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# **ENDOW IOWA ENCOURAGING CHARITY THROUGH THE TAX CODE**

*FTA 10/08/2013*

PRESENTED BY  
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IOWA DEPARTMENT OF REVENUE

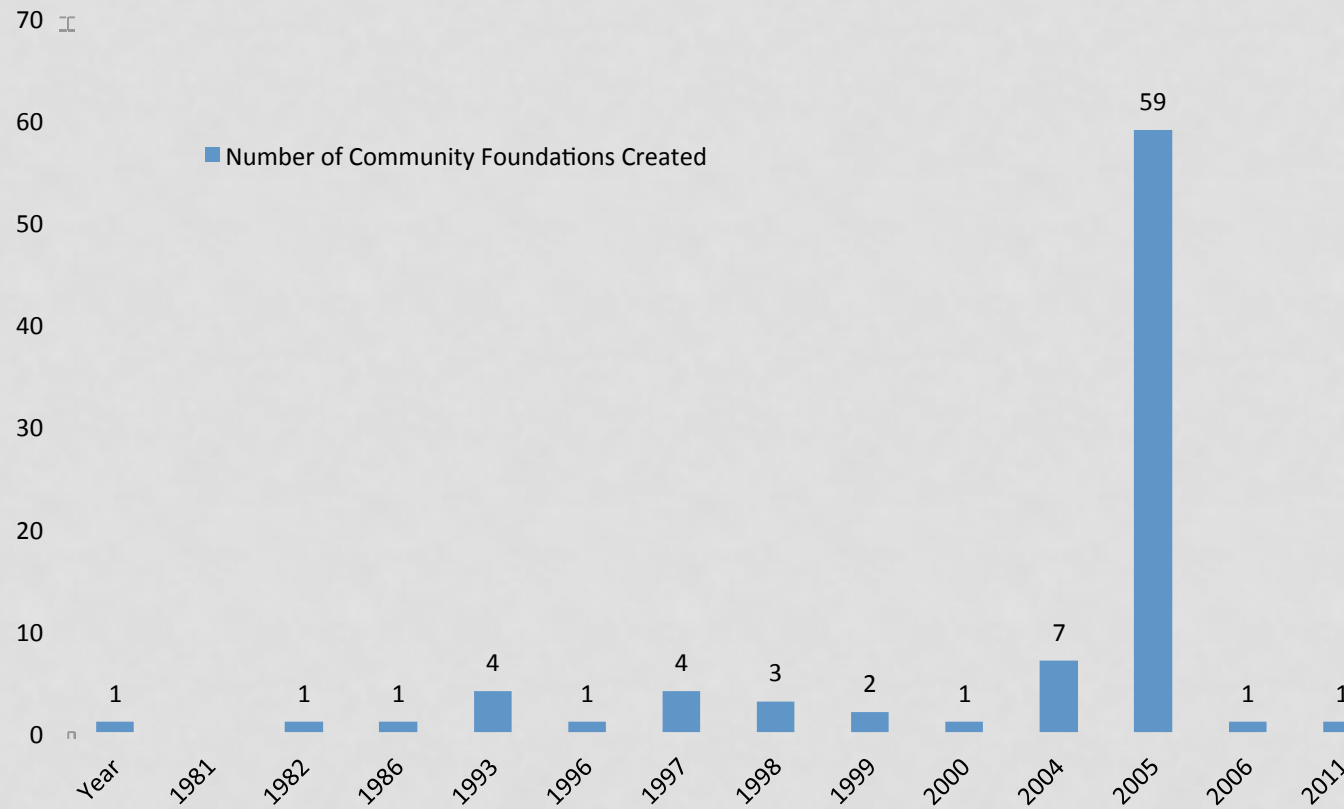


## **SUPPORTING CHARITABLE ORGANIZATIONS**

- The Endow Iowa Tax Credit began in 2003 in an effort to support charitable organizations and keep wealth within Iowa.
- Non-profit foundations help manage endowment funds which then offer grants to charitable organizations.
- Nationally, it has been estimated that \$41 trillion will pass from one generation to the next over the next 50 years
- There are more than 130 qualified community foundations and affiliates that serve Iowa today receiving more than \$124 million in permanent endowment fund gifts through the credit.
- Iowa also has another program the County Endowment Fund Program, which was created in 2004, that also supports community foundations.

