

## CHAPTER 1 BACKGROUND

Reforming our system of campaign finance has long been a topic of serious debate among American lawmakers, scholars, and citizens. As the cost of political campaigns has skyrocketed, political candidates have been forced to raise funds in larger and larger bundles. Contribution limits designed to curb the influence of any single interest have led to the creation of big-money mechanisms like political action committees, soft money, independent expenditure campaigns, and issue advocacy advertising, each of which has grown significantly in size and influence over the past twenty years.<sup>1</sup>

Ironically, an outcome of the post-Watergate campaign finance reforms—laws that were designed to make politicians more accountable to their constituents—has been that candidates are forced to spend more time cultivating those new outside sources of funds to compete for office effectively. As a result, the small political contributor is relegated to a minor, supporting role in the political system.

### **Enfranchising Small Contributors: Ideals versus Reality**

Many observers, from the left and right, agree that the inclusion of small, local donors in political campaigns is vital to the overall health of our democracy:

One of our aims . . . should be to encourage greater citizen participation in elections. Citizens are the backbone of our democracy and should be given encouragement to participate in every way in the elective process. [We should] encourage broader participation by moderate and lower income voters to balance the greater ability of special interests to participate in the process.<sup>2</sup>

Of all the sources of private monies that go into our political campaigns, the most desirable and least controversial is that contributed by in-state individuals in small amounts. The more citizens are involved in the campaign process, the more stake

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<sup>1</sup> For a concise and informative discussion of the history of campaign finance, see Thomas Mann, “The U.S. Campaign Finance System,” in *Setting National Priorities: The 2000 Election and Beyond* (Washington, D.C.: Brookings Institution Press, 1999).

<sup>2</sup> Statement by Senator John Warner (R-Virginia), March 28, 2001, cited in the *Congressional Record*.

they have in the political system; a small contribution is a positive way, with no direct link to a legislative product, to enhance the political process.<sup>3</sup>

Small contributions from many individual donors diminish the potential for corruption, since such contributions do not provide donors with excessive access to or influence on legislators. The active involvement of small donors also can diminish the relative influence of large donors and organized interest groups by stimulating broad public participation in elections.<sup>4</sup>

But as campaign costs grow and the public becomes more disillusioned and skeptical about politics and politicians, candidates and parties have come to rely on large contributions to fund their campaigns. The economics makes perfect sense. For example, it is simply more cost-effective for a congressional candidate to hold a \$1,000 per person fundraiser for 100 supporters at the Capitol Hill Club than to raise the same \$100,000 in smaller denominations from thousands of constituents. This logic extends to the soft-money fundraising that has become so widespread in the past ten to fifteen years. It has been much quicker, easier, and less costly for a political party to raise \$1 million from 100 contributors paying \$10,000 each—or even from a single contributor writing one \$1 million check—than to raise it from 20,000 citizens contributing just \$50 each.

Unfortunately, most Americans do not have \$10,000 to provide to the party of their choice—or even \$1,000 for their preferred candidate—so politicians have been left to solicit large sums from a few wealthy individuals and interests. The implicit potential for the provision of quid pro quos and special treatment for big donors, or at least the appearance of such impropriety, has been widely reported—from President Bill Clinton’s controversial pardon of Democratic donor Marc Rich to allegations that 2001 New York City mayoral candidate Alan Hevesi accepted a \$6,000 bribe in return for helping a major campaign contributor win a lucrative private contract.

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<sup>3</sup> Norman J. Ornstein, Thomas E. Mann, Paul Taylor, Michael J. Malbin, and Anthony Corrado, “Reforming Campaign Finance,” Brookings Institution, 1996.

<sup>4</sup> Committee for Economic Development, “Investing in the People’s Business: A Business Proposal for Campaign Finance Reform,” 1999.

### **The Shunting Aside of Small Contributors**

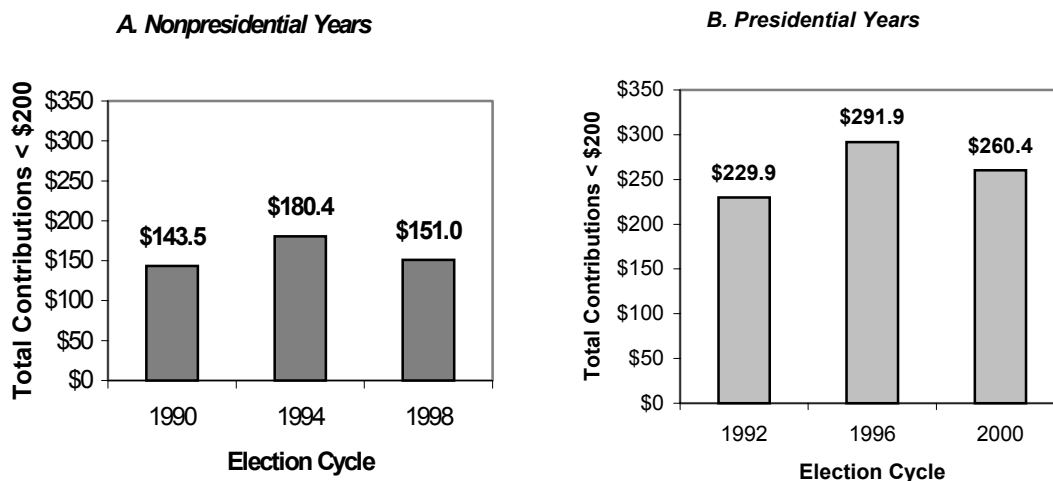
Given the basic fundraising math, this fact is not surprising—as campaigns have gotten more expensive and politicians have focused their fundraising efforts on big donors, small contributors have become less influential in how campaigns are financed.

Data on the funding of federal campaigns make it clear that the relative power of small contributors is waning. According to the Federal Election Commission, the percentage of contributions to federal candidates that came in small increments dropped in the 1980s and 1990s. In the 1984 election cycle, contributions of \$500 or less made up more than 61 percent of total contributions to federal candidates; by 1988 the proportion had dropped to just over 50 percent. Similarly, in the 1990 election cycle nearly 40 percent of contributions came in increments of \$200 or less; by the 2000 cycle the proportion was less than 30 percent.<sup>5</sup>

Perhaps more disturbing to reform advocates is the fact that in the late 1990s the total dollar amount of small contributions declined, an indication of a very real drop in participation by small contributors. Figures 1A and 1B depict the trend in the total inflation-adjusted dollar value of small federal contributions through the 1990s.

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<sup>5</sup> The FEC changed its itemization requirements for federal candidates from \$500 to \$200 following the 1988 cycle.

**Figure 1-1 Decline of the Real Value of Small Federal Contributions in the Late 1990s**

Note: All figures are in millions of dollars and adjusted to 2001 dollars by using inflation data from the Bureau of Labor Statistics.  
Source: Federal Election Commission.

### **The Rise of Soft Money**

As the relative power of small contributors has declined, a formidable new fundraising mechanism, “soft money,” came to exert tremendous influence on the financing of campaigns. The major political parties have focused on soft money for a significant portion of their fundraising for two main reasons.

First, unlike direct contributions to candidates, soft-money contributions could be made in any amount by just about anyone—individuals, corporations, or labor unions. For example, in the 2000 election cycle, the Democratic National Committee, the Democratic Senatorial Campaign Committee, and the Democratic Congressional Campaign Committee received a combined \$6.5 million from the American Federation of State, County, and Municipal Employees and a combined \$5.1 million from the Service Employees International Union. Similarly, the Republican National Committee and its associated congressional campaign committees received more than \$2 million from both AT&T and the Philip Morris Companies during the same cycle.<sup>6</sup> Thus, despite the fact that both corporations and labor unions have been prohibited from directly

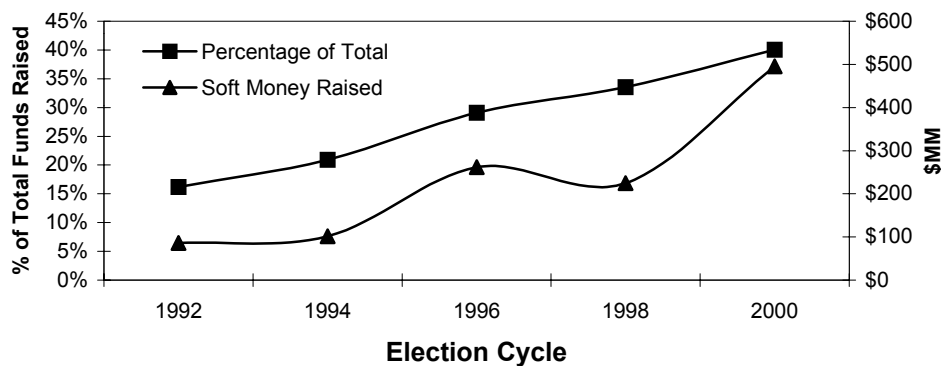
<sup>6</sup> These data were compiled by Common Cause.

spending money on federal election campaigns for more than fifty years, soft money has provided a powerful loophole for those organizations to wield influence in political campaigns.

Second, soft-money contributions could be used for a wide range of activities, including issue advocacy, generic party advertising, and general party building. Because of the largely unregulated nature of soft money, the parties typically have used soft money for thinly veiled issue advocacy and “party-building” campaigns carefully designed to promote the election or defeat of specific candidates. According to the U.S. Supreme Court’s 1978 ruling in *Buckley v. Valeo*, as long as these ads do not expressly advocate the election of a specific candidate, they are considered protected free speech under the First Amendment. Again, soft money has provided the means to exploit this loophole in federal campaign law.

By the late 1990s the major political parties were receiving massive infusions of funds in the form of soft money—as much as 40 percent of the total raised by the national party committees, according to data from the Federal Election Commission. See figure 1-2.

**Figure 1-2 Steady Rise of Soft-Money Fundraising as a Percentage of Total Fundraising in the 1990s**



Source: Federal Election Commission.

By passing the Bipartisan Campaign Finance Reform Act of 2002, Congress effectively barred soft-money contributions to national parties altogether. But the act also increased limits on hard-dollar donations to \$2,000 for federal candidates and \$25,000 for national parties, while

including a \$10,000 limit on soft-money contributions to state and local parties. The elimination of soft money at the federal level is clearly a laudable move toward limiting the role of large contributors in financing political campaigns. But the new rules encourage candidates and parties to steer their attention to raising large hard-dollar contributions—contributions likely to come from the same well-heeled donors who have provided the bulk of soft-money contributions in the past. The incentive to reach out to a broader base of small donors remains limited.

### **Inviting Small Contributors Back into the System**

It is not just the fundraisers who need an incentive to include small contributors in the campaign finance system. Today's political environment is marked by a growing disenchantment with and disengagement from the entire political process by average Americans. Whether it is measured by our lack of desire to contribute to political campaigns, put a campaign poster in our front yard, or simply go to the polls on election day, political involvement has been on the decline for decades. The relentless focus on tending to well-financed special interests, while only one of many forces at play, has undoubtedly discouraged many Americans from becoming active political participants. Still, the lack of any special incentive for often cash-strapped middle-class citizens to participate in the financing of our political system clearly has not encouraged small contributions, and it may be leaving some people out of the system who would otherwise like to be invited back into the system.

Precedent exists for an incentive to make political contributions. From 1972 to 1986 the federal government provided a tax incentive for individuals to provide small contributions to political candidates and by extension for candidates to seek out those small contributions from constituents. Similarly, several states have enacted tax credits for political contributions over the past four decades, and six of those laws remain in effect today. A review of the laws is instructive in determining what effect, if any, a new federal tax credit might have on our campaign finance system.

**The Federal Tax Credit Experience: 1972–1986**

Under the federal political contributions tax law, taxpayers who contributed to federal, state, or local campaigns were offered two options—to claim a 50 percent tax credit or a 100 percent tax deduction on the contributions, with an annual maximum benefit per taxpayer.<sup>7</sup> Over the next fifteen years, Congress revised both tax incentives, and in the spirit of Reagan-era “tax simplification,” the federal tax credit for political contributions was repealed in the comprehensive tax reform package of 1986.<sup>8</sup> Table 2-1 shows the federal incentives for political contributions from 1972 to the present.

**Table 2-1 Federal Tax Incentives for Political Contributions, 1972–2002**

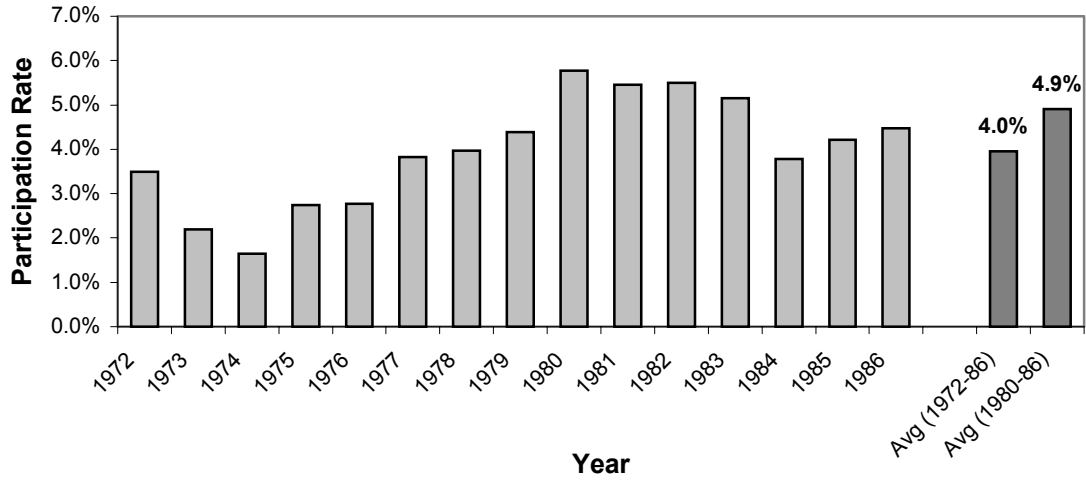
<b>Year</b>	<b>Credit Option</b>		<b>Deduction Option</b>
1972–1975	50% tax credit, up to \$12.50 for individuals, \$25 for joint returns	OR	100% tax deduction, up to \$50 for individuals, \$100 for joint returns
1976–1979	50% tax credit, up to \$25 for individuals, \$50 for joint returns	OR	100% tax deduction, up to \$100 for individuals, \$200 for joint returns
1980–1986	50% tax credit, up to \$50 for individuals, \$100 for joint returns		<i>Repealed, 1980</i>
1987–2002	<i>Repealed, 1986</i>		

Tax data compiled by Joseph E. Cantor of the Congressional Research Service indicate that by the 1980s approximately 4 to 6 percent of taxpayers were filing for the federal tax credit each year, with an annual cost of about \$170 million to \$270 million. Those data are instructive in estimating the participation in and cost of a new federal tax credit for political contributions. See figures 2-1 and 2-2.

<sup>7</sup> The deduction was eliminated in 1980.

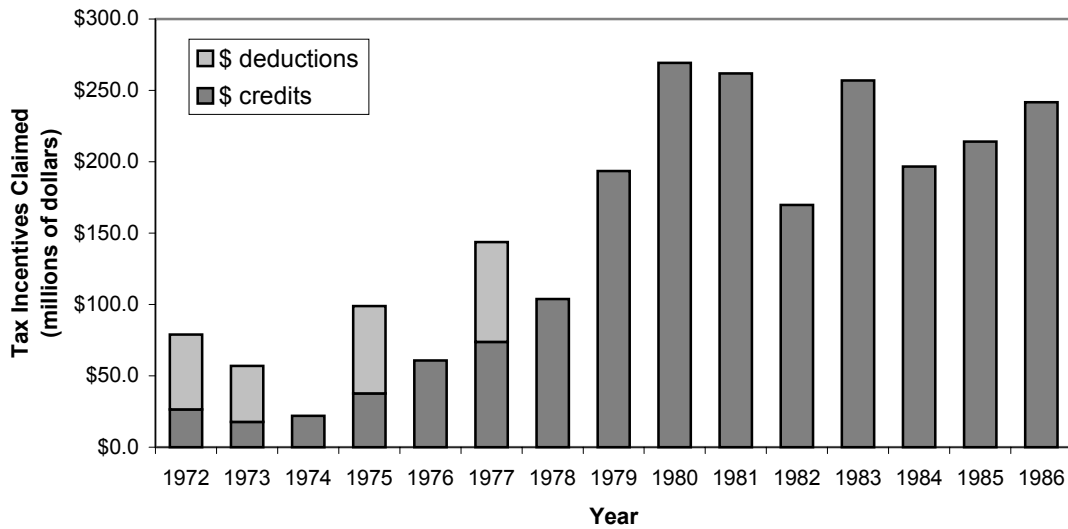
<sup>8</sup> For a view of the political landscape and other options for the federal tax credit for political contributions at the time repeal was being considered, see Herbert E. Alexander, “Tax Credits: Alternative to Public Funding of Congressional Campaigns?” Public Affairs Council, March 1986.

**Figure 2-1 Tax Incentive Participation, 1972-1986**



Source: Internal Revenue Service, cited in Joseph E. Cantor, "Campaign Financing in Federal Elections: A Guide to the Law and Its Operation," Congressional Research Service, 1995.

**Figure 2-2 Federal Tax Credit Cost, 1972-1986**



Source: IRS, cited in Joseph E. Cantor, "Campaign Financing in Federal Elections: A Guide to the Law and Its Operation," Congressional Research Service, 1995.



