

The Efficacy of Tax Check-offs as a Method of Funding the Arts

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Traditionally, state arts agencies have been funded with general revenue funds appropriated by state legislatures. In the past fifteen years, a number of alternative funding methods have been put into place to replace and/or supplement these funds.

Among these alternative funding methods are tax check-off boxes, whereby taxpayers can contribute a specific dollar amount from their potential tax return to fund a particular cause. While these contributions typically fund general activities, specific programs or purposes in the state may also be supported with such funds.

Tax check-offs in general

The first tax check-off programs were started in 1972 to fund presidential campaigns. Today, a check-off box on federal income tax forms allows taxpayers to designate \$3 of their tax liability to match campaign contributions.

However, only 13% of all taxpayers currently mark the check-off box, down from a 25% high in the years following Watergate. (Gannett, p. 3) Polls correlate taxpayer hesitation to contribute to campaigns resulting from a growing distaste for negative campaign tactics.

While state tax check-off forms are entirely different from their federal counterparts, it is thought that distaste for federal tax check-off programs has trickled down to the state level souring taxpayers on the entire check-off concept.

State tax check-offs began with a non-game wildlife fund in Colorado in 1977. Since then, such funds have grown in popularity, by 1992 there were 144 programs around the nation raising money for various special interests. (Clark, p. A1) Tax check-offs have been used to fund programs such as foster care, energy assistance, wildlife preservation, AIDS, and veterans affairs, as well as the arts.

State tax check-offs are increasing in popularity as an alternative to income taxes. In 1997, Arizona proposed a tax check-off form to benefit schools the day after a \$110 million income-tax reduction cut funding to the same schools. The schools' fund competes with five others, including child-abuse prevention. (Mayes, p. A1)

States that have or have had arts tax check-offs

Currently, only two states, Alabama and Rhode Island, have tax check-offs to fund the arts. Additionally, the state of Oregon once had a tax check-off for the arts that ultimately did not endure, having been eliminated due to the lack of an adequate level of revenue.

Rhode Island

In Rhode Island, the money from the tax check-off is returned to the General Fund of the state, and then is appropriated to the state arts agency and earmarked by the state primarily to promote tourism. Last year, approximately \$5,200 of the agency's budget was designated for the fund. (Rosenbaum)

Oregon

The Oregon Arts Commission's former tax check-off was one of the most successful programs of this type. The fund generated and distributed income for eight years (between 1985 and 1993) for capital improvements through the Cultural Facilities Program Funds. The fund was initiated by arts interest groups in the state because Oregon law prohibits the use of state and federal funds for capital improvement projects. (Creative Solutions 19).

According to Leslie Tuomi, former Executive Director of the Oregon Arts Commission, "for the first 3 to 4 years it was really quite successful on a shoestring budget. What killed it was when so many groups got on the bandwagon. When the arts tax check-off program began, it was one of only two options."

However, Oregon's tax form quickly became crowded with social services causes that were, according to Tuomi, seen as more pressing priorities, causing arts revenues to fall drastically.

The Commission spent about \$20,000 annually promoting the program, and initially received substantial media coverage. At its peak, the program netted about \$150,000 per year. But this figure quickly fell to the \$50,000 range, at which time Tuomi stopped promoting it, noting that "I didn't want to spend half of the gross promoting the project."

The tax check-off was discontinued in fiscal year 1994, due to Oregon Department of Revenue stipulations that any tax check-off program that generates less than \$50,000 in two consecutive years be discontinued; the Arts Commission's program did not meet this minimum.

Alabama

In Alabama the tax check-off was intended to generate supplemental income for the "Arts Development Fund," which the Alabama State Council on the Arts administers. Funds are used for a ticket subsidy program for student visits to major arts institutions. The program, called PASS, subsidizes 50 percent of the cost of tickets. Since check-off collections are not sufficient to meet desired funding levels for this program, the

Council adds state appropriation funds to complete the budget. (Supplemental Funding 14)

Cost

While the administrative costs of tax check-off programs are usually low, the revenues are also quite low (see table below).

Promotion is essential to the success of a tax check-off strategy. Use of TV and radio, preferably through professionally produced public service announcements, has been the preferred marketing method. When considering such a program it is important to consider the cost of promotion in relation to the projected revenues.

Another consideration with regard to promotion is that the people most likely to participate in check-offs tend to use tax preparers. Since these taxpayers may not read the tax form, they may not even be aware of the check-off.

In 1990, the Michigan Children's Trust Fund check-off program, which had performed far below expectations, launched a campaign directed at tax-preparers. (PR Newswire) The program's lackluster performance was attributed to the fact that most citizens weren't even aware of the program, owing to the popularity of paid tax preparers. However, a seven year campaign to raise public awareness has had very little effect. Notes one organizer, "We just don't have the big budgets that would fund an advertising blitz to reach Michigan citizens with our message."

Revenues

The following table illustrates the amount of revenue generated from tax check-offs, as compared to other types of alternative funding, for the most recent fiscal year:

Sources of Specialized State Arts Funding: Fiscal Year 97

Funding Sources	Total Revenues	States Using Mechanism
Business filing fees	\$15,359,308	AZ, FL
Lottery proceeds	\$14,691,657	MA
Percent for art	\$14,593,755	CO, CT, HI, MT, NH, OH, OR, RI, UT, VT, WA, WI
License plate sales	\$2,506,404	CA, FL, TN, TX
Transfer funds	\$1,545,731	CO, FL, NV, NJ, OK, RI, TX, WY
Endowment interest	\$1,373,112	CT, MT, ND, TX
Income tax check-offs	\$16,496	AL, RI

Source: NASAA

Tax check-offs generated the least amount of revenue among all types of alternative arts funding measured.

Competition

The single largest factor contributing to the failure of tax check-offs is the presence of competing causes.

- In the case of Oregon, the first two years of the program (1983-84) were the most lucrative since the Oregon Arts Commission was one of only two tax check-offs. By its final year several other groups were on the form.
- According to the Federation of Tax Administrators, “There is some cannibalism of different programs. The more programs you have, the amount of each program seems to go down.” (Clark, p. A1).
- When check-offs began in Alabama, arts and wildlife were the only two funds on the form. Now there is stiff competition among many causes, including the aging, veterans, public health and foster care. (Supplemental funding 14)
- In Maryland, a new tax check-off fund added in 1995 generated \$75,942 for financing fairs. That figure almost exactly matched the decline in contributions to the Chesapeake Bay fund, previously the most popular check-off option. (Dresser, p. 1B)
- When California began allowing charities to sponsor tax check-offs, a political problem ensued. The state, fearing discrimination accusations, allowed all-comers to create a check-off on the form. The result is a crowded field of contenders for tax check-offs, including wildlife, child-abuse and Alzheimer’s disease, and a decrease in giving to each of the funds. (Walters, p. B-11)

The arts are a difficult sell when viewed against social causes that trigger an immediate emotional response. As the tax forms become crowded with competing causes, returns to each begin to diminish significantly.

Conclusion

To date, funds generated from arts income tax check-offs have not yielded significant additional fund to the arts agencies of participating states over a sustainable period of time.

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