

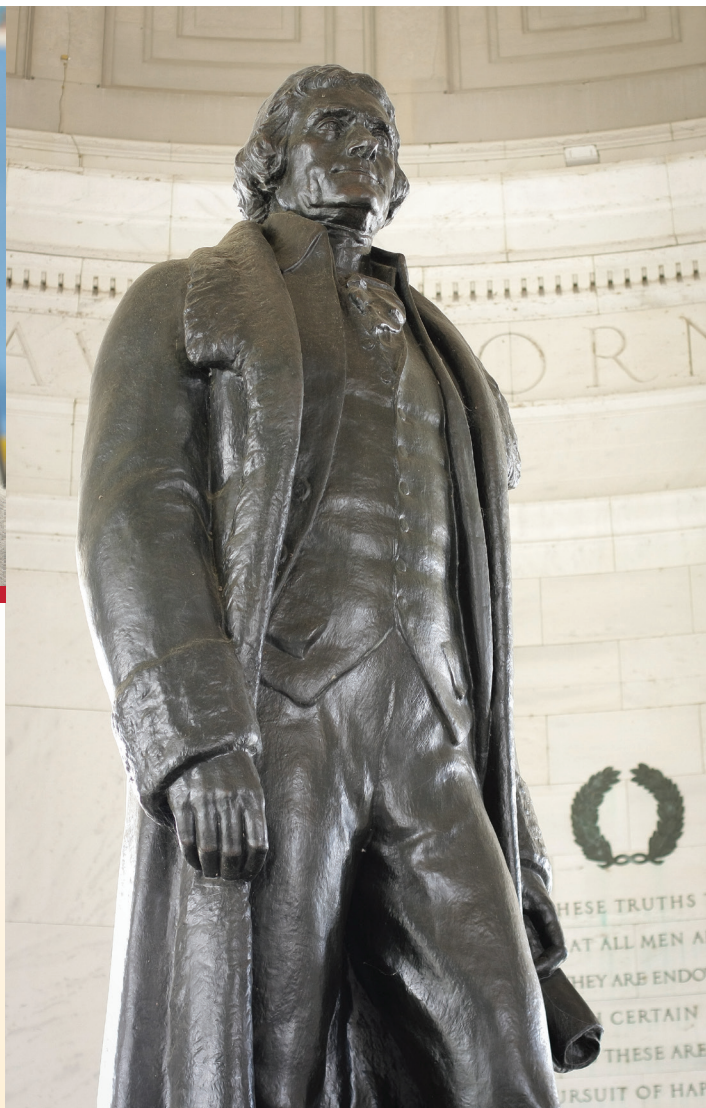


HIGHLIGHTS OF THE EDUCATION IMPROVEMENT SCHOLARSHIP TAX CREDITS

- Minimum donation is \$500 per year; maximum donation is \$125,000 per year for an individual. There is no limit for businesses
- Scholarship foundations may not limit scholarships to students of one school. Scholarship foundations are held to stringent reporting requirements on financial administration and academic achievement.
- To be eligible for a scholarship, a student either must A) have attended a Virginia public school for the prior year, B) be eligible to enter kindergarten or first grade, C) not have been a resident of Virginia during the preceding year, or D) be a prior recipient of a scholarship foundation scholarship. Students must have a family income of less than 300 percent of poverty or, in the case of a student with a disability, a family income of less than 400 percent of poverty.
- A donor is not permitted to designate a specific student to be the recipient of a scholarship.

Circular 230 Disclosure

Any advice contained in this document is not intended or written to be used, and cannot be used, A) for purposes of avoiding tax penalties that may be imposed on any taxpayer or B) for purposes of promoting, marketing, or recommending to another party any tax transaction or matter herein.



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Produced by the
Virginia Alliance for Student Opportunity
a project of the Thomas Jefferson Institute for Public Policy

9035 Golden Sunset Lane
Springfield, VA 22153
(703) 440-9447

info@thomasjeffersoninst.org


with the support of the
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HELPING STUDENTS LEARN

...One Child at a Time



How You Save by Supporting
Virginia's Education
Improvement Scholarships

 **Virginia Alliance**
for Student Opportunity
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A new Education Improvement Scholarships Tax Credits program increases private school access for Virginia's children in need. It offers a 65 percent state tax credit on top of current state and federal tax deductions for monetary and marketable securities donations to nonprofits that, in turn, provide private school scholarships.