## **State-Level Credits**

While the federal government abandoned the tax credit for political contributions in 1986, several states have attempted to fill the void with their own tax-credit laws. Today, six states provide some form of tax credit for contributions to candidates, parties, and/or PACs. The states represent a wide cross-section of America—from Virginia on the Atlantic coast to Oregon on the Pacific; from wealthy Minnesota on the Canadian border to poor Arkansas in the Deep South; from industrial Ohio to fast-developing Arizona. The laws differ in scope, size, and operation—Minnesota’s Political Contributions Refund operates outside the tax system entirely, while Arizona’s tax credit applies to contributions to a Clean Elections Fund. The oldest credit for political contributions still on the books has been law for more than thirty years; the newest have just taken effect. The political culture of each state varies as well. Minnesota and Oregon are noted for highly participatory, activist environments, in contrast to the machine-oriented, traditionalistic systems in Arkansas and Virginia.<sup>9</sup>

But the goal of all six laws is the same—to encourage average citizens to become more active players in the political system by offering an incentive for them to contribute financially to the campaigns of their choice. In addition, the state-level political contributions tax-credit programs are instructive both for what they have accomplished and for what they cannot accomplish.

Specifically, six themes emerged from our analysis of the state-level credits. First, while it is clear that a tax credit for political contributions is a good idea, it is also clear that these programs do not single-handedly overcome gaps in participation by small and large donors. Rather, those gaps are more likely tied to deeper, structural issues in a state’s campaign finance system, such as a lack of contribution limits, that are not directly addressed by a tax credit for political contributions. Still, evidence indicates that tax credits for political contributions encourage more active participation in the political process by average citizens, broaden the base of political contributors, and help offset the influence of “big-money” donations.

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<sup>9</sup> See Appendix 1 for a summary of the major elements and the context for each state’s tax-credit law.

Second, credit programs that reimburse contributors for expressions of political preference tend to be more popular than programs designed to encourage contributions to a nonpartisan “clean elections fund,” such as Arizona’s tax-credit program or most tax checkoffs. Third, all six states apply the tax credit to all taxpayers, instead of limiting the credit on the basis of income. In such scenarios the wealthiest taxpayers sometimes claim as much as a third of credit dollars. But higher-income taxpayers tend to participate in campaign financing without a credit incentive, a factor that indicates an opportunity to develop a more efficient, income-targeted tax-credit program.

Fourth, there appears to be a greater incentive for participation in a state like Minnesota, which offers refunds within four to six weeks, versus most states, where refunds are provided at tax time. Fifth, participation in credit programs is greater when tax credits are actively promoted by the solicitors of campaign funds—candidates, parties, and/or outside interest groups, depending on the state. Finally, participation in tax-credit programs tends to level off over time, which indicates that a continuing marketing effort by political organizations is necessary to maintain public enthusiasm for the tax credits.

### **Major Themes from the States**

#### **1. A tax credit for political contributions is a good idea, but it is not a panacea.**

In an affliction not limited to campaign finance reform proposals, politicians and advocates in the states have regularly oversold the expected benefits of tax credits for political contributions. Let us be very clear: a tax credit for political contributions does *not* single-handedly change the culture of campaigns, especially in political environments with no contribution limits or minimal credit allowances.

For example, upon signing a multifaceted campaign finance reform package in 1995, then-Governor George Voinovich of Ohio forecast “a substantial reduction in the amount of money spent on campaigns.”<sup>10</sup> But according to a subsequent study by the *Columbus Dispatch*, total spending on state legislative campaigns rose significantly in 1996, the first full year after passage

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<sup>10</sup> Quoted in Lee Leonard, “Voinovich OKs Finance Reform Plan,” *Columbus Dispatch*, May 25, 1995.

of the bill.<sup>11</sup> Political parties and legislative caucuses, which were not covered by the 1995 reforms, have maintained their dominant position in the financing of Ohio campaigns. As a result, fundraising efforts are still focused on soliciting large donations and thus lead to a minimal increase in small contributions in the postreform era.<sup>12</sup>

A similar effect has been felt in Arkansas, where a tax credit for political contributions was introduced alongside a strict \$300 contribution limit, which the courts soon overturned. Soon after the law passed, Governor Mike Huckabee estimated that the credit could cost the state as much as \$70 million per year—six times more than the total estimated campaign contributions for all of 1998.<sup>13</sup> But according to Scott Trotter, author of the Arkansas law, “Once the court reverted the contribution limits to \$1,000, there was less reason for candidates to put their focus on small contributions.”<sup>14</sup> Still, with minimal fanfare by parties and candidates, nearly 2 percent of Arkansans filed credit claims that accounted for approximately 5 percent of the 1998 campaign contributions.

A tax credit for political contributions *does* open the door for a greater number of middle-income citizens to participate in a political system where financial support from private sources is vital to developing a viable campaign for public office. For example, Oregon’s tax credit routinely generates claims by approximately 5 percent of taxpayers.<sup>15</sup> Virginia’s tax credit, enacted in 1999, quickly became the most popular of the state’s eighteen tax credits,<sup>16</sup> despite the facts that the state lacks contribution limits, the credit is limited to \$25 for an individual donation, and campaigns rarely promote the credit.

A tax credit for political contributions also gives small contributors a stronger voice in the system by enabling them to contribute more than they otherwise might. Minnesota’s Republican

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<sup>11</sup> Darrel Rowland, “Campaign Reforms Fall Short,” *Columbus Dispatch*, June 29, 1997.

<sup>12</sup> Ohio Secretary of State Campaign Finance Database, [www.state.oh.us/sos/contents\\_campaign\\_finance.htm](http://www.state.oh.us/sos/contents_campaign_finance.htm).

<sup>13</sup> “Tax Credits for Campaign Gifts Go Begging,” *Arkansas Democrat-Gazette*, November 16, 1996. The estimate is based on data from the Center for Responsive Politics ([www.opensecrets.org](http://www.opensecrets.org)); Michael Barone, *Almanac of American Politics 2001* (Washington, D.C.: National Journal Group, 2001); Rachel O’Neal, “Huckabee Handed Full Term,” *Arkansas Democrat-Gazette*, November 4, 1998.

<sup>14</sup> Interview, August 2001.

<sup>15</sup> Oregon Secretary of State, *Tax Expenditure Report, 2001–03*.

<sup>16</sup> Virginia Department of Taxation.

Party reports that the average pledge from telemarketing campaigns that explicitly mention the state's Political Contributions Refund (PCR) is 50 percent higher than the average pledge from non-PCR campaigns among contributors giving \$500 or less.<sup>17</sup> Tax credits are a way to reward and encourage small, local contributors to participate in the system, and the credits work best when politicians actively seek those contributions.

A wide array of variables, including contribution limits, spending limits, and political culture, has a significant impact on credit use. The recent introduction of tax credits in Arkansas and Virginia—where promotion by candidates and parties is minimal, the political culture is much less participatory, and, in the case of Virginia, the credit allowance is meager—indicate that the credit may have appeal in a broad swath of states and even nationwide.

## **2. Contributors prefer to express a political view.**

American politics is driven by partisanship. Effective tax credits recognize and reinforce this reality. The most successful tax-credit programs we examined are intended not to upend the current system of partisan politics but to enfranchise average citizens to participate in that system. An effective tax credit fosters citizens' ability to back candidates who or causes that share citizens' views on the economic and social issues about which they care most.

Experience in the states indicates that tax credits designed to reward nonpartisan behavior fall flat. Giving to a generic fund—such as Arizona's Clean Elections Fund—is not as appealing as giving to a specific candidate, party, or interest group. As Sharlene Bozack, executive director of the Clean Elections Institute, an independent, not-for-profit watchdog organization, acknowledges, "Only people who are political animals will use this tax credit. People give money to something they have a passion for, and not everybody has a passion for our public financing system."<sup>18</sup>

Furthermore, in Oregon, where citizens can direct contributions to PACs as well as to candidates and parties, the credit is widely promoted by many interest groups, some of which rely heavily

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<sup>17</sup> Interview with Minnesota Republican Party official, September 2001.

<sup>18</sup> Interview, August 2001.

on small contributions and arouse stronger passions than do candidates because of their focus on a single hot-button issue. As a result, we estimate that roughly 90 percent of Oregon credit claims are made on contributions to outside interest groups, rather than to candidates or political parties.<sup>19</sup>

Regardless of whether a credit is extended to include contributions to issue-oriented interest groups, the most compelling laws appeal to the passions of individual taxpayers to spur participation by more than a few citizens.

### **3. Income targeting is a cost-effective way to enfranchise small contributors.**

A broad tax credit—with no limits on income or size of contribution—is necessarily going to reward contributors who are already financing campaigns and who are not providing small contributions. As participation has skewed more and more toward wealthy donors over the past several years, credits with no income limits are even less efficient. As a result, the states are spending millions of dollars reimbursing donors who earn a lot of money or give large contributions, or both.

Ohio and Oregon each offer an example of state dollars going toward an untargeted tax credit program. In Oregon households earning more than \$100,000 per year claimed more than 30 percent of credit dollars in 1999, up from 18 percent in 1990. The shift has occurred at the expense of households earning less than \$40,000 per year, which went from claiming 31 percent of credits in 1990 to less than 18 percent in 1999.<sup>20</sup> Similarly, in Ohio claims by households earning more than \$100,000 per year rose from 25 percent of total claims in 1995 to 37 percent in 1999. In contrast, claims by households earning \$40,000 to \$100,000 have slipped from 46 to 42 percent, while claims by households earning less than \$40,000 dropped from 29 to 20 percent of total claims.<sup>21</sup>

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<sup>19</sup> The number is based on data from the Oregon Department of Revenue and the National Institute for Money in State Politics.

<sup>20</sup> Oregon Department of Revenue.

<sup>21</sup> Ohio Department of Taxation.

Income targeting is an intelligent way to enfranchise the least involved citizens while minimizing the cost to the state. The goal is simple—a corporate executive earning seven figures should not be able to claim a tax credit on a \$1,000 contribution that he would make with or without a tax incentive.

But even with an income-targeted tax credit for political contributions, today’s campaign finance system will still automatically favor those with ample disposable income and a clear objective for their contributions. The goal of a tax credit for political contributions is to bring smaller, less wealthy, and less organized contributors back into the campaign finance game. A tax credit theoretically offers the promise of “free money,” but in reality, for people with modest incomes, spending \$100 now and getting it back as a tax refund many months later hardly make the contribution “free.” The real, income-adjusted cost of contributing is higher for people of modest means. Targeting a tax credit will not eliminate this fundamental problem, but it will make it clear that middle-income earners are explicitly encouraged to participate in a vital part of our political system.

#### **4. Immediate refunds offer a strong incentive to participate.**

The Minnesota system gets money back into contributors’ hands within six weeks—a strong incentive for citizens to “loan” money to candidates and for candidates to seek those loans. Developing a refund system, rather than a once-a-year tax credit, increases the vitality of the program. We believe that the existence and aggressive promotion of the Minnesota’s PCR is a central reason why nearly half of contributions to candidates and parties in 1999 and 2000 came in increments of \$100 or less.<sup>22</sup>

As a simple, practical reality, creating a whole new system for refunding citizens’ campaign contributions is fraught with the potential for fraud, delay, and misdirected funds and is probably too cumbersome to be introduced at the federal level. But following Minnesota’s lead, some states may be able to implement an effective rapid refund loop.

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<sup>22</sup> National Institute on Money in State Politics.

## 5. Campaigns must promote the credit.

No one else will. Without even a basic awareness and promotion of the credit by candidates and parties, a credit program can fall into a black hole. According to Delegate James H. Dillard (R-Fairfax), sponsor of Virginia’s tax-credit law, one reason for low participation in his state may be that “no one is really promoting it.”<sup>23</sup> In Arkansas one party official was unaware that his state’s credit even applied to contributions to the state party.<sup>24</sup>

But when the credit is actively promoted, small contributors are offered a stronger voice in the system. Aggressive promotion of Minnesota’s Political Contribution Refund has propelled the state’s Republican Party to a nearly two-to-one lead in PCR contributions over the Democrat-Farmer-Labor Party, which does not promote the PCR program at all.<sup>25</sup> Similarly, Oregon interest groups, many of which actively promote the state’s tax credit in fundraising campaigns, account for the vast majority of credits claimed.<sup>26</sup>

To maximize a credit’s effectiveness, candidates and parties should be given appropriate incentives to promote the credit. Some options include spending limits or contribution limits or both that inherently elevate the value of a small contribution; specific, required language about the credit to be included in fundraising appeals; or some form of matching for small contributions or credit-eligible contributions.

## 6. As with tax checkoffs, credit participation levels off over time.

Over time, credit usage tends to flatten or decline—in both Oregon and Minnesota, two states with long-standing credit programs, participation has stabilized over the past several years.<sup>27</sup> Active promotion of the tax credit coupled with income limits may stem this trend, but keeping the credits “fresh” will remain a marketing and policy challenge.

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<sup>23</sup> Interview, August 2001.

<sup>24</sup> Interview, August 2001.

<sup>25</sup> Minnesota Campaign Finance and Public Disclosure Board and interviews with state party officials.

<sup>26</sup> This is based on data from the Oregon Department of Revenue and the National Institute for Money in State Politics.

<sup>27</sup> This is based on data from the Oregon secretary of state and the Minnesota Campaign Finance and Public Disclosure Board.

## CHAPTER 3 RECOMMENDATIONS

Experience in the states indicates that a tax credit for political contributions is sound public policy and gives average citizens more power in the political process. While such a credit cannot single-handedly remake our system of financing campaigns, it can provide a cost-effective way to enfranchise average citizens who, for the past two decades, have been systematically frozen out of the political system.

**We recommend that Congress introduce a strong, new federal tax credit for contributions to political candidates' campaigns. We believe that a viable, efficient program should include the following elements:**

**1. The credit should provide a 100 percent refund on eligible contributions.**

A 50 percent refund, such as those enacted at the federal level in the 1970s and 1980s and in Virginia in 2000, does not provide a strong enough incentive for citizens to contribute to campaigns. Congress should follow the other states' lead in creating a 100 percent tax credit on political contributions.

**2. The credit should provide a meaningful refund, not just a token amount.**

The escalating cost of campaigns means that, by definition, small contributions matter less. The maximum tax credit should be set at a level that truly respects and seeks to enfranchise average citizens in the campaign finance system. We propose a maximum tax credit of \$200 per person and \$400 for married couples filing jointly, with increases indexed to inflation to maintain the real value of the credit.

**3. The credit should include limits on income.**

Some states, including Ohio and Oregon, are spending significant sums of tax-credit money on their wealthiest citizens—people who do not need the refund and are most likely to contribute anyway. We advocate applying the tax credit with a modest income limit of \$100,000 per household.



**4. A federal credit should apply to federal candidates only.**

The former federal program applied to contributions to federal, state, and local candidates. In today's political environment, where fiscal responsibility is highly regarded and the states have assumed a more active role in many government functions, we believe that a responsible federal tax credit should apply only to candidates for president and Congress. Furthermore, the states are more than capable of providing incentives for contributing to state and local candidates.

**5. Congress should consider strengthening the partisan nature of political expression by applying the tax credit to contributions to political parties.**

With the elimination of soft money from the campaign finance system, it is well worth maintaining the vitality of the national political parties by expanding their sources of income. Political parties are more likely to promote a slate of issues and educate the populace about those issues than is a range of disparate candidates. Given that a tax credit should not undermine our naturally partisan political system, the credit could be used to help strengthen the party organizations.

**Estimated Budget Impact of a New Federal Tax Credit**

We estimate that a new federal tax credit based on the recommendations outlined above would cost approximately \$3.1 billion over four years. We estimate that a more conservative version of the tax credit—with a lower income ceiling or a lower maximum credit, or both—would cost approximately \$840 million to \$1.7 billion over four years. Appendix 3 includes a detailed analysis and complete discussion of the assumptions underlying those estimates.

**Participation Rates Drive the Budget Impact**

Perhaps the most important driver of the credit's budget impact is participation level, or how many taxpayers actually claim the tax credit. History offers a rough guide—the former federal tax credit was claimed by an average 4.9 percent of taxpayers through the 1980s, and our analysis indicates that in some states, roughly 4 to 6 percent of eligible taxpayers claim the tax credit in a given year, while in others less than .1 percent claim the credit.

In addition, the former federal credit applied to all candidates, not just to federal candidates as our proposal would. State-level data also indicate that wealthier taxpayers are more active contributors to political campaigns and make up as much as 37 percent of credit claims in some states, which leads us to scale down our participation estimates again. Taking those considerations into account, we estimate participation rates ranging from 1.5 to 3 percent if the tax credit applies to taxpayers with household incomes up to \$100,000, or 1 to 2 percent if the credit applies to households earning up to \$50,000.

Under the optimal scenario—limits of \$200 for individuals and \$400 for couples, with a \$100,000 household income limit—those assumptions lead to a projected \$1.4 billion in credit claims in 2003 and 2004. That represents a 400 percent increase over recent levels of small contributions—in the 2000 election cycle the FEC reported just \$290.1 million (adjusted to 2001 dollars) in contributions of \$200 or less to federal candidates.

Earlier, we noted that a tax credit for political contributions does not single-handedly change the culture of campaigns. So it is worth asking whether it is really possible that small contributions to federal candidates will increase fourfold, just through the introduction of a targeted tax credit for political contributions, even in a significantly changed campaign finance environment. On the basis of our analysis of similar tax-credit programs, we believe that it is. But the more important questions are: What would such a radical infusion of cash mean? And what if that infusion does not happen at all?