# IOWA COMMUNITY FOUNDATIONS

## Number of Community Foundations Created



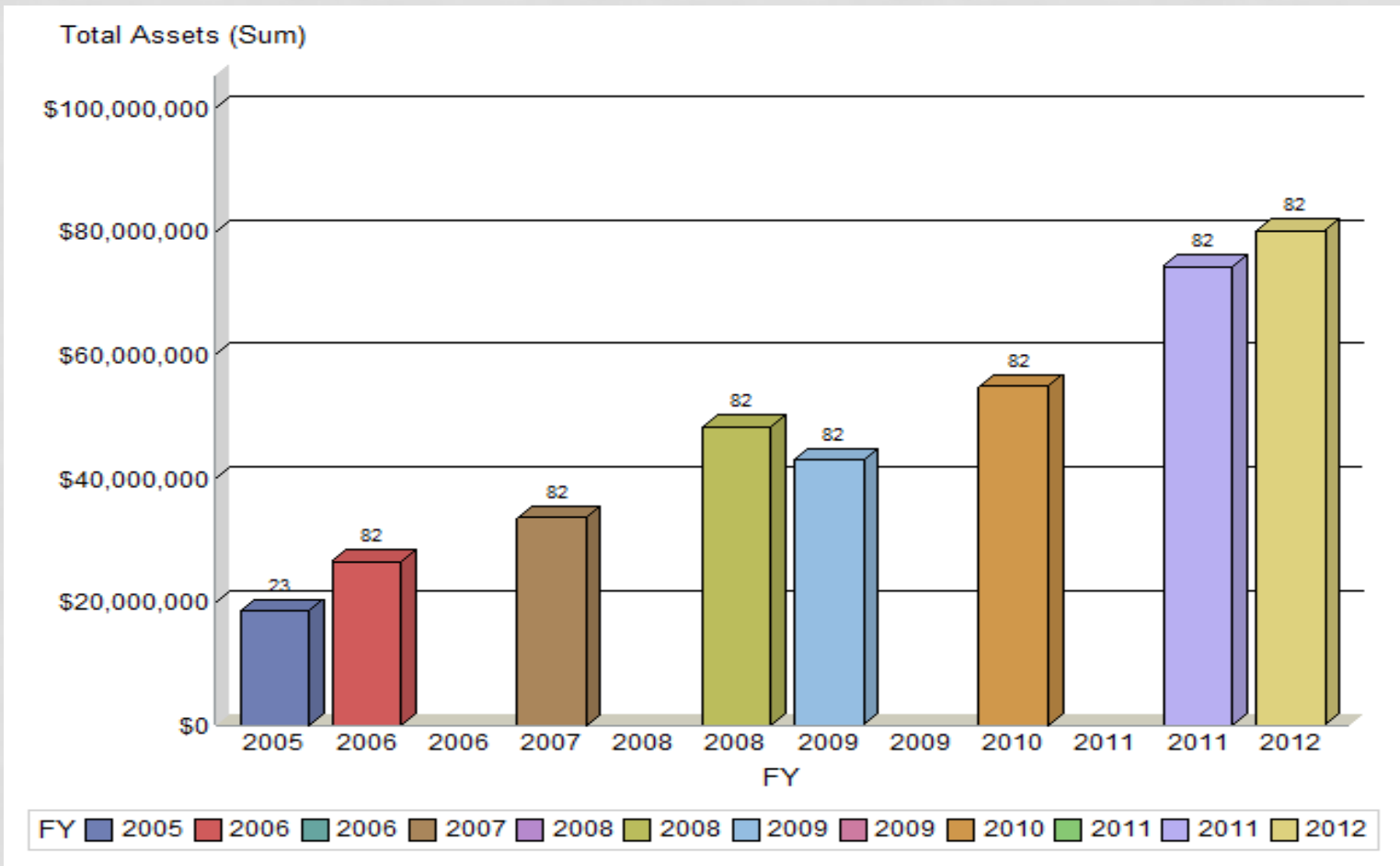
Source: Iowa Council of Foundations

## COMMUNITY FOUNDATIONS

- Since the commencement of the Iowa Endow Tax Credit and the County Endowment Fund, the number of community foundations have significantly increased.
- Of the 86 foundations included
  - 18 were created prior to 2003
  - 7 were created in 2004
  - 59 were created in tax year 2005
  - 2 in 2006 and after

79% of the foundations were created after the creation of the Endow programs and more than 76% were established between tax year 2004 and 2005.

# COMMUNITY FOUNDATIONS ASSETS



Source: Iowa Council of Foundations

## COMMUNITY FOUNDATIONS ASSETS

- In FY 2005, 23 community foundations reported just below \$20 million in total assets.
- The assets along with the community foundations increased in FY2006.
- The assets continued to increase each year with the exception of the recession year 2009.
- From 2006 to 2012 the assets increased at least four times up to \$80 million but the number of foundations remained the same.

## WHAT IS AN ENDOWMENT FUND?

- An endowment fund is established by a donor to promote a particular activity or interest.
- The endowment fund then generates grant dollars from the income earned on the funds.
- There are six primary types of endowment funds:
  - Unrestricted Fund
  - Donor Advised Fund
  - Field of Interest Fund
  - Designated Fund
  - Agency Endowment Fund
  - Scholarship Fund

## ENDOW IOWA TAX CREDIT DETAILS

- Any taxpayer that contributes to an endowment fund can complete an Endow Iowa Tax Credit application, awarded first-come, first-served.
- Effective January 1, 2010, the amount of the credit was increased from 20% to 25% of the donation. The donation could also be previously claimed as an itemized deduction but effective with the change on January 1, 2010, the donation can no longer be claimed as a charitable contribution on the Iowa tax return.
- Taxpayers are limited to an award amount equal to five percent of the aggregate annual tax credit cap, \$300,000 in 2012 and later.
- 10% of the aggregate annual award limit each year is reserved for gifts in amounts of \$30,000 or less.
- The Endow Iowa Tax Credit can be claimed against corporate income, individual income, franchise, and insurance premium.
- The Endow Iowa Tax Credit is nonrefundable but does have a carry forward of 5 years.
- The credit is also nontransferable.



## ENDOW IOWA TAX CREDIT AND AWARD HISTORY

Year	Yearly Cap	Awards	Gifts	Claims By Taxpayers
2003	\$2,000,000 for 2003 and 2004 together	\$996,227	\$4,981,135	NA*
2004		\$1,060,752	\$5,303,760	NA
2005	\$2,000,000	\$2,139,417	\$10,697,085	NA
2006	\$2,000,000	\$2,000,000	\$10,000,000	\$2,420,462
2007	\$2,000,000	\$1,999,997	\$9,999,985	\$4,789,023
2008	\$2,000,000 + Gambling Monies	\$3,176,854	\$15,884,270	\$5,855,145
2009	\$2,000,000 + Gambling Monies	\$2,394,446	\$11,972,230	\$7,026,839
2010	\$2,700,000 + Gambling Monies	\$3,657,633	\$14,630,532	\$6,874,893
2011	\$3,500,000 + Gambling Monies	\$4,523,265	\$18,093,060	\$4,756,132
2012**	\$6,000,000	\$5,779,592	\$23,118,368	\$3,202,111
<b>Total</b>		<b>\$27,728,183</b>	<b>\$124,680,425</b>	<b>\$34,924,605</b>

\*Claims information is not available prior to 2006 which is when our program to track claims began.

\*\*Claims information for tax year 2012 is preliminary.

Source: Iowa Department of Revenue Income Tax Returns

## **OTHER STATES WITH SIMILAR CREDITS**

- There are currently four states with similar credits Iowa, Kentucky, Montana, and North Dakota.
- In 1989 Michigan was the first state to enact a tax credit for donations made to endowment funds which was since repealed in 2012.
- Montana was the next state to enact an endowment tax credit in 1997.
- Iowa, Kentucky, North Dakota, and Nebraska all enacted endowment fund tax credits after 2000.
- Nebraska's tax credit was repealed in 2009.

## OTHER STATES WITH SIMILAR CREDITS

- Iowa has an annual cap of \$6 million per fiscal year and Kentucky has a \$500,000 fiscal year cap.
- The tax credit percentages range from 20% in KY to 40% of the contribution in ND.
- Taxpayer award caps exist in all states and range from \$10,000 to 5% of the annual program cap in Iowa, which is currently \$300,000.

## **OTHER STATES WITH SIMILAR CREDITS (CONT.)**

- All states allow both corporate and individuals tax types to benefit from the endowment tax credits.
- The tax credit is not refundable in any state.
- The credit carry forward, for amounts that the taxpayer cannot use in the same year awarded, range from 3 to 5 years, but MT does not have a carry forward provision.
- Only Kentucky allows a taxpayer to claim the credit and claim the donation as an itemized deduction.

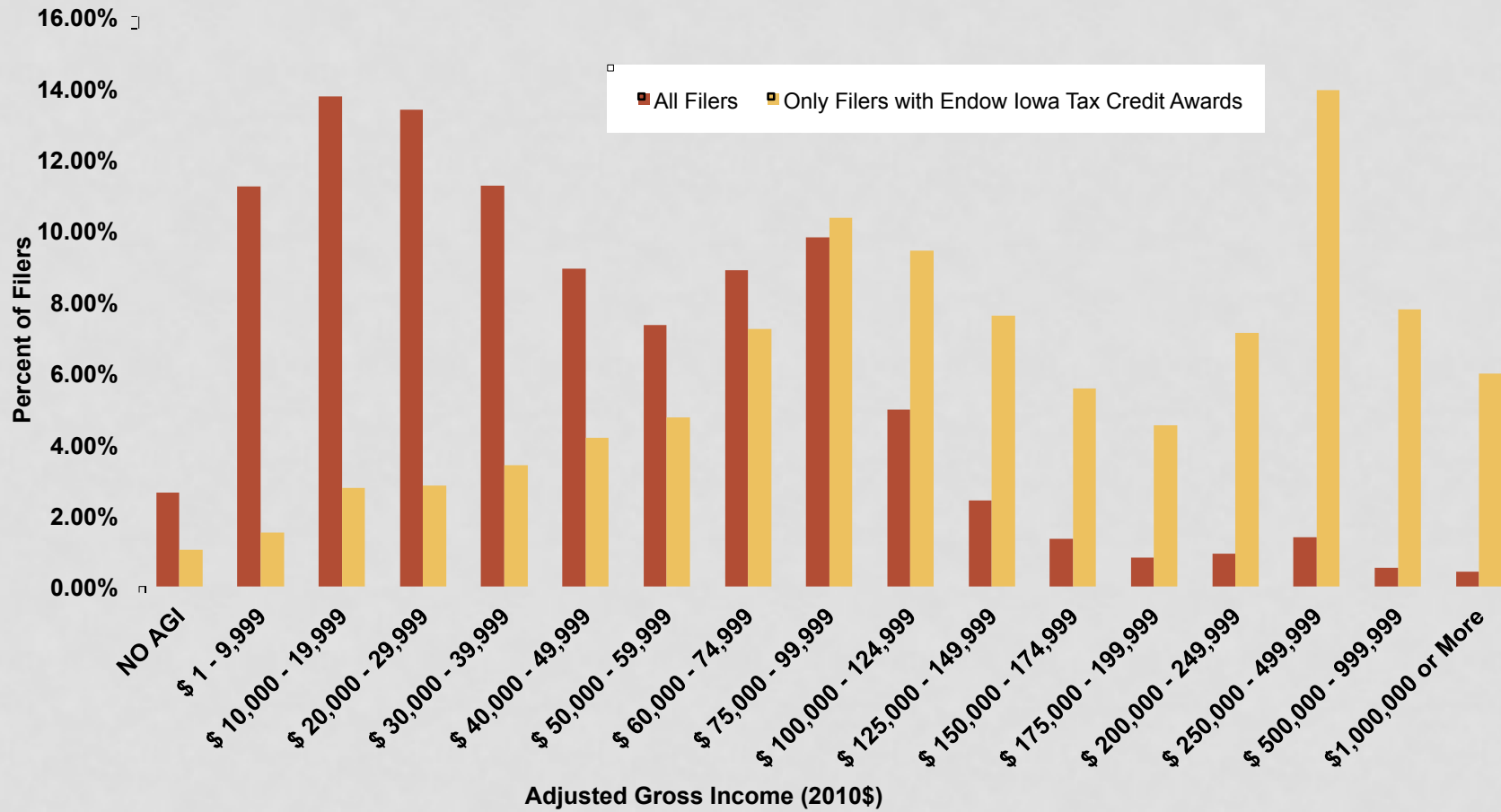
## ENDOW IOWA TAX CREDIT AWARDS

Year of Tax Credit Award	Total Gift	Average Gift Donated	Total Issued Awards Issued	Average Award Issued	Number of Awards Issued	Largest Award Issued	Median of All Awards Issued
2004	\$5,303,760	\$13,031	\$1,060,752	\$2,606	407	\$100,000	\$200
2005	\$10,697,085	\$15,303	\$2,139,417	\$3,061	699	\$100,000	\$200
2006	\$10,000,000	\$15,267	\$2,000,000	\$3,053	655	\$100,000	\$139
2007	\$9,999,985	\$9,615	\$1,999,997	\$1,923	1,040	\$97,750	\$200
2008	\$15,884,270	\$8,445	\$3,176,854	\$1,689	1,881	\$119,900	\$100
2009	\$11,972,228	\$6,345	\$2,394,446	\$1,269	1,887	\$101,322	\$100
2010	\$14,630,531	\$7,221	\$3,657,633	\$1,805	2,026	\$135,000	\$125
2011	\$18,093,061	\$6,972	\$4,523,265	\$1,743	2,595	\$227,591	\$125
2012*	\$23,118,368	\$7,518	\$5,779,592	\$1,880	3,075	\$227,591	\$125

\*Preliminary data

Source: Iowa Department of Revenue

# ADJUSTED GROSS INCOME OF ALL INCOME TAX FILERS AND HOUSEHOLDS WITH ENDOW IOWA AWARDS, TAX YEARS 2006 THROUGH 2010



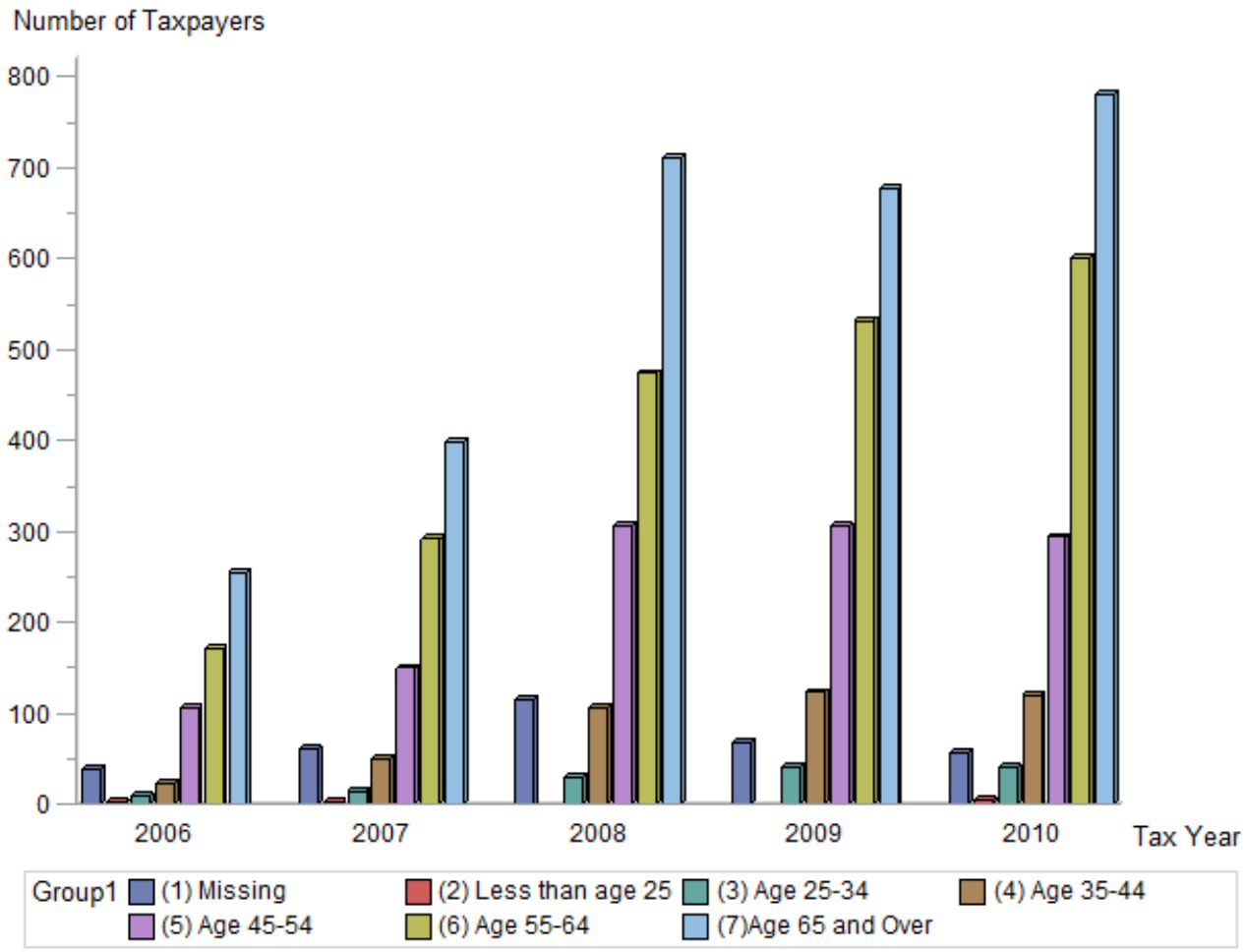
Source: Iowa Department of Revenue Income Tax Returns

# ENDOW IOWA TAX CREDIT AWARDS 2006 THROUGH 2010 BY FILING STATUS

Filing Status	Number of Households with Tax Credit Awards	Percent of Households with Tax Credits	Total Amount of Tax Credit Awards	Percent of Total Tax Credit Awards Issued	Average Household Tax Credit Award
Single	943	18.50%	\$2,279,876	20.10%	\$2,418
Married Filing Jointly	898	17.61%	\$3,561,584	31.40%	\$3,966
Married Filing Separately on Combined Return	3,182	62.42%	\$5,274,075	46.49%	\$1,657
Married Filing Separately on Separate Return	21	0.41%	\$64,696	0.57%	\$3,081
Head of Household	49	0.96%	\$154,680	1.36%	\$3,157
Qualifying Widow(er) with Dependent Child	5	0.10%	\$9,200	0.08%	\$1,840
Total	5,098		\$11,344,111		\$2,225

Source: Iowa Department of Revenue Income Tax Returns

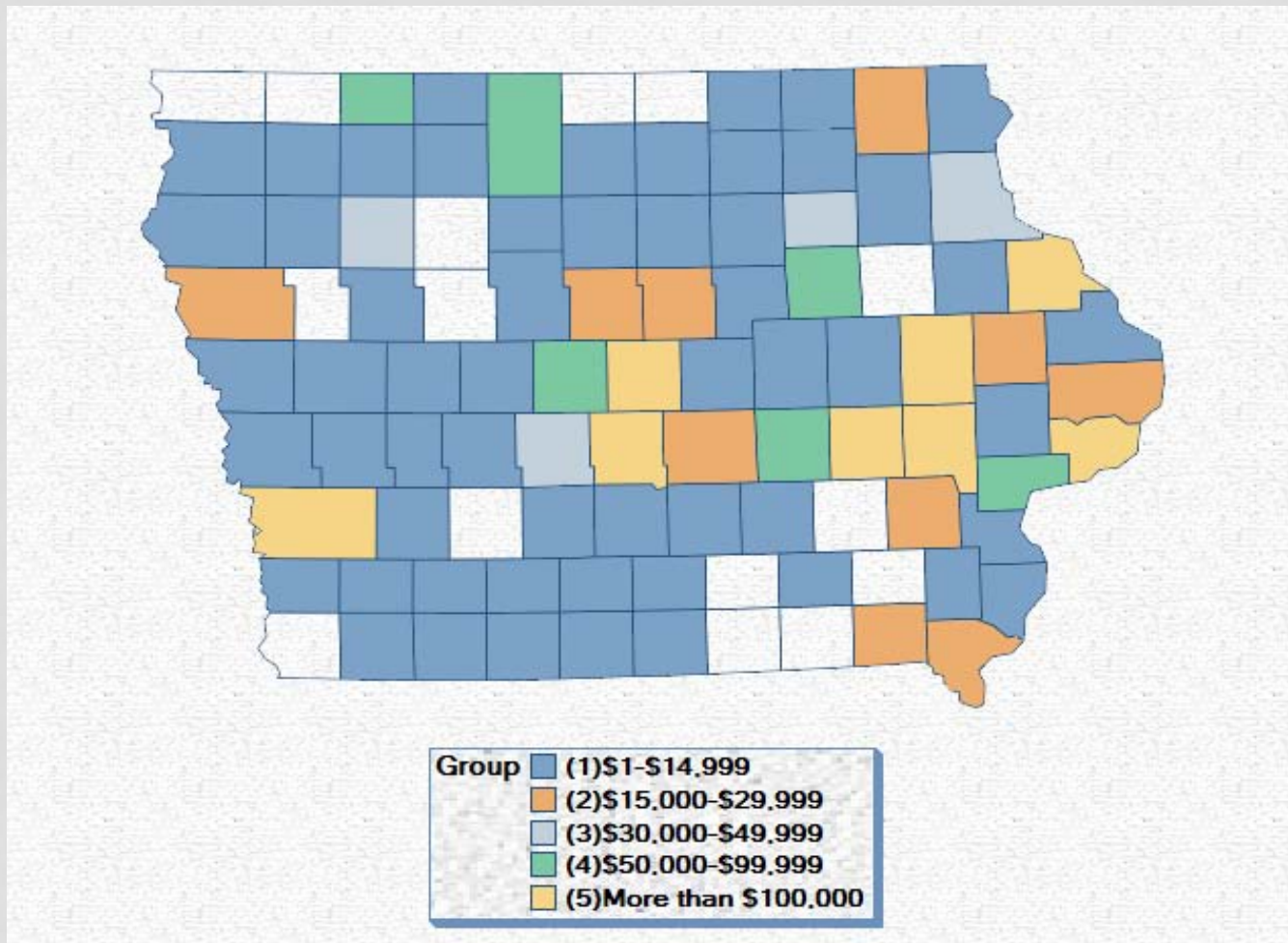
# AWARDS BY DONOR AGE



Source: Iowa Department of Revenue



# 2012 TOTAL AWARD AMOUNTS BY DONOR LOCATION



\*The map includes individual Iowa residents only. Blank counties had no identified donors. There were 66 donors with unknown locations, 44 donors living out of state, and 200 corporate donors not included on this map.

## **TRACKING THE ENDOW IOWA TAX CREDIT CLAIMS 2006 THROUGH 2010**

- The Department of Revenue began tracking the Endow Iowa Tax Credit claims during the 2006.
- Between the 2006 and 2010 tax years, over \$11.3 million of Endow Iowa Tax Credits have been claimed by 5,098 different households.
- As expected the claims follow a similar pattern as awards with the number of claims and the total dollars of claims peaking in the AGI ranges of \$1,000,000 and greater.

## ENDOW IOWA TAX CREDIT CLAIMS 2006 THROUGH 2010 BY HOUSEHOLD AGI

Household Adjusted Gross Income (in 2010\$)	Number of Households with Tax Credit Awards	Percent of Households with Tax Credits	Total Amount of Tax Credit Awards	Percent of Total Tax Credit Awards Issued	Average Household Tax Credit Award
NO AGI	52	1.02%	\$86,634	0.76%	\$1,666
\$ 1 - 9,999	77	1.51%	\$13,579	0.12%	\$176
\$ 10,000 - 19,999	141	2.77%	\$41,225	0.36%	\$292
\$ 20,000 - 29,999	144	2.82%	\$43,769	0.39%	\$304
\$ 30,000 - 39,999	174	3.41%	\$57,432	0.51%	\$330
\$ 40,000 - 49,999	213	4.18%	\$91,542	0.81%	\$430
\$ 50,000 - 59,999	242	4.75%	\$280,459	2.47%	\$1,159
\$ 60,000 - 74,999	369	7.24%	\$136,975	1.21%	\$371
\$ 75,000 - 99,999	528	10.36%	\$270,453	2.38%	\$512
\$ 100,000 - 124,999	481	9.44%	\$433,373	3.82%	\$901
\$ 125,000 - 149,999	388	7.61%	\$346,201	3.05%	\$892
\$ 150,000 - 174,999	283	5.55%	\$252,770	2.23%	\$893
\$ 175,000 - 199,999	231	4.53%	\$261,466	2.30%	\$1,132
\$ 200,000 - 249,999	363	7.12%	\$574,880	5.07%	\$1,584
\$ 250,000 - 499,999	710	13.93%	\$1,231,834	10.86%	\$1,735
\$ 500,000 - 999,999	397	7.79%	\$1,877,384	16.55%	\$4,729
\$1,000,000 or More	305	5.98%	\$5,344,132	47.11%	\$17,522
Total	5,098		\$11,344,111		\$2,225

Source: Iowa Department of Revenue Income Tax Returns

## ENDOW IOWA TAX CREDIT CLAIMS

- Taxpayers do not always have enough tax liability to fully utilize the nonrefundable tax credits.
- The nonrefundable tax credit awards can be carried forward for five additional tax years before they expire.
- One-tenth of a percent of 2006 awards, or \$2,063, and two percent of the 2007 awards, or \$39,895 have been reported as expiring.

## TAX YEAR 2011 BREAKDOWN OF ENDOW IOWA TAX CREDIT CLAIMS BY TAX TYPE

Tax Type	Number of Taxpayers	Carried Forward from Tax Year 2010	Current Year Amount	Total Amount Available	Amount Applied in Tax Year 2011	Expired Claims	Carried Forward to Tax Year 2012
Corporate Income Tax	5	\$1,110	\$74,263	\$75,373	\$74,373	\$0	\$1,000
Estate/Trust	7	\$672	\$1,537	\$2,209	\$1,537	\$0	\$672
Franchise Tax	18	\$0	\$9,525	\$9,525	\$9,525	\$0	\$0
Individual Income Tax	2387	\$1,324,041	\$4,163,202	\$5,487,243	\$3,236,167	\$2,063	\$2,269,486
Insurance Premium	1	\$0	\$2,500	\$2,500	\$2,500	\$0	\$0
<b>Total</b>	<b>2418</b>	<b>\$1,325,823</b>	<b>\$4,251,027</b>	<b>\$5,576,850</b>	<b>\$3,324,102</b>	<b>\$2,063</b>	<b>\$2,271,158</b>

- In tax year 2011, Endow Iowa Tax Credit claims were made by 2,418 taxpayers.
- These taxpayers claimed Endow Iowa Tax Credits totaling \$3.2 million dollars.
- Approximately 99 percent of the tax credits were claimed by individual income tax taxpayers, with the remaining claims made against corporate income, insurance premium, franchise, and fiduciary taxes.
- The average claim per individual income tax taxpayer was \$1,356.

## TOP 25 AWARDS

2006-2012 Top 25 Contributions/Awards						
Year	Total Contributions		Awards			
	Sum	Average	Sum	Share of Awards	Share of Awardees	Average
2006	\$5,513,832	\$220,553	\$1,378,458	68.92%	3.82%	\$55,138
2007	\$3,646,473	\$145,859	\$911,618	45.58%	2.41%	\$36,465
2008	\$5,730,682	\$229,227	\$1,432,670	45.10%	1.33%	\$57,307
2009	\$4,611,049	\$184,442	\$1,152,762	48.14%	1.32%	\$46,110
2010	\$7,258,765	\$290,351	\$1,814,691	49.61%	1.23%	\$72,588
2011	\$8,918,360	\$356,734	\$2,184,772	48.30%	0.96%	\$87,391
2012	\$11,572,831	\$462,913	\$2,893,208	50.06%	0.81%	\$115,728

Source: Iowa individual income tax returns

## TOP 25 AWARDS(CONT.)

- In 2006 more than 68% of total award amounts issued or \$1,378,458 were awarded to the top 25 donors. However, the same 25 donors only accounted for below 4% of the number of awards issued.
- The number of awards issued has increased since 2006 account for a falling share of all awardees.
- The amount of the tax credit award caps have increased over the years but the amounts awarded to the top 25 donors have not significantly changed since 2007 at an average of 47.80%.

## **TOP 25 AWARDS(CONT.)**

- Of the 175 awards that represent the top 25 awards from tax years 2006-2012 all donors in this category have contributed more than one donation in this time period.
- There are 22 households that make up the 175 awards.
- 12 gave 2 donations.
- 6 gave 3 donations.
- The remaining gave 4 or more donations from 2006-2012.



# ESTIMATED AFTER-TAX COST OF ENDOW IOWA CONTRIBUTION

Household Adjusted Gross Income	After-Tax Cost of \$1,000 Donation in TY 2010*
Less than \$20,000	\$987
\$20,001 to 30,000	\$915
\$30,001 to 40,000	\$780
\$40,001 to 50,000	\$832
\$50,001 to 60,000	\$963
\$60,001 to 70,000	\$602
\$70,001 to 80,000	\$906
\$80,001 to 90,000	\$833
\$90,001 to 100,000	\$741
\$100,001 to 125,000	\$829
\$125,001 to 150,000	\$769
<b>\$150,001 to 175,000</b>	<b>\$515</b>
\$175,001 to 200,000	\$595
\$200,001 to 250,000	\$545
\$250,001 to 500,000	\$650
\$500,001 to 1,000,000	\$537
<b>\$1,000,001 or more</b>	<b>\$405</b>

\*Calculation is based on tax year 2010 when the maximum federal marginal tax rate was 35% and there was no phase-out of itemized deductions for high-income taxpayers.

Source: Iowa Individual Income Tax Model

## **ADDITIONAL ANALYSIS PLANNED**

- Test if Endow Iowa Tax Credit increases charitable giving
- Compare charitable contributions reported on the federal return for all taxpayers
  - Do Endow Iowa claimants report higher contributions?

## QUESTIONS?

Please feel free to contact me at:

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