SAVING MONEY WHILE SERVING CHILDREN

In providing scholarships to children in need, individuals and businesses can achieve tax savings two ways:

1 For the year of the donation, they may take a deduction against their net income as a charitable donation on both their federal and state income taxes.

- The tax reduction equals the contribution amount times the tax rate of the applicable tax (federal or state).
- Subject to rules governing deductibility of charitable contributions.

2 For the year of the donation, they may also take a credit against Virginia taxes.

- Tax reduction equals 65 percent of the amount of the donation.
- Credit is non-transferable.
- Credit may not exceed the tax liability but may be carried over for five succeeding years.

Businesses can claim the credit against

- Corporate Income Taxes
- Virginia Bank Franchise Tax
- Virginia Insurance Premiums License Tax
- Virginia Public Service Corporations Tax
- Personal Income Taxes via pass-through from S-Corporations

Individuals can claim the credit against

- Personal Income Taxes

HOW TO DONATE

There are two ways to donate to scholarship foundations.

1 The easiest route is to contact the scholarship foundation you wish to support, and they will walk you through the process. The current list of approved foundations is available at

www.vataxcreditscholarship.com/page8.html.

2 Visit www.vataxcreditscholarship.com/page11.html and download, complete and submit a tax preauthorization form.

Scholarship foundations filing a Preauthorization Form on behalf of a donor must submit it using the Virginia Department of Education's secure web-based file drop-box. Donors submitting the form on their own should follow the directions in mailing it.

- The individual or business then receives a Preauthorization Notice from the Virginia Department of Education.
- The donation to an approved scholarship foundation and foundation notification to the Virginia Department of Education must be completed 180 days.
- Upon receipt, the Department of Education will issue a tax credit certificate to the eligible donor.

ILLUSTRATIVE TAX CALCULATIONS

Taxpayers subject to Alternative Minimum Tax could enjoy a lower net cost to contribute. Other tax circumstances may or may not apply to each individual situation. Please consult your tax advisor for specifics to your overall situation.

EFFECT OF SCHOLARSHIP TAX CREDIT

(Based on tax law as of 2012)

MARRIED, FILING JOINTLY	NO CONTRIBUTION	CONTRIBUTION
Income before contribution	\$100,000	\$100,000
Contribution	0	\$1,000
Taxable income	\$100,000	\$99,000

VIRGINIA TAXES	NO CONTRIBUTION	CONTRIBUTION
Virginia personal tax rate (5.75%)	\$5,750	\$5,692
VA personal tax savings	0	\$58
VA scholarship tax credit	0	\$650
Total VA tax savings	0	\$708

FEDERAL TAXES	NO CONTRIBUTION	CONTRIBUTION
Federal taxable income before state deduction	\$100,000	\$99,000
State tax deduction	\$5,750	\$5,042
Federal taxable income	\$94,250	\$93,958
Federal taxes (25% marginal rate)	\$23,562	\$23,489
Federal tax savings	0	73

TOTAL TAX SAVINGS **\$781**

CORPORATIONS	NO CONTRIBUTION	CONTRIBUTION
Income before contribution	\$1,000,000	\$1,000,000
Contribution	0	\$10,000
Taxable income	\$1,000,000	\$990,000

VIRGINIA TAXES	NO CONTRIBUTION	CONTRIBUTION
Virginia corporate tax rate (6%)	\$60,000	\$59,400
VA corporate tax savings	0	\$600
VA scholarship tax credit	0	\$6,500
Total VA tax savings	0	\$7,100

FEDERAL TAXES	NO CONTRIBUTION	CONTRIBUTION
Federal taxable income before state deduction	\$1,000,000	\$990,000
State tax deduction	\$60,000	\$52,900
Federal taxable income	\$940,000	\$937,100
Federal taxes (34% marginal rate)	\$319,600	\$318,614
Federal tax savings	0	986

TOTAL TAX SAVINGS **\$8,086**