### **Potential Impact of a New Tax Credit on How Campaigns Are Financed**

Let us consider the former scenario first. Following the introduction of a targeted tax credit for political contributions, small contributions to federal political campaigns jump two-, three- or fourfold. Even with rising campaign costs, small contributions—most of which now come from middle-class households—make up approximately half of the funds fueling American election campaigns, up from 10 to 15 percent in the 2000 election cycle. Parties and candidates are by definition less reliant on well-funded special interests. Middle-class Americans are acting with

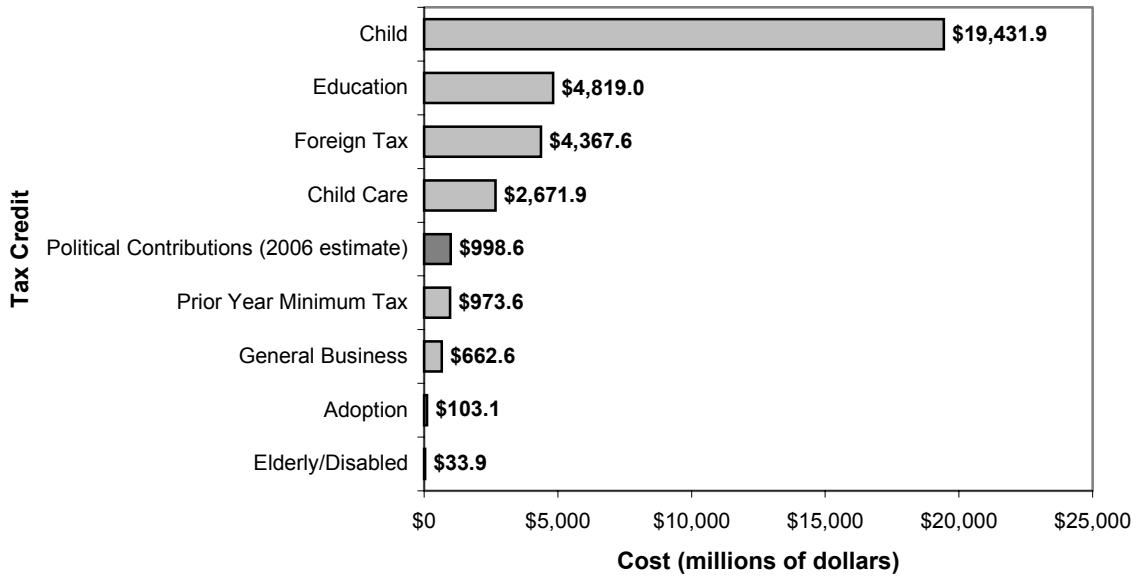
an incentive to give the candidates of their choice an early financial boost, where average citizens gain the same type of voice that big-money interests have had for years—all at a relatively low cost to the federal government. Introduction of the tax credit will have succeeded in enfranchising a greater number of citizens in the political process and broadening the base of political campaign funds.

Now, let us consider the latter scenario. Small contributions to federal candidates rise by 25 percent, to approximately \$400 million, for the 2004 election cycle. That still reverses the recent trend of declining small contributions, both as a percentage of total contributions and in real dollars. But the cost to the federal government is limited—instead of a \$1 billion program, we have a \$400 million tax credit—because the tax-credit program costs only as much as middle-class taxpayers are willing to give to political campaigns in small amounts. In other words, the cost of the tax credit varies directly with the positive outcome it generates.

### **Budget Impact Relative to Other Credits**

When compared with other federal tax credits currently on the books, the proposed credit for political contributions will have a relatively minor budget impact. In 1999 the eight major federal tax credits available to individuals cost the government an average of \$3.3 billion; excluding the \$19 billion child tax credit, the average was nearly \$2 billion. In 2006 we estimate that a new tax credit for political contributions would cost less than \$1 billion, even in the optimal, and most generous, scenario. See figure 3-1.

**Figure 3-1 Cost of the Political Contribution Credit Compared with Other Federal Credits**



Note: All data are from 1999 except the Political Contributions Credit.  
 Source: Internal Revenue Service, "Individual Income Tax Returns, Preliminary Data, 1999," analysis.

**Conclusion**

In short, a well-crafted tax credit for political contributions is a cost-effective and sound method for encouraging average Americans to participate in the political process. Such a tax credit will similarly encourage candidates to seek the small, local contributions that are almost universally valued in our political system. A well-targeted tax-credit program will effectively extend a new and much needed invitation to millions of Americans by offering them the opportunity to become active participants in our political system. At the same time, at an estimated cost of less than \$1 billion per year, the program we propose will have a relatively small impact on the \$2 trillion federal budget.

In closing, we strongly encourage Congress to consider reintroducing this valuable and cost-effective program to encourage and reward increased political participation by average Americans.

## APPENDIX 1

### TAX CREDITS IN THE STATES: PROGRAM ELEMENTS AND CONTEXT

Earlier, we alluded to the many differences among the six states that currently offer a tax credit for political contributions, including their economic base and political culture, as well as the specifics of the tax-credit laws. This section is designed to help the reader identify additional similarities and differences across the states and their laws. The figures on the following pages outline two main areas for comparison: the basic facts about the tax-credit laws and the campaign finance context in each state.

#### Facts about the Laws

Each tax-credit law differs in significant ways. In table A1-1 we summarize the tax-credit laws that we describe on the basis of five characteristics:

- Enacted: When was the credit introduced?
- Format: What is the basic framework for the law, that is, is it a 100 percent tax credit, a 50 percent tax credit, or a nontax refund?
- Maximum: What is the maximum credit that can be claimed by a taxpayer?
- Eligible Campaigns: Which campaigns can a taxpayer contribute to and claim the credit?
- Timing: When does the taxpayer get money back from the state?

#### Campaign Finance Context

The general campaign finance systems in each state also differ, sometimes significantly. In many cases, the states have included a tax credit as but “one arrow in the quiver” of campaign finance and regulation; in others, the tax credit is the single campaign finance law on the books. We focus on three main areas for comparison:

- Contribution Limits: How much can an individual contribute to a given campaign in an election cycle?
- Tax Checkoffs: Does the state have a tax return checkoff program to help fund candidates, political parties, or a general campaign fund? If so, what is it?
- Other Public Financing: What else does the state do to publicly finance political campaigns (most commonly, a tax checkoff)?

**Table A1-1 Summary of Tax Credit Programs in the States**

Facts about the Laws	<i>Established Tax Credits</i>			<i>New Tax Credits</i>		
	Oregon	Minnesota	Ohio	Arkansas	Arizona	Virginia
Enacted	1969	1992	1995	1996	1999	2000
Format	100% tax credit	100% refund	100% tax credit	100% tax credit	100% tax credit	50% tax credit
Maximum	\$50 for individuals, \$100 for couples	\$50 per person	\$50 for individuals, \$100 for couples	\$50 for individuals, \$100 for couples	\$500 per person	\$25 for individuals, \$50 for couples
Eligible Campaigns	State and local candidates, parties and PACs	State and local candidates and parties	State and local candidates	State and local candidates, parties and PACs	Nonpartisan Citizens for Clean Elections Fund	State and local candidates
Timing	When taxes are filed	4-6 weeks	When taxes are filed	When taxes are filed	When taxes are filed	When taxes are filed

Campaign Finance Context	Established Tax Credits			New Tax Credits		
	Oregon	Minnesota	Ohio	Arkansas	Arizona	Virginia
Contribution Limits	None	Gov./lieut. gov.: \$2,000 in an election year / \$500 in a nonelection year  Atty. gen.: \$1,000 / \$200  Other statewide and state legislature: \$500 / \$100  Elected judges: None	\$5,000 to a single committee per year	\$1,000 per candidate per election	Statewide candidates: \$760  Other offices: \$300  Total per person per calendar year: \$2,820	None
Checkoff	None	\$5, for state and local parties and candidates	\$1, for general party fund	None	\$5, for Clean Elections Fund	\$25 tax checkoff for political parties
Other Public Financing	None	Public funding from state linked to voluntary spending limits. State campaign fund revenues generated by direct budget allocation and tax checkoffs	None	None	Clean Elections funding from various sources	None

## APPENDIX 2

### EXPERIENCE IN THE STATES

For each state, our analysis unfolds in five sections:

- Background about how and with what other reforms the credit came into existence;
- The basics of How the Credit Works;
- Other Tax Credits on the books in the state, for comparison;
- Other Public Financing based on the contextual information provided above; and
- Results and Analysis of available data and insights that inform our conclusions and recommendations.

### ESTABLISHED TAX CREDITS: OREGON, MINNESOTA, AND OHIO

#### Oregon

Enacted:	1969
Format:	100 percent tax credit
Maximum:	\$50 for individuals, \$100 for couples filing jointly
Eligible Campaigns:	state and local candidates, parties, or PACs
Timing:	when taxes are filed
Contribution Limits:	none
Tax Checkoff:	none
Other Public Financing:	none

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#### Background

Dating back to 1969, Oregon's tax credit for political contributions is the oldest in the nation currently on the books. When the federal government eliminated its tax credit in 1986, Oregon responded by doubling the size of its credit to make up the difference.



According to the Oregon secretary of state's office, the purpose of the tax-credit law is to "increase public participation in the political process."<sup>28</sup> In an effort to achieve that goal, Oregon's tax-credit law is the broadest of the six state laws in effect today.

### How the Credit Works

Contributions in any amount to political parties, party committees, political action committees, federal, state, and local candidates, or ballot measure committees are all eligible for the tax credit. The law provides a \$50 tax credit to individuals or \$100 to couples filing jointly. For some state-level offices, credits may be taken only for contributions to candidates who adhere to campaign spending limits. Claimants do not have to provide any additional documentation when filing for the credit.

### Other Tax Credits

Oregon's tax regime included more than thirty tax credits for individuals in 2000. Most of these are designed to encourage specialized actions (for example, Fish Habitat Improvement) or to provide funds to citizens with disabilities or special needs (for example, Costs in Lieu of Nursing Home Care).

The Department of Revenue estimates that Oregon will spend more than \$75 million on those individual tax credits during the 1999–2001 biennium, including \$7.7 million on the Political Contributions Credit. The Political Contributions Credit ranks as the fourth most expensive credit on the books in Oregon.<sup>29</sup>

### Other Public Campaign Financing

Oregon has no additional public campaign financing programs and no limits on contributions to candidates, parties, or PACs.

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<sup>28</sup> Oregon Secretary of State, *Tax Expenditure Report, 2001–03*.

<sup>29</sup> Figures exclude the Personal Exemption Credit, which cost the state \$760 million in 1999–2001. Source: Oregon Secretary of State, *Tax Expenditure Report, 2001–03*.

### Results and Analysis

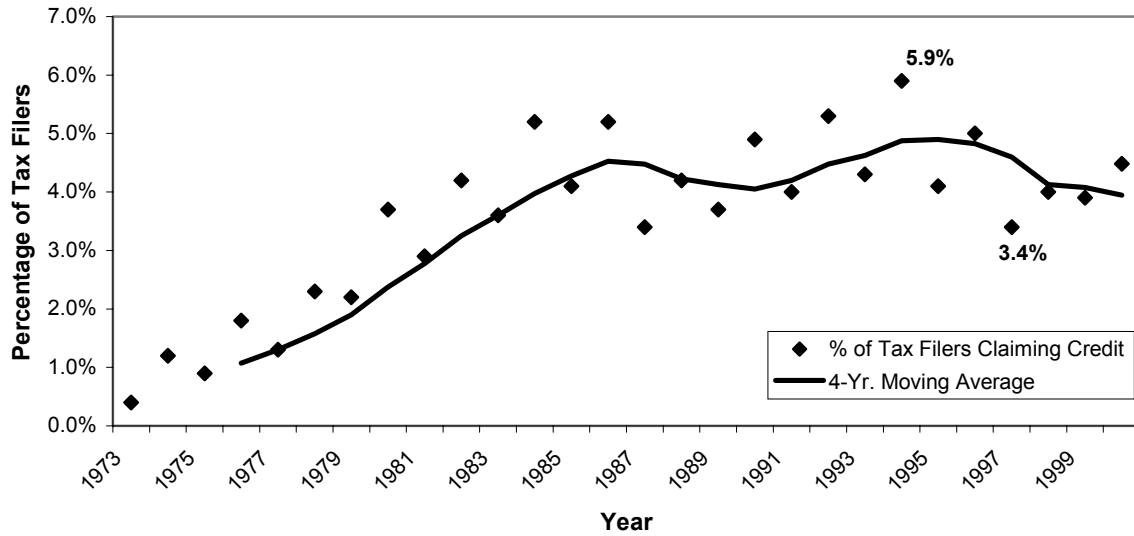
A review of Oregon tax and campaign finance data indicates that Oregon's tax credit for political contributions is among the most popular of such programs in the country, as measured by participation as well as dollars spent, although claims have leveled off recently. In addition, contributions to certain PACs are credit-eligible in Oregon and therefore lead many interest groups to promote and defend the tax credit aggressively. The vast majority of credit dollars appear to be claimed on contributions to outside interest groups, and evidence indicates that at least some of those interest groups rely heavily on the tax credit to generate funds. Finally, wealthier taxpayers are now taking advantage of the Oregon credit to a greater extent than lower-income taxpayers, a trend reversing previous experience in the state.

*Tax-credit usage varies from about 3 to 6 percent per year.* Usage of the Oregon tax credit, as measured by the percentage of tax returns filed that included a credit claim, has varied from 3.4 to 5.9 percent of taxpayers throughout the 1990s. An average of 4.5 percent of taxpayers claimed the credit annually through the 1990s; excluding the exceptional political activity in the 1994 election cycle, the average participation rate in the 1990s was 4.3 percent.<sup>30</sup> See figure A2-1.

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<sup>30</sup> The spike in credit use in 1994 may be a result of increased voter engagement in a highly charged political landscape. As the Republicans took over Congress for the first time in four decades, two of Oregon's five congressional seats were won by new Republican members, while a third seat, pitting first-term Democratic Representative Elizabeth Furse against Bill Witt, was retained by a margin of just 330 votes. There was also an open-seat gubernatorial election in Oregon in 1994 that featured a tough ideological battle in the Republican primary (*Almanac of American Politics 2002, Politics in America 1996*).

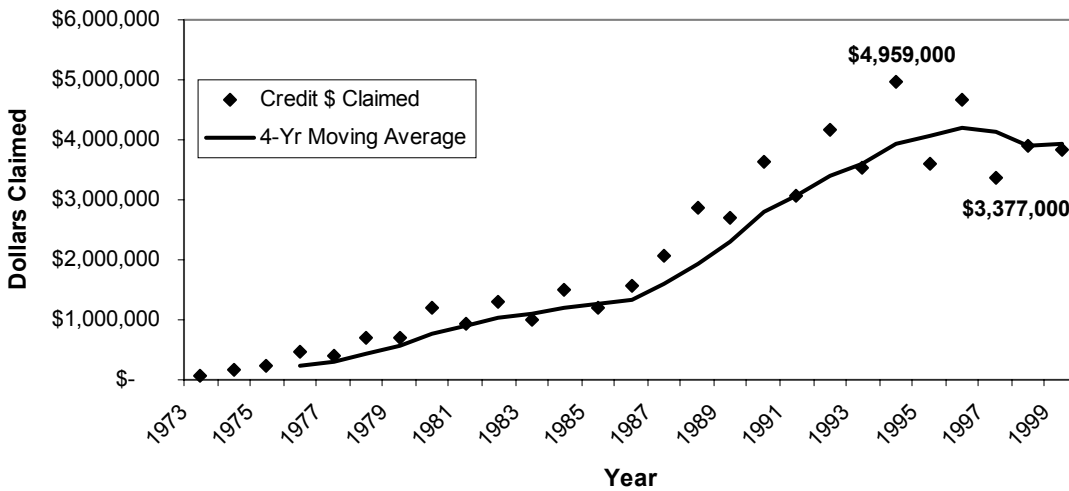
**Figure A2-1 Percentage of Oregon Tax Filers Claiming Political Contributions, 1973-2000**



Source: Oregon Department of Revenue.

*Credit claims are leveling off.* After many years of rising credit claims, the actual dollar amount claimed for the Political Contributions Credit has remained steady, after accounting for fluctuations between election and nonelection years, since the mid-1990s. See figure A2-2.

**Figure A2-2 Dollars Claimed for Political Contributions Credit in Oregon, 1973-2000**

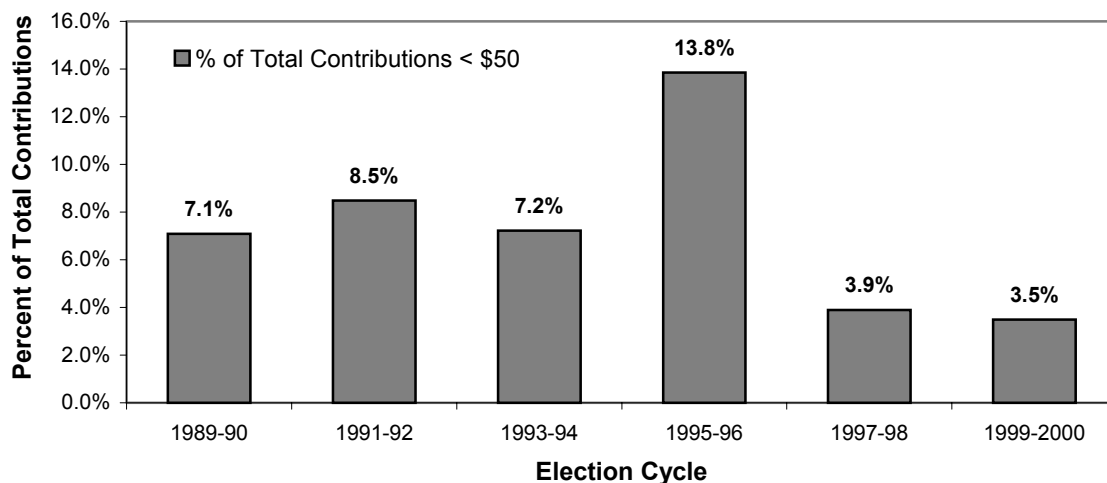


Source: Oregon Department of Revenue.

