



## ***Frequently Asked Questions***

### **Education Improvement Scholarships Tax Credits**

**1. How does Virginia's Education Improvement Scholarships Tax Credits Program work?**

Individuals or businesses can make monetary or marketable securities donations to approved foundations. The donations will be used to provide scholarships to low-income new students of non-public schools such as Star of the Sea Catholic School. Donors will then receive a Virginia tax credit for 65% of the donation. The Catholic Diocese of Richmond's McMahon Parater Foundation is an approved foundation under this program.

**2. What is the eligible donation amount?**

The minimum monetary donation eligible for a tax credit is \$500 per year. The maximum donation amount for individuals is \$125,000 per year. There is no maximum limit for any business entity, including sole proprietorships.

**3. How can individuals benefit from the tax credits?**

Individuals can claim the Education Improvement Scholarships Tax Credits against Virginia personal income taxes.

**4. How can businesses benefit from the tax credits?**

Businesses can claim the Education Improvement Scholarships Tax Credits against:

- Corporate Income Taxes
- Virginia Bank Franchise Tax
- Virginia Insurance Premiums License Tax
- Virginia Public Service Corporations Tax
- Personal Income Taxes via pass-through entities such as S-Corporations, LLCs and Partnerships

**5. What are the tax savings?**

In addition to a 65% Virginia tax credit, individuals and businesses who itemize also receive federal and state deductions for charitable contributions, and therefore achieve tax savings in multiple ways. Also, donors contributing appreciated marketable securities save on capital gains tax. The Education Improvement Scholarships Tax Credits are non-transferable. They may not exceed the tax liability in a given year, but may be carried over for up to five succeeding years.

**6. Can I designate a specific student to receive a scholarship?**

No, as this would conflict with federal and Virginia law.

**7. Can I make a gift directly to Star of the Sea Catholic School receive tax credits?**

No, donations for tax credits must be made to approved scholarship foundations, such as the McMahon Parater Foundation, after being preauthorized by the Virginia Department of Education.

**8. How do I request that my MPF donation be used to support students of Star of the Sea?**

You would include a Letter of Intent to this effect when you make your donation to McMahon Parater.



Below are a few illustrations of the tax savings. Individual circumstances may vary.

Please consult your tax advisor to discuss your specific tax savings.

### Individual Taxpayers

<b>Donation Amount (Federal non-AMT taxpayer)</b>	<b>\$1,000</b>	<b>\$5,000</b>	<b>\$10,000</b>
<b>Tax Savings:</b>			
VA Tax Savings at 5.75% rate	58	288	575
Federal Tax Effects at 33% rate *			
Savings from Federal charitable deduction	330	1,650	3,300
Less – Cost of reduced deduction for VA taxes	-233	-1,167	-2,335
VA Tax Credit – 65%	650	3,250	6,500
<b>Total Tax Savings</b>	<b>805</b>	<b>4,021</b>	<b>8,040</b>
<b>Net Cost of Donation</b>	<b>\$195</b>	<b>\$979</b>	<b>\$1,960</b>

\* Please Limitation, reinstated Jan. 1, 2013, may impact actual federal tax savings.

<b>Donation Amount (Federal AMT taxpayer)</b>	<b>\$1,000</b>	<b>\$5,000</b>	<b>\$10,000</b>
<b>Tax Savings:</b>			
VA Tax Savings at 5.75% rate	58	288	575
Federal Tax Savings at 28% rate			
VA Tax Credit – 65%	650	3,250	6,500
<b>Total Tax Savings</b>	<b>988</b>	<b>4,938</b>	<b>9,875</b>
<b>Net Cost of Donation</b>	<b>\$12</b>	<b>\$62</b>	<b>\$125</b>

### Business Taxpayer

<b>Donation Amount</b>	<b>\$1,000</b>	<b>\$5,000</b>	<b>\$10,000</b>
<b>Tax Savings:</b>			
VA Tax Savings at 6% rate	60	300	600
Federal Tax Effects (at 34% rate) *			
Savings from Federal charitable deduction	340	1,700	3,400
Less – Cost of reduced deduction for VA taxes	-241	-1,207	-2,414
VA Tax Credit – 65%	650	3,250	6,500
<b>Total Tax Savings</b>	<b>809</b>	<b>4,043</b>	<b>8,086</b>
<b>Net Cost of Donation</b>	<b>\$191</b>	<b>\$957</b>	<b>\$1,914</b>

\* Please Limitation, reinstated Jan. 1, 2013, may impact actual federal tax savings.



## **Donating Appreciated Stock**

	Non-AMT Taxpayer	AMT Taxpayer
Market Value of Donated Stock	\$10,000	\$10,000
Cost Basis of Stock	<u>3,000</u>	<u>3,000</u>
Capital Gain	7,000	7,000
<b>Savings from Not Having to Pay Taxes on the Capital Gain</b>		
Federal Tax Savings (23.8% Rate) *	1,666	1,666
Virginia Tax Savings (5.75% Rate)	<u>403</u>	<u>403</u>
<b>Total Savings from Not Having to Pay Tax on Capital Gains</b>	<b>2,069</b>	<b>2,069</b>
<b>Tax Savings from Donation Excluding Savings on Capital Gains**</b>		
Virginia Tax Credit (65%)	6,500	6,500
Federal Tax Savings (33% Rate non-AMT/28% Rate AMT)	3,300	2,800
Less – Cost of reduced deduction for Virginia taxes	(2,335)	n/a
Virginia Tax Savings (5.75% Rate)	<u>575</u>	<u>575</u>
<b>Total Savings from Donation -- Excluding Savings on Capital Gains</b>	<b><u>8,040</u></b>	<b><u>9,875</u></b>
<b>Total Savings from Donation of Appreciated Stock</b>	<b>10,109</b>	<b>11,944</b>
<b>Excess of Tax Savings Over Value of Stock Donated</b>	<b>\$109</b>	<b>\$1,944</b>

\* Long Term Capital Gains Tax of 20% plus Affordable Care Act Surcharge of 3.8%.

\*\* Pease Limitation, reinstated Jan 1, 2013, may impact actual federal tax savings.

### **9. Which students will receive scholarships under this program?**

These restricted gifts may only be used to provide scholarships to children who are residents of Virginia, and fit one of these criteria:

- are eligible to enter kindergarten or first grade, or
- attended a Commonwealth public school for at least half of the current or prior school year, or
- were not residents of Virginia during the preceding school year, or
- are prior recipients of a scholarship under this program.

Additionally, the student's family's annual household income must be less than 300 percent of the current poverty guidelines. For students with disabilities, the student's family's household income must be less than 400 percent of the poverty level.

### **10. Does this program take money away from public school students?**

No. Donors receive 65% of their donation back in tax credits, but at least 90% of their donation is used to provide scholarships to students who otherwise would be enrolled in public schools. So, for every 65-cents Virginia loses in tax revenue, it gains more than 90-cents in private funds that go towards the education of a Virginia child.

### **11. Can I just mail in a check for a donation in order to qualify for tax credits?**

No, the Department of Education requires a preauthorization process in order to qualify for tax credits.



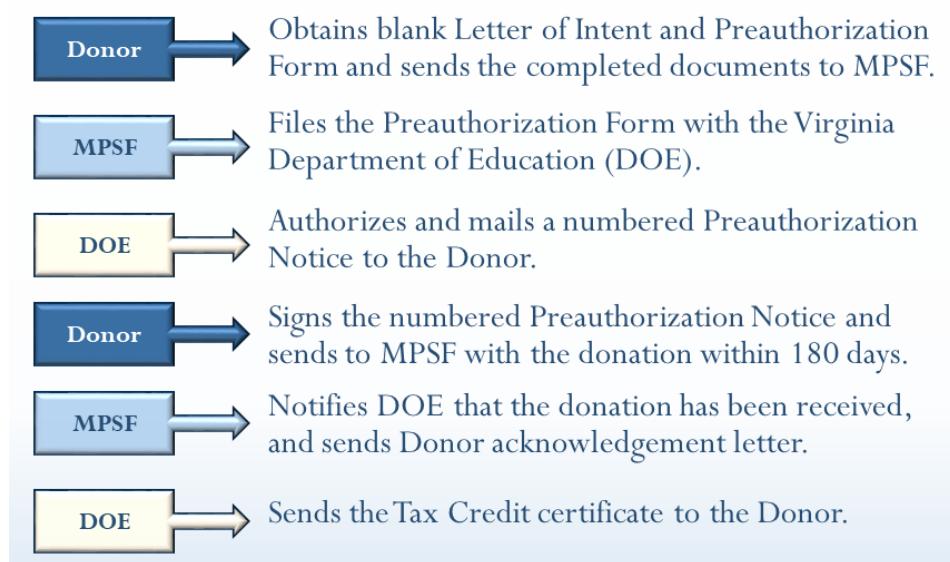
**12. How much of my donation will be used to provide scholarships?**

By law, foundations are required to distribute at least 90% of these donations as scholarships. It is the McMahon Parater Foundation's goal to minimize administrative costs and distribute as much over 90% as possible.

**13. Can I get tax credits from the DOE without going through the Foundation?**

Although you may go online and print a preauthorization form, MPF can submit the application electronically via a secure Web-based file drop-box and the date and time received will be documented electronically through the Department of Education. Preauthorizations submitted by donors directly to the DOE cannot be tracked by MPF. Also, donations must go to an approved scholarship foundation, not to the DOE. Finally, the way to assure that your donation supports the Catholic school you designate is by giving through the McMahon Parater Foundation.

**14. What is the process for obtaining tax credits?**



**15. Where can I learn more about this program?**

Please contact one of the following:

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or visit: <http://www.richmonddiocese.org/mpfe/ways-to-give/scholarships-tax-credits>

