



A Roadmap for CPAs, Financial Advisors, and Business Owners Interested in Providing Educational Choice for Georgia Students Through the GOAL Tax Credit

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Georgia GOAL Overview

- Georgia's state government enacted the popular Education Tax Credit law in 2008, as our state became an early leader in providing educational choice for families through tax credit scholarships, now available in 21 states, nationwide
- Taxpayers may contribute to SSOs, designating qualified private schools, and receive a 100% Georgia income tax credit and possible federal business expense deduction
- Independent studies consistently reveal fiscal and economic benefits, with Kennesaw State's Education Economic Center's 2020 report citing \$53.2 million in taxpayer savings in the 2018-19 academic year alone. The study also showed dramatically higher high school graduation and college attendance rates for GOAL recipients, compared to that of their public school peers
- Georgia lawmakers just raised the annual cap on education tax credits to \$120 million and increased all individual tax credit limits, effective in 2023

Education Tax Credit Contribution Limits effective in 2023

Tax Filing Status	Previous Limit	New Limit
Single Filer	\$1,000	\$2,500
Married Separate Filer	\$1,250	\$2,500
Married Joint Filer	\$2,500	\$5,000
Pass-Through Owner (<i>not</i> making HB 149 Election)	\$10,000	\$25,000
C Corp, Trust, or Pass-Through electing to pay tax at the entity level (HB 149)	75% of annual tax liability	
New for 2023: Business that Pays Insurance Premium Tax	75% of annual tax liability, but credit shall not exceed \$1 million	

Tax Filing Status**Previous Limit****New Limit**

Pass-Through Owner (*not* making HB 149 Election)

\$10,000

\$25,000

- Note: Pass-through income required to support a \$10,000 GOAL tax credit is \$173,913 (\$10,000 divided by .0575)
- Pass-through income required to support a \$25,000 GOAL tax credit is \$434,783
- *Keep in mind* that income from the pass-throughs can include both profits (K-1) and wages (W-2) income

GOAL for pass-throughs: too good to pass up!

- ***Favorable state and federal tax laws allow pass-through businesses to achieve remarkable benefits through the GOAL tax credit, including:***
 - ***a state income tax credit***
 - ***a federal tax deduction***
 - ***a meaningful philanthropic impact***



IRS Permits “SALT Workaround”

Opportunity for
“Electing” Pass-
Through Entities

IRS Allows “SALT Workaround” for Pass-through Entities Paying State Income Taxes

- In Notice 2020-75, the IRS announced that it will be issuing proposed regulations, effective November 9, 2020, that will clarify that state and local income taxes imposed on and paid by a partnership or S corporation with respect to its income are allowed as a deduction by the partnership or S corporation in computing its taxable income or loss for the taxable year of payment, and are not subject to the state and local tax deduction limitation for partners and shareholders who itemize deductions
- Currently, 23 states had enacted an elective entity-level tax on partnerships or S corporations: Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Georgia, Idaho, Illinois, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, New Jersey, New York, North Carolina, Ohio, Oklahoma, Oregon, Rhode Island, South Carolina, Wisconsin

SALT Workaround Comes to Georgia

- HB 149, which the Georgia General Assembly passed during its 2021 legislative session, effective in 2022 provides that pass-through entities, including S-Corporations and partnerships (including limited liability entities taxed as partnerships), may make an annual election to pay the tax due on income earned by the entity at the entity level at the rate of 5.75%.
- The election is only available to a pass-through entity that is 100% directly owned and controlled by natural persons (rather than companies or other entities). The election is available for taxable years beginning on or after January 1, 2022.
- HB 149 specifically provides that the electing entity shall be eligible for the Georgia GOAL credit, being treated as an “other entity” ***that is eligible for a credit equal in amount to the payment made to GOAL or 75% of the entity’s Georgia income tax liability, whichever is less!***

