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Nonprofits See Second Threat In Healey Plan

Officials Fear Tax Deduction Cap May Chill Giving Amidst Fed Fund Drama

Sam Drysdale
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STATE HOUSE, BOSTON, FEB. 5, 2025.....As nonprofits across Massachusetts face uncertainty over the future of federal funding, some are also expressing concern over a proposal from Gov. Maura Healey that they fear could further strain their budgets.

The proposal would cap the state's tax deduction for charitable donations. The deduction was adopted by 67% of Massachusetts voters in 2000, put on hold by the Legislature for more than two decades, and implemented in 2023.

The cap, if enacted, would limit the charitable deduction to \$10,000 for couples and \$5,000 for individuals, a change the Healey administration estimates would save the state up to \$164 million. The change is on the table as the state adjusts to slowing tax revenues and Healey's proposed 7.4% increase in state spending.

The plan was in Healey's Jan. 22 budget proposal and nonprofits across the state are urging lawmakers to reconsider it as the House and Senate work on their redrafts of the governor's bill.

"Charitable donations are a very important funding source for nonprofits, and right now more than ever, we need charitable giving to go up, not down. So the governor's proposal raises a lot of concerns," said Jim Klocke, CEO of the Massachusetts Nonprofit Network.

The sector's concerns have been compounded by events at the federal level. Last week, President Donald Trump's administration attempted to freeze federal funding, including grants to nonprofits. While the memo calling for the freeze was later rescinded, Trump said reducing federal spending remained a top goal.

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"We're even more reliant on charitable giving as a sector now than we were a week ago," Klocke said.

The Massachusetts Cultural Council, which works with nonprofits, has expressed concern about the potential impact of this proposal. According to a spokesperson, philanthropic donations covered 65% of expenses for cultural organizations in 2022.

"We recognize there are many difficult choices that are made to produce a balanced budget, and based on the datapoint above, wonder whether this change in policy might negatively affect future donations to cultural nonprofits," the spokesperson said.

Spoonfuls, a food recovery nonprofit based in Newton, relies entirely on philanthropic support, with 30% of its funding coming from individual donors.

"The group of households that will be impacted by it are households that make significant annual income, the people giving the most to nonprofits — \$25,000, \$50,000, \$100,000," said Erin Keohane, Chief Advancement Officer. "We certainly hope they give to us for more reasons, because they believe in our mission, but if they lose the financial or tax incentives, there's a fear that they may stop their charitable giving."

Jeff Chin, executive director of Blue Star Families, a nonprofit supporting military families, also emphasized the importance of individual donations. These contributions are often more flexible than government grants and are critical to funding programs directly supporting military families, he said.

"Nonprofits are considering if one of the pillars we rely on to operate — federal funding — will be taken away," Chin said. "Then if you take two of those pillars, or reduce the effectiveness of two of those pillars, we're talking about nonprofits facing existential crises."

Healey does not believe capping the charitable deduction would significantly reduce giving.

"I don't think it's going to change people's giving, based on our review and estimates last year," she said at a press conference last month.

When asked for more details on the review, Healey's spokesperson, Karissa Hand, said that the administration had researched the charitable deduction while building its budget and found that Massachusetts did not offer a charitable deduction for decades without harming

the nonprofit sector.

Hand also pointed out that neighboring states like Rhode Island, New Hampshire, and Connecticut do not offer this deduction, and Maine and Vermont have their own variations of deduction caps or credits.

Klocke noted that the majority of states that have an individual income tax have a charitable giving tax incentive -- 74%. Of the 43 states with an individual income tax, 32 of them have a charitable deduction, he said.

After an unrelated event on Monday, Healey was asked whether the threat of a federal funding freeze made her rethink her position on the charitable deduction cap.

Healey did not directly answer the question but reiterated her opposition to Trump's proposed cuts.

When the News Service asked again if it made her rethink her recommendation, Healey said, "We're dealing with a very tight budget situation as it is, and no amount of anything that's in a state budget in Massachusetts or anywhere in the country can begin to make up for what President Trump is taking away from our states. This hurts red states, blue states. It hurts Americans across the country. It's why he needs to reverse course."

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