to charity without paying tax on the appreciation. Thus, subject to certain limitations, filers in the top income tax brackets are better off **donating** long term appreciated assets to charity instead of doing what they did according to NewTithing Group’s analysis of IRS data: **donating cash** to charity, **selling the equivalent in long term appreciated assets**, and paying tax on long-term gains.

NewTithing Group assumes that many filers made such disadvantageous tax decisions because of the inconvenience of donating appreciated assets to several different charities for the smaller donations they made. For example, most wealthy filers likely made several cash donations of under \$1,000 each. Individually, such amounts may not have justified the cost or administrative effort involved in donating appreciated assets directly to each charity.

#### **The Solution: Greater Use of Donor-Advised Funds, Family Foundations**

Instead of donating cash, a more tax-advantageous option would have been to gift long-term appreciated assets into either a single donor-advised fund at a community foundation or financial institution, or into a family foundation. Donors could then: avoid the inconvenience of donating long term appreciated assets to many different charities; avoid taxable gains from the sale of long term appreciated assets; secure a tax deduction from making charitable contributions, and then make donations from their donor-advised fund or foundation to the charities of their choice (the exact deduction limitations differ according to whether long term appreciated assets are donated to either a donor-advised fund or a private foundation).

The middle rich could have most easily achieved these tax savings in 2001 by replacing their actual \$8.02 billion in cash donations with the same amount in long-term appreciated assets to either donor-advised funds or private foundations. The super-rich could have similarly achieved their savings by replacing their \$3.7 billion in actual cash donations by donating the same amount in long term appreciated. These new tax strategies would have more than tripled the estimated \$3.5 billion contributed to donor-advised funds in 2001. Following these strategies would not have necessarily increased charitable donations, but would have reduced tax bills. Such donors could have either kept for themselves or donated to charity the amount they paid in capital gains taxes.

### **A Resource For Adding Anticipated Tax Savings To Charitable Gifts**

NewTithing Group's web-based resource, **PrudentPal Charitable Giving Planner** allows donors to gauge how much they could donate to charity if they used tax savings to augment their charitable gifts. PrudentPal can be licensed to organizations committed to educating and advising donors on sound current year giving strategies. This resource is freely available on the Group's own web site at [www.newtithing.org](http://www.newtithing.org) and the web sites of licensing organizations such as the **Community Foundation Silicon Valley** ([www.cfsv.org](http://www.cfsv.org)), **Stanford University** ([www.stanford.edu](http://www.stanford.edu)), and **Seattle Venture Partners** ([www.svpseattle.org](http://www.svpseattle.org)).

### **How Much Avoidable Capital Gains Tax Did Five Well-Off Groups Pay? <sup>[4]</sup>**

How The Well-Off Could Have Donated More To Charity Without Paying More

Filers could have either kept the following tax savings or donated them to charity:

- Filers with \$1 million to \$1.5 million in adjusted gross income averaged \$8.5 million in investment assets: Replacing their average cash donations of \$28,294 with long-term **appreciated assets** would have avoided a combined \$120 million in taxes on capital gains, or an average of **\$1,584** per filer.

- Filers with \$1.5 million to \$2 million in AGI averaged \$12.5 million in investment assets: Replacing their cash donations of \$36,523 with long-term **appreciated assets** would have avoided a combined \$66 million in taxes, or an average of **\$2,045** per filer.

- Filers with \$2 million to \$5 million in AGI averaged \$20.68 million in investment assets: Replacing their cash donations of \$63,870 with long-term **appreciated assets** would have avoided a combined \$170 million in taxes, or an average of **\$3,577** per filer.

- Filers with \$5 million to \$10 million in AGI averaged \$46 million in investment assets. Replacing their cash donations of \$149,106 with long-term **appreciated assets** would have avoided a combined \$95 million in taxes, or an average of **\$8,350** per filer.

- Filers with \$10 million or more in AGI averaged \$152 million in investment assets: Replacing their cash donations of \$579,598 with long-term **appreciated assets** would have avoided a combined \$209.9 million in taxes, or an average of \$32,457 per filer.

## **Comments by NewTithing Group’s Chairman and Founder, Claude Rosenberg:**

“For good reason, American philanthropy is the envy of other nations. Yet if the upper middle class and the middle rich had all donated as high a percentage of their investment asset wealth to charity as everyone else did, an additional \$41.6 billion could have gone to work strengthening our communities or improving the lot of those in need. Last year, emergency food outlets in half of America’s cities turned away hungry families because they lacked the resources to feed them. If everyone pulls together, we have the resources to improve people’s quality of life, not only by feeding them when they are hungry, but by addressing the systemic problems that lead to such poverty.

