CHAT Tax Credit Programs
Executive Summary

• Virginia state tax credits can make it possible for CHAT’s partners to make significant donations that “cost” just a fraction of the donation’s value.

• Depending on individual tax situations, this program can return up to 84% of the value of a cash gift in tax savings, and potentially over 100% of a stock gift, depending on cost basis.

• Interested individuals should rely on tax professionals to evaluate their specific financial situation.
How do these credits work?

• A qualifying cash donation allows the donor to access the following tax savings:
  • 65% of the donation’s value is credited to Virginia income tax
  • The full donation’s value can be deducted from Virginia income tax (tax rate of 5.75%)
  • 35% of the donation’s value can be deducted from federal income tax (ranges from 10% – 37%)

• A qualifying stock donation allows the donor to access the savings above, as well as other savings:
  • Avoid capital gains tax (ranges from 15% – 20%)
  • Avoid net income investment tax (3.8% for high earners)
What are the criteria to qualify?

• Individuals can qualify for these credits by making donations of $500 to $125,000.
  • Gifts via check, credit card, shares of stock, shares of mutual funds, or distributions from a retirement account all qualify for these credits.
  • Gifts from a Donor-Advised Fund or Foundation do not qualify for tax credits.

• Corporations can qualify for these credits by making a donation of at least $500 – there is no maximum contribution limit.

• Paperwork must be filed within 40 days of the date of the donation.
How do donors use these credits?

We typically see donors use these credits in two different ways:

1. Some donors use this program to multiply their giving – e.g. they were planning on giving $2,500, but through tax credits, they’re able to give a gift of $10,000, since they save $7,500 in taxes.

2. Other donors use this program to redirect as much of their state tax liability to CHAT as possible. This is most easily accomplished by a gift of highly appreciated securities, but some donors do this through cash as well.
Example 1

Individual Taxpayer with MAGI in the 22% federal income tax bracket who itemizes their deductions and makes a $10,000 gift of either:

- Cash
- Shares of a security that has appreciated by 200% since individual assumed ownership
Example 1: Individual in 22% tax bracket makes $10,000 gift

**Cash Gift**
- Capital Gains Savings: $575
- State Deduction: $6,500
- Federal Deduction: $770
- State Credit: $770
- Tax Savings: $7,485

**Securities Gift**
- Capital Gains Savings: $575
- State Deduction: $6,500
- Federal Deduction: $770
- State Credit: $770
- Tax Savings: $8,845
Example 2

Individual Taxpayer with MAGI in the highest federal income tax bracket (37%) who itemizes their deductions and makes a $10,000 gift of either:

- Cash
- Shares of a security that has appreciated by 200% since individual assumed ownership
Example 2: Individual in 37% tax bracket makes $10,000 gift

Cash Gift
- Tax Savings: $8,370
  - $6,500
  - $1,295
  - $575
- $0

Securities Gift
- Tax Savings: $9,957
  - $6,500
  - $1,295
  - $1,333
  - $575
  - $253
- $0

Legend:
- Green: NIIT Savings
- Yellow: Capital Gains Savings
- Blue: State Deduction
- Gray: Federal Deduction
- Blue: State Credit
Example 3

Corporation makes a $10,000 gift of cash.

A key difference between corporate and individual donations is that a corporation can deduct the full value of the gift from federal taxes, while an individual can only deduct 35% of the gift’s value (see slide 16)
Example 3: Corporation makes $10,000 gift

Tax Savings: $9,200

- Cash Gift: $10,000
- Federal Deduction: $6,500
- State Deduction: $2,100
- State Credit: $600

Total tax savings: $9,200

Diagram showing cash gift and tax savings breakdown.
How can CHAT offer these credits?

• CHAT qualifies for both Virginia programs that offer tax credits for donations to eligible organizations.

• Nonprofits qualify for the **Neighborhood Assistance Program (NAP)** by ensuring that at least 50% of their beneficiaries are low-income individuals.

• Students at Church Hill Academy are eligible for the **Education Improvement Scholarship (EIS)** by coming from low-income families.

• **Both programs offer the same tax savings**, they just differ in how CHAT qualifies for them, and how the paperwork is administered.
How do I give for these credits?

- Reach out to Jonathan Chan (jonathan.chan@chatrichmond.org) or Jackie Griggs (jackie.griggs@chatrichmond.org) to start the conversation.

- If we direct you to EIS credits, you must fill out preauthorization forms before the donation is made.

- If we direct you to NAP credits, no preauthorization is required prior to the donation.

- For both programs, final paperwork must be filed within 40 days of the donation date.

- **CHAT will file most of the paperwork in this process to make it as easy as possible for you.**
When I file for taxes, what do I need to do?

• The Virginia Department of Taxation receives a record of your donation for tax credits when your paperwork is filed.

• If you use a tax filing software or online service, you do not need to upload any documentation, but keep it on file in case you are audited.

• If you have a tax professional who completes and files your taxes, they may want to see the documentation of the credit we’ve sent you.

• We are able to access all documentation from the state – **reach out to us if you need another copy.**
I’ve heard their value has changed – why is that?

• The Tax Cut and Jobs Act of 2017 capped the State & Local Tax Deduction (SALT) to $10,000.

• In response, high income tax states such as NY and NJ began creating tax credit programs similar to NAP and EIS to channel donations towards foundations benefitting state & local governments.

• Fearing reduction in revenue and seeing contributions for state tax credits as “quid pro quo”, the IRS moved to limit the value of these credits.
How has the value changed?

• For individuals, regulations now reduces percentage of a donation that can be deducted from federal income tax by the value of the credit received. With NAP & EIS credits providing a 65% credit, this means that in Virginia, only 35% of the donation is deductible from federal income taxes.

• Overall, the value of these credits has dropped by about 25%. Prior to these changes, it was possible for high-income individuals to reap a profit from donations for tax credits.
Going back to Example 2, this is how the value has changed over the last 3 years:

<table>
<thead>
<tr>
<th>Year</th>
<th>State Deduction</th>
<th>Federal Deduction</th>
<th>State Credit</th>
<th>Tax Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$575</td>
<td>$3,960</td>
<td>$6,500</td>
<td>$11,035</td>
</tr>
<tr>
<td>2018</td>
<td>$575</td>
<td>$3,700</td>
<td>$6,500</td>
<td>$10,775</td>
</tr>
<tr>
<td>2019</td>
<td>$575</td>
<td>$1,295</td>
<td>$6,500</td>
<td>$8,370</td>
</tr>
</tbody>
</table>

Tax Savings:
- 2017: $11,035
- 2018: $10,775
- 2019: $8,370