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LegisBrief

A QUICK LOOK INTO IMPORTANT ISSUES OF THE DAY

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Tax Forms Check all the Right Boxes

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The first place a taxpayer ever saw a tax "checkoff" was in 1973 on U.S. individual income tax returns for the Presidential Campaign Fund. In 1977, Colorado was the first state to introduce checkoff boxes on the state tax return to facilitate contributions to nongame and endangered wildlife preservation, known as the "chickadee checkoff" in certain states. Since then, state income tax choices have grown a lot.

In 2003, the Federation of Tax Administrators (FTA) counted 220 state checkoff programs. By 2018, that number had increased to 421. The growth in popularity of these checkoffs comes with administrative challenges. In response to the growth, states are developing processes to manage the number of programs that appear on their income tax returns.

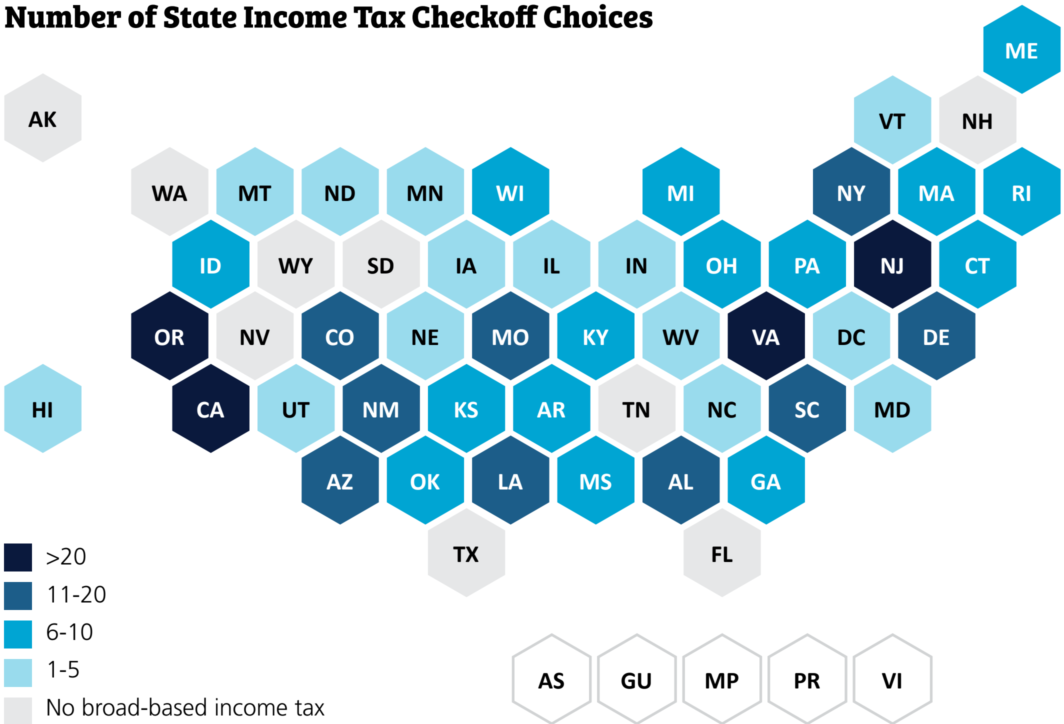
State Action

The numbers and types of income tax checkoff programs vary widely across the states. In 2018, a total of 30 states and the District of Columbia offered anywhere from one to 15 checkoffs on their income tax returns and 11 states offered more than 15. The most popular checkoff programs this past tax year were those dedicated to military families and veterans, charitable health contributions focused on tackling a variety of diseases or providing health education, and organizations for children.

New Jersey and Oregon had the most income tax checkoffs available for taxpayers in 2018. Both states had more than 30 income tax checkoffs that taxpayers could choose from. It's worth noting that while Virginia taxpayers had 21 choices, three of those options allowed taxpayers to select a specific local foundation to donate to for public libraries, communities and public schools. Taxpayers could choose from 29 to 78 foundations, depending on the category. Nebraska and West Virginia had the fewest amounts in the country, with only one checkoff choice.

As income tax checkoffs continue to grow in number, states have monitored the total amount on their forms in different ways. Some states have enacted limits on the

Number of State Income Tax Checkoff Choices



Source: NCSL, 2019

number of checkoffs that are offered on income tax returns, and those numbers vary. For example, Delaware capped the amount at 21 last year, Iowa limited them to four beginning with tax year 2019, Illinois limited the state's amount to 15, and Colorado's cap is 20.

Another route states have taken to manage the number of checkoffs is setting minimum contribution requirements. According to the Colorado Legislative Council, the state requires checkoff program funds to collect at least $50,000 in the first nine months of its third year on the tax return to remain on the form in future years. States also may include sunset dates for income tax checkoffs.

States generally add new income tax checkoffs through legislation. Oregon is an alternative example where a petition of voters is required to get on the income tax checkoff contribution list. Entities are required to submit eligibility petitions with at least 10,000 signatures with their application to be listed in the income tax booklet.

As checkoff choices have grown, so has the concern over their administrative costs. In 2015, California's Senate Committee on Governance and Finance found that a significant portion of the voluntary checkoff donations were being spent on administration.

Some states have set aside a specified amount of funds from the donations received to cover the administrative costs. Connecticut's law has a method that allows taxpayer contributions made to certain charities to be withheld equal to programs' administrative costs. Oregon's Department of Revenue estimates the costs to administer each income tax checkoff and then sets aside 10 percent of the donations received each month until the reserves equal those estimated costs.

Federal Action

U.S. taxpayers initially were able to direct $1 of their tax liability to the Presidential Election Campaign Fund, which provides public funds to pay for certain expenses for candidates' political campaigns in both primary and general elections. The amount grew to $3 for 1993 returns as a result of the Omnibus Budget Reconciliation Act of 1993. However, taxpayer contribution rates have been waning for decades. According to the Federal Election Commission, just 3.9 percent of taxpayers contributed to the checkoff in 2018. In 2014, President Barack Obama signed legislation ending funding for party nominating conventions, which was one of the three recipient groups funded by the federal program.

Did You Know?

The federal Presidential Election Campaign checkoff participation peaked in 1980, with 28.7 percent of taxpayers contributing.

Colorado's Nongame and Endangered Wildlife checkoff has had the highest dollar amount of donations among the state's choices since fiscal year 2016.

New York's dedicated tax checkoff funds are subject to the state's "blanket sweep" budget provisions, which allow the Division of Budget to redirect funds to the general fund.

Additional Resources

- Federal Election Campaign Fund Tax Checkoff Chart
- NCSL LegisBrief: Income Tax Checkoff Programs (2016)

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