Impact on Giving After the Repeal of the Michigan Community Foundation Tax Credit

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Johnson Center
at Grand Valley State University

Introduction and Background

The favorable treatment of charitable contributions has a long history, and has become subject to recent scrutiny. Advocates of tax deductions and tax credits for charitable giving argue (in part) that these provisions stimulate charitable giving, while those who urge the repeal of these tax provisions typically disagree (Feldman & Hines, 2003*)*.

The Community Foundation Tax Credit, effective in tax year 1989, offered Michigan individuals and businesses a credit of 50 percent of a donation to an endowment fund held by a community foundation certified by the State of Michigan. The credit had been worth up to $200 for a couple and $100 for an individual, and up to $5,000 or 10% of Michigan business tax liability – whichever is less.

This study investigated the initial effects of the 2011 repeal of Michigan's Community Foundation Tax Credit on gifts received from individuals and couples in 2012.

Experience in Michigan

Michigan was the first state to adopt a tax credit for building community foundation endowment funds. Originally signed into law Dec. 29, 1988, legislators designed the Michigan Community Foundation Tax Credit to encourage individuals and businesses to build the permanent endowments of community foundations across the state.

However, in 2011 the Michigan legislature with the Governor's support eliminated this tax credit for tax year 2012 and beyond along with two other charitable tax credits as part of major tax reform. Previous research indicated the credit did increase giving to Michigan's community foundations. Anderson and Beier (1999*)* found a statistically significant increase in both number and overall amount of donations in the years immediately following the introduction of the tax credit. A separate study in 2003 indicated that the Michigan tax credit program successfully stimulated a significant amount of charitable giving that would not take place in the absence of the credit (Feldman & Hines).

Effects of the tax credit conceivably reach further than the number and amount of donations. Through growing relationships with donors, community foundations can offer voice and support to local organizations providing crucial services to residents across the state. By holding endowed funds for specific nonprofit organizations, the community foundations may have contributed to stability in the sector. Contributors to donor advised funds (DAFs) and special endowments started, at some earlier point as "one-time tax credit donors."

Experience in other States

Several states – including Iowa, Kentucky, Montana, and North Dakota – offer tax credits to individuals and businesses that help charities and community foundations build their endowments (Gose, 2012). Both North Carolina and Minnesota have tax breaks for people who give to charity but do not itemize their taxes.

A review of published research across states has indicated an increase in giving after the implementation of a Community Foundation Tax Credit. The only state that has repealed a tax credit of this type is Michigan. Thus, there is no precedent for how this will influence giving in Michigan.

Experience Nationally

Congress made charitable contributions tax-deductible in 1917. Presently the House Ways and Means Committee and the Senate Finance Committee in Congress are considering changes to the deduction as part of proposals for tax reform. Research indicates that capping or eliminating the charitable deduction negatively effects giving. It reduces a household's incentive to give to charity or to give as much as they might have if the deduction did not exist. Charitable giving is closely tied to the economy. Giving dropped in 2008 and 2009 (by 15%). Giving started to increase in 2010 by 1.8 percent. It is estimated that it will take five years of slow growth to reach the 2007 level. The Federal incentives directly impact how much people give (Indiana University, 2013).

Study Overview

This study aimed to assess the initial impact of the 2011 repeal of the Community Foundation Tax Credit in Michigan. The Council of Michigan Foundations commissioned the present study with the hope of using the data to better understand the role of incentives in charitable giving and to leverage legislative support for community foundations. Over the last 20 years, Michiganders have become accustomed to writing checks of $400 and $200 in order to partner with the state on this charitable tax credit. The Council of Michigan Foundations asked the Johnson Center to also collect stories of how the credit has led to larger donations as well by donors who were first introduced via the credit. The following report will outline the methods, research questions, quantitative results, and qualitative results of this study.

Methods

The Council of Michigan Foundations solicited survey responses from their 55 community foundation members. The survey was in an online form and included the following questions, developed by the Council of Michigan Foundations:

1) What was the change in number and total amount of donations in $200 and $400 exact amounts and any amounts under $400 from 2011 to 2012?