*Credit use is driven by interest group contributions.* The Oregon secretary of state's office says that it is "unable to determine if a tax expenditure is the most fiscally effective means of increasing public participation in the political process."<sup>31</sup> One reason may be that the vast majority of credits are claimed on contributions to issue-oriented PACs, rather than to candidate or party committees, so that it is difficult to determine the credit's impact on candidate and party campaigns. In a political environment where the influence of outside interest groups is significant, the Oregon tax credit, while perhaps not *the* most fiscally effective approach, certainly appears to encourage political involvement by large numbers of small contributors.

It is true that small contributions to Oregon candidates and political parties now play a lesser role in candidate and party funding than just a few years ago. Contributions to candidates and parties in increments of \$50 or less represented just 3.5 percent of total contributions in the 2000 cycle, down from 8.5 percent in the 1992 cycle.<sup>32</sup> See figure A2-3.

**Figure A2-3 Decline of Small Contributions as a Proportion of Total Contributions to Candidates and Parties in Oregon, 1989-2000**



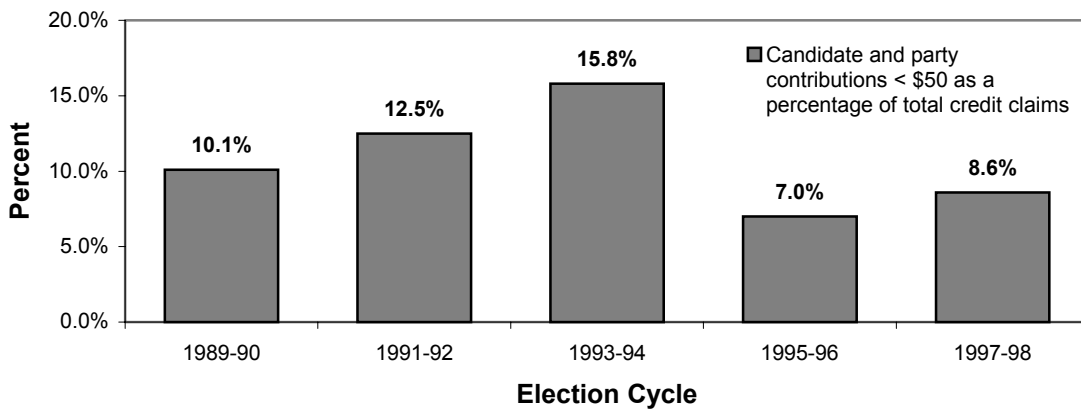
Source: National Institute for Money in State Politics.

<sup>31</sup> Oregon Secretary of State, *Tax Expenditure Report, 2001-03*.

<sup>32</sup> A brief note about the 1994 figure of 13.8 percent: Following the passage of Measure 9 in 1994, Oregon instituted strict contribution limits for the 1996 election cycle, which led to a steep increase in the percentage of campaign contributions that came in small increments. The Oregon Supreme Court overturned the 1996 rules in early 1997. For a detailed analysis of the impact of contribution limits in Oregon, see Samantha Sanchez, Edwin Bender, and Linda Casey, "Campaign Finance Reform in Oregon," Western States Center, 1997.

At the same time, it appears that small contributions to Oregon candidates and parties make up a meager proportion of total credit claims. Comparing tax-credit data from the Oregon Department of Revenue and contribution data from the National Institute for Money in State Politics, it appears that the most tax credits are being claimed on contributions to organizations besides candidate and party campaigns.<sup>33</sup> See figure A2-4.

**Figure A2-4 Small Contributions to Parties and Candidates as a Percentage of Total Credit Claims in Oregon, 1989-1998**



Source: Oregon Department of Revenue, National Institute for Money in State Politics.

In other words, for the 1998 cycle, an estimated 8.6 percent of tax-credit dollars were claimed on small contributions to candidate and party organizations—meaning that more than 90 percent of credit dollars were claimed on larger contributions to candidates and parties and, more likely, contributions to noncandidate, nonparty campaigns, that is, issue-oriented PACs.

*Aggressive tax-credit promotion by PACs drives credit usage.* Issue PACs, such as those run by the Oregon Gun Owners, Oregon Right to Life, and the Oregon Education Association, are

<sup>33</sup> This comparison is imperfect for two reasons. First, it assumes that all contributions of \$50 or less to Oregon candidates and parties were claimed under the tax-credit law. Second, it ignores all contributions of \$50 to \$100 to candidates and parties, that is, contributions by couples. But in the absence of truly analogous data on the destination of contributions later claimed under the tax-credit law, this comparison is, at a minimum, a fair directional assessment of the breakdown of credit claims by the recipient of the contribution.

aggressive promoters and defenders of the tax-credit program and appear to be benefiting greatly from the political tax credit. In a recent hearing on a bill to repeal the credit, representatives of six different interest groups, ranging from the AFL-CIO to Oregon Right to Life, testified that the credit is an integral part of Oregon's campaign finance system. These groups often use the tax credit as part of their fundraising appeals.

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### **OGO (Oregon Gun Owners) POLITICAL VICTORY FUND (PVF)**

The OGO PVF is a PAC (political action committee) which raises money to support pro-rights and pro-hunting candidates in Oregon, as well as weighing in on ballot measures. The PVF is dedicated to working to stop restrictive ballot measures that appear on Oregon's ballot. Often the anti-gunners attempt to use the ballot measure process to pass their restrictive ideas (such as 2000's Measure 5).

The OGO PVF is a qualified Political Action Committee under Oregon Statute which qualifies for the Oregon Political Tax Credit. An individual can donate up to \$50 or a couple can donate up to \$100 and have it count as a credit on their Oregon Income Taxes. (click here for Dept. of Revenue legal language on the tax credit)

THAT'S RIGHT! Rather than giving the State of Oregon that money, you can donate to the OGO PVF and deduct that amount directly off of your Oregon State Income Taxes. So, it's either give it to the state or give it to OGO!<sup>34</sup>

### **Receive an Oregon Tax Credit for Your OEA-PIE (Oregon Education Association—People for the Improvement of Education) Contribution**

The contributions you make to OEA-PIE and your local political action committee (PAC) are eligible for an Oregon tax credit of up to \$50 for a single taxpayer and up to \$100 for a couple filing jointly. (Contributions to the NEA Fund for Children and Public Education are not eligible for Oregon's tax credit.) In January, members who contributed to OEA-PIE and a local PAC will receive a receipt listing the amount of their contribution to use for tax purposes. If you made a contribution in 2000 but do not receive a receipt in January, please contact OEA's Center for Public Affairs at (503) 684-3300 or 1-800-858-5505.<sup>35</sup>

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<sup>34</sup> [www.ogo.org/vic/htm](http://www.ogo.org/vic/htm).

<sup>35</sup> Source: [www.oregoned.org/legislation\\_and\\_politics/oea\\_pie.htm](http://www.oregoned.org/legislation_and_politics/oea_pie.htm).

**(Oregon Right to Life letter)****An Amazing Way to Make a Difference. ...**

**Use Your Political Tax Credit.** This special tax break is simply amazing. It allows you to make a gift that costs you absolutely nothing. Here's how it works:

Political Tax Credit Summary

The political tax credit allows a married couple to give up to \$100 to a qualified political committee—singles can give up to \$50—and then receive every penny back when they file their Oregon tax return.

This is money you cannot keep or give to your favorite charity. You must either give it to a qualified political organization or pay it in taxes.

In other words, you can take a portion of the money you normally pay in state taxes and use it to help fight abortion instead.<sup>36</sup>

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Data from Oregon Right to Life (ORTL), a group that is particularly aggressive in its promotion of the tax credit in its fundraising, indicate that the tax credit can be vitally important in determining where and how much citizens donate.

Since 1995, ORTL has operated two PACS—a “Candidate PAC” that provides funds to individual state and local candidates and an “Issues PAC” that is used to support ballot measures and other general, noncandidate campaigns of interest to ORTL. From 1995 to 1998, only donations to the Issues PAC were eligible for tax credits.

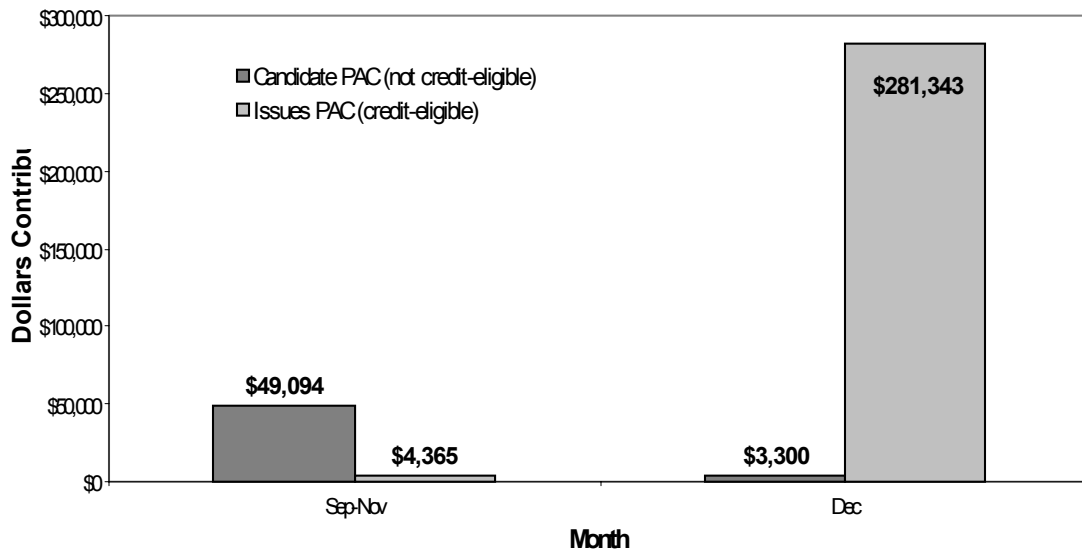
The organization's experience in 1996 is most instructive. From September to November of that year, ORTL devoted all its fundraising energies to promoting the Candidate PAC, despite the fact that the contributions it sought were not credit-eligible. During those three months, contributions to the actively promoted, noncredit Candidate PAC averaged \$16,300 per month and outweighed contributions to the unpromoted, credit-eligible Issues PAC by an eleven-to-one ratio.

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<sup>36</sup> Source: Oregon Right to Life fundraising letter. Emphasis is in the original.

In December, having reached its goal for the Candidate PAC and fearing that donors would not give during what had historically been ORTL’s most successful month, the organization shifted gears and began promoting the credit-eligible Issues PAC. Immediately, and despite three months of promotion of the Candidate PAC, virtually all contributions to ORTL shifted to the Issues PAC. In addition, the Issues PAC received a whopping \$281,000 in December—seventeen times the monthly average for the Candidate PAC from September to November and eighty-five times more than the Candidate PAC received in December. Even taking into account the organization’s usual December strength and the fact that election day had passed several weeks earlier—possibly discouraging further contributions to the Candidate PAC—the relative power of a credit-eligible appeal is apparent, particularly among the nonwealthy donor base that makes up most of ORTL’s membership. Figure A2-5 shows how the tax credit encourages contributions to ORTL’s Issues PAC.

**Figure A2-5 Effect of Tax Credit on Contributions to Oregon Right to Life Issue: Political Action Committee, 1996**

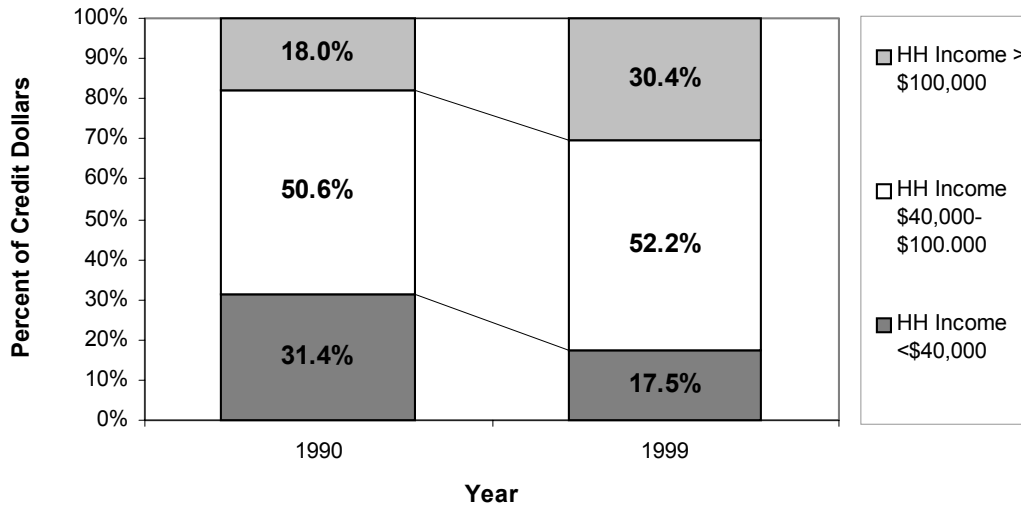


Source: Oregon Right to Life.



*Wealthy taxpayers are benefiting from the credit more than are low-income taxpayers. Over the past ten years, higher-income taxpayers have surpassed lower-income taxpayers in claiming the tax credit. In 1990 nearly one-third of all credit dollars went to taxpayers with household incomes of less than \$40,000, and 18 percent went to taxpayers earning more than \$100,000. By 1999 the opposite was true—more than 30 percent of credit dollars, or \$1.3 million, went to the wealthiest households, while less than 18 percent benefited families who earned less than \$40,000. See figure A2-6.*

**Figure A2-6 Tax Credit Claims of High-, Mid-, and Low-Income Taxpayers in Oregon, 1990 and 1999**



Source: Oregon Department of Revenue.

Janice Thompson, who follows Oregon’s campaign finance laws closely for the Money in Politics Research Action Project, noted an implicit advantage wealthy taxpayers have when it comes to claiming the tax credit. “Lots of campaign letters in Oregon say if you make a contribution, you can take a credit,” she said. “The question is, who actually remembers to take it? If people are going to make a contribution, whether or not they claim a tax credit really depends on how good an accountant they have as much as on how good the campaign is at telling them they can take the credit.”<sup>37</sup>

<sup>37</sup> Interview, August 2001.

*Conclusion.* In general, Oregon offers a glimpse at how a mature and comprehensive tax credit for political contributions works. At 4 to 6 percent per year, participation is the highest among states that currently offer a tax credit. Oregon provides evidence that small donors may be more inclined to give to groups that espouse specific issues, rather than to a candidate or a party; in certain scenarios, a tax credit for political contributions can be *the single factor* that drives donations from small contributors. It is also clear that Oregon could better target the credit—and save the state over a million dollars per year—by imposing an income limit for claiming the credit.

In a state with no limits on contributions and no other public finance mechanism, however, the relative weight of credit-eligible contributions is by definition going to be very small. As the secretary of state’s office observed, “The tax credit is relatively low compared [with] the amount of contributions an individual could make.”<sup>38</sup> Even in this environment, the relative popularity of Oregon’s tax credit is quite encouraging.

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<sup>38</sup> Oregon Secretary of State, *Tax Expenditure Report, 2001–03*.

**Minnesota**

Enacted:	1992
Format:	100 percent refund operating outside the tax system
Maximum:	\$50 per person
Eligible Campaigns:	state and local candidates and parties
Timing:	4– 6 weeks after contributing
Contribution Limits:	<ul style="list-style-type: none"> <li>• governor / lieutenant governor: \$2,000 in an election year / \$500 in a nonelection year</li> <li>• attorney general: \$1,000 / \$200</li> <li>• other statewide and state legislature: \$500 / \$100</li> <li>• elected judges: none</li> </ul>
Tax Checkoff:	\$5, for state and local parties and candidates (no cost to taxpayers)
Other Public Financing:	public funding from the state linked to voluntary spending limits; state campaign fund revenues generated by direct budget allocation and tax checkoffs

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**Background**

Political scientist Daniel J. Elazar has described Minnesota as having the quintessential “moralistic” political culture; to that end, he and his colleagues write, the state “has fashioned a system for choosing its political leaders which is less influenced by private economic interests than in any other state.”<sup>39</sup> This system “is remarkably effective at creating a competitive electoral environment,” according to Kenneth Mayer of the University of Wisconsin.<sup>40</sup>

One element of the Minnesota system is its Political Contributions Refund (PCR) program, which has been in effect since 1992. Unlike programs in other states, the PCR is not linked to the tax-filing process. Instead, contributors receive refunds in a matter of weeks, not months.

