



**Iowa Community Foundations**  
**2016 Legislative Proposal**

**Endow Iowa Tax Credit Program**

In 2013 there were 947 applications for the Endow Iowa tax credit that received “wait list” letters, which equated to \$1,046,261 in tax credits carried over to the 2014 Endow Iowa tax credit allotment.

In 2014 the \$6 million of Endow Iowa tax credits were exhausted in mid-December, resulting in 1,400 wait listed applications and \$1,480,000 in carry over tax credits.

During the 2015 legislative session SSB 1104 & HSB 241 that sought to increase the tax credits, were both unanimously voted out of their Ways and Means subcommittees, however due to the lack of funding allocations within the committee, these bills failed to move forward.

By the end of October 2015, the allocated \$6 million in credits were exhausted which left 1,493 applications totaling \$1,350,334 in carry over tax credits, even more money to be unencumbered with the threat of leaving the state.

During the 2016 Legislative Session, the Iowa Community Foundations are requesting legislation that would increase the annual limit of Endow Iowa tax credits available from **\$6 million to \$8 million** to best keep up with the demand of this worthwhile program.

FY 15 Growth in permanent endowment funds at accredited community foundations and their affiliates (as of 8/20/15):

<b>Permanent Endowment Assets</b>			
<b>As of 6.30.14</b>	<b>As of 6.30.15</b>	<b>Total Growth in \$s</b>	<b>Percentage Growth</b>
\$645,791,986.51	\$676,367,517.43	\$30,575,530.92	4.7%

Growth in total assets (endowed and expendable) at accredited community foundations and their affiliates (as of 8/20/15).

<b>Total Assets</b>			
<b>As of 6.30.14</b>	<b>As of 6.30.15</b>	<b>Total Growth in \$s</b>	<b>Percentage Growth</b>
\$798,432,703.46	\$845,875,511.98	\$47,442,808.52	5.9%

**Benefits of the Endow Iowa Tax Credit Program**

- **Strengthens communities through philanthropy.** *Endow Iowa* endorses the importance of philanthropy and encourages all *Iowans* to invest in their communities through endowment funds. These funds are permanent resources that build the capacity and strength of Iowa communities by providing financial support to charitable projects and community betterment programs now- *and in the future*.
- **Develops local community leadership.** *Endow Iowa* encourages leaders to mobilize community organizations and encourage charitable contributions. Community endowments help citizens promote, plan and prepare for the future and manifest their own community visions. More than 1,500 Iowa leaders serve on community foundation governing bodies.



- **Creates philanthropic vehicles in communities of all sizes.** Wealth has often been seen leaving Iowa's communities and counties because there were no vehicles in place to receive gifts. *Endow Iowa* creates and provides the tools and vehicles in communities *of all sizes* to create endowment funds while strengthening existing community foundations. It is a low-cost way to positively impact all of Iowa- forever. *Since the inception of the Endow Iowa Tax Credit Program, Iowa Community Foundations have leveraged more than \$191,585,801.58 in permanent endowment fund gifts through more than 25,000 donations.*
- **Encourages contributions that provide support NOW and in the future.** The current Endow Iowa Tax Credit is an effective incentive for donors to make charitable contributions NOW and in the future. *Endow Iowa* establishes community endowments that create **eternal** financial sources to fund community betterment. To date, more than 130 community foundations/affiliates have been formed to provide long-term endowment vehicles for good.
- **Keeps dollars in Iowa... and invested in Iowa's future.** Annually, Iowans transfer more than \$4.9 billion through probate estates, with *each estate averaging \$274,425. Collectively, if Iowans would gift even 5% of their estates annually into endowment funds at community foundations, we would see more than \$245 million each year reinvested into community based endowment funds- that would grow to even greater impact in time.*
- **Prepares Iowa for the golden age of philanthropy.** The nation is about to embark on the Great Wealth Transfer; more dollars are going to transfer hands in the next 50 years – an estimated \$41 trillion – than ever before. As one of the leading states with citizens 75 years and older, Iowa cannot afford to miss this wave.
- **Provides a new opportunity for collaboration.** *Endow Iowa* relies on existing infrastructure and community foundations (confirmed in compliance with national standards) to incubate funds and mentor communities on growing and managing endowments. These endowment funds may be unrestricted for broad community needs, could be scholarships for local high school graduates, may be designated for a specific area of interest in the community such as environment or economic development, could be an endowment for a specific nonprofit organization or could be a donor advised fund allowing families to teach the value of giving to young Iowans. *Businesses, individuals, families, organizations--- all coming together to build endowments for a collective future.*