2) Based on your experiences in 2012, how do you think the repeal of the Community Foundation Tax Credit will affect donations of $400 or less going forward?
3) Do you have a good story about how the Community Foundation Tax Credit introduced your foundation to a donor who made a large gift or created a fund at the community foundation?
4) Do you know of any specific stories of how the Community Foundation Tax Credit helped create/grow funds that are aiding nonprofits?

The Council of Michigan Foundations selected these amounts ($200, $400, and all amounts $400 and under) as common categories of giving by those who donated with the intention of receiving the Community Foundation Tax Credit. The survey was available online for two weeks and the Council of Michigan Foundations sent the survey link to community foundation executive directors. There were also several reminder prompts via email and phone to complete the survey. This resulted in 31 responses, totaling a 56 percent response rate.

These respondents represent the majority of assets of community foundations in Michigan. Respondents include all of the major urban centers of Michigan, suggesting that this sample is representative of donors across Michigan. Due to the moderate response rate in rural and small community foundation, it is possible that some non-responding community foundations may have had differing experiences, although changes in overall results are not anticipated. Follow up calls to respondents gathered more information on anecdotal stories of the impact of the Community Foundation Tax Credit repeal.

The Johnson Center for Philanthropy's Community Research Institute (CRI) at Grand Valley State University assisted with survey administration, data analysis, and data reporting. CRI analyzed survey data to look for statistically significant differences in donations between 2011 and 2012, overall average changes in donations, and qualitative trends of impact anecdotes provided by community foundations.

The survey also asked respondents how they thought the repeal of the Community Foundation Tax Credit would affect donations of $400 and under going forward, based on their experiences in 2012. Only 25 of the 31 respondents answered this question (80.6%). Of those who responded to this question, 22 (88%) said they thought donations would decrease and three (12%) said they thought donations would stay the same. No respondents reported that they anticipated donations of $400 or less to increase. It is not clear, however, why the six survey respondents who did not answer this question chose to do so.

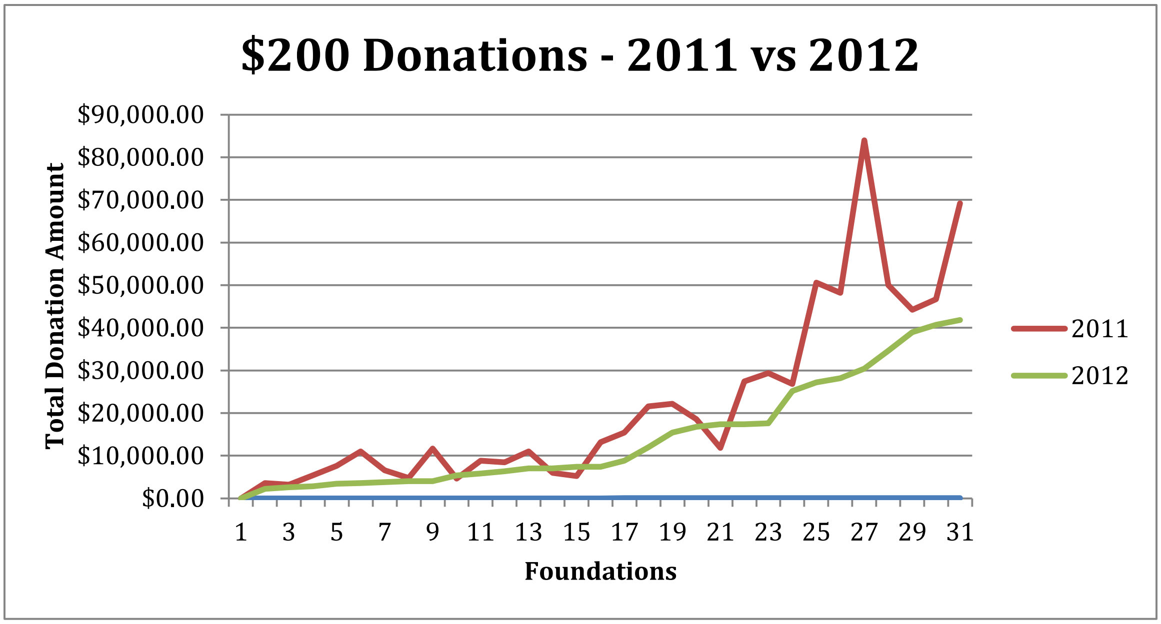
The qualitative data reported in the next section suggested possibilities for why some community foundations may not have answered this question or may have said they thought giving would stay the same. Some of the qualitative respondents indicated that they thought the tax credit had introduced donors to the community foundation and those donors would continue to give now that they were involved. The loss of the credit may impact the ability of community foundations to attract new small amount donors. Other respondents felt that their communities had not actively utilized the Community Foundation Tax Credit as a motivational factor for bringing in new donors or increasing existing donations and thus the repeal of the credit would not greatly affect them. The following section discusses these results further.

