



SCHOLARSHIPS
— for KIDS —

CORPORATE DONATIONS

BUSINESS EXPENSE DEDUCTION + STATE TAX CREDIT

RECENTLY RELEASED FEDERAL TAX REGULATIONS provide a potential dual benefit for individual owners of specified pass-through business entities (PTEs) who donate to scholarship-granting organizations (SGOs).

Under the Final Regulations, a payment made by C corporations and PTEs to a charitable organization may qualify as an ordinary and necessary business expense deduction. By characterizing a charitable donation to an SGO as a business expense, C corporations and PTEs reduce their taxable income at the entity level, and the individual owners of PTEs receive state and local tax (“SALT”) credits. The SALT credit generated by the business’s donation can be applied to the individual’s state tax liability, providing possible relief from the federal cap of \$10,000 on the SALT deduction.

WHEN DOES A CHARITABLE DONATION QUALIFY AS A BUSINESS EXPENSE?

If the payment is a reasonable, ordinary, and necessary expenditure incurred in carrying on the trade or business and the entity “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,” then the donation may qualify as a business expense.

The Regulations provide an example stating that a business may be entitled to a business expense deduction for payments made “for use in projects that improve conditions in the state.” Therefore, a donation to an SGO may be deductible as a business expense since the payment assists in providing greater educational opportunities, and greater educational opportunities improve educational outcomes. Improved educational outcomes in the state allow for fiscal and economic savings and attract business to the state.

REDIRECT 100% OF YOUR ALABAMA TAX LIABILITY UP TO \$100,000!

RESERVE

Sign in, or set up your My Alabama Taxes (MAT) account online* at myalabamataxes.alabama.gov, report a donation to an SGO, and choose **SCHOLARSHIPS FOR KIDS**.

DONATE

You have 30 days to remit your payment to Scholarships for Kids.

The donation will be verified with the State.

RECEIVE

A receipt will be available in the “Correspondence” folder in your MAT account. You will also be mailed a receipt from Scholarships for Kids for federal income tax purposes.

**Because of the cap on Alabama tax credits (\$40 million in 2023), tax credits must be reserved through the Alabama Department of Revenue’s (“ADOR”) online reservation system.*

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BUSINESS EXPENSE DEDUCTION + STATE TAX CREDIT, *cont.*

SCENARIO

The following scenario demonstrates the potential tax benefit of a \$16,000 contribution to Scholarships for Kids. This example shows the Alabama income tax credit when the contribution payment qualifies as a business expense of the pass-through entity owned by the donor.

| 2023 FEDERAL INCOME TAX | | | 2023 ALABAMA INCOME TAX | | |
|------------------------------|---------------|-----------------------------|------------------------------|---------------|--------------------------------|
| | NO CREDIT | WITH CREDIT | | NO CREDIT | WITH CREDIT |
| WAGES | 90,000 | 90,000 | WAGES | 90,000 | 90,000 |
| SCHEDULE E - S CORP | 327,000 | 311,000 ⁽¹⁾ | SCHEDULE E - S CORP | 327,000 | 327,000 ⁽³⁾ |
| ADJUSTED GROSS INCOME | 417,000 | 401,000 | ADJUSTED GROSS INCOME | 417,000 | 417,000 |
| 20% QBI DEDUCTION | (65,400) | (62,200) | FEDERAL TAX DEDUCTION | (65,400) | (62,263) |
| STATE INCOME TAXES PAID | (10,000) | (10,000) | FICA/MEDICARE TAX DEDUCTION | (6,885) | (6,885) |
| REAL ESTATE TAXES | (3,000) | (3,000) | REAL ESTATE TAXES | (3,000) | (3,000) |
| MORTGAGE INTEREST | (12,500) | (12,500) | MORTGAGE INTEREST | (12,500) | (12,500) |
| CHARITABLE CONTRIBUTIONS | (2,500) | (2,500) | CHARITABLE CONTRIBUTIONS | (2,500) | (2,500) |
| ITEMIZED DEDUCTIONS | (28,000) | (28,000) | ITEMIZED DEDUCTIONS | (24,885) | (24,885) |
| PERSONAL EXEMPTIONS | - | - | PERSONAL EXEMPTIONS | (3,000) | (3,000) |
| TAXABLE INCOME | 323,600 | 310,800 | TAXABLE INCOME | 323,780 | 326,852 |
| INCOME TAX | 65,335 | 62,263⁽²⁾ | INCOME TAX | 16,109 | 16,262.60⁽²⁾ |
| TAX CREDIT - DONATION TO SFK | - | - | TAX CREDIT - DONATION TO SFK | - | 16,000 |
| INCOME TAX WITHHELD | 25,000 | 25,000 | INCOME TAX WITHHELD | - | - |
| ESTIMATED PAYMENTS | 15,000 | 15,000 | ESTIMATED PAYMENTS | - | - |
| INCOME TAXES PAID 2023 | 40,000 | 40,000 | INCOME TAXES PAID 2021 | - | 16,000 |
| TAXES OWED (REFUNDED) 2023 | 25,335 | 22,263 | TAXES OWED (REFUNDED) 2022 | 16,109 | 262.60 |

\$2,918.40
TOTAL SAVINGS

WITHOUT DONATION:

Federal Taxes: \$65,335
State Taxes: \$16,109
Donation: \$0

TOTAL: \$81,444

WITH DONATION:

Federal Taxes: \$62,263
State Taxes: \$262.60⁽³⁾
Donation: \$16,000

TOTAL: \$78,525.60

⁽¹⁾ Reduced by donation of \$16,000 to Scholarships for Kids as an ordinary business expense

⁽²⁾ Using Filing Status of Married Filing Joint

⁽³⁾ Assuming the \$16,000 donation deducted as a business expense by the S Corp for federal tax purposes must be added back for state income tax purposes in order to receive the tax credit against the Alabama income tax liability

The projections above are for illustrative purposes only, and not intended as tax advice applicable to an actual situation. Please consult your tax advisor.



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FOR MORE INFORMATION, INCLUDING A LIST OF OUR
PARTNER SCHOOLS, VISIT SCHOLARSHIPSFORKIDS.ORG