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MEMORANDUM

To Revenue Interim Committee
From Aaron McNay, Economist
Tax Policy and Research
Date March 22, 2024
Subject **Annual Report on the Charitable Endowment Credit**

Each year the Department of Revenue 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 in the recent past.

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 is 40% of the present value of the planned gift for the personal income tax and 20% for the corporate income tax. The maximum credit amount was \$10,000 per taxpayer through tax year 2023. The maximum credit amount increased to \$15,000 per taxpayer starting tax year 2024.

Based on tax records, the Charitable Endowment Credit was claimed on 656 personal income tax forms for tax year 2022, a decrease over the previous year's 695 returns (Figure 1). The total credit amount also decreased in 2022 and was \$3,521,922, which required approximately \$8.8 million in private gifts to qualified charitable organizations. From 2021 to 2022, the average credit amount claimed by each return decreased from \$5,487 to \$5,369.

Figure 1					
Tax Year	Credit Amount	Number	Average Individual Credit Amount	Credit Percentage	Gift Amount Used to Claim Credit
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
2019	\$3,113,973	682	\$4,566	40%	\$7,784,933
2020	\$2,858,698	652	\$4,385	40%	\$7,146,745
2021	\$3,813,667	695	\$5,487	40%	\$9,534,168
2022	\$3,521,922	656	\$5,369	40%	\$8,804,805

For tax year 2021, tax records indicate that less than 10 corporations claimed the tax credit on their corporate tax forms.¹ With a total credit amount of \$19,176, corporations claimed significantly fewer credits than individual taxpayers. The average credit amount for each corporation also tends to be significantly less than the amount claimed by individual taxpayers, with an average credit amount of \$3,216 in 2018. The credit amount claimed by corporations is also significantly more volatile than the credits claimed by individuals. From 2013 to 2021, the credit amount claimed by corporations declined from \$50,704 to \$19,176, a decrease of approximately 60 percent.

Figure 2			
Tax Year	Credit Amount	Corporations	Average Corporation Credit Amount
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
2018	\$41,806	13	\$3,216
2019	\$23,756	*	*
2020	\$24,626	*	*
2021	\$19,176	*	*
* Does Not Meet Confidentiality Requirements			

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

¹ Tax records for 2022 are not currently available, due to some corporations functioning on fiscal years that do not align with the tax year.

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 recapture amounts on their tax returns for this credit each tax year. Because of this, confidentiality requirements prevent the department from reporting the credit recapture amounts for each tax year.