

Louisiana's Tuition Donation Tax Credit (TDC)



At ACE Scholarships, we are changing lives one child at a time. Through the support of people like you, we are helping lift kids out of poverty and into a quality K-12 school of their choice. We know that every kid has the potential to be successful, but many simply lack the opportunity. With every tuition scholarship we award, we are bridging that opportunity gap. As a supporter, you can not only be confident in knowing that you can directly transform a child's life, but you can also enjoy what is simply the best tax incentive around: Louisiana's new Tuition Donation Credit (TDC).

Beginning January 1, 2018, corporate and individual taxpayers can claim a state income tax credit for donations to a qualified school tuition organization (STO). STOs are 501(c)(3) nonprofit organizations and are required by law to spend 95% of every donation on scholarships for low-income students in grades K-12. The credit is equal to the amount of the donation used to fund scholarships after administrative costs (not to exceed 5%) have been accounted for.

95%
OF THE AMOUNT
CONTRIBUTED TO ACE

Based on current interpretations, the tax credit is earned the year in which the donation is made. Any credit that is unused in a given year may be carried forward for a period of three years. The taxpayer must be required to file a Louisiana tax return in order to claim the credit.

Taxpayers will receive a receipt for the tax credit donation from the Louisiana Department of Education (LDE) in ample time to claim the credit when they file their returns. In addition, since the STO is a 501(c)(3) organization, the taxpayer should also receive a federal charitable contribution deduction for the full amount contributed to the STO. There is no limit to how much a donor can donate to the STO.

FEDERAL TAX DEDUCTIONS

The recently enacted Tax Cuts and Jobs Act severely limits the amount of state income and property taxes that can be deducted on a taxpayer's federal tax return. Beginning in 2018, the combined state income and property tax deduction a taxpayer will be allowed to claim is only \$10,000. Contributions to STOs could substantially mitigate the impact of this new, lower cap.

In addition to the educational benefits of donations to STOs, there is a significant tax benefit created by the fact that taxpayers can receive both a state tax credit and a federal charitable contribution deduction for their gifts.

Assume that a taxpayer anticipates that he or she will have a \$95,000 state tax liability for 2018. Let's also assume the taxpayer is in the 37% federal tax bracket. If the taxpayer simply pays the \$95,000 Louisiana tax, the taxpayer will be out of pocket \$91,300. This is the \$95,000 tax payment less the tax benefit of deducting \$10,000 of state income tax payments at a 37% rate. **\$95,000 - \$3,700 = \$91,300**

If that same taxpayer made a \$100,000 charitable contribution to an STO, the taxpayer would get \$95,000 in Louisiana tax credits. He or she would also get a \$100,000 charitable contribution deduction on his or her federal tax return. The taxpayer's net out-of-pocket amount would be \$63,000. This is the \$100,000 contribution less the tax benefit of the contribution on the taxpayer's federal return. **\$100,000 - \$37,000 = \$63,000**

The taxpayer in this example saves \$28,300 by utilizing the Tuition Donation Tax Credit rather than paying the tax outright. This example assumes \$95,000 in tax and a 37% federal tax bracket, but the analysis would be the similar for any taxpayers whose combined Louisiana income and property taxes exceed \$10,000.

THOUSANDS
in TAXPAYER SAVINGS

Donors should be aware that these benefits can be realized under existing state and federal law. As always, donors should consult their individual tax advisors on how donations would impact their own unique tax situations.