HB 1429

Department of Legislative Services

Maryland General Assembly
2001 Session

FISCAL NOTE

House Bill 1429 (Delegate Taylor)
Ways and Means

Income Tax Credit for Charitable Contributions to Community Foundations

This bill creates a credit against the State income tax in an amount equal to 100% of the unrestricted charitable contributions made by an individual to a community foundation's endowment during the taxable year. The credit may not exceed the difference between the State income tax and the State income tax reduced by the amount of the individual's qualified capital gain. The credit is only allowed if the individual's qualified capital gain for the taxable year for which the credit is received is at least $10,000,000.

The bill takes effect July 1, 2001 and applies to all taxable years beginning after December 31, 2000.

Fiscal Summary

State Effect: The extent of the revenue loss associated with the bill depends on the number of individuals who report a qualified capital gain, the amount of their unrestricted charitable contributions, and their income tax liability in the taxable year in which the contribution was made. Information upon which to base a reliable estimate is not available.

Local Effect: No direct impact on local government revenues. However, to the extent the bill encourages charitable contributions, local government revenues would decrease.

Small Business Effect: Minimal. However, small nonprofits could benefit significantly if they qualify as community foundations and are the recipients of charitable contributions.

Analysis

Current Law: 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 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.

State Fiscal Effect: The cost of the bill cannot be reliably estimated. The extent of the revenue loss depends on the number of individuals who report a qualified capital gain, the amount of their unrestricted charitable contributions, and their income tax liability in the taxable year in which the contribution was made.

However, as a point of reference, in tax year 1995 there were ten income tax returns filed which reported a capital gain (or loss) of at least $10 million. Most of these individuals were non-residents and had a total income tax liability of approximately $1 million. In tax year 1996, 16 returns were filed which reported a capital gain (or loss) of at least $10 million. The combined tax liability of these returns was approximately $77,000, and most were filed by non-residents.

If the bill had been in effect in either of these years, general fund revenues would have decreased by a maximum of $77,000 in 1996, and a maximum of $1 million in 1995.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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jm/cer

Analysis by: Michael Sanelli

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510