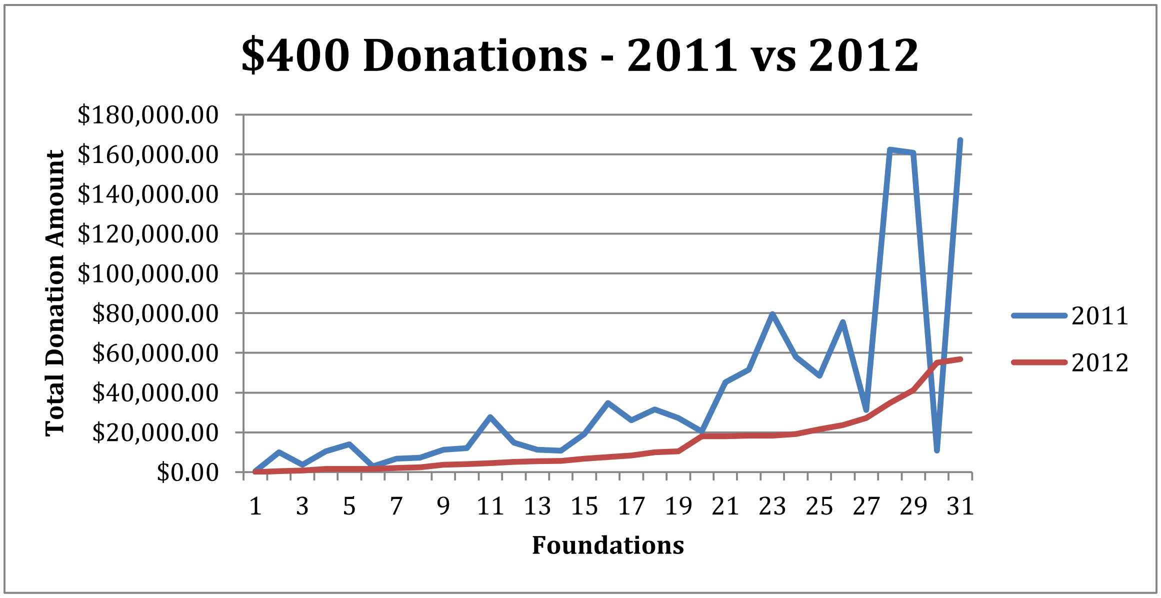
Quantitative Results

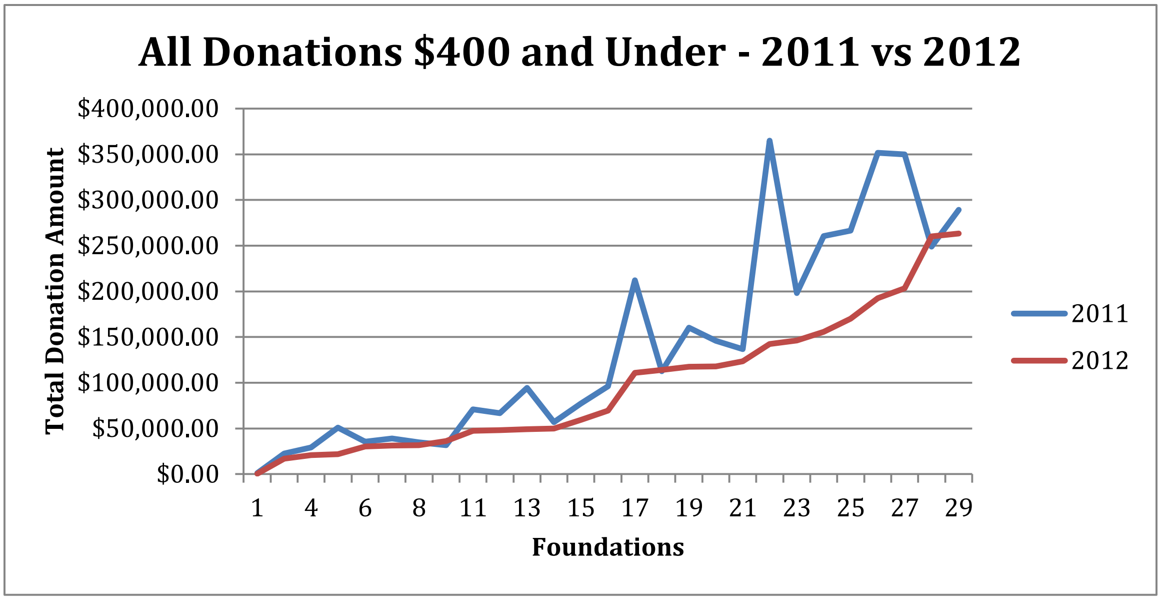
Researchers compared differences in 2011 and 2012 donations of the same amounts using a paired-samples t-test. This revealed statistically significant differences between 2011 and 2012 for each donation amount ($p<0.10$). This means that the quantity and total amount of $200 donations, $400 donations, and all amounts under $400 were significantly less in 2012 than they were in 2011. **This indicates that the repeal of the tax credit was associated with a decrease in giving.**

The summary section of this document further discusses this topic. Across foundations, the change in $200 donations from 2011 to 2012 ranged from a decrease of $53,600 to an increase of $5,600. The average change was a decrease of $7,485, or a 27.5 percent decrease in the total amount from $200 donations. Similarly, the change in $400 donations from 2011 to 2012 