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<sup>39</sup> Daniel J. Elazar, Virginia Gray, and Wyman Spano, *Minnesota Politics and Government* (Lincoln: University of Nebraska Press, 1999), p. 68.

<sup>40</sup> Kenneth R. Mayer, “Public Financing and Electoral Competition in Minnesota and Wisconsin,” Citizens’ Research Foundation, University of Southern California, 1997.

### How the Credit Works

Minnesota offers a Political Contributions Refund for 100 percent of contributions up to \$50 per person to political parties and candidates who agree to spending limits. The refund works as follows:<sup>41</sup>

1. The Minnesota Campaign Finance and Public Disclosure Board issues receipt books to candidates and parties.
2. Upon receiving a contribution from a Minnesota resident, the candidate or party committee issues an official receipt to the contributor.
3. The contributor attaches a receipt (or receipts) to a one-page Political Contribution Refund Application and sends it directly to the Department of Revenue. The contributor may file only one PCR application per year.
4. The Department of Revenue issues a refund to the contributor, usually within four to six weeks.

### Tax Credits

Minnesota offers nine tax credits for individuals.<sup>42</sup> Three of these—the Dependent Care Credit, the Working Families Credit, and the K–12 Education Credit—are refundable credits that may be claimed even if the credit amount exceeds the individual’s tax liability. Only the Dependent Care Credit and the K–12 Education Credit require the taxpayer to lay out money in advance; all other credits are claimed for specific situations, such as being married or owning shares of an S-corporation, that do not require a specific previous cash outlay.

### Other Public Financing

In addition to the PCR, Minnesota operates a public fund for the financing of state and local campaigns. Revenues for the fund are set at \$1.5 million per year, plus any funds generated by a tax checkoff on individual income and property tax returns. Taxpayers can earmark \$5 from the state’s general fund to be contributed to a specific political party and its candidates or to be

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<sup>41</sup> Interview with Jeanne Olsen, executive director, Minnesota Campaign Finance and Public Disclosure Board, August 2001.

<sup>42</sup> Information in this section is from the Minnesota Department of Revenue.

evenly distributed by the campaign fund. A person's tax liability is unaffected by the checkoff.<sup>43</sup>

The state also requires candidates to voluntarily restrict campaign spending in exchange for public funding. According to Elazar, Gray, and Spano, 718 of 721 state legislative candidates in 1994 and 1996 participated in the public financing system, and only one of the three nonparticipants raised more money privately than the state would have provided. (The candidate lost.) Minnesota also forbids legislators from holding fundraisers during the legislative session and restricts the amount of money they can receive from PACs and interest groups. "Overall," write Elazar et al., "Minnesota's regulations are among the most stringent in the country."<sup>44</sup>

### Results and Analysis

The PCR program is growing as measured in total dollars returned to Minnesotans, but actual participation appears to be flat. The disparity may be explained by a rise in PCR contributions to party units, especially the state Republican Party, which actively promotes the PCR in its fundraising appeals. In addition, small contributions play an integral role in state and local campaigns, likely because of a combination of campaign spending limits, a comprehensive public financing system, the PCR, and Minnesota's unique political culture.

*PCR participation is flat, but refunded dollars are growing.* PCR participation is roughly unchanged over the past several years and still lags far behind the tax checkoff. Specifically, we estimate that fewer than 3.5 percent of Minnesotans participate in the PCR program each year.<sup>45</sup>

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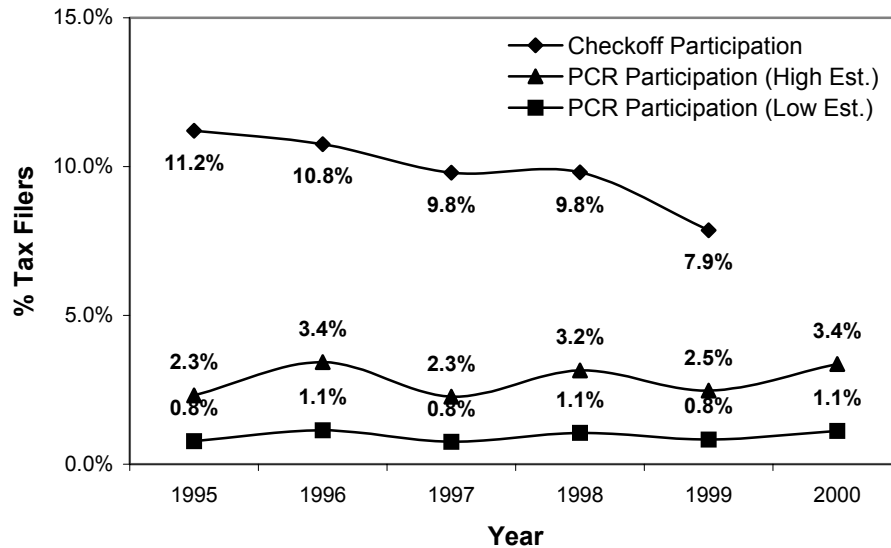
<sup>43</sup> Ibid. The Minnesota Campaign Finance and Public Disclosure Board allocates public campaign funds on the basis of several factors. Tax checkoff contributions to a specific party are split among the state party, constitutional officeholders of that party, and legislators of that party. Legislative contributions are linked to the donor's district. General account funds are divided among candidates for each office, on the basis of the percentage of the total statewide vote for each constitutional and legislative office.

<sup>44</sup> Elazar, Gray, and Spano, *Minnesota Politics and Government*, pp. 62, 80.

<sup>45</sup> The Minnesota Campaign Finance and Public Disclosure Board reports the number of contributions for which PCR receipts were issued but does not report the number of people who received PCRs. Contributors can split their \$50 PCR allowance among as many candidates or parties as they like—that is, one contribution of \$50, two of \$25 each, five of \$10 each, and so forth. We developed an independent estimate of PCR participation based on an approximate number of PCR-eligible contributions per PCR recipient. At one end, we assumed that every PCR participant spent \$50 on a single candidate. In this scenario, the number of PCR participants equals the number of PCR receipts issued—the absolute highest possible number of people who took part in the PCR program. At the other end, we assumed a split among three separate candidates or parties. In that scenario, the number of PCR participants equals the number of PCR receipts issued divided by three. After establishing a range of how many Minnesotans participated in the PCR program, we divided those estimates by the total number of tax filers in a given year to get a range of participation as a percentage of tax filers.

Although the percentage of Minnesota tax filers using the checkoff has declined steadily over the past several years—from a high of 27.1 percent in 1977 to 11.2 percent in 1994 and 7.9 percent in 1999—checkoff participation remains significantly higher than PCR usage.<sup>46</sup> See figure A2-7.

**Figure A2-7 Political Contribution Refund versus Checkoff Participation in Minnesota, 1995-2000**

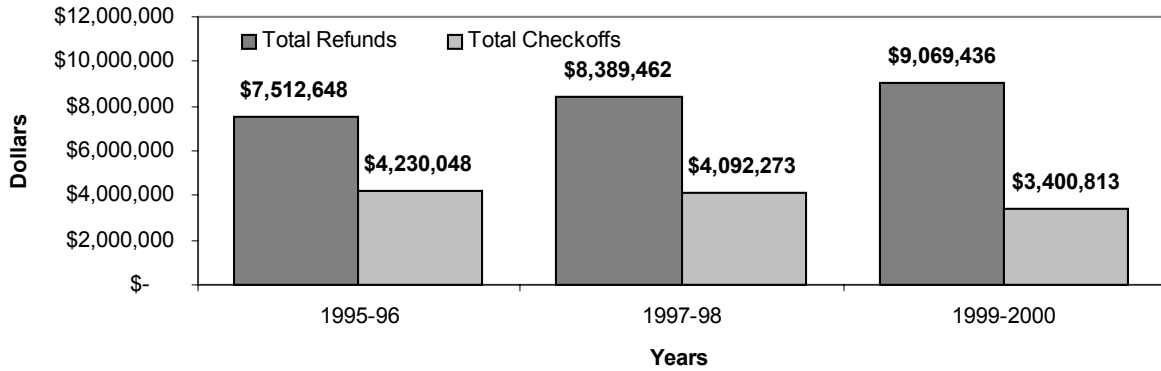


Source: Minnesota Department of Revenue, independent analysis based on data from the Minnesota Campaign Finance and Public Disclosure Board.

But over the past three election cycles, the amount of money returned to Minnesotans through the PCR program has increased steadily, even as participation has remained flat. PCR refunds rose from \$7.5 million in the 1996 cycle to more than \$9 million in the 2000 cycle. Over the same period, funds raised by the tax checkoff have declined by nearly 20 percent. See figure A2-8.

<sup>46</sup> Tax checkoff participation data are not yet available for 2000 tax returns.

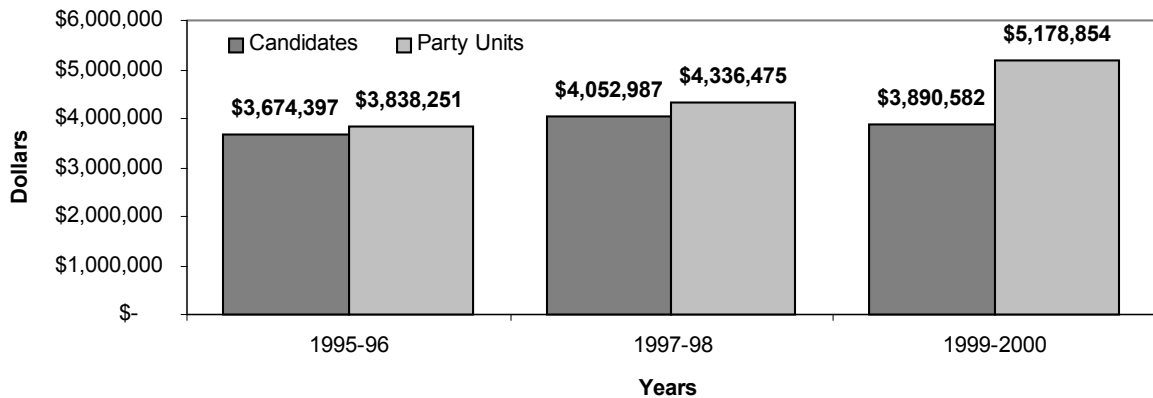
**Figure A2-8 Political Contribution Refund versus Checkoff Dollars in Minnesota, 1995-2000**



Source: Minnesota Campaign Finance and Public Disclosure Board.

The rise in PCR-related fundraising—as measured in actual dollars—is being generated almost entirely by political party units. Of a \$1.5 million increase in PCRs issued from the 1996 cycle to the 2000 cycle, more than \$1.3 million are accounted for by the rise in contributions to party units. See figure A2-9.

**Figure A2-9 Effect of Contributions to Party Units on Political Contribution Refunds in Minnesota, in Dollars, 1995-2000**

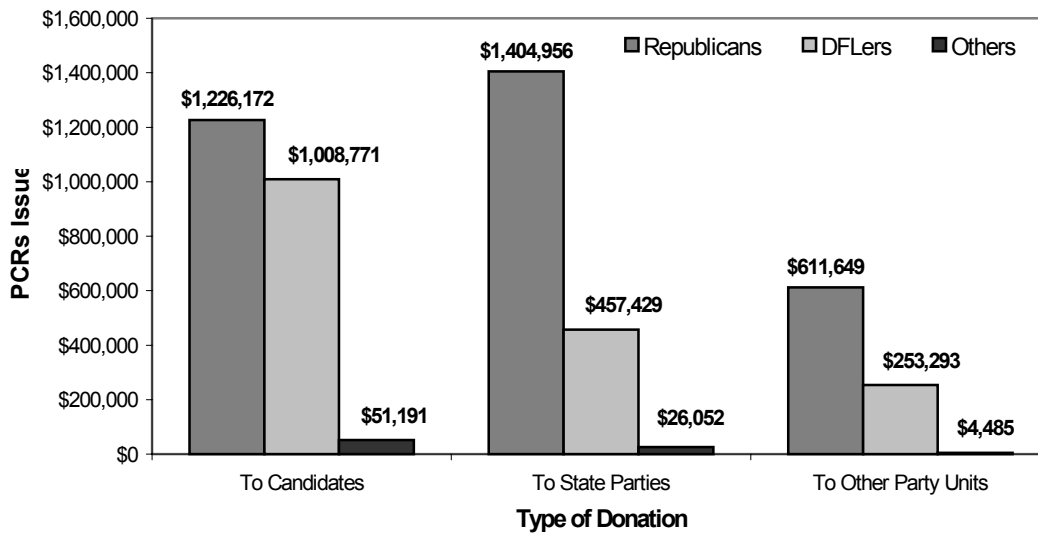


Source: Minnesota Campaign Finance and Public Disclosure Board.

*The state Republican Party is particularly effective at using the PCR. Data from the year 2000 indicate that Republican fundraising, particularly by the state party, is a key force in total PCR*

usage. The Minnesota Department of Revenue issues three times as many PCR dollars to donors to the Republican Party of Minnesota as it does to donors to the Minnesota DFL State Central Committee, and Republicans lead in other categories as well. See figure A2-10.

**Figure A2-10 Benefits from Political Contributions Refunds to Candidates, State Parties, and Other Party Units in Minnesota, in Dollars, 2000**

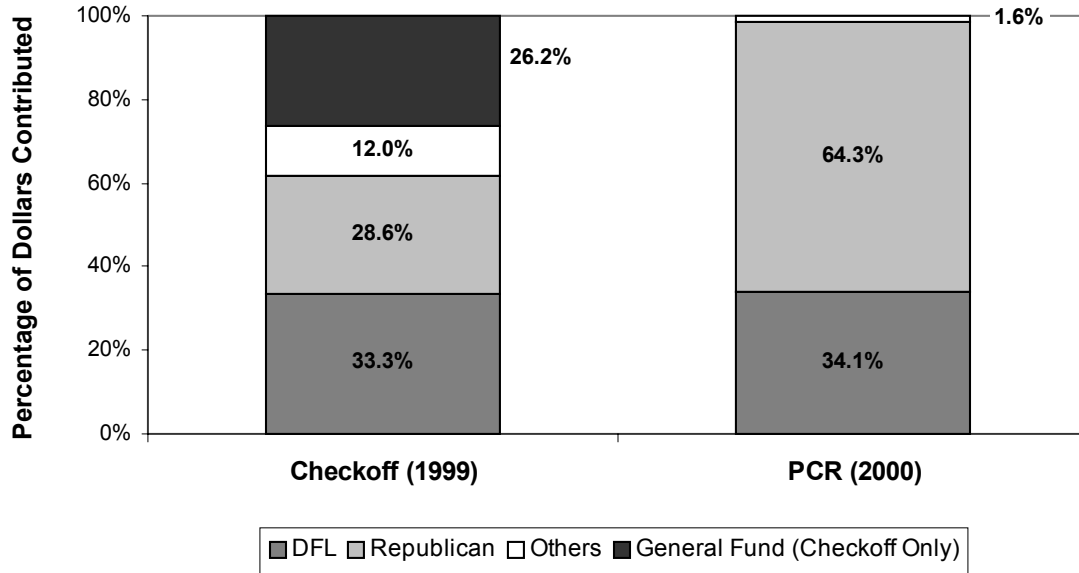


Source: Minnesota Campaign Finance and Public Disclosure Board.

The Republicans' advantage in PCR fundraising stands in sharp contrast with how Minnesotans direct public campaign funds provided via the tax checkoff. Although PCR contributions overwhelmingly benefit the Republican Party, tax checkoff contributions are more evenly split among the two major parties and a nonpartisan general fund, with the DFL holding a slight edge. See figure A2-11.



**Figure A2-11 Benefits to Parties from Checkoffs in 1999 and Political Contributions Refunds in 2000 in Minnesota**



Notes: The PCR contributions include donations to party units as well as candidates. The PCR contributions cannot be directed to the General Fund.  
 Source: Minnesota Campaign Finance and Public Disclosure Board, Minnesota Department of Revenue.

Why is the Republican Party of Minnesota so far ahead in PCR fundraising?<sup>47</sup> According to a senior party official, the answers lie in the sophistication of the party’s fundraising program and its active promotion of the PCR. The state Republicans employ an in-house telemarketing operation, regular sharing of donor lists with local parties and candidates, and aggressive promotion of the PCR in mailings and phone calls in their year-round fundraising effort—tactics that the DFL and most candidates and local parties do not use.

There are some valuable lessons to be gleaned from the party’s results. Most important, the PCR does have a direct impact on fundraising, particularly among prescreened donors. “Every year, we send one piece of mail to our donor list that has no mention of the PCR,” according to one party leader. “And every year—no matter which month we send it, or what pitch we use, or whether it is the second or third or fourth piece they have received—the mailing without the little

<sup>47</sup> Information and data throughout this section were gathered during an interview with a senior Minnesota Republican Party official in September 2001.

blue [PCR] form bombs. . . . We have trained our donors to look for that little blue form and use the PCR.”

But when it comes to *prospective* contributors, the impact of the PCR is less clear. According to the same party leader, “the conversion rate is not affected” by mentioning the PCR in telemarketing efforts to prospective contributors, “but the size of the contributions is.” The party’s experience has been that leading a fundraising phone call with information about the PCR rarely motivates the constituent to contribute. Instead, the official said, the party will make a pitch for funds along ideological lines, such as “help us defeat liberal Senator Wellstone.” If the target agrees to make a pledge, the caller will ask for \$100. Many targets will balk at this high amount—until the caller brings up the PCR and explains how it works. Hearing about the PCR after making a pledge to contribute leads many donors to increase the size of their contribution. Among donors giving less than \$500, the average pledge from a PCR-inclusive telemarketing call is \$41, versus about \$28 when the party does not mention the PCR at all. In addition, the average contribution actually *exceeds* the average pledge by about \$5—an extremely rare scenario for any type of fundraising.