“When you become more proactive about your philanthropy, you become more creative, and have the chance to be an innovator in your own right.”

“And the sooner the better. A donation made now may have more impact than a donation later, because, as we say in Rosenberg’s Rule: **societal ills generally expand at an exponentially greater rate than does return on capital.**”

“Why do the upper middle class and middle rich generally not donate as high a percentage of their asset wealth to charity as do other groups? I’d wager that most people don’t budget for charity. They give piecemeal and maybe react to solicitations rather than proactively plan how much to give. I think this habit of “eyeballing” how much to give without first consulting personal finances compels many people to err on the side of caution when deciding how much to donate. This cautiousness especially evident in the giving patterns of donors with relatively high asset levels, such as the groups we’re talking about -- filers with \$200,000 to \$10 million in adjusted gross income and average assets of \$1.7 million to \$46 million. Rather than reacting to solicitations, if more well off people budgeted for charity and actively decided how much to donate each year, perhaps more of them would donate as high a percentage of their asset wealth as do average filers in the lower wealth groups.

## **NewTithing Group’s Philosophy**

NewTithing Group assumes that although admirable, the ancient custom of “tithing” determines individual giving levels based mainly on income, with little or no consideration for investment assets. The basis of the Group’s research, “Newtithing,” is a comprehensive budgeting approach that factors not only income and investment assets into giving decisions, but also the annual fluctuation of those assets, as well as anticipated expenditures, and tax savings from charitable gifts. Since it is designed to preserve a donor’s lifestyle, newtithing does not include as “investment assets” the value of donors’ personal homes and possessions. To follow is a definition of newtithing as a dictionary might describe it:

new-tithe n., v., new-tith-ing –n., 1. making the maximum comfortably affordable annual donations to charity based on annual surplus income, the tax consequences of charitable gifts, and the market value, after debt, of investment assets (excluding personal homes and possessions).

## **NewTithing Group's Methodology**

NewTithing Group estimates the value of investment assets owned by average filers in each major adjusted gross income group. This capitalization method was pioneered by NewTithing Group's chairman and founder, Claude Rosenberg, in his 1994 book, "Wealthy and Wise: How You and America Can Get The Most Out of Your Giving." NewTithing Group arrives at these estimates by correlating data from the IRS Statistics of Income Bulletin with the year's market performance in each asset category.

For example, according to IRS data, in tax-year 2001, the average filer in the "\$1 million to \$1.5 million" adjusted gross income bracket declared (common stock) dividend income of \$48,541. According to the Russell 3000 stock index, a broad proxy of U.S. stocks, average dividends in year-2001 yielded stock investors 1.18%. To estimate the year-2001 value of the stock portfolios of such tax filers, NewTithing Group asked, "What stock principal value is equivalent to dividends paying \$48,541 at a 1.18% yield?" In other words, \$48,541 was divided by 1.18%. In this way, NewTithing Group would estimate that by the end of tax-year 2001, the average filer in the \$1 million to \$1.5 million AGI group held common stocks worth \$4,126,348. This method was repeated to determine asset values based on reported income on bonds, investment real estate, etc. These estimates provide a conservative element to gauging giving capacity because they do not count the value of a filer's personal homes and possessions.

Data on donations in cash and assets, as well as data on net capital gains were based on the IRS Statistics of Income Bulletin's latest available data (tax-year 2001).

## **Resources For Donors And Donor Advisory Organizations**

More customized giving scenarios can be explored through NewTithing Group's "PrudentPal® Charitable Giving Planner." This resource is freely accessible to the public at [www.newtithing.org](http://www.newtithing.org) and through the following licensing non-profit organizations:

The Community Foundation Silicon Valley [www.cfsv.org](http://www.cfsv.org)

Social Venture Partners Seattle [www.svpseattle.org](http://www.svpseattle.org)

Stanford University [www.stanford.edu](http://www.stanford.edu)

## **Background On NewTithing Group**

NewTithing Group is a 501(c)(3) non-profit organization and private operating foundation founded by money manager and philanthropist Claude Rosenberg to expand upon the financial research of his 1994 book, "Wealthy and Wise: How You and America Can Get The Most Out of Your Giving" (Little, Brown). Since 1998, the Group has educated the public and their advisors to make comfortably affordable charitable donations through sound budgeting. The Group's educational resources include PrudentPal Charitable Giving Planner, an on-line budgeting tool available at

www.newtithing.org and Proprietary IRS-Based Research on wealth and affordable donations, updated annually.