ranged from a decrease of $127,600 to an increase of $44,200. The average change was a decrease of $24,471, or a 50.8 percent decrease in the total amount from $400 donations. The change in all donations $400 and under from 2011 to 2012 ranged from a decrease of $222,609 to an increase of $11,133. The average change was a decrease of $43,481, or a 27.2 percent decrease in the total amount from all donations $400 or under.

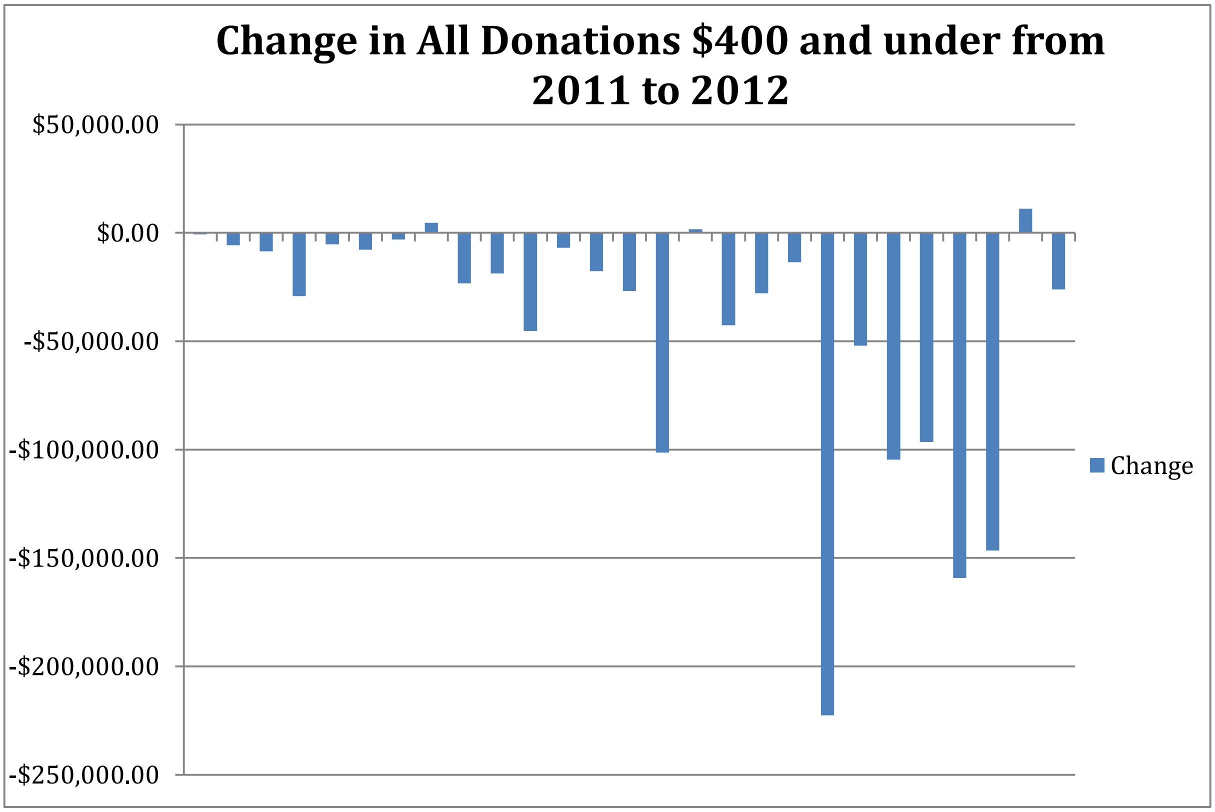
The majority of responding foundations saw a decrease in 2012 giving, with only a few foundations seeing increases in donations in these key amounts. The charts below show the foundations across the bottom (x-axis), ordered from smallest amount in 2012 to largest. The lines on the graphs indicate with total amount of donations in each category for 2011 and 2012. The distance between the lines at each point on the x-axis indicates the change in giving between the two years.