#### How the Program Works

- Tax credits of 25% of the gifted amount are limited to \$300,000 per person or \$600,000 per couple if both are Iowa taxpayers.
- Eligible gifts will qualify for credits on a first-come/first-serve basis until the yearly appropriated limit is reached. If the current available Endow Iowa Tax Credits have been awarded, qualified donors will be eligible for the next year's Endow Iowa Tax Credits. The Community Foundation encourages donors to act early in the year to ensure they receive Endow Iowa credits.
- All qualified donors have five years to use their Endow Iowa Tax Credits.
- Endow Iowa Tax Credits allow donors to have even greater impact on their philanthropic interests in their community now and into the future.

The charitable gifts must be made:

- Through a qualified community foundation.
- To a permanent endowment fund which limits distributions to 5%.
- For the benefit of one or more Iowa charitable causes.
- By individuals, corporations or financial institutions.



This is an exciting program that benefits both donors and charities. Below is an approximation of the net after-tax costs of establishing a fund:

Cash Gift (examples of different gift amounts)	<b>\$ 1,000</b>	<b>\$10,000</b>
Less tax benefits:		
• Net federal tax savings (approximated assuming 35% tax bracket)	-\$ 350	-\$ 3,500
• Endow Iowa Tax Credit (before federal tax effect)	<u>-\$ 250</u>	<u>-\$ 2,500</u>
<i>Net cost of contribution</i>	<b>\$ 400</b>	<b>\$ 4,000</b>

Gifts of appreciated assets: The net cost could be even lower if capital gains taxes and/or alternative minimum taxes are avoided.

### **Endow Iowa Legislation**

#### **15E.305 Endow Iowa tax credit.**

1. For tax years beginning on or after January 1, 2003, a tax credit shall be allowed against the taxes imposed in chapter 422, divisions II, III, and V, and in chapter 432, and against the moneys and credits tax imposed in section 533.329 equal to twenty-five percent of a taxpayer's endowment gift to an endow Iowa qualified community foundation. An individual may claim a tax credit under this section of a partnership, limited liability company, S corporation, estate, or trust electing to have income taxed directly to the individual. The amount claimed by the individual shall be based upon the pro rata share of the individual's earnings from the partnership, Limited Liability Company, S corporation, estate, or trust. A tax credit shall be allowed only for an endowment gift made to an endow Iowa qualified community foundation for a permanent endowment fund established to benefit a charitable cause in this state. The amount of the endowment gift for which the tax credit is claimed shall not be deductible in determining taxable income for state income tax purposes. Any tax credit in excess of the taxpayer's tax liability for the tax year may be credited to the tax liability for the following five years or until depleted, whichever occurs first. A tax credit shall not be carried back to a tax year prior to the tax year in which the taxpayer claims the tax credit.

2. The aggregate amount of tax credits authorized pursuant to this section shall not exceed a **total of six-eight million dollars annually.**

a. The maximum amount of tax credits granted to a taxpayer shall not exceed five percent of the aggregate amount of tax credits authorized.

b. Ten percent of the aggregate amount of tax credits authorized in a calendar year shall be reserved for those endowment gifts in amounts of thirty thousand dollars or less. If by September 1 of a calendar year the entire ten percent of the reserved tax credits is not distributed, the remaining tax credits shall be available to any other eligible applicants.

3. A tax credit shall not be transferable to any other taxpayer.

4. The authority shall develop a system for registration and authorization of tax credits under this section and shall control the distribution of all tax credits to taxpayers providing an endowment gift subject to this section. The authority shall adopt administrative rules pursuant to chapter 17A for the qualification and administration of endowment gifts.

2003 Acts, 1st Ex, ch 2, §83, 89; 2005 Acts, ch 150, §74 – 77, 81; 2006 Acts, ch 1151, §1 – 3, 7, 8; 2007 Acts, ch 174, §89; 2008 Acts, ch 1032, §201; 2009 Acts, ch 179, §105, 106, 153; 2010 Acts, ch 1138, §17 – 19; 2011 Acts, ch 107, §1, 2; 2011 Acts, ch 118, §87, 89; 2013 Acts, ch 126, §11, 13, 14