Illustration of HB 149 Tax Consequences

Annual Election to Pay Passthrough Entity's Georgia Tax Liability at the Entity Level Pursuant to HB 149 - Illustration of Tax Consequences			
	Scenario 1 (Election made pursuant to Georgia)		Scenario 2 (Election NOT made pursuant to Georgia)
	Company ABC		Company ABC
Georgia Taxable Income	1,000,000		1,000,000
Georgia Tax Rate	5.75%		5.75%
Georgia Tax	57,500		57,500
Federal Taxable Income (Before Georgia Tax)	1,000,000		1,000,000
LESS: Georgia State Tax Deduction	(57,500)		-
Federal Taxable Income (Post Georgia Tax)	942,500		1,000,000
Federal Tax Rate	37%		37%
Federal Tax	348,725		370,000
Total Cash Outflow			
Georgia Tax Paid via GOAL Contribution	43,125		-
Georgia Tax - Paid to GA DOR	14,375		
Georgia Tax - Paid by Shareholder(s) ₅	-		57,500
Federal Tax - Paid by Shareholder(s)	348,725		370,000
Total	406,225		427,500
Net Cash Savings by Making Election to Pay Georgia Tax at Entity Level		21,275	

IRS Regulations Create an Opportunity

Opportunity for
Pass-Through
Entities *not* making
the HB 149 election

- On August 11, 2020, the IRS published regulations confirming that a payment made by a pass-through business to a charity (such as a SSO) may qualify for a federal **ordinary and necessary business expense deduction**, *even where the owners receive a state income tax credit for the payment*
- Businesses can deduct payments relating to their trade or business that are made with the reasonable expectation of financial return commensurate with (but, according to the IRS, not necessarily equal to) the payment
- The business payment is a deductible advertising or marketing expense, which reduces the federal taxable net income of the pass-through business owner, resulting in federal tax savings of up to \$3,500 for a \$10,000 contribution in an [example](#) prepared by GOAL's CPA firm, Bennett Thrasher

The “Test” to Determine if the Payment is Deductible

If the business “reasonably believes the program will generate a significant degree of name recognition and goodwill in the communities where it operates and thereby increase its revenue,” a federal business expense deduction may be available *even though the business does not have a direct business relationship with the SSO or designated private school.*

An example in the IRS Regulations explains that the business expense deduction may be available for payments made by a business located in a state “for use in projects that improve conditions in the state,” which could include greater K-12 educational opportunities that improve educational outcomes, result in fiscal and economic savings for the state, and attract business to the state.

The business must reasonably believe that the payments will generate a significant degree of name recognition and goodwill in the communities where it operates and thereby increase its revenue.

Georgia DOR Permits Pass-Through Owners to Receive State Income Tax Credit When Entity Takes a Federal Business Expense Deduction

- Rule 560-7-8-.47 (as amended) relating to the Georgia GOAL Tax Credit program.
- Where a pass-through entity makes a payment to a SSO that is deductible as a business expense, the QEE tax credits will be earned by its members, shareholders, or partners based on their profit/loss percentage at the end of the tax year and the applicable maximum limits of Georgia law.
- Important note: applications must be submitted to Georgia GOAL for each pass-through owner's share of the QEE tax credit, per the total payment to be made by the business.
- Georgia pass-through business owners can receive the double tax benefit (of a federal deduction and state credit) originally available under the Georgia GOAL program!

Momentum

- CPAs and financial advisors throughout Georgia are increasingly recommending the GOAL tax credit opportunity, following recent statutory and regulatory changes
- In 2022, all \$100 million of available tax credits were consumed before the end of April
- 25% of all 2022 GOAL tax credits were granted to pass-through entities making the HB 149 election, even though this opportunity was brand-new
- We believe the entire \$100 million cap for 2023 will be met very early, potentially on the first business day of the year

Georgia GOAL – Signing Up for 2023

GOAL is now accepting applications for 2023 tax credits, which GOAL will submit to the Georgia Department of Revenue on first business day of 2023.

The GOAL 2023 tax credit application for pass-through entities allows for two paths:

1. One for pass-through entities electing to pay taxes at the entity level (considered “other entity” per our program)
2. Another for pass-through entities operating ‘as usual’ with income/loss flowing to pass-through owners, who pay associated taxes as individuals (considered “pass-through entity” per our program)

It is conceivable that the expanded opportunities for pass-through businesses will result in the GOAL cap being met on the first day – or very early in 2023.

GEORGIA **GOAL**

SCHOLARSHIP PROGRAM, INC.

Thank you!

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