$200 Donations - 2011 vs 2012
$90,000.00
$80,000.00
$70,000.00
$60,000.00
$50,000.00
$40,000.00
$30,000.00
$20,000.00
$10,000.00
$0.00
Total Donation Amount
1 3 5 7 9 11 13 15 17 19 21 23 25 27 29 31
Foundations
2011
2012


$400 Donations - 2011 vs 2012
$180,000.00
$160,000.00
$140,000.00
$120,000.00
$100,000.00
$80,000.00
$60,000.00
$40,000.00
$20,000.00
$0.00
Total Donation Amount
1 3 5 7 9 11 13 15 17 19 21 23 25 27 29 31
Foundations
2011
2012



The following chart shows the change from 2011 to 2012 for each foundation. This shows that only three foundations saw an increase in giving under $400 and that increase was very small. Again, the average change was a decrease of $43,481, or a 27.2 percent decrease in the total amount from all donations $400 and under. Collectively, across the respondents, a loss of $1,153,614.00 was reported. This information is only available for 27 of the 31 responding foundations (87% of respondents), as not all respondents chose to answer all questions. The implications of this are further discussed in the summary section of this document, as it is anticipated that the complete effects of the Community Foundation Tax Credit repeal may not be felt until after donors file their 2012 taxes, see the impact of the repeal individually and adjust their 2013 giving accordingly.



Qualitative Results

Staff at the Johnson Center's Community Research Institute contacted Community foundations that indicated on the survey they had anecdotal stories of how they used the tax credit to garner donations, create funds, or support nonprofits and how the repeal may have changed that. It should be noted that because of the phrasing of the questions and asking for only one anecdote, these responses are not an objective understanding of the impact of either the Community Foundation Tax Credit or its repeal. These themes and anecdotes should be understood in their context. The purpose of collecting this information was to aid in making a persuasive case that the tax credit was useful to community foundations in building a strong nonprofit sector.

Several key themes emerged from the qualitative responses. One theme was that the Community Foundation Tax Credit was a tool for introducing "low level" or "middle income" donors to the community foundation. This brought in an entirely new group of donors. Some of those donors, once hearing more about what the community foundation was doing, increased their giving over time and some even gave estate gifts. Anecdote 1, below demonstrates this example.

Anecdote 1:
Some of the tax credit donors started doing $400 a year for several years and then started bumping up their donations to $500, then to $720, then to $1,000. When that started happening we had conversations with folks about their unrestricted gifts and if they wanted to do an unrestricted endowment. The original entry of the donors was because of the tax credit. Some of those folks that were led here because of the tax credit ended up doing a planned gift from their estate and had some of their estate going into the endowment for which they previously contributed. The ones who ended up bumping up their donations did so because they learned what we do through newsletters, annual meetings, etc. and they like what they see and understand the impact we are making.

