

In 12 States, Contributions to Private K-12 Scholarship Organizations Will Remain Profitable Unless Proposed IRS/Treasury Regulation is Finalized

State	Type of Taxpayer (Individual or Business) ^a	State Tax Credit Percentage	Example Donation Eligible for Credit ^b	Potential State and Federal Tax Cut Received for Donation ^c	Potential Profit on Donation	% Profit on Donation ^d
Alabama	Both	100%	\$50,000	\$67,575	\$17,575	35.2%
Arizona	Individual	100%	\$2,213	\$2,931	\$718	32.5%
Arizona	Business	100%	\$200,000	\$264,920	\$64,920	32.5%
Georgia	Individual	100%	\$2,500	\$3,425	\$925	37.0%
Georgia	Business	100%	\$10,000	\$13,700	\$3,700	37.0%
Kansas	Both	70%	\$200,000	\$214,000	\$14,000	7.0%
Louisiana	Both	95%	\$200,000	\$259,560	\$59,560	29.8%
Montana	Individual	100%	\$300	\$411	\$111	37.0%
New Hampshire	Both	85%	\$200,000	\$244,000	\$44,000	22.0%
Oklahoma	Individual	75% ^e	\$2,667	\$3,120	\$453	17.0%
Oklahoma	Business	75% ^e	\$133,333	\$156,000	\$22,667	17.0%
Pennsylvania	Both ^f	90% ^g	\$200,000	\$254,000	\$54,000	27.0%
Rhode Island	Business	90% ^h	\$111,111	\$141,111	\$30,000	27.0%
South Carolina	Both	100%	\$200,000	\$274,000	\$74,000	37.0%
Virginia	Individual	65%	\$125,000	\$134,688	\$9,688	7.8%
Virginia	Business	65%	\$200,000	\$215,500	\$15,500	7.8%

a "Business" refers only to businesses subject to the individual income tax, such as S-corporations and partnerships.

b Either the statutory maximum or \$200,000, whichever is less. Some taxpayers may be able to make a tax-credit-eligible donation larger than \$200,000, though they would need to have a very high state taxable income to make full use of the credit. These calculations assume a cash donation rather than a donation of marketable securities or other property. States such as South Carolina and Virginia allow taxpayers to claim scholarship tax credits based on the market value of marketable securities, making even larger profit margins possible as taxpayers can avoid federal and state capital gains taxes by donating assets such as appreciated stock. The potential profit margin on these types of donations depends on the degree to which the stock has appreciated.

c Assuming taxpayer faces a 37 percent marginal federal income tax rate, itemizes, and pays at least \$10,000 in deductible state and local taxes both before and after the donation. The impact of the 20 percent deduction for certain pass-through income is excluded as it is limited to certain types of businesses and to taxpayers with incomes below a certain level.

d Profit percentage is typically the state credit percentage (65-100 percent in this table) plus the taxpayer's marginal federal income tax rate (37 percent in this table). The profit percentage can be higher in states that allow a state charitable deduction on these donations, and lower in states that offer an uncapped deduction for either state or federal income taxes paid.

e Oklahoma's 75 percent credit is available to taxpayers who pledge to contribute for two consecutive years. The state's 50 percent credit for single-year contributions cannot be used to generate a profit.

f Individuals can claim Pennsylvania's credit only if they join a Special Purpose Entity (SPE).

g This calculation uses the 90 percent Pennsylvania credit that is available to taxpayers who pledge to contribute for two consecutive years. Single-year contributions are eligible for a 75 percent credit. The first \$10,000 in contributions for Pre-K scholarships receive a 100 percent credit.

h Rhode Island's 90 percent credit is only available to taxpayers who pledge to contribute for two consecutive years. Single-year contributions are eligible for a 75 percent credit.

SOURCE: Institute on Taxation and Economic Policy, October 2018