

Department of Legislative Services
 Maryland General Assembly
 2000 Session

FISCAL NOTE

Senate Bill 771 (Senator McFadden)
 (Maryland Gives! Task Force on Charitable Giving)

Budget and Taxation

Income Tax - Subtraction Modification - Charitable Contributions

This bill provides a subtraction modification under the Maryland State income tax for the aggregate amount of an individual's "charitable contributions" in excess of \$500. The subtraction modification applies only to individuals who do not itemize deductions for purposes of determining State taxable income.

The bill takes effect July 1, 2000, and applies to all taxable years beginning after December 31, 1999.

Fiscal Summary

State Effect: General fund revenue decrease of at least \$1.1 million in FY 2001. Future year revenue losses increase by about 6% annually. No effect on expenditures.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	(\$1.1)	(\$1.3)	(\$1.7)	(\$2.1)	(\$2.6)
GF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	(\$1.1)	(\$1.3)	(\$1.7)	(\$2.1)	(\$2.6)

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Total local government revenue loss of at least \$594,500 in FY 2001.

Small Business Effect: None.

Analysis

Current Law: See below.

Background: The Maryland Gives! Task Force on Charitable Giving was created by Chapter 383 of 1996 to study charitable giving in the State and to make recommendations to the Governor and the General Assembly on ways to increase charitable contributions from both individuals and corporations in Maryland. Specifically, the task force was charged with:

- recommending to the Governor and to the General Assembly appropriate changes in Maryland's tax laws and in other State policies that would improve the level of charitable giving in the State;
- recommending how the State's public relations resources can be better used to promote increased charitable giving throughout the State;
- conducting an economic impact analysis of the effect on Maryland's economy of increased charitable contributions to nonprofit organizations in the State;
- recommending how State agencies can employ existing State data sources to develop benchmarks and to analyze and chart progress in the level of individual and corporate philanthropy; and
- reviewing any other matter relating to charitable contributions that the task force considers appropriate and consistent with the mission of the task force.

The task force made several recommendations in its 1998 annual report aimed at increasing charitable contributions among Maryland taxpayers, including several proposals for offering incentives to taxpayers in addition to the incentives currently provided under federal and State income tax laws.

HB 535/SB 471, introduced during the 1999 legislative session on behalf of the task force, were based on these recommendations and designed to increase charitable giving by Maryland taxpayers by offering tax incentives. According to testimony presented on behalf of the task force, charitable giving in Maryland ranks behind the national average. According to data for tax year 1996, the average charitable contribution in Maryland was \$2,438 per return claiming a charitable deduction, compared to the national average of \$2,698. In addition, Maryland had the fifth highest per capita income in the United States, yet ranked 47th in charitable contributions by taxpayers earning over \$100,000 (\$5,531 compared to \$7,434 nationally) and 22nd among taxpayers earning less than \$100,000.

According to a 1997 Price Waterhouse study, charitable giving does react to tax benefits and a \$10 reduction in the cost of giving leads to a \$19 increase in contributions.

Federal and State income tax laws allow deductions from income for donations made to qualified charitable organizations.

Examples of qualified organizations include: churches and other religious organizations; charitable organizations like the Red Cross and the United Way; nonprofit educational organizations such as the Boy Scouts, museums, and colleges; nonprofit hospitals and research facilities; and public parks and recreational facilities. Under federal law, an individual who itemizes deductions may deduct charitable contributions up to a set limit -- 50%, 30%, or 20% -- of the individual's contribution base depending on the type of organization to which the donation is made and/or the type of property that is donated.

Under current State law, only individuals who itemize deductions on their federal income tax return may itemize deductions on their State income tax return. Unless an individual itemizes deductions, no tax incentive is currently provided for making charitable contributions. Prior to 1987, taxpayers who did not itemize deductions could claim their charitable contributions as an adjustment to gross income on their federal return, which would flow through to the calculation of the Maryland income tax.

Current federal law provides that a corporation may take a deduction for charitable contributions that do not exceed 10% of its taxable income for the year. Contributions made in excess of the 10% limit may be carried forward for up to five years. Contributions to certain organizations are not deductible. For example, contributions to organizations that conduct lobbying activities on matters of direct financial interest to the corporation's trade or business are not deductible. Also, contributions are not deductible, even if to a qualified charity, if the donor receives an economic benefit from the contribution.

Deductions for charitable contributions by corporations that are taken for federal income tax flow through to the State income tax because Maryland taxable income begins with federal taxable income, which is taxable income minus any deductions.

State Fiscal Effect: Based on tax year 1996 federal tax return data for Maryland taxpayers, general fund revenues are estimated to decrease by \$1.1 million in fiscal 2001 as a result of the credits claimed by individuals who do not itemize. The estimate is based on the following facts and assumptions:

- an estimated 535,000 Maryland taxpayers who do not itemize deductions will claim charitable contributions on their tax year 2000 returns;
- the average charitable contribution by income class ranges from \$400 to \$4,560;
- average contributions by non-itemizers are 25% of the average contribution of itemizers by income class; and
- 50% of non-itemizers with income below \$50,000 will make contributions and 75% of non-itemizers with income over \$50,000 will make contributions.

To the extent that more taxpayers make contributions and the average amount of contributions is higher than estimated, general fund revenue losses will be greater than estimated.

Out-year estimates increase by 6% annually, which reflects the average growth in contributions from 1986 through 1996.

Local Fiscal Effect: Local revenues would decline by approximately 2.67% of the total subtraction taken, or 55% of the State loss for charitable contributions. Based on the estimate above, the reduction would be \$594,500 for fiscal 2001.

Additional Information

Prior Introductions: A similar bill was introduced in the 1999 session as HB 535/SB 471. It was referred to interim study by the House Ways and Means Committee.

Cross File: HB 684 (Delegate Mandel) - Ways and Means.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates), Department of Legislative Services

Fiscal Note History: First Reader - March 2, 2000
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