



2019 Education Expense Credit and Rural Hospital Expense Credit Opportunities

January 23, 2019

During 2019, Georgia taxpayers have the opportunity to offset their Georgia income tax liabilities by contributing to two state income tax credit programs: The Georgia Education Expense Credit program, which supports scholarships for pre-k-12 students, and the Georgia Rural Hospital Organization Expense Credit program, which supports rural hospitals throughout the state. In exchange for contributing to either or both of these two programs, up to certain limits, taxpayers can receive a 100 percent credit against their Georgia income taxes.

Since last June, the IRS has released several pieces of guidance advising taxpayers regarding the tax treatment of contributions made to charitable organizations in exchange for state tax credits, principally in response to the new law limiting the deductibility of state and local taxes on individual tax returns to \$10,000.

Although, under proposed IRS regulations, individual donors to these programs may no longer take a federal charitable income tax deduction, *in the majority of cases, there is no financial cost for contributing to the programs in lieu of paying Georgia income tax liabilities.* Although taxpayers who desire to support pre-k-12 educational opportunities for families or enhance rural health care instead of paying their Georgia income taxes may do so without cost, unlike contributions made on or before August 27, 2018, there is presently no financial benefit in doing so.

Thus, in 2019, without any penalty or cost, the following individual taxpayers will be able to contribute to these programs in lieu of paying their Georgia income taxes: 1) taxpayers (including the owners of interests in pass-through business entities and trusts) who itemize deductions on their federal income return, who owe more than \$10,000 in state income taxes, and who, after paying the first \$10,000 of their Georgia income tax liability to secure the maximum federal state and local tax (“SALT”) deduction, contribute to one of the programs in lieu of paying their Georgia income taxes in excess of \$10,000; and 2) taxpayers who take the federal standard deduction because they do not itemize deductions on their federal income tax returns. In both cases, these individual taxpayers will be in the same position as before any pending change in IRS policy, being able to contribute for a 100 percent Georgia income tax credit, but not being able to take an itemized charitable deduction for their contributions.

The only category of donors who would be adversely impacted by contributing to one of these two programs are those who itemize, but whose state and local tax deduction is below the \$10,000 SALT cap, in which case payment of their Georgia income taxes will result in a federal deduction on Form 1040.

Under recent IRS “safe-harbor” guidance, so-called “C” corporations are permitted to take both a state income tax credit and a federal ordinary and necessary business expense deduction for contributing under these programs.

We are still waiting for final Treasury regulations to be issued addressing the tax treatment of contributions to charities for which the donors receive state or local tax credits. It is possible that the final rules will permit a federal deduction of contributions to state income tax credit programs that were established prior to the enactment of the SALT cap. In the meantime, Georgia taxpayers who are deciding whether to support pre-k-12 educational opportunities for families and/or rural hospitals should remember that, though they will not receive an extra financial benefit for contributing, except in limited circumstances, their net after-tax cash outlay will be the same whether they donate or make state tax payments to satisfy their Georgia tax liabilities.

Any tax advice contained herein is not intended or written to be used, and it cannot be used, by a client or any other person or entity for the purpose of avoiding penalties that may be imposed on any taxpayer.

BETTER TOGETHER™

A Limited Liability Partnership of Certified Public Accountants & Consultants

Riverwood 200 | 3300 Riverwood Parkway Suite 700 | Atlanta, GA 30339 | phone 770.396.2200 | fax 770.390.0394 | www.btcpea.net