*The PCR is widely promoted in Minnesota.* In addition to the state Republican party, Governor Jesse Ventura of the Independence Party is a major supporter of the PCR program. The governor devotes most of his main fundraising page to the PCR, as the following excerpt shows.

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## **How to Help Fund the Governor's Grass Roots Volunteer Organization and Get Your Money Back!**

It's called the Minnesota Political Contribution Refund (PCR) Program. It's intended to encourage citizens to contribute to Minnesota political parties and candidates for state offices who have agreed to observe the state campaign spending limit law. Governor Ventura has so agreed and is therefore eligible to participate in the PCR program.

Unlike most other elected officials, Jesse and Mae refuse to accept PAC money. So it's especially important for their supporters to take advantage of the PCR program. . . .

The underlying goal of the publicly funded PCR program is to make it unnecessary for candidates to accept large contributions from individual donors and lobbying groups by providing candidates with enough small contributions to adequately finance their campaigns. Here's how it works:

If you are eligible to vote in Minnesota, up to \$50 (\$100 for married couples) of your 1998 contribution to Jesse Ventura's campaign committee can be refunded to you by the State of Minnesota.

You write a contribution check to the Jesse Ventura Volunteer Committee (address below). We'll send you your PCR receipt and the form you use to claim your refund. You send the receipt and form to the Minnesota Department of Revenue. In about three to six weeks (longer during the January–April tax season), you will receive your PCR refund check from the State. It's that easy!<sup>48</sup>

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The website devotes a whole additional page to a more detailed explanation of the PCR program (<http://www.jesseventura.org/contrib/pcrinfo.htm>). In line with his campaign's enthusiasm, Governor Ventura recently proposed doubling the PCR limit as part of his campaign finance reform package.<sup>49</sup>

In contrast with Governor Ventura and the state Republican party, the Democratic-Farmer-Labor (DFL) Party includes no mention of the PCR on its website. Given the relative lack of promotion of the PCR, it is not surprising that the party lags far behind the Republicans in contributions received under the PCR program.

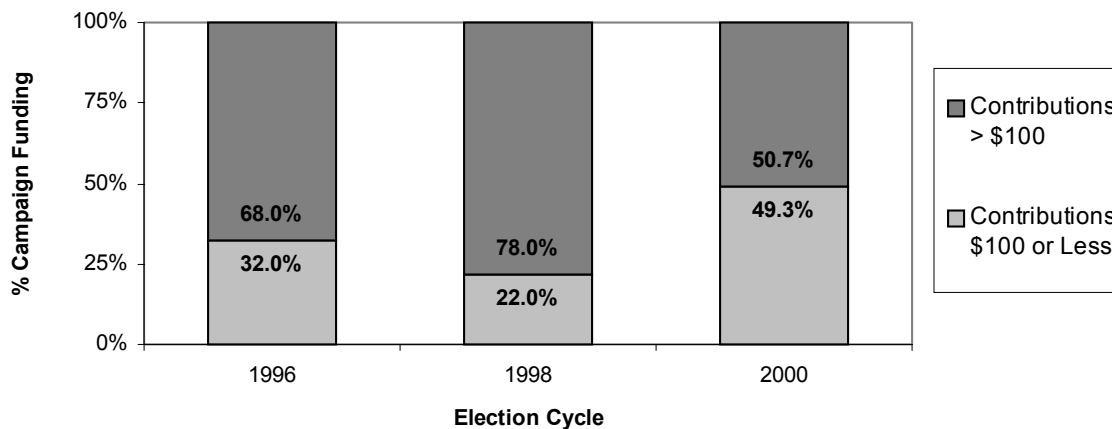
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<sup>48</sup> Source: [www.jesseventura.org/contrib/contreq.htm](http://www.jesseventura.org/contrib/contreq.htm).

<sup>49</sup> Dane Smith, "Interested in Campaign Finance," *Minneapolis Star Tribune*, March 7, 2001.

*Small contributions are integral.* Given the well-developed state of Minnesota’s public campaign finance system, as well as the highly participatory nature of politics in the state—voter turnout rates routinely exceed the national average by 15 to 20 percent in presidential years<sup>50</sup>—it is not surprising that small contributions are integral to Minnesota campaigns. Data from the National Institute on Money in State Politics indicate that contributions of \$100 or less have ranged from 20 to 50 percent of total contributions over the past three election cycles. See figure A2-12.

**Figure A2-12 Impact of Small Contributions on Minnesota Campaigns, 1996, 1998, and 2000**



Source: National Institute on Money in State Politics.

*Conclusion.* In summary, Minnesota’s PCR program is a vital element in a comprehensive and well-used public campaign finance system. The experience of the Republican Party of Minnesota indicates that a sophisticated program to encourage small donations via the PCR program can be an extremely effective fundraising tactic. But it is unclear whether the PCR is a motivator for people to contribute or simply a way for those who want to contribute to gain a stronger voice in the system by increasing the size of their contributions. What *is* clear is that aggressively promoting the PCR program has yielded great benefits for the Republican Party, while lack of aggressive promotion by the DFL has exposed a lost opportunity for that party and its candidates.

<sup>50</sup> These data are cited in Elazar, Gray, and Spano, *Minnesota Politics and Government*, p. 47.

Finally, Minnesota's unique political culture may be a driver of PCR usage patterns, as is the rapid return of funds to contributors. We believe that those factors provide a stronger incentive for citizens to participate in the financing of campaigns and for parties and candidates to promote the PCR.

**Ohio**

Enacted:	1995, by the state legislature
Format:	100 percent tax credit
Maximum:	\$50 for individuals, \$100 for couples
Eligible Campaigns:	state and local candidates
Timing:	when taxes are filed
Contribution Limits:	\$2,500 per election for candidates
Tax Checkoff:	\$1, for a general political party fund (no cost to taxpayers)
Other Public Financing:	none

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**Background**

The winter of 1995 saw a flurry of action on campaign finance reform in Ohio, largely because of a petition drive that forced the legislature to take up campaign reform or face the prospect of a ballot initiative on a rival reform proposal. In response, the legislature passed Senate Bill 8, a Republican-sponsored package of reforms that included:

- a \$2,500 per-election (that is, primary and general) limit on contributions to candidates by individuals, PACs, and campaign committees;
- a \$16,500 limit on contributions to political parties;
- a \$5,000 limit on contributions to legislative caucuses, PACs, and party committees;
- more complete disclosure of campaign receipts and expenditures, including disclosure of a contributor's employer;
- limits on solicitation of donations by public employees;
- limits on direct dollar contributions to candidates by political parties and caucuses; and
- a \$50 tax credit (\$100 for couples filing jointly) for individual contributions to candidates.

Before 1995 Ohio had no limits on campaign contributions or expenditures. On signing the bill into law, then-Governor George Voinovich said, "I'm confident there'll be a substantial reduction in the amount of money spent on campaigns."<sup>51</sup>

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<sup>51</sup> Voinovich was quoted in Lee Leonard, "Voinovich OKs Finance Reform Plan," *Columbus Dispatch*, May 25, 1995. A subsequent *Dispatch* analysis of state legislative races found that campaign costs rose significantly in 1996 (Darrel Rowland, "Campaign Reforms Fall Short," *Columbus Dispatch*, June 29, 1997).

Notable in the new campaign finance rules was what was *not* limited—namely, in-kind contributions by parties and legislative caucuses to candidates. Because parties and caucuses could raise money in larger amounts than candidates, politicians had a strong incentive to devote significant resources to party fundraising, which could then be used to provide expensive in-kind services, such as advertising production and media buying, to candidates. The new law provided no tax credit for contributions to political parties, although it did retain Ohio’s tax checkoff for a general political party fund. One net effect of the reforms was to maintain the powerful position held by the state parties and legislative caucuses vis-à-vis candidates.

#### How the Credit Works

Ohio offers a \$50 tax credit to individuals or \$100 for couples filing jointly on contributions to any statewide or general assembly candidate. Ohio taxpayers do not have to fill out any additional tax forms or provide documentation backing up tax-credit claims, and the Department of Revenue does not currently audit tax-credit claims.

#### Other Tax Credits

While Ohio’s income tax code includes a dozen different tax credits for individuals, only four require the taxpayer to spend cash in advance of receiving the credit—credits for child care expenses, early stage investments, adoption-related expenses, and political contributions. The Ohio Department of Taxation estimates that aside from the child care credit, which cost the state \$6.8 million in fiscal year 2000, none of the tax credits cost more than \$1.7 million in fiscal year 2000.<sup>52</sup>

#### Other Public Campaign Financing

Taxpayers have the opportunity to contribute \$1 (\$2 for couples filing jointly) to a political party fund via a tax checkoff. According to the Department of Taxation, money from this fund can be used for administrative expenses for party headquarters and fundraising, voter registration, and non-candidate-specific get-out-the-vote campaigns. Checking the box costs the taxpayer nothing; instead, the state allocates separate money from the annual budget. Participation in the checkoff

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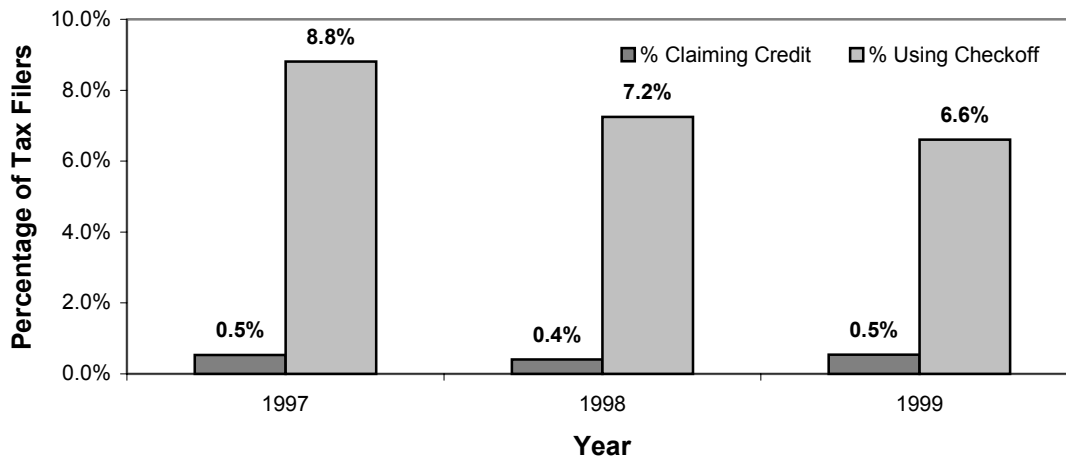
<sup>52</sup> Ohio Department of Taxation, *State of Ohio Executive Budget for Fiscal Years 2002 and 2003, Book Two: Tax Expenditure Report*, January 2001.

has declined substantially since the early 1990s. Fewer than 360,000 tax filers, or 6.6 percent, checked the box in 1999, down from 560,000, or 11.5 percent of filers, in 1993.<sup>53</sup>

### Results and Analysis

Even with the decline in popularity of Ohio's political party checkoff, the state's Political Contributions Credit still lags far behind in usage. No more than one-half of 1 percent of Ohio taxpayers has ever claimed the Political Contributions Credit in a given year. See figure A2-13.

**Figure A2-13 Percentage of Checkoffs and Tax Credits for Ohio Tax Filers, 1997-1999**



Source: Ohio Department of Revenue.

But since the checkoff earmarks just \$1 (or \$2 for a married couple filing jointly) for the political party fund, the tax credit represents a larger use of state funds—\$2 million in 1999, versus \$360,000 to \$720,000 for the checkoff.

Data from the Ohio Secretary of State's Campaign Finance Database<sup>54</sup> indicate that small donations have generally been unaffected by the introduction of the tax credit. In the four-year

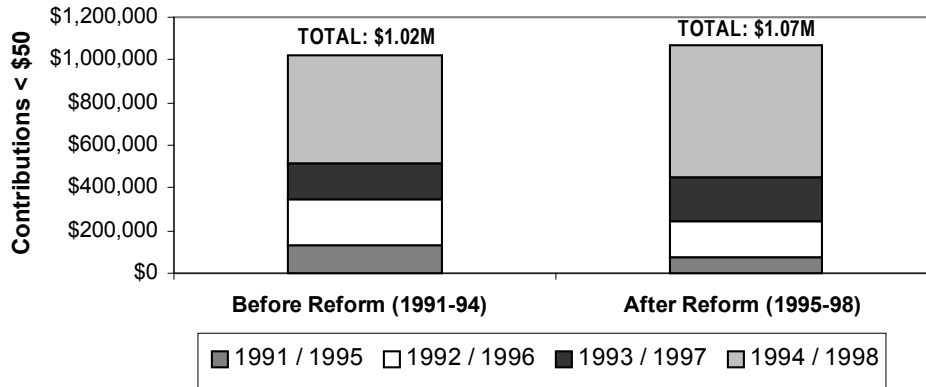
<sup>53</sup> In contrast, the Ohio Democratic and Republican Parties each raised more than \$12 million in 2000, which dwarfed the funds generated by the political party checkoff.

<sup>54</sup> [www.state.oh.us/sos/contents\\_campaign\\_finance.htm](http://www.state.oh.us/sos/contents_campaign_finance.htm) (Ohio Secretary of State website).



cycle 1995–1998 versus 1991–1994, contributions of \$50 or less to statewide candidates rose less than 5 percent, before accounting for inflation.<sup>55</sup> See figure A2-14.

**Figure A2-14 Effect of 1995 Ohio Tax Credit Reforms on Dollars Raised from Small Contributions, 1991-1998**



Note: Data include statewide campaigns only.  
 Source: Ohio Secretary of State Campaign Finance Database.

In addition, no evidence exists that the people who provide small contributions are the same people who are claiming tax credits. In nonelection years (that is, odd-numbered years), the state received many more tax-credit claims than records of small contributions, as measured by the number of claims and contributions and actual dollars claimed and contributed.<sup>56</sup> This indicates that Ohio law is not just rewarding small donors—it is rewarding *all* donors—and that many small contributors are simply not taking advantage of the tax credit.

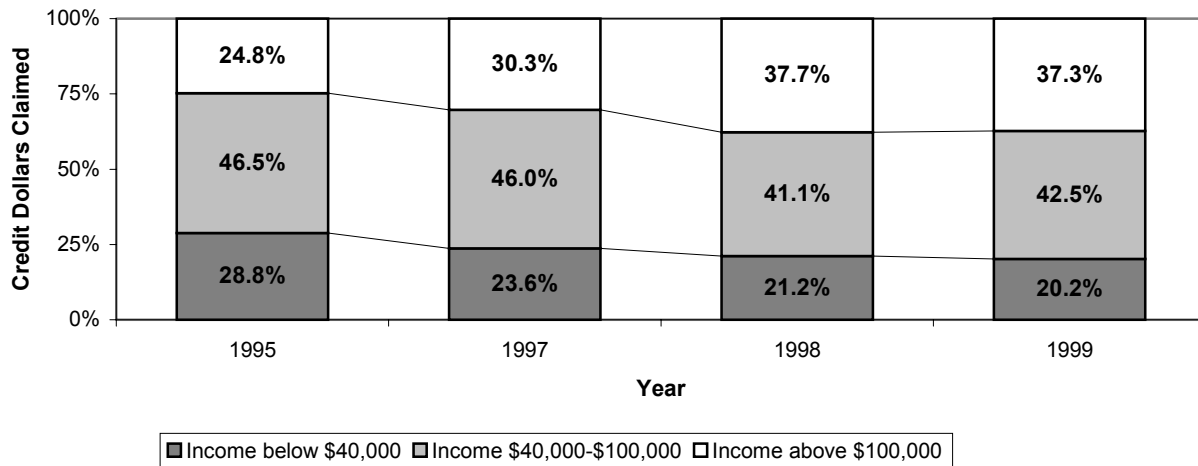
This lack of impact on small contributors indicates that wealthier taxpayers may be reaping the benefits of the tax credit. An income breakdown of tax-credit claimants provides further support for this hypothesis. According to the Ohio Department of Taxation, the proportion of tax-credit dollars going to taxpayers with household incomes exceeding \$100,000 has been rising since the credit was introduced in 1995. Nearly \$750,000, or 37 percent of credit dollars, was issued to

<sup>55</sup> John Green of the University of Akron documents a significant decline in small contributions from individuals in his paper, “The Impact of the 1995 Ohio Campaign Finance Reforms: An Analysis of the Patterns of Donations and Donors, 1998 and 1994.” In his study Green describes a “squeeze toward the middle” in donation size—that is, the proportion of donations over \$5,000 and under \$200 declined by almost half while the proportion of donations between \$200 and \$5,000 increased significantly. Green’s analysis corroborates our finding that small contributions have not increased as a result of Ohio’s 1995 reforms.

<sup>56</sup> Ohio Secretary of State Campaign Finance Database, Ohio Department of Taxation.

these wealthy households in 1999. Credit dollars to middle- and low-income taxpayers have been roughly flat since 1995. Middle-income donor credits still make up the plurality of credits issued (42.5 percent in 1999), while low-income donor credits now account for just 20 percent of credit dollars issued. See figure A2-15.

