National Council of Nonprofits

Investing Surprise Surpluses … for the Public Good

By: Tiffany Gourley Carter

There are surprising new fiscal realities that no one anticipated two years ago: most states are running large budget surpluses and revenues continue above expected projections. The question on most lawmakers' minds is what to do with the unexpected windfalls in their states.

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Speaking in generalizations, progressives across the country largely have been seeking to restore past spending cuts and focus new programs to address continuing and new community challenges, notably those affecting low-income families and disadvantaged communities. Conservatives, on the other hand, mainly have been promoting tax cuts and putting money back into people's pockets.

But there is a much simpler answer to the question of what to do with the windfalls: advance the agendas of both sides by empowering efforts to confront community challenges while also lowering residents' tax burdens. That is, regardless of political leanings, lawmakers can – and should – seize this moment to do good through good tax policy.

Good Tax Policy That Does Good

Tax laws in many states encourage individuals to give to the work of charitable organizations and receive a benefit in the form of charitable giving tax incentives. Expanding who can access these benefits broadens the base of donors available to give, which in turn helps the nonprofits solve community problems and help families.

More donations mean more investment in the arts, education, healthcare, childcare, houses of worship, culture, the environment, domestic violence shelters, affordable housing, job training and workforce development, community parks and recreation, and more.

In short, charitable giving incentives and expanding access to the charitable deduction "is good tax policy – it encourages individuals to give away more of their income, devoting it to their community's needs rather than their own," explains the Charitable Giving Coalition.

State Tax Law Opportunities

States have experimented with a variety of tax incentives to promote giving that addresses local challenges. Where enacted, those experiments have proven to benefit taxpayers, communities, and governments alike.

Charitable Deductions

The majority of states provide an income tax deduction for individuals who donate to charitable organizations. The public wants this type of incentive for people to support their own local communities. But the path for new giving incentives can be difficult.

In 2000, more than two-thirds of voters in Massachusetts approved a measure to allow taxpayers to deduct up to 5 percent of their charitable donations. Yet more than two decades later lawmakers have still failed to provide that tax benefit to residents, claiming the state's financial woes as an excuse to not implement the policy.

An editorial by the *Boston Business Journal* emphasizes, "From our point of view, the endless delays not only deny local nonprofits a much-needed potential boost in donations due to the added incentive for people to give. Our legislators are also refusing to give a small, and deserved tax break to those taxpayers who are most generous with their philanthropic efforts." Given this good policy's overwhelming support with voters, the editorial continues, "This ought to be a no-brainer for legislators."

Non-Itemizer Deductions

A non-itemizer deduction, also known as a universal or "above the line" deduction, allows all taxpayers, regardless of whether they itemize or take the standard deduction, to claim charitable contributions on their tax forms. The decrease in number of itemizers due to the 2017 federal tax law – data show 20 million fewer taxpayers claimed the itemized deduction in the year after that significant change – makes state non-itemizer deductions all the more valuable for donors today.

Currently only donors in Arizona, Colorado and Minnesota have a non-itemizer deduction available to them. This year state associations of nonprofits in Kentucky and Utah pushed to secure this form of charitable giving incentives in their states as well. Kate Rubalcava, CEO of the Utah Nonprofits Association, explains why this is so important for nonprofits of all sizes: "So many Utah nonprofits are small (7 of 10 have income less than $25,000) and they operate and serve because of the generosity of fellow Utahns. Providing charitable giving incentives lifts up those nonprofits and it simultaneously allows taxpayers the freedom to direct their giving."

Lawmakers in Georgia, Kansas, New Jersey, New York, North Carolina, Pennsylvania, and Virginia have considered enacting similar incentives previously. Georgia did enact a short-term non-itemizer deduction that only applied in 2020. Advocacy in the New Jersey has been ongoing for years because, as the NJ Center for Non-Profits states, "Demand for the programs and services provided by charities continues to grow, while needed resources lag behind" (as outlined in the Center's recent report).

Non-Itemizer Tax Credits

An alternative to a non-itemizer tax deduction is a tax credit, normally a fixed percentage of a donation that provides a dollar-for-dollar offset of state tax liability. State policymakers have successfully established tax credits to incentivize contributions to specific nonprofits or types of missions within their states over the years. Recent examples include tax credits in support of individuals with a chronic illness or physical disability in Arizona; community foundations in Mississippi; and child advocacy centers, homeless shelters, and soup kitchens in Missouri.

In 2019, the Legislature in **Virginia** considered, but did not pass, a bill to provide a nonrefundable tax credit (capped at $250 individual/$500 couple) for charitable contributions to nonspecific nonprofit missions made by people who do not itemize deductions on their federal tax returns. A similar bill in North Carolina last year would have created a new state tax credit for charitable contributions by individuals who use the standard deduction.

Other proposals considered but not passed include tax credits for donations to historic structures and from farmers to charitable nonprofits in **Connecticut**; public school foundations in **Indiana**; homeless shelters, food kitchens, and food banks or public art, radio, colleges, universities, and museums in **Michigan**; and the Trust for Cultural Development Account in **Oregon**. Still other examples considered earlier, before the pandemic and the current state budget windfalls, include the California Universal Charitable Credit for a credit up to $500 for individuals and $1,000 for couples, and the **Colorado** Nonprofit Sustainability Act that would have authorized a 25 percent tax credit for charitable donations up to $20,000 to an endowment held by a nonprofit or community foundation.

Tax Credits and Endowments

Another incentive, favored mainly by philanthropic organizations, is a tax credit to incentivize giving to endowments. Both Mississippi and Montana have tax credit programs for gifts to endowments and qualified community foundations, respectively. Also, tax laws in five states (**Iowa**, **Kentucky**, **Maryland**, **Montana**, and **North Dakota**) provide endowment tax credits that reportedly have helped generate increased donations to endowments.

Conclusion

Tax benefits are not the primary reason people donate to charitable organizations, but they do encourage more and larger gifts by a wider range of donors. Kentucky Nonprofit Network put it plainly: “While not the reason people donate to charity, charitable giving tax incentives encourage more and larger gifts.” Maximizing these impacts should always be the top priority for policymakers, regardless of political stripe.

Expanding state charitable giving incentives means more money for communities, including communities in need, and lower tax burdens on donors.

It’s a win-win for communities and constituents, both immediately and over the long term. And now it’s a windfall that can benefit everyone.