The literature reflects this theme (e.g., Anderson & Beier, 1999; Feldman & Hines, 2003; Brooks, 2007; Peloza & Steel, 2005; Auten, Sieg, & Clotfelter, 2002).

Additionally, the credit was an incentive for some middle-income people to give to the community foundation, particularly for an emerging foundation. Several respondents talked about how they used the credit to increase donations by creating “400 clubs” where donors received recognition by giving exactly $400 or by creating donor pledges where donors pledge to give a total amount split into $400 each year so that they can “get more bang for their buck” by utilizing the tax credit. Anecdote two, below illustrates this point.

Anecdote 2:
It was imperative for us to have a hook. With the tax credit we instituted a program in our community called the 400 Club tied to the tax credit. We had 150 individual couples that contributed $400 or more a year because they wanted to be in the 400 Club. The tax credit was an important tool as we were an emerging foundation. Today we now have $22 million.

Another theme was that some nonprofit organizations marketed the Community Foundation Tax Credit to garner donations to their endowment funds held by the community foundation. This also created or improved relationships between community foundations and nonprofit organizations. Similarly, some community foundations used the tax credit to improve partnerships with other funding agencies. Anecdote 3, below, shows this example.

Anecdote 3:
One of the ways we have marketed the tax credit is to our nonprofit organizations funds. We have spent a lot of years talking to the executive directors to market their funds and having the tax credit being the main marketing piece. $200 and $400 gifts have been coming in. We have also been talking to the community about what an endowment fund means. Other organizations that have really benefited from this tax credit have been public and Christian school foundations. One of the only marketing tools the schools use to market their school endowment fund is the tax credit. We have two major school districts; they have been growing over the past years and the major marketing piece has been the tax credit.

Lastly, respondents shared several stories about how the tax credit helped to grow existing funds. The Community Foundation Tax Credit provided an incentive for people to give. Anecdote 4, below presents one of the stories.

Anecdote 4:
One person created a fund at the community foundation with the hopes of providing money for local teachers and school staff to do things that the school's general operating budget did not allow for. Teachers and staff can apply to that fund now to do things like take students on field trips, buy more reading materials for class, or provide technology for classrooms. It grew from one donor to 2,580 gifts, totaling approximately $350,000 due to the incentive of the tax credit. The number and amount of gifts dropped 25 percent from 2011 to 2012 after the repeal of the Community Foundation Tax Credit.

Responding foundations also acknowledged that the repeal of the Community Foundation Tax Credit might affect different sized foundations differently when considering the overall gifts received. This analysis was outside the scope of this project. Large donors and variations in the market that result in changes in gains from investments also impact overall giving, and are thus too related to outside factors to be considered alongside changes in giving in small amounts attributable to the Tax Credit.

Conclusion

Giving USA estimates that in the United States charitable giving per household is 2.2 percent of average household disposable (after tax) income (Giving USA, 2012). A number of studies show federal and state tax credits to be effective builders of philanthropy. In their 2003 study, Feldman and Hines concluded Michigan's tax credits were cost-effective. In that study they wrote: "The available evidence indicates that state tax credits encourage greater giving, and do so in a cost-effective manner, meaning that they stimulate greater additional contributions than they cost the state in the form of lost revenue (p.23)." Given the cost effectiveness of the credit and results of the study presented here, it is unclear how the repeal of the Community Foundation Tax Credit will be beneficial.

Overall, there is a sizeable decrease in giving in amounts of $400 and under from 2011 to 2012. **The repeal of the Community Foundation Tax Credit is clearly associated to the decrease, but a direct causal link cannot be determined.** Even though a change can clearly be seen, the full effects of the repeal may not be evident until current donors file their 2012 taxes, see that they do not receive the tax credit, and adjust (or eliminate) their giving in 2013. For that reason, interested parties need further analyses in 2014 to better understand the change in giving after the repeal of the Community Foundation Tax Credit. In addition to the 28 percent decrease in $200 donations, 51 percent decrease in $400 donations, and 27 percent decrease in all donations $400 and below, anecdotal stories from foundations show that the credit was instrumental in bringing in new donors, increasing donor involvement over time, building relationships with nonprofit organizations, and creating new or building upon existing funds within the community foundation.

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