

But the seed sown on rich soil is the one who hears the word and understands it,
who indeed bears fruit and yields a hundred or sixty or thirtyfold."

Matthew 13:23

INDIANA SCHOOL SCHOLARSHIP TAX CREDIT/SGO PROGRAM Donors Frequently Ask These Questions

1) Who is eligible for the Indiana School Scholarship Tax Credit?

Any individual, business entity, or corporation that has any Indiana income tax liability can contribute to a certified scholarship granting organization to fund scholarships, better known as "SGO scholarships," and earn a tax credit for 50% of their contribution amount. These scholarships help eligible students from low- to middle-income families to attend the non-public school of their choice. Donations can come from individuals, corporations, partnerships, limited liability companies (LLCs), and other businesses.

2) What is the difference between an "SGO scholarship" and a "School Choice Scholarship"?

Private donations fund SGO scholarships, while the State of Indiana provides the funds for the School Choice Scholarships, the official name for the vouchers that enable students from low- to middle-income families to attend non-public schools in Indiana. Because a School Choice Scholarship does not cover the full cost to attend SJHS, the family of a qualifying student can also apply for an SGO scholarship to help make up the difference between the tuition at SJHS and the amount of the School Choice Scholarship.

3) What is a certified scholarship granting organization (SGO)?

A certified scholarship granting organization (SGO) is an entity approved by the Indiana Department of Education that awards scholarships to eligible students to enable their families to afford the non-public school of their choice. Qualified SGOs receive funding for these scholarships from private, charitable donations.

4) What Is the Scholarship Granting Organization of Northeast Indiana, Inc. (SGONEI)?

The Diocese of Fort Wayne-South Bend formed SGONEI to solicit contributions from donors for tuition assistance to qualifying families whose children attend the forty-three Catholic grade and high schools in the Diocese. Each school, including Saint Joseph High School (SJHS), has its own sub-account. SGONEI also maintains a general fund for donors wanting to benefit any Diocesan school needing additional SGO scholarship funds. Donors to SGONEI can designate their contribution to SJHS, another school in the Diocese, or to the general fund. The Indiana Department of Education (IDE) has approved SGONEI's status as a certified SGO.

5) What is the amount of the Indiana tax credit?

Taxpayers who contribute to SGONEI can claim a credit against their Indiana individual or corporate income tax liability equal to 50 percent of the amount donated once they receive a certification number from IDE. For example, a **\$1,000 contribution would generate a \$500 Indiana tax credit**. Tax credits provide dollar-for-dollar reductions in tax liability. **In other words, the \$500 tax credit reduces your Indiana income tax liability by \$500!** In addition, gifts to SGONEI qualify as charitable contributions for federal income tax purposes. Individuals who itemize their deductions typically obtain an additional federal income tax benefit. The actual federal income tax savings depends upon the taxpayer's tax bracket and other circumstances. Donors may want to consult with their own tax advisor.

6) What is "net cost" of a contribution to SGONEI?

The actual tax savings depend upon the donor's tax circumstances. For example, the net cost of a \$1,000 contribution to SGONEI by an individual who does not itemize deductions is \$500 (the \$1,000 contribution less a \$500 Indiana tax credit).

If the individual itemizes deductions for federal income purposes and ends up in the 22% federal income tax bracket for 2018, the net cost of the \$1,000 contribution falls to \$390 as follows:

Contribution to SGONEI	\$1,000
Less: Indiana Tax Credit (50%)	<u>500</u>
Net Federal Itemized Deduction	\$500
Less: Federal Income Tax Benefit ($\$500 \times .22$)	<u>110</u>
"Net" Cost of Contribution to SGONEI	<u>\$390</u>

If the individual itemizes deductions for federal income purposes, their deductions will increase by \$500 (the difference between the increase in their charitable contributions and the decrease in their Indiana income taxes paid). In turn, their federal income taxes will be reduced by \$500 times their tax rate.

In the 22% federal tax bracket, the federal income tax reduction from the itemized deduction equals \$110 ($\$500 \times .22$), which reduces the net cost of the \$1,000 contribution to \$390. For a taxpayer in the 37% federal income tax bracket who itemizes deductions, the federal income tax savings increase to \$185 ($\$500 \times .37$), which reduces the net cost of a \$1,000 contribution to only \$315.

Still greater tax savings can arise from contributions of stock or shares of mutual funds that have appreciated in value and have been held for more than one year or qualified charitable distributions from individual retirement accounts (IRAs). Although representatives from SJHS can offer general guidance about these opportunities, donors in such situations may want to consult with their own tax advisor.

7) What is the maximum amount of the credit any taxpayer can claim?