**Figure A2-15 Effect of Ohio Tax Credit Reforms on High-, Mid-, and Low-Income Tax Filers, 1995, 1997, 1998, and 1999**



Note: The 1996 data are not available.  
 Source: Ohio Department of Taxation.

The Ohio experience highlights the added costs of a tax-credit law with no limits on donor income. Limiting the credit to families with incomes below \$100,000 would have saved the state nearly \$2 million from 1997 to 1999. Income limits clearly enable the government to better target a tax credit for small political contributions and effectively encourage nonrich citizens to financially support the candidate(s) of their choice while minimizing the cost to the state.

Maximizing the efficiency of the tax credit is particularly important when a state is facing a financial crisis. During the 2001 legislative session, in an effort to provide much needed education funding, the Ohio Senate repealed the tax credit for political contributions; the credit was restored in conference committee. Revising the tax-credit law to provide maximum benefit to the families it is designed to assist would enable the state to save money and continue to reward small, middle-class political contributors.

**NEW TAX CREDITS: ARKANSAS, ARIZONA, AND VIRGINIA****Arkansas**

Enacted:	1996, by ballot initiative
Format:	100 percent tax credit
Maximum:	\$50 for individuals, \$100 for couples
Eligible Campaigns:	state and local candidates, parties, or PACs
Timing:	when taxes are filed
Contribution Limits:	\$1,000 for constitutional offices, less for legislative and judicial offices
Tax Checkoff:	none
Other Public Financing:	none

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**Background**

The Arkansas tax credit was introduced as part of a comprehensive ballot initiative on campaign reform in 1996. Most aspects of the Arkansas reform plan were overturned in legal challenges.

Supporters of Initiated Act 1, a comprehensive campaign finance reform initiative, spent just \$35,000 on their 1996 effort, which led the *Arkansas Democrat-Gazette* to dub it “one of the smallest campaigns waged this political season.”<sup>57</sup> Yet the act passed by a nearly two-to-one margin and earned even more votes (487,732) than the presidential reelection campaign of former governor and favorite son Bill Clinton (475,171).<sup>58</sup>

Initiated Act 1 introduced a series of stringent contribution caps for state and local campaigns—\$300 for constitutional offices such as governor and secretary of state and \$100 for all other state-level offices. It created “small donor PACs” to collect, aggregate, and disburse low-level donations from small contributors, allowed local jurisdictions to set their own contribution limits, and established a \$50 tax credit for individuals (\$100 for couples filing jointly) on contributions to any state or local candidate, party, or PAC. According to Scott Trotter, the author of Initiate

<sup>57</sup> Grant Tennille, “Act 1 Seeks to Put Rein on Gifts,” *Arkansas Democrat-Gazette*, November 2, 1996.

<sup>58</sup> [www.sosweb.state.ar.us/ballot\\_results.html](http://www.sosweb.state.ar.us/ballot_results.html) (Arkansas Secretary of State website).

Act 1, “The whole idea is to bring a lot more small contributors into the process and reduce the influence of big contributors.”<sup>59</sup>

Almost immediately after the law passed, opponents—who had raised barely a stir during the campaign—began challenging the constitutionality of Initiated Act 1 in the federal courts. Immediate postelection opposition focused on the potential costs of the tax credit, with Governor Mike Huckabee claiming that the credit could cost the state as much as \$70 million.<sup>60</sup> But the actual appeals were based on the strict new contribution limits, which ultimately were rejected in June 1998. The tax credit, small-donor PACs, and the ability of local governments to further limit contribution levels were left in place.<sup>61</sup>

### How the Credit Works

To claim the Political Contributions Credit, Arkansas taxpayers fill out an additional, one-page tax form listing the candidate or organization to whom the donation was made, the office the candidate was seeking, and the amount of the donation. The Department of Revenue requires no backup documentation and does not specifically audit tax-credit usage.

### Other Tax Credits

Arkansas taxpayers can take advantage of a few other state-specific tax credits—most notably a “working taxpayer” credit of up to \$50 against Social Security taxes—but none that also require the taxpayer to provide a donation of funds in advance of tax filing.

While Arkansas has no tax checkoff for a public campaign fund, there are voluntary checkoffs for donations in any amount to the U.S. Olympic Committee and the Arkansas Disaster Relief Program; the state does not match these donations.

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<sup>59</sup> Olivier Uyttebrouck, “Plan to Lessen Money’s Role in Elections Passes 2-to-1,” *Arkansas Democrat-Gazette*, November 7, 1996.

<sup>60</sup> “Tax Credits for Campaign Gifts Go Begging,” *Arkansas Democrat-Gazette*, November 16, 1996.

<sup>61</sup> Linda Friedlieb, “Judges Kill Donor Limits in State Law,” *Arkansas Democrat-Gazette*, June 5, 1998. According to the paper, the court claimed that local governments’ flexibility to limit contributions was not ready for scrutiny since no jurisdiction had actually enacted a lower contribution limit.

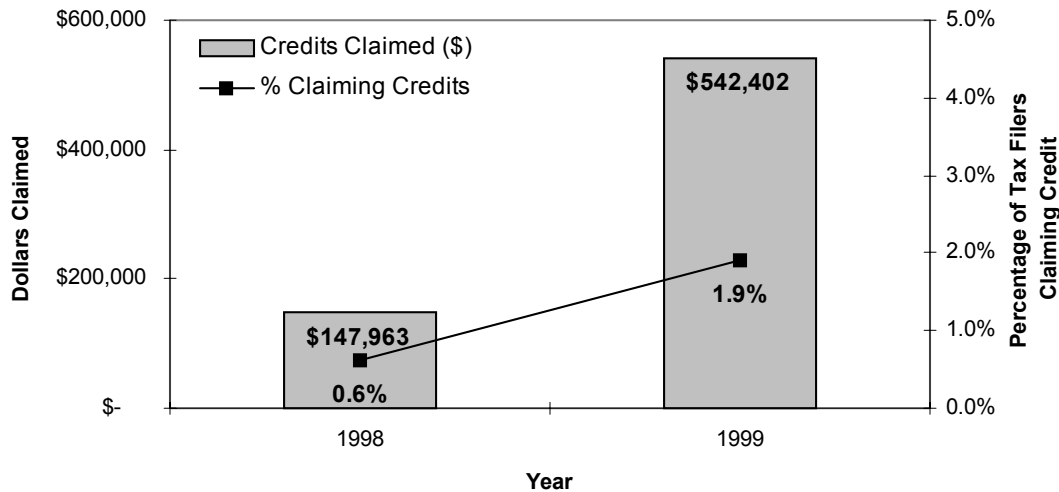
Other Public Campaign Financing

The tax credit is the only form of public campaign financing in Arkansas.

Results and Analysis

The Arkansas tax credit is getting more popular but remains a small part of the state budget and a minor piece of the campaign finance system. See figure A2-16.

**Figure A2-16 Popularity of the Arkansas Tax Credit Reform, 1998 and 1999**



Source: Arkansas Department of Revenue.

Even in a state where a state legislative campaign in a rural area can cost as little as \$15,000,<sup>62</sup> it is not clear how much \$542,000 in tax credits really means to the Arkansas campaign finance system. For example, Democratic U.S. Senator Blanche Lambert Lincoln raised \$3.1 million to win her first statewide campaign in 1998, while Republican Governor Mike Huckabee raised \$2.3 million for his winning effort that same year. On the basis of those figures and the spending of Lambert’s and Huckabee’s main opponents, plus estimates of spending by 1998 congressional, state legislative, and local campaigns, it is fair to assume that \$10 million to \$12

<sup>62</sup> Interview with Professor Hal Bass, Ouachita University, August 2001.

million were spent on Arkansas campaigns in 1998.<sup>63</sup> By that measure, the tax credits accounted for about 5 percent of total contributions in 1998.

While tax-credit usage in Arkansas has already surpassed that of Ohio and Virginia, it lags significantly behind states like Oregon and Minnesota. On the basis of interviews with political scientists and local political leaders, the main reasons for low participation in Arkansas are low awareness and lack of promotion.

“It’s not big” to promote the credit in fundraising materials, according to Heather Rackley, finance director for the Arkansas Republican Party. “It’s possible that candidates are not aware of it. We probably should be utilizing it.”<sup>64</sup>

State Senator Percy Malone (D-Arkadelphia) acknowledged that he, like most of his colleagues, believes that “small contributions are very important.” But he said that he had only mentioned the tax credit once, “in a kidding way, with one friend.” The implication of using the tax credit as a fundraising tool, he said, was that constituents would hear the pitch as, “I think you’ll only give to my campaign if it doesn’t come out of your pocket,”—that is, that the legislator is not worth supporting with a contribution that the state will not reimburse. He added that he had heard “no discussion of how to promote the tax credit.”<sup>65</sup>

One political party leader also noted a lack of awareness of the tax credit. “The credit is not used as effectively as it could be,” he said. “I think a lot of candidates are not aware of it.”

Interestingly, when asked whether his party promoted the credit in its own fundraising, the same party leader responded by asking whether the credit actually applied to donations to political parties.<sup>66</sup> (It does.) In this environment, it is perhaps surprising that almost 2 percent of Arkansas taxpayers took part in the program at all.

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<sup>63</sup> Center for Responsive Politics ([www.opensecrets.org](http://www.opensecrets.org)); Michael Barone, *Almanac of American Politics 2002* (Washington, D.C.: National Journal Group, 2001); Rachel O’Neal, “Huckabee Handed Full Term,” *Arkansas Democrat-Gazette*, November 4, 1998. The Arkansas secretary of state reports fundraising totals by campaign but does not aggregate fundraising totals by office or by year, which makes it difficult to develop a more precise accounting of total fundraising.

<sup>64</sup> Interview, August 2001.

<sup>65</sup> Interview with State Senator Percy Malone, August 2001.

<sup>66</sup> Interview, August 2001.

Scott Trotter, the author of Initiated Act 1, recently expressed his belief that “the tax credit was a bigger deal when the entire act was in place. Once the court reverted the contribution limits to \$1,000, there was less reason for candidates to put their focus on small contributions.” Today, Trotter said, most references to the tax credit are in “small print disclaimers,” along with contribution limits and other administrative information. Rackley agreed, saying that some of the Republican Party’s “return pieces” mention the tax credit.<sup>67</sup>

The Arkansas political establishment has not embraced or, in some cases, even acknowledged the credit for political contributions as a viable fundraising mechanism. But a program designed to enfranchise middle-income and low-income citizens in the political process seems tailor-made for a state where, according to the *Almanac of American Politics*, “the gulf between the very rich and the rest of Arkansas remains whole magnitudes larger than in most other states.”<sup>68</sup> Politicians and the major parties must take the lead in promoting the tax credit if Arkansas is to realize Trotter’s stated goal of “bringing a lot more small contributors into the process.”

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<sup>67</sup> Interviews, August 2001.

<sup>68</sup> *Almanac of American Politics* 2002.

**Arizona**

Enacted:	1998, by ballot initiative
Format:	100 percent tax credit
Maximum:	\$500
Eligible Campaign:	nonpartisan Clean Elections Fund
Timing:	when taxes are filed
Contribution Limits:	statewide candidates: \$760 other offices: \$300 total per person per calendar year: \$2,820
Tax Checkoff:	\$5, for Clean Elections Fund (no cost to taxpayers)
Public Financing:	Clean Elections funding from various sources, including tax checkoff

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**Background**

“For more than a decade, Arizona politics have been all but synonymous with political corruption,” said the *Arizona Republic* following the passage of Proposition 200, the “Clean Elections Initiative,” in 1998. By a narrow 51 percent to 49 percent margin, Arizonans voted to establish the new Citizens for Clean Elections Commission (CCEC) to administer a fund for public financing of statewide and state legislative campaigns. Although the initiative was quickly attacked in state and federal courts and the state legislature, and newspaper headlines claimed that the new system “confounds candidates,” Arizona’s new campaign finance regime was ruled constitutional in 1999 and was in effect for the 2000 elections.<sup>69</sup>

The CCEC fund derives revenue from the following sources:<sup>70</sup>

- a 10 percent surcharge on all civil and criminal fines and penalties collected by the state;
- a \$100 annual fee imposed on lobbyists representing commercial or for-profit interests;
- \$5 qualifying contributions collected by Clean Elections candidates during the qualifying period;
- voluntary tax-related donations by individuals:

<sup>69</sup> Various reports in the *Arizona Republic*, 1998–1999.

<sup>70</sup> Clean Elections Institute, “Funding Sources for the Clean Elections Fund.”



- If the taxpayer gets a refund, he or she can donate \$5 of it to the CCEC by using a tax checkoff on the individual state income tax returns.
- If the taxpayer has tax liability, he or she can reduce it by \$5 by using a similar tax checkoff. The state reduces the taxpayer's liability by \$5 *and* transfers an additional \$5 to the CCEC (that is, the cost to the state for each checkoff is \$10).
- If the taxpayer expects to have significant tax liability, he or she can make a contribution to the CCEC during the calendar year and claim a 100 percent tax credit of up to \$500 or 20 percent of taxes owed, whichever is greater.<sup>71</sup>

Unlike the other state laws, the Arizona credit is designed to reward citizens for supporting a campaign finance system, not to encourage partisan contributions to specific candidates whom a donor finds most appealing. This singular focus on a nonpartisan “clean elections” system makes Arizona’s tax credit system, by definition, an outlier in the context of any discussion of tax credits for political contributions.

#### How the Credit Works

Any Arizonan who makes a direct contribution to the CCEC Fund can claim a credit equal to the size of the contribution, up to \$500, assuming the taxpayer has a tax liability. No additional documentation is required to claim the Clean Elections Fund Tax Credit.

#### Other Tax Credits

Tax credits have become increasingly popular in Arizona in the past several years. More than thirty credits for individual taxpayers are on the books, up from four in 1994. Taxpayers can claim credits for donations to public and private schools, provision of technological skills training to employees, donations to charities that provide assistance to the working poor, donations of motor vehicles to the Wheels to Work Program, donations to the CCEC, and more.<sup>72</sup>

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<sup>71</sup> The credit maximum was raised to \$530 for calendar year 2001.

<sup>72</sup> Office of Economic Research and Analysis, Arizona Department of Revenue, “Income Tax Credits in Arizona,” August 2000.

### Results and Analysis

Despite the relative generosity of the Arizona tax credit law, direct contributions to the CCEC pale in comparison with revenues generated by the tax checkoff. The CCEC reported no direct contributions to its Clean Elections Fund in calendar year 1999 and just 191 contributions, totaling \$65,500, in 2000. In contrast, 12 percent of filers checked the box on their 1999 tax forms to raise \$1.8 million for the fund. Data on tax year 2000 indicate that participation has risen to 17 percent to generate more than \$2 million for the fund.<sup>73</sup>

Still, even tax checkoffs are not the lifeblood of the CCEC Fund. The 10 percent assessment levied on fines and penalties currently provides two-thirds of CCEC Fund revenue. Five-dollar tax checkoffs finance nearly 30 percent of the fund, while credit-eligible direct donations lag far behind. See table A2-1.

**Table A2-1 Percentage of Tax-Credit-Eligible Contributions to the Arizona Citizens for Clean Elections Commission Fund Revenue, Fiscal Year 2001**

Funding Source	FY 2001 Funds	% Total
Civil and Criminal Fines and Penalties	\$ 5,239,294	66.0%
\$5 Tax Checkoffs	2,265,099	28.5%
Lobbyist Fees	215,100	2.7%
Qualifying Contributions Raised by Candidates	155,252	2.0%
<b>Direct Contributions to CCEC (<i>credit-eligible</i>)</b>	<b>65,151</b>	<b>0.8%</b>
Miscellaneous Revenue	117	0.0%
<b>TOTAL</b>	<b>\$ 7,940,013</b>	<b>100.0%</b>

Note: Checkoff and direct contribution figures are estimates based on the percentage of tax-related revenue recorded by the CCEC for calendar year 2000. Arizona's fiscal year 2001 ended on June 30, 2001.  
Source: Arizona Department of Revenue.

We have identified two main reasons why the Arizona tax credit has not gained traction as a serious mechanism for enfranchising middle-class voters.

<sup>73</sup> Interview with Matt Shaffer, deputy director, Citizens for Clean Elections Commission, August 2001.

First, the tax checkoffs simply have wider appeal than the tax credit. According to Professor Ruth Jones of Arizona State University, one of the five Clean Elections Commissioners, the tax credit was never designed to be the primary funding source for the Clean Elections Fund. “The credit targets a very different audience than the checkoffs,” said Jones, “because you have to have a tax liability to claim the credit. The credit is targeted to a pretty small sector of taxpayers. If we want to increase participation and involvement, the best place to look is the tax checkoff. It offers the greatest probability of including the largest number of people.”<sup>74</sup>

Second, Arizona offers more than thirty other tax credits, many of which strike much closer to the average taxpayer’s heart. Although taxpayers are free to claim all the credits for which they are eligible, little doubt exists that offering so many credits essentially pits many worthy causes against each other for citizens’ contributions. Sharlene Bozack, executive director of the Clean Elections Institute, an independent, not-for-profit watchdog organization, put it this way: “The CCEC is in competition with all the other tax credits. Only people who are political animals will use this tax credit. People give money to something they have a passion for, and not everybody has a passion for our public financing system.”<sup>75</sup>

Data on tax-credit claims in Arizona support Bozack’s point. In 1998 more than 36,000 Arizonans claimed a \$200 credit for donations to public school extracurricular activities. Claimants received \$6.5 million in credits as a result of their donations—about 100 times as much as CCEC fund donors received in 2000. See table A2-2.

