

Memorandum

To: Revenue Interim Committee

From: Aaron McNay, Economist
 Tax Policy and Research, Montana Department of Revenue

Date: April 14, 2020

Subject: Annual Report on Charitable Endowment Credit

Each year the department is required by 15-1-230, MCA, to make a report to the Revenue Interim Committee on the Charitable Endowment Credit. This memorandum briefly describes the Charitable Endowment Credit and reports on the use of the credit over the previous nine years.

Enacted in 1997, the Charitable Endowment Credit is designed to increase charitable donations by individuals and corporations by providing an income tax credit to individuals and corporations that donate a planned gift to a charitable 501(c)(3) organization. The credit for an individual is 40% of the present value of the planned gift, with the credit currently being limited to \$10,000 for either an individual, or corporation.

Based on tax records, the Charitable Endowment Credit was claimed on 656 personal income tax forms for tax year 2018, a decrease over the previous year's 769 claims. The total credit amount also decreased in 2018 and was \$2,894,113, which required approximately \$7.2 million in private gifts to qualified charitable organizations. From 2017 to 2018, the average credit amount claimed by each individual increased from \$4,291 to \$4,412, which is its highest level for at least the previous eight years.

Figure 1					
Tax Year	Credit Amount	Number	Average Individual Credit Amount	Credit Percentage	Gift Amount Used to Claim Credit
2010	\$1,827,181	554	\$3,298	40%	\$4,567,953
2011	\$1,784,717	514	\$3,472	40%	\$4,461,793
2012	\$2,072,754	588	\$3,525	40%	\$5,181,885
2013	\$2,124,379	602	\$3,529	40%	\$5,310,948
2014	\$2,575,798	651	\$3,957	40%	\$6,439,495
2015	\$2,494,926	627	\$3,979	40%	\$6,237,315
2016	\$2,786,381	661	\$4,215	40%	\$6,965,953
2017	\$3,299,672	769	\$4,291	40%	\$8,249,180
2018	\$2,894,113	656	\$4,412	40%	\$7,235,283

For tax year 2017, tax records indicate that 11 corporations claimed the tax credit on their corporate tax forms.¹ With a total credit amount of \$26,225, corporations received significantly less from the tax credit than individual taxpayers did. The credit amount received by corporations is also significantly more volatile than the credit received by individuals. From 2012 to 2017, the credit amount claimed by corporations declined from \$60,406 to \$26,225, a decrease of approximately 56 percent. The average credit amount for each corporation is also significantly less than the amount claimed by individual taxpayers, with an average credit amount of \$2,384 in 2017.

Figure 2			
Tax Year	Credit Amount	Corporations	Average Corporation Credit Amount
2010	\$42,830	14	\$3,059
2011	\$45,913	15	\$3,061
2012	\$60,406	20	\$3,020
2013	\$50,704	26	\$1,950
2014	\$32,561	17	\$1,915
2015	\$31,436	15	\$2,096
2016	\$25,130	11	\$2,285
2017	\$26,225	11	\$2,384

Under 15-1-230, MCA, the Department of Revenue is required to report on the cost of administering the credit, as well as provide information on the amount of credits that were recaptured for previous tax years. The cost to the department of administering the credit each year is minimal. In addition, less than 10 taxpayers have reported credit recapture amounts on their tax returns each tax year. Because of this, confidentiality requirements prevent the department from reporting the credit recapture amounts for each tax year.

¹ Tax records for 2018 are not currently available, due to some corporations functioning on fiscal years that do not align with the tax year.