There is no limit as to how much in tax credits any one taxpayer can claim, *if they are still available*. There is a \$14 million statewide cap on the tax credits available for the State of Indiana's fiscal year

ending June 30, 2019. This cap means that the first \$28 million in contributions to SGOs around the state will exhaust the \$14 million in available credits during the fiscal year ending June 30, 2019.

Donors interested in these tax credits should not wait to contribute. After the 2017 Tax Cuts and Jobs Act and as discussed below in Q.12, the federal income tax deduction for state taxes is now limited to \$10,000 per year. Well-advised taxpayers may use these tax credits to reduce their net Indiana tax liability to \$10,000. The Indiana Department of Revenue provides the total credits awarded to date on its website at <http://www.in.gov/dor/4305.htm> . The Department of Revenue updates this total regularly.

8) How do I claim a credit for my donation?

If you use software to prepare your own return, most programs, including TurboTax, ask whether you contributed to an SGO and can handle such gifts. Taxpayers who do not use tax software can claim the credit on Schedule IN-OCC (State Form 55629), Other Certified Credits. The form is available from the Indiana Department of Revenue website, <http://www.in.gov/dor>. For tax year 2017, the schedule appears under the heading “Other Individual Tax Forms/Schedules/EIC Publication” at <https://www.in.gov/dor/5695.htm>.

9) How do I make a donation to SGONEI?

Contributions for SGO scholarships can come from a check, charges to credit or debit cards, qualified charitable distributions from IRAs, and gifts of stock or shares in a mutual fund. You can find specific instructions for donations to SGONEI at www.sgonei.org. The process is quite simple!

10) Can I designate my donation to SGONEI to benefit students attending SJHS?

Yes, and please do! Indiana law specifically allows a donor to designate that a contribution fund scholarships for eligible students at a specific school, such as SJHS.

11) How do donations to SGONEI leverage my charitable giving?

When combined with a “School Choice Scholarship,” each dollar in “net cost” from donations to the SGONEI can easily bring more than \$30 dollars to SJHS. If you contribute shares of stock or a mutual fund that have increased in value and that you have owned for more than one year, you can potentially grow the benefits of each dollar in “net cost” to you to \$60 or even \$100 to SJHS!

To illustrate: for a “net cost” of \$328 or less, you can enable a student from a low-income parish family in the South Bend Community School Corporation to attend SJHS for a year as follows:

2017-18 parishioner tuition and fees to attend SJHS	\$7,999
Less: minimum family contribution to attend SJHS	<u>1,350</u>
Difference	\$6,649
Less: estimated 2018-19 School Choice Scholarship for a student living in the South Bend Community School Corporation	<u>5,992</u>
Remaining amount – GAP TO BE FUNDED	\$657
Less: 50% Indiana tax credit	<u>329</u>
Net cost before any federal income tax benefit	<u>\$328</u>

After the minimum contribution from a parish family, a School Choice Scholarship, and the Indiana tax credit, the “net cost” to you to make a SJHS education available for a year to a student from a low-income family is no more than \$328.

For net cost of \$328 or less, you can bring a total of \$7,999 to SJHS, which means that you have multiplied the power of your gift to SGONEI almost 25-fold! In reality, however, you do not have to contribute \$657 to make a difference in the life of a current or potential SJHS student. Every dollar contributed to SGONEI for scholarships at SJHS assists the high school, its students from low-and middle-income families, and even if you do not qualify for a tax credit, you are making a difference many-fold in our school community!

If you itemize deductions and find yourself in a 22% federal income tax bracket, the net cost of a \$657 contribution to SGONEI drops to \$202 as follows:

Contribution to SGONEI	\$657
Less: Indiana Tax Credit (50%)	<u>329</u>
Net Federal Itemized Deduction	\$328
Less: Federal Income Tax Benefit (\$328 x .22)	<u>72</u>
“Net” Cost of Contribution to SGONEI	<u>\$256</u>

Now for a “net” cost of only \$256, or less than \$5 a week, your gift of \$657 to the SGONEI can bring a total of \$7,999 to SJHS, which means that you have multiplied the power of your gift to SGONEI more than 30-fold!!

Still greater multiplication, even 60- or 100-fold, can arise from gifts from individuals in higher tax brackets, contributions of stock or shares of mutual funds that have appreciated in value and have been held for more than one year, and qualified charitable distributions from IRAs!!!

For the cost of about one Starbucks a week for a year, many, if not most, SJHS families can make a SJHS education available to a student from a low-income parish family who wants to attend SJHS, but whose family cannot afford to send that student to SJHS. A **small sacrifice** can make a **huge difference** in the life of current or future SJHS student. If you can do more, please make an even bigger sacrifice!

12) How did the 2017 Tax Cuts and Jobs Act affect the federal income tax benefits arising from contributions to SGONEI?

