A Reason to Give

Massachusetts Considers a State Tax Deduction for Charitable Gifts

RITA FUERST ADAMS

A move is afoot in Massachusetts to allow Bay State taxpayers to deduct contributions to charitable and philanthropic organizations from their state income tax. The proposed "Initiative to Encourage Charitable Giving," being promoted legislatively as House Bill 4982 and via statewide ballot initiative would allow Massachusetts taxpayers, whether or not they itemize their tax returns, to take a deduction from any wages or salaries for gifts to any philanthropic organization as defined by the U.S. Internal Revenue Code. This includes private and public colleges and universities in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. The deduction, effective Jan. 1, 2001, would equal the full amount of the taxpayer's annual contributions.

Meanwhile, Senate Bill 1509, introduced in 1999 by Sens. Cynthia Stone Creem and Steven A. Tolman would restrict deductions to gifts made to Massachusetts organizations only. (In fact, the deduction would apply only to charitable and philanthropic organizations incorporated under Massachusetts code, excluding those such as Harvard University established before the code!)

State incentives

The U.S. tax code has allowed deductions for charitable contributions since the federal income tax was introduced in 1917. The tax treatment of such philanthropy at the state level, however, has varied significantly.

Among the 41 states that levy an income tax (including all New England states except New Hampshire), 33 now provide a deduction for charitable contributions in addition to the federal charitable contribution deduction. Massachusetts and Connecticut are among the eight states that do not provide such a deduction. The other states that do not are Illinois, Indiana, New Jersey, Ohio, Pennsylvania and West Virginia. Of course, because New Hampshire levies no personal income tax, no tax deduction is possible.

By reducing the cost of giving, a state charitable contribution tax deduction would stimulate philanthropic giving and thereby promote educational and cultural endeavors and improve health care and social welfare.

Philanthropic organizations are a part of everyone's lives. We are all, in some degree, beneficiaries of philanthropy whenever we attend church, go to college, visit museums or concert halls, borrow books from libraries, obtain treatment at hospitals or spend leisure time in parks.

There are close to 13,000 not-for-profit organizations in Massachusetts. They control approximately $52 billion in assets, more than half of which—$28 billion—are controlled by education institutions. The sector employs more than 350,000 people in Massachusetts, accounting for 10 percent of Bay State jobs, according to a study by the Lincoln Filene Center for Citizenship and Public Affairs at Tufts University.

Philanthropic groups make up 85 percent of the 1,400 organizations that contract with the Commonwealth to provide health and human services.

Low giving

Nationally, nonprofit organizations derive 18 percent of their annual revenue from private contributions, according to Washington, D.C.-based Independent Sector, the national association of nonprofit groups. Private payments account for 39 percent, while government grants account for 31 percent.

New England's philanthropic giving is lagging. George McCully, a trustee of the Ellis L. Phillips Foundation and project coordinator for *The Catalogue for Philanthropy*, has developed the *Generosity Index* to compare each state's and each income group's national rank in average adjusted gross income, or *having*, with its national rank in average deductions, or *giving*. Four New England states—Rhode Island, Connecticut, New Hampshire and Massachusetts—have consistently high average incomes and low average deductions, and therefore, low generosity. For the period 1991 through 1997, they ranked 47th, 48th, 49th and 50th, respectively. (Of the four, only Rhode Island, where the state income tax is based on federal tax liability, provides taxpayers with a state tax incentive to make charitable gifts.) Vermont and Maine (where state taxes—and therefore deductions—are based on federal liability) rank low in giving but have low incomes as well, thus more moderate generosity. [See Connection, Fall/Winter 1999.]

Despite the nation's third highest per-capita income, Massachusetts ranked 40th nationally in the average size of itemized charitable contributions reported on federal tax returns, according to a 1997 study by the *Chronicle of Philanthropy*. Itemizers in Massachusetts contributed $2,495 on average, compared to $2,967 nationally.

Giving is price-elastic. It responds to tax incentives. A 1 percent reduction in the net cost of giving results in a 1.1 percent to 1.7 percent increase in giving.

Using a 28 percent federal income tax rate, the net cost of a $1 charitable contribution for a Massachusetts taxpayer who claims the federal deduction is 72 cents. With the current Massachusetts state income tax of 5.95 percent, a state deduction for gifts would reduce the cost further to 68 cents—and thereby stimulate giving.

Harvard University Professor Martin Feldstein estimates a Massachusetts charitable contribution deduction would spark an 8 percent increase in charitable contributions. Accordingly, the current giving level of about $2.75 billion would increase to almost $3 billion. For $250 million in increased gifts for charitable and philanthropic organizations, Massachusetts would forego $175 million in tax revenue on the total $3 billion in gifts. Moreover, the change would generate as much as $12 million in new federal tax deductions—much of which would stay in Massachusetts.

The most vocal and organized proponent of a charitable contribution deduction is the Committee to Encourage Charitable Giving. Created by Fidelity Investments, the committee soon enlisted the Boston Private Bank and Trust Co., the law firm of Foley, Hoag and Elliot; Goldman Sachs, KPMG, PriceWaterhouseCoopers and Putnam Investments to push the ballot initiative. The New England Conservatory of Music and Tufts University are among more than 350 philanthropic organizations participating in the committee, chaired by Richard S. Mann, the president of the Greater Boston chapter of the American Jewish Committee.

Though an overwhelming 84 percent of Massachusetts residents support a state deduction for charitable gifts, according to an October 1999 survey by the public opinion research firm Mass Insight, the ballot initiative may meet resistance. One concern is that the deduction could be vilified in tandem with a major tax cut initiative also on the ballot. It is estimated that the two initiatives, taken together, could cost the state $2 billion during the next three years. Organizations that contract with the state to provide human services are particularly concerned that the lost tax revenue coupled with increased philanthropic support could give the Commonwealth an excuse to decrease state spending on various human services.

For this reason, a few voices continue to seek a legislative solution before June 30. A loosely organized, volunteer Legislative Coalition for Philanthropy, meanwhile, has promoted a legislative solution. But the coalition has lacked the staff and resources to mount an effort on the scale of the committee's.

Above all, the volunteers working through the coalition and the organizations of the committee have had one goal: to encourage charitable giving in Massachusetts and New England. Their efforts on behalf of the proposed Massachusetts deduction have also provided an important impetus for a regionwide discussion of philanthropy, including higher education's critical role. After all, we give because we are taught to give.

__Rita Fuerst Adams__ is president of Boston-based Charitable and Philanthropic Management Counsel, which provides consulting for nonprofit organizations. She is also a senior fellow at the Lincoln Filene Center at Tufts University, and government relations chair and director of the Massachusetts Chapter of the National Society of Fund Raising Executives.