

## Some States Give Donors Tax Credits for Gifts to Charitable Endowments

*By Ben Gose*

An oil boom in northwest North Dakota has given the state a \$1.6-billion budget surplus and the lowest unemployment rate in America. Now the state's charitable endowments are beginning to cash in, too.

North Dakota is one of at least four states in the country that offer a state tax credit to individuals or businesses that make endowment gifts to in-state charities or community foundations.

The North Dakota credit has been on the books since 2007, but it was expanded by the Legislature during 2011 to apply to current gifts in addition to planned gifts. Couples filing jointly can receive a 40-percent credit, up to \$20,000, for donations to endowments.

"The oil economy is doing very well," says Kevin Dvorak, president of the North Dakota Community Foundation. "Part of what we sold to the Legislature is that we need to capture some of this money for the permanent betterment of our communities."

He says several new gifts came in to the community foundation near the end of last year, totaling nearly \$50,000, and that each of the donors cited the tax incentives as one motivation for their contribution.

### **Big in Rural States**

Three other states with endowment credits are Iowa, Kentucky, and Montana, and community funds in Minnesota are lobbying for them now.

The credits are especially popular in rural states and in states with plenty of natural resources. State legislators want to make sure that some of the profits on the state's oil, gas, or coal end up in endowments that will permanently help community foundations and other charities. The tax incentives are also a way to help keep family wealth in-state, rather than watching it migrate away as younger residents move to urban areas, taking their inheritance with them.

The Montana credit, worth 40 percent of the donation for planned gifts made by individuals and 20 percent for outright gifts from businesses, has helped secure \$123-million for permanent endowments since the credit was enacted in 1997.

A Montana Senate committee proposed eliminating the credit in 2011 as part of a cost-saving move that targeted many individual and corporate tax credits. A coalition of charities and community foundations waged a successful lobbying campaign that led the sponsor to remove the charitable tax credit from the bill.

The tax credit currently costs the state only about \$2.5-million a year.

“That’s not a lot of money given the benefits it provides to the charitable sector,” says Linda Reed, president of the Montana Community Foundation.

### **Not All Successes**

Iowa awards a total of up to \$4.5-million in tax credits each year to individuals and business that make endowment gifts to community foundations. The credit, worth 25 percent of each gift, has attracted donations worth \$95-million since 2003 to the 130 community foundations in the state, according to the Iowa Council of Foundations.

The Minnesota Council on Foundations is currently pushing a plan that would offer a tax credit like the one in Iowa to Minnesota residents who give to community foundations.

Not every endowment tax credit has been a hit. Nebraska had a credit for giving to endowments from 2006 to 2009, but the credit was modest—only 15 percent of the gift—and complex.

Jim Gustafson, gift-planning director at the Nebraska Community Foundation, says some donors discovered that their savings weren’t enough to offset the fees some tax professionals were charging to help arrange the gift.

If the state’s charities ever seek another state tax credit for endowment giving, he says, they should push for a “simpler law that is more understandable.”