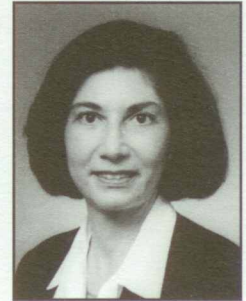


Advocating for Our Contributors

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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Advocating for Our Contributors

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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 ini-

tiative 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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