#### Founder & Chairman

Before founding NewTithing Group, which he currently chairs, **Claude Rosenberg** was Founder and Chairman of RCM Capital Management (now Dresdner RCM Global Investors). He received the Arbuckle Award for Management Excellence from The Stanford Graduate School of Business and the Forrester Leadership Award from the Association for Investment Management and Research (AIMR) for developing standardized guidelines for money manager performance. Mr. Rosenberg has authored five books on finance, including *Wealthy and Wise: How You and America Can Get The Most Out of Your Giving*. He has received numerous philanthropic honors, including the Outstanding Philanthropist Award from the National Society of Fundraising Executives, Golden Gate Chapter, and United Way's Tocqueville Award. He has served on several non-profit boards, and was Founding Chair of Philanthropic Research Incorporated, developers of Guidestar.

#### Tim D. Stone, President & Executive Director

In addition to managing staff and outsource partners, Tim Stone supervises development of the Group's research, business, and donor education strategies. He also plans the Group's national public information campaigns and manages development of PrudentPal Charitable Giving Planner, the Group's on-line educational tool. Based on his experience managing money for retail investors as a financial consultant for Merrill Lynch, Mr. Stone has published under his own by-line on finance, education, philanthropy, and political economy in *The New York Times*, *The Wall Street Journal*, *The Economist*, and *The San Francisco Chronicle*. Following publication of his *New York Times* op.ed., "Wall Street Ethics: Fuzzy Laws Help Blur the Boundaries," he spoke on financial deregulation before the U.S. House Subcommittee on Telecommunications and Finance. He holds a BA in History from Harvard University.

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<sup>[1]</sup> Based on the IRS Statistics on Income Bulletin, Publication 1136, in tax-year 2001: filers earning \$25,000 to \$200,000 in adjusted gross income donated \$115.56 billion to charity. This amounts to 1.01% of the \$11.4 trillion in investment assets that NewTithing Group estimates they owned that year. In contrast, average filers earning \$200,000 to \$10 million in AGI in tax-year 2001 donated to charity \$37.7 billion. This amounts to **0.48%** of \$7.83 **trillion** in total estimated assets. If instead, those filers earning \$200,000 to \$10 million in AGI had donated **1.01%** of their investment assets, they would have donated \$79.32 billion. That would be \$41.62 billion more than the \$37.3 billion that they actually donated.

<sup>[2]</sup> According to the IRS SOI Bulletin, Publication 1136, itemized charitable "cash" contributions and "other-than-cash" contributions made in tax-year 2001 totaled

approximately \$143 billion. “Giving USA,” a publication of AAFRC, estimates total individual giving in tax-year 2001 at a higher level, \$182.47 billion. This higher number includes an estimate of charitable contributions by filers who do not itemize their contributions on their income tax declarations. Since most of these “non-itemizers” are in the lower wealth categories, this higher estimate of total giving supports NewTithing Group’s conclusion that average filers in lower wealth groups donated a larger percentage of their investment asset wealth in 2001 than did “the upper middle class” and “the middle rich.”

<sup>[3]</sup> NewTithing Group estimates the investment assets of average tax filers based on IRS income data and market return rates (elaboration, pg. 9). To help conservatively gauge giving capacity, “investment assets” do not count the value of a filer’s personal homes and possessions.

<sup>[4]</sup> Data on donations in cash and assets, as well as on net capital gains were from the IRS Statistics of Income Bulletin’s latest available data (tax-year 2001). NewTithing Group’s assumptions on avoidable capital gains tax are as follows: A. No more than one third of the total gains reported by average filers as net realized gains in yr-2001 to the IRS were long-term. B. If the donations made in cash were instead made in appreciated assets: 20% of the appreciated assets would be treated as long-term gains. The remaining 80% would be treated as the cost basis of the appreciated assets. C. The appreciated assets were securities. The maximum federal long-term capital gains tax rate in 2001 for securities was 20% (in 2004 it was 15%). D. The maximum state long-term capital gains rate for securities in 2001 was 8%. E. The higher potential savings for filers affected by the Alternative Minimum Tax (generally 28%) was not counted, which makes the estimate conservative: Those filers could have avoided even more taxes if they had donated appreciated assets to charity instead of cash. F. These estimates account for the tax deduction limit on contributions to public charities.