

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,