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<sup>74</sup> Interview, August 2001.

<sup>75</sup> Interview, August 2001.

**Table A2-2 Comparison of Arizona Clean Election Fund Claims in 2000 and School Credit Claims in 1998**

<b>Tax Credit</b>	<b>Credit Max.</b>	<b>Year</b>	<b># Claims</b>	<b>\$ Claimed</b>
CCEC Credit	\$500	2000	<b>191</b>	<b>\$ 65,500</b>
Private School Tuition Organization Credit	\$500	1998	<b>3,548</b>	<b>1,571,100</b>
Public School Extracurricular Activity Credit	\$200	1998	<b>36,479</b>	<b>6,636,201</b>

Source: Arizona Department of Revenue.

Both Jones and Bozack believe that, over time, the tax credit will become a more important revenue source for the Clean Elections Fund. But both acknowledged that the system was not designed to rely on the tax credit as the CCEC's primary funding source. The tax credit "can be a viable funding resource," said Bozack, "but it's always going to be a minor influence. As the system becomes more acceptable, the credit will account for more of the fund, but never the majority." Jones agreed, "The credit can be a bigger source of funds. It will have to grow with the confidence people have in the system."

The CCEC recently launched a public education campaign designed to raise awareness of the clean elections process in general and the various tax incentives for Arizonans to contribute to the Clean Elections Fund. Currently, the campaign is focused on educating financial planners and tax preparers, with the hope that they will pass on information about the CCEC to their clients at tax time. "We are relying on the familiarity of financial planners to explain how it all works," said Jones. A paid media campaign may follow as well.<sup>76</sup>

In the long run, Jones said, "I'd like to see more participation, in both checkoffs and credits." But, she added, "We are as interested or more interested in getting people to participate in the system" as in generating revenue through the tax programs.

<sup>76</sup> Interviews with Ruth Jones and Jill Collins of the CCEC, August 2001.

**Virginia**

Enacted:	1999, by the state legislature
Format:	50 percent tax credit
Maximum:	\$25 for individuals, \$50 for couples
Eligible Campaigns:	state and local candidates
Timing:	when taxes are filed
Contribution Limits:	none
Tax Checkoff:	\$25 tax checkoff for major political parties (counts against taxes)
Other Public Financing:	none

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**Background**

After several years of introducing a bill creating a credit for political contributions only to see it die in committee, Delegate James H. Dillard II (R-Fairfax) finally succeeded in 1999. Following the bill's passage by the House of Delegates, Virginia introduced its tax credit for political contributions with little fanfare in 2000.

**How the Credit Works**

Under the law, taxpayers may claim a 50 percent credit on contributions in any amount to any state or local candidates. In this respect, Virginia's law differs from those in the other five states; those laws provide a full 100 percent tax credit for political contributions. The credit maximum in Virginia is \$25 for individuals or \$50 for couples filing jointly. No additional documentation is required to claim the credit.

**Other Tax Credits**

The tax credit for political contributions is one of approximately twenty tax credits on the books in Virginia.

### Other Public Campaign Financing

According to one major newspaper, “Virginia’s campaign finance laws remain some of the most lax in the nation.”<sup>77</sup> Virginia has no limits on contributions to candidates, parties, or PACs by individuals, corporations, or labor unions.

Virginia does offer taxpayers an opportunity to contribute up to \$25 to the Democratic, Republican, or Reform Party via a tax return checkoff. A tax checkoff contribution is an add-on to current taxes; that is, it either comes out of the taxpayer’s refund or increases the taxpayer’s liability. Usage of the political party checkoff has dropped steadily during the 1990s. In 1994 nearly 8,000 taxpayers earmarked \$68,500 in refunds for the major political parties; in 1998 just 3,400 taxpayers donated \$45,700 by using the checkoff.<sup>78</sup>

### Results and Analysis

As of August 1, 2001, 2,021 taxpayers, less than .1 percent, filed claims of \$67,980 for the tax credit for political contributions for tax year 2000. Tax filing and processing are not yet complete; in addition, 2000 was the first year the credit was in effect. Therefore, it is difficult to estimate accurately the total number of credits that will be claimed for 2000. Still, we believe it is reasonable to extrapolate that the state will issue from \$100,000 to \$200,000 in tax credits for tax year 2000. At a credit rate of 50 percent, this represents \$200,000 to \$400,000 in donations.

In a state with no contribution limits, where Governor Mark Warner spent a record \$20 million on his 2001 campaign,<sup>79</sup> even \$400,000 in small donations is a drop in the bucket. And it is not clear that all of these contributions are actually “small,” since a \$25 credit can be claimed on a donation of any size. Therefore, it is difficult to make the case that, on its own, the Political Contributions Credit can substantively alter Virginia’s campaign finance system.

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<sup>77</sup> “Back to the Books on Campaign Finance Reform” (editorial), *Virginian-Pilot*, July 8, 2001.

<sup>78</sup> The political party checkoff is one of sixteen tax refund donation opportunities available to Virginia taxpayers. A similar decline has marked the total use of tax checkoffs since 1994, while the state has doubled the number of contribution programs. Source: Virginia Department of Taxation, *Annual Report, Fiscal Year 2000*.

<sup>79</sup> R. H. Melton, “Warner Smashed Spending Record,” *Washington Post*, December 7, 2001.

In addition, preliminary data from the Virginia Public Access Project, using 1999 and 2001 House of Delegates races for comparison, indicate that the credit has had no immediate impact on small contributions. See table A2-3.

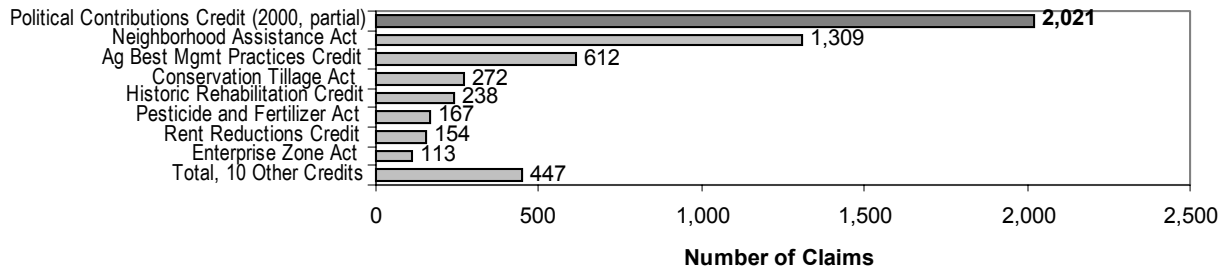
**Table A2-3 Effect of Virginia Tax Credit on Small Donations**

Reporting Period	All Donations to House Candidates	Donations of Less Than \$100 to House Candidates	Small Contributions as Percent of Total
1/1/98 — 6/30/99	\$6,760,002	\$863,454	12.7%
1/1/00 — 6/30/01	\$4,569,438	\$528,804	11.6%

Note: According to David Poole, executive director of the Virginia Public Access Project, total fundraising and small contribution levels could be lower in the 2001 cycle because of the lingering effects of redistricting, which has effectively delayed the start of many House races. This effect is likely even stronger for challengers, who often rely more on small donors than do incumbents. Source: Virginia Public Access Project.

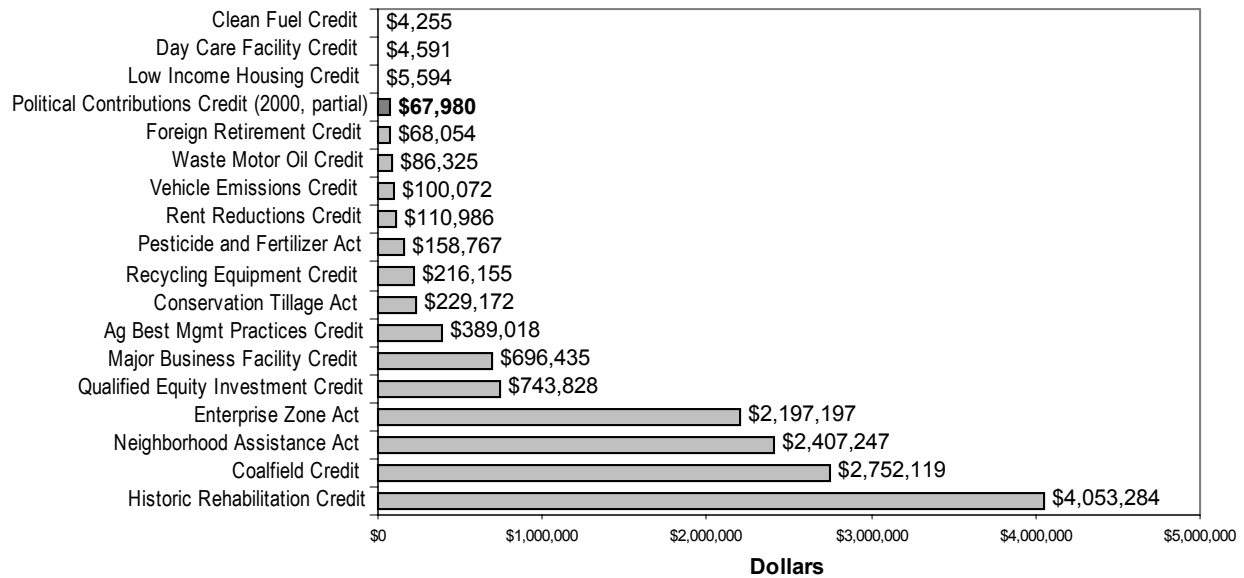
The Political Contributions Credit operates on the outskirts of Virginia’s overall campaign finance system, with a small number of credit claimants and a tiny financial impact on campaign finances. But in the context of other Virginia state tax credits, it is a relative success. Data from the state’s Department of Taxation indicate that more taxpayers have already claimed the new Political Contributions Credit for 2000 than have claimed any of the state’s other tax credits for all of 1999. Moreover, the credit is among the least expensive in Virginia. See figures A2-17 and A2-18.

**Figure A2-17 Comparison of the Number of Political Contributions Tax Credit Claims in 2000 with Other Tax Credit Claims in 1999 in Virginia**



Note: All data are from full year 1999, except the Political Contributions Credit. Source: Virginia Department of Taxation.

**Figure A2-18 Comparison of the Costs of Political Contributions Tax Credits in 2000 with the Cost of Other Tax Credits in 1999 in Virginia**



Note: All data are from full year 1999, except the Political Contributions Credit.  
Source: Virginia Department of Taxation.

Naturally, the low cost of implementing the tax credit is a reminder that a tax credit alone does not fundamentally change the way political campaigns are financed. And, as noted earlier, it is difficult to assess what proportion of the Political Contributions Credit is being directed to small contributors. Furthermore, while the Political Contributions Credit is more popular than other tax credits available to Virginia taxpayers, it has been claimed by less than one-tenth of 1 percent of 2000 tax filers. One reason for low participation may be that, according to Delegate Dillard, “no one is really promoting it.”<sup>80</sup>

But the fact remains that the Virginia credit is an inexpensive way to offer a real incentive for small donors to participate in a campaign finance system that otherwise provides massive incentives for candidates and parties exclusively to pursue large contributions. The net effect of the tax credit on the campaign finance system is minimal, but the spirit of the law and the impact on small contributors are both relevant and significant.

<sup>80</sup> Interview, August 2001.



## APPENDIX 3

### ESTIMATED BUDGET IMPACT OF A NEW FEDERAL TAX CREDIT

#### Methodology

We estimated the budget impact of a new federal tax credit for political contributions under an optimal scenario and three alternatives by using varying tax credit maximums and income limits.

#### Optimal Scenario:

1. \$200 individual tax credit (\$400 for married couples filing jointly), \$100,000 per household income limit.

#### Alternative Scenarios:

2. \$200 individual tax credit (\$400 for couples), income limit of \$50,000 per household;
3. \$100 individual tax credit (\$200 for couples), income limit of \$100,000 per household;
4. \$100 individual tax credit (\$200 for couples), income limit of \$50,000 per household.

In addition to the size of the credit and limits on household income, three variables went into our calculation of budget impact:

#### Number of eligible taxpayers

We based the number of taxpayers eligible for the tax credit on IRS estimates of the total number of taxpayers annually from 2003 to 2006, adjusted for income limits. In tax year 1999, 92.5 percent of taxpayers earned less than \$100,000, and 73.7 percent earned less than \$50,000. We used those percentages throughout the four-year period, with the presumption that a tax credit program would include some form of inflation index to maintain the approximate value of the credit relative to taxpayers' incomes.

#### Estimated participation

Rates of participation in the states range from near zero to about 6 percent in a given year. Rates of participation at the federal level averaged 4.9 percent during the 1980s. We set participation

rates at 1 to 3 percent on the basis of these historical data as well as our proposed inclusion of income limits. We presume higher participation in presidential and congressional election years and higher participation with higher income limits, since wealthier individuals are generally more likely to make political donations.

### Average claim

Across five of the six states we analyzed, the average tax-credit claim was 64 percent of the maximum credit for a married couple filing jointly.<sup>81</sup> We used that figure in all calculations to determine the average credit claim.

### Results and Analysis

On the basis of those assumptions, we project the cost of a broad new federal tax credit for political contributions to be approximately \$3.1 billion over four years, or about \$775 million per year. See table A3-1.

**Table A3-1 Estimated Cost of the New Federal Tax Credit for Political Contributions, 2003-2006**

<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>	<b>I</b>	<b>J</b>
Year	Total Taxpayers (IRS est., millions)	Percent Eligible (from 1999 data)	Eligible Taxpayers (B x C)	Estimated Participation (plug)	Total Claimants (D x E, millions)	Avg. Claim, as % of Couple Max (plug)	Maximum Claim for a Couple (plug)	Avg. \$ Claim (G x H)	Total Dollar Claims (F x I, millions)
<b>SCENARIO 1: \$200 per individual, \$400 per couple; \$100K household income limit</b>									
2003	134.3	92.5%	124.2	1.5%	1.86	64%	\$400	\$256	\$ 476.9
2004	136.2	92.5%	126.0	3.0%	3.78	64%	\$400	\$256	\$ 967.7
2005	138.2	92.5%	127.8	2.0%	2.56	64%	\$400	\$256	\$ 654.3
2006	140.5	92.5%	130.0	3.0%	3.90	64%	\$400	\$256	\$ 998.4
<b>5-year total participation:</b>					<b>12.10</b>	<b>5-year total budget impact:</b>		<b>\$3,097.3</b>	

<sup>81</sup> With a \$500 maximum credit and fewer than 200 claims in 2000, Arizona's program is an outlier and was excluded from this calculation.

Alternatively, we project that a scaled-down tax credit, with a lower credit maximum, a lower income limit, or both, would cost \$844 million to \$1.69 billion over four years. See table A3-2.

**Table A3-2 Estimated Costs of Alternative Federal Tax Credits for Political Contributions, 2003-2006**

<b>SCENARIO 2: \$200 per individual, \$400 per couple; \$50K household income limit</b>									
<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>	<b>I</b>	<b>J</b>
Year	Total Taxpayers (IRS est., millions)	Percent Eligible (from 1999 data)	Eligible Taxpayers (B x C)	Estimated Participation (plug)	Total Claimants (D x E, millions)	Avg. Claim, as % of Couple Max. (plug)	Maximum Claim for a Couple (plug)	Avg. \$ Claim (G x H)	Total Dollar Claims (F x I, millions)
2003	134.3	73.7%	99.0	1.0%	0.99	64%	\$400	\$256	\$ 253.4
2004	136.2	73.7%	100.4	2.0%	2.01	64%	\$400	\$256	\$ 514.0
2005	138.2	73.7%	101.9	1.5%	1.53	64%	\$400	\$256	\$ 391.3
2006	140.5	73.7%	103.5	2.0%	2.07	64%	\$400	\$256	\$ 529.9
<b>5-year total participation:</b>					<b>6.60</b>	<b>5-year total budget impact:</b>			<b>\$1,688.7</b>
<b>SCENARIO 3: \$100 per individual, \$200 per couple; \$100K household income limit</b>									
2003	134.3	92.5%	124.2	1.5%	1.86	64%	\$200	\$128	\$ 238.5
2004	136.2	92.5%	126.0	3.0%	3.78	64%	\$200	\$128	\$ 483.8
2005	138.2	92.5%	127.8	2.0%	2.56	64%	\$200	\$128	\$ 327.2
2006	140.5	92.5%	130.0	3.0%	3.90	64%	\$200	\$128	\$ 499.2
<b>5-year total participation:</b>					<b>12.10</b>	<b>5-year total budget impact:</b>			<b>\$1,548.7</b>
<b>SCENARIO 4: \$100 per individual, \$200 per couple; \$50K household income limit</b>									
2003	134.3	73.7%	99.0	1.0%	1.98	64%	\$200	\$128	\$ 126.7
2004	136.2	73.7%	100.4	2.0%	3.01	64%	\$200	\$128	\$ 257.0
2005	138.2	73.7%	101.9	1.5%	2.55	64%	\$200	\$128	\$ 195.6
2006	140.5	73.7%	103.5	2.0%	3.62	64%	\$200	\$128	\$ 265.0
<b>5-year total participation:</b>					<b>6.60</b>	<b>5-year total budget impact:</b>			<b>\$ 844.4</b>



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