How the Tax credit works as of June 2019

Standard Deduction Tax filers

Under the new tax law, the increase in the standard deduction for both individuals and joint tax filers has increased significantly. This will likely result in a large number of taxpayers claiming the standard deduction than ever before.

For those tax credit participants who support their school through Apogee and claim the standard deduction on their Federal return, the credit is simply a dollar-for-dollar tax credit on their Georgia tax return. The amount of credit approved and funded effectively reduces the taxpayer's Georgia tax liability by the amount of the contribution.

For example, a joint filing taxpayer with $100,000 in taxable income (after the standard deduction) on the Federal return claiming the standard deduction of $24,000 would also have $100,000 in taxable income on the Georgia return. Georgia tax liability now represents 5.75% of taxable income. In this example, the taxpayer would incur a $5,750 Georgia tax liability. If participating in the Apogee tax credit program at the max joint level of $2,500, the amount of $5,750 in Georgia tax liability would be reduced by $2,500 for a total remaining tax liability of $3,250.

In this example, the tax credit is a pure wash with the amount of credit funded, resulting in a zero-sum gain. The taxpayer has essentially "redirected" a portion of their Georgia tax liability to support financial assistance scholarships at the school of their choice.

Itemizing Tax Filers (Including Pass-through taxpayers)

The new tax rules have created a unique situation for those who will be itemizing on their Federal Tax return due to the fact that there is a state and local tax ("SALT") deduction cap of $10,000. SALT is comprised of a taxpayer's State tax liability and local property tax bill. Prior to the new tax rules, most Georgia taxpayers were able to deduct the full balance of their Georgia tax liability and property tax bill. The new tax rules reduces this deduction to $10,000 total.

In most situations for itemizing tax filers, the SALT cap will have been met with combination of the property tax and Georgia tax liability (often with a great deal of excess falling into a non-deductible item scenario). The taxpayer will still be able to claim the dollar-for-dollar credit against their existing Georgia tax liability as in the example above where the credit portion washed with that portion of the tax liability being owed.

The IRS recently adopted a ruling that eliminates the ability for taxpayers to claim a charitable contribution deduction for their State tax credit as it was originally intended. The taxpayer will still be able to claim the dollar-for-dollar tax credit, no different than that of the Standard Deduction taxpayer. This would result is a zero-sum gain and the taxpayer is simply “redirecting” a portion of State tax liability to support scholarship opportunities at their favorite private school.

However, taxpayers who would not otherwise meet the $10,000 SALT cap may treat the contribution as a state tax payment (up to the $10,000 SALT cap), thus ensuring that these taxpayers are not harmed by the new rules.

C-Corps

“C corporations” are able to redirect up to 75% of their Georgia tax liability and receive the same dollar-for-dollar Georgia tax credit. These entities have a benefit that other taxpayers do not have. They are able to claim the expense of the credit as either a business expense deduction against income or a charitable contribution deduction. This is an improvement over the prior rules in two respects. First, because a C corporation contribution may be treated as a business expense rather than a charitable contribution, a corporation no longer has to add the amount of the credit back to income for state tax purposes as that add-back rule only applies to charitable deductions. Second, by treating the contribution as a business expense, a C corporation will not be subject to the federal limitations on charitable contribution deductions, which generally cap deductions at 10% of income.