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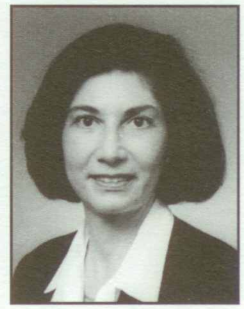
Advocating for Our Contributors



by Rita Fuerst Adams

Among the 41 states that levy an income tax, 34 provide a deduction for charitable contributions in addition to the federal charitable contribution deduction. Massachusetts just became the 34th state to provide such an incentive to give.

The legislation will allow Massachusetts taxpayers, whether or not they itemize deductions on their tax returns, to take deductions for withholding from any wages or salaries for the purpose of making gifts to any philanthropic organization as defined by the U.S. Internal Revenue Code. The deduction becomes effective Jan. 1, 2001, and equals the full amount of the taxpayer's annual contributions.

The seven states with an income tax that still do not allow a charitable contribution deduction are Connecticut, Illinois, Indiana, New Jersey, Ohio, Pennsylvania and West Virginia. Should they follow in Massachusetts's footsteps? Ohioans may have the most to gain. Its income tax is higher than Massachusetts', with Ohioans paying 7.16% to 7.23%.

Better yet, should states with deductions not as inclusive as Massachusetts' consider expanding the charitable contribution deduction? The first consideration is whether to allow some form of charitable contribution deduction or credit. The second is to determine how broad the allowable deduction should be. Some states limit deductions to gifts to human services or education. Many states limit deductions to taxpayers who itemize.

Giving is price-elastic, and responds to tax incentives. Typically, a reduction in the net cost of giving of 1 percent results in a 1.1-to-1.7-percent increase in giving. By reducing the cost of giving, a state charitable contribution tax deduction stimulates philanthropic giving, and thereby promotes educational and cultural endeavors and improves health care and social welfare.

Using a 28-percent federal income tax rate, the net cost to a Massachusetts taxpayer who claims the federal deduction for charitable contributions of a $1 gift is 72 cents With the current Massachusetts state income tax of 5.95 percent, a state deduction for gifts reduces the cost further, to 68 cents.

Harvard University Professor Martin Feldstein estimates a Massachusetts charitable contribution deduction will stimulate an 8-percent increase in charitable contributions. Accordingly, the current giving of approximately $2.75 billion should increase to almost $3 billion. For $250 million in increased gifts for charitable and philanthropic organiza-

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tions, Massachusetts will forego $175 million in tax revenue on the total $3 billion in gifts. Moreover, the change will generate as much as $12 million more in federal tax deductions that would stay in Massachusetts.

A convergence of groups brought about the Massachusetts' charitable contribution deduction, or Initiative to Encourage Charitable Giving. These groups began with a similar thought and disparate resources. The Legislative Coalition for Philanthropy started nearly two years ago to discuss such a charitable contribution deduction. Representing charitable and philanthropic organizations, the coalition, of course, has the least organization and the fewest resources of the three. During the past 10 months, two other groups — the Task Force on Tax Policy and Capital Formation, and the Massachusetts Business Roundtable — also determined that a charitable contribution deduction would be good for Massachusetts.

Serendipity brought the three groups together. The meeting of these three groups with a host of interested parties produced two results that proved to be the turning point.

First, the Committee to Encourage Charitable Giving was formed. A few investment firms and accounting firms gave money to hire a professional lobbying firm. The firms asked for charities to lend their names to the committee, and 400 charities did. Also, the firms submitted a ballot initiative that mirrors the legislation eventually signed. The ballot initiative must be voted on November 7 and, it is hoped, will confirm the legislature's good work.

The second, the Legislative Coalition for Philanthropy — made up of loosely organized volunteers — decided to continue its contacts with key legislators and to testify at a hearing sponsored by the Joint Committee on Taxation. The Coalition became the voice seeking a legislative solution and that actually produced the solution.

The key advocates who testified and met with legislators represented the American Jewish Committee; Associated Grantmakers of Massachusetts; the Committee to Encourage Charitable Giving; Community Health Charities of Massachusetts; Massachusetts Advocates of the Arts;, Sciences and Humanities; and the Massachusetts Chapter of the National Society of Fund Raising Executives.

These key advocates caught the attention of Senator Marian Walsh, co-chair of the Joint Committee on Taxation. In fact, Senator Walsh had the attorney for the Joint Committee on Taxation clean up the language of the proposed legislation to meet Department of Revenue specifications without changing the intent or the breadth of the bill.

Before meeting Senator Walsh at the Joint Committee on Taxation hearing, two state Senators — Sen. Cynthia Stone Creem and Sen. Steven A. Tolman — and their staff members regularly met with and

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encouraged the key advocates in this mission. These two Senators and their staff members provided insights and information needed to continue the lobbying efforts.

When speaking with legislators, these points were stressed:

- This is not a tax cut. It is an initiative to encourage people to give to charity.
- The beneficiaries of a state income tax deduction will be the people served by educational, cultural, religious and social service institutions. Since the additional giving generated by the tax deduction will exceed the tax savings, individual taxpayers will not realize a monetary gain.
- By stimulating more private giving than is sacrificed in government revenues, a tax deduction will efficiently leverage state spending for social services.
- The deduction enables taxpayers to directly fund their preferred charities without tax penalty.

If I were to start the process again, I would keep the working committee small and limited to key advocates. I would have one of the members be an organization with resources, and would hire a staff member to coordinate contacts and meetings. I would assure that there are adequate funds to gather the signatures of enough charitable and philanthropic organizations to demonstrate a broad range of support — as has been done for the ballot initiative. And I would continue making legislative calls and contacts no matter who doubted the potential for victory.

For anyone who wants to start such a process in one of the states that does not now permit charitable deductions from income taxes, please remember these hard-learned rules:

Never trust counsel you did not pay for.

Politics does make for strange bedfellows. Buy lots of flea powder.

When the elephant enters the room, nothing covers the smell. ▼

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As signed into law, the wording reads:

An Initiative to Encourage Charitable Giving
Be it enacted by the People and their Authority:

Personal Income Tax Deduction for Charitable Contributions — SECTION 69. Paragraph (a) of Part B of section 3 of chapter 62 of the General Laws, as so appearing, is hereby amended by adding the following subparagraph: —

"An amount equal to the amount of the charitable contribution deduction allowed or allowable to the taxpayer for the taxable year under section 170 of the Code. All requirements, conditions and limitations imposed upon charitable contributions under the Code shall apply for purposes of determining the amount of the deduction hereunder except that a taxpayer shall not be required to itemize his or her deductions in his or her federal income tax return.

Effective Date — Personal Income Tax Deduction for Charitable Contributions SECTION 302. Section 69 shall be effective for tax years beginning on or after January 1, 2001."