The 2017 tax legislation increased the standard deduction for individuals, which means that many more individuals will not itemize their deductions and will not receive any federal tax benefit from

contributing to the SGO--only the 50% state tax credit, but . . . by limiting the itemized deduction for state and local taxes to an aggregate of \$10,000, the state tax credit offers significantly enhanced benefits to individuals who itemize their deductions and will be adversely affected by that \$10,000 limit.

Before the legislation, the net cost of a \$10,000 contribution to a taxpayer in the 35% tax bracket who itemized deductions and contributed \$10,000 to SGONEI was \$3,250 as follows:

Contribution to SGONEI	\$10,000
Less: Indiana Tax Credit (50%)	<u>5,000</u>
Net Federal Itemized Deduction	\$5,000
Less: Federal Income Tax Benefit (\$5,000 x .35)	<u>1,750</u>
“Net” Cost of Contribution to SGONEI	<u>\$3,250</u>

Because the taxpayer itemizes deductions for federal income purposes, the individual’s deductions would increase by \$5,000 (the difference between the contribution amount and the Indiana tax credit claimed). In turn, the individual’s federal income taxes would be reduced by \$5,000 times the 35% tax rate.

After the legislation, the credit can now reduce an individual’s total state and local taxes, including real estate taxes and the excise tax on any cars, down to \$10,000, while entire amount of the taxpayer’s charitable contributions provides a federal tax benefit, assuming that the taxpayer still itemizes. For example, a taxpayer who would otherwise owe \$15,000 in total state and local taxes, including at least \$5,000 in Indiana state income taxes, and who makes a \$10,000 SGO contribution would get a \$5,000 state tax credit and a \$10,000 federal income tax deduction for the contribution (rather than a net \$5,000 federal income tax deduction as under previous law and as shown above). As a result, the net cost of a \$10,000 contribution to SGONEI drops to only \$1,500 as follows:

Contribution to SGONEI	\$10,000
Less: Indiana Tax Credit (50%)	<u>5,000</u>
Net Federal Itemized Deduction	\$5,000
Less: Federal Income Tax Benefit (\$10,000 x .35)	<u>3,500</u>
“Net” Cost of Contribution to SGONEI	<u>\$1,500</u>

13) What additional benefits do gifts of shares of appreciated stock or mutual funds that have been held for more than one year offer to donors who are individuals?

Keeping in mind that only individuals qualify for preferential tax rates on long-term capital gains, you can avoid paying capital gains taxes on the increase in value of such securities over your investment in the shares. If you're in the 22 to 35 percent tax brackets, you would otherwise pay tax of at least 15 percent on your gains. For example, if you bought securities for \$10,000 and they're now worth \$30,000, you'd have to pay \$3,000 in federal capital gains tax (15% of your \$20,000 gain) if you sold those securities today. In addition, Indiana residents would pay at least an additional \$660 in Indiana taxes (3.3% of your \$20,000 gain). If you donate those same securities to SGONEI, you'd not only get a \$15,000 Indiana state tax credit and a \$30,000 federal income tax deduction, but you'd also avoid paying any tax on the \$20,000 increase in value. You can make a gift of shares of stock or a mutual fund by asking your stockbroker or mutual fund company to transfer the number of shares you would like to donate to SGONEI. If you want further information or assistance, please call the Business Manager, Sue Makowski, at (574) 233-6137 or e-mail smakowski@saintjoehigh.com.

14) What additional benefits does a qualified charitable distribution (QCD) from an IRA offer?

Individuals age 70 and 1/2 or older can distribute up to \$100,000 tax-free each year directly from their IRAs to SGONEI. Such QCDs count toward your required minimum distribution but do not increase your income for either federal or Indiana individual income tax purposes, which can also lower the amount of monthly Medicare premiums you would otherwise owe. In addition, QCDs also qualify for the 50% state tax credit! Once again, if you want further information or assistance, please call Sue Makowski, at (574) 233-6137 or e-mail smakowski@saintjoehigh.com.

15) SJHS continues to seek contributions for Forward in Faith, the Fund for Saint Joseph, and SGONEI for the benefit of SJHS. My resources are limited, so how can I best support SJHS?

Ultimately, the final decision comes down to personal preference:

- Donations to Forward in Faith will help SJHS to retire the remaining debt from the construction of **our amazing** new school.
- The Fund for Saint Joseph provides unrestricted funds to SJHS.
- Without financial assistance, the families of almost half our students could not afford SJHS. Contributions to SGONEI on behalf of SJHS enable you assist those students and to multiply the power of your gift.

How do you want to make a difference at SJHS?

16) Who should I contact at SJHS with my questions?

You can call the Business Manager, Sue Makowski, at (574) 233-6137 or e-mail smakowski@saintjoehigh.com.

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