THE TUITION DONATION CREDIT

TAX DOLLARS FOR YOUNG SCHOLARS

Presented by

ARETE SCHOLARS



Arthur Dupré
President, Arete Scholars

- 10th year leading and administering Louisiana's tax credit scholarship program
- Longest-serving School Tuition Organization representative in Louisiana
- Material Expert
  - Testified legislatively in Louisiana and Texas on tax credit scholarship programs
  - Presented to thousands of tax professionals and led CPE courses on this program for tