

# ***EndowNebraska:*** Supporting Nebraska's New Charitable Tax Incentive

## ***Background***

Billions of Nebraska dollars are leaving the state forever, with the transfer of wealth to heirs who no longer live in the state. With access to this wealth, nonprofits chartered and doing business in the state can build their capacity to deliver services to all residents, contributing to a high quality of life. Now, Nebraska has a new incentive to encourage donors to invest a portion of what is being transferred into the permanent endowment funds of Nebraska's nonprofit organizations and community foundations.

There are many reasons why EndowNebraska supported LB 28, which creates a Nebraska incentive for charitable giving, directed to the endowments of Nebraska non-profits, for Nebraska charitable purposes:

- The state is at a critical juncture in terms of its philanthropic potential. An estimated **\$258 billion** will be transferred from one generation to the next over the next 50 years (**\$5.2 billion annually**). Much of this wealth will be lost to federal estate taxes or to heirs residing outside the state (*Transfer of Wealth Study*, Nebraska Community Foundation, 2001).
- Between 1998 and 2000, Nebraska lost over **\$339 million** of wealth to federal estate taxes. A large opportunity exists for Nebraska to retain this wealth from residents in the form of charitable dollars to benefit our communities (*Statistics of Income Bulletin*, 2002).
- A poll of rural Nebraskans found that only **4%** of those surveyed had made charitable plans for their community in their estates. While this is devastating considering that an estimated **\$94 billion** will be transferred between generations over the next 50 years in rural Nebraska alone, it represents the opportunity to educate people about how to use their wealth locally to enhance the quality of life in their communities (*CARI Research Report*, University of Nebraska, 2002).
- In 2001 when Nebraska's economy was down 2.8% (and the U.S. economy down 2.9%), giving in Nebraska **declined 17.4%** compared to only a 4% decline nationally (George McCully, President, *Catalogue for Philanthropy*, November 2003).
- While Nebraskans with incomes of **\$1 million or more** are ranked **4<sup>th</sup>** in total amount of charitable contributions as a percentage of gross income (giving 9.5%) against residents of other states, Nebraskans with incomes of **less than \$1 million** are ranked between **9<sup>th</sup>** and **19<sup>th</sup>** in comparable generosity (giving between 2.9% and 4.3% of gross income) leaving ample opportunity to create incentives for increased giving (*Chronicle of Philanthropy*, 2002).
- Nebraska's **6,400** active nonprofit organizations serve the public good and fill critical gaps not fully addressed by the business and government sectors without raising taxes. However, these organizations face increasing demand for their services, caused by a weak economy and declining federal and state support.
- Permanent endowments provide stable income to support the work of nonprofits, thereby helping them better serve the needs of Nebraska residents and their communities well into the future.
- Other states, such as Montana, have demonstrated significant positive impact from a variety of charitable tax incentives. A recent report on the results of such legislation in Montana indicates that **\$74 million** was added to the endowments of Montana nonprofits in five years.

### ***LB 28: A bill passed by the 2005 Nebraska Legislature:***

1. A Nebraska Charitable Tax Credit for irrevocable planned gifts and outright gifts to the permanent endowments of Nebraska-based non-profits with 501(C)(3) designation from the Internal Revenue Service, for the benefit of organizations, communities and charitable purposes in Nebraska.
2. A maximum annual credit of \$10,000, no carry forward or carry-back.
3. A 20% credit for outright gifts from corporations.
4. A 30% credit for present value of irrevocable planned gifts from individuals.
5. Effective January 2006, sunsets January 2010

Sponsor: Senator Matt Connealy. Co-sponsors: Senators Baker, Bourne, Cornett, Foley, Kruse, Dwite Pedersen, Price, Synowiecki, Wehrbein, Aguilar, Byars, Cunningham, McDonald, Schimek, Thompson, Janssen, Johnson, Preister, Stuhr, Hudkins, Howard. **Advanced to Select File February 8, 2005 on a 32-9 vote. Advanced to Final Reading on May 23, 2005. Passed on Final Reading, 39-4, on June 1, 2005. Signed in to law by Governor Dave Heineman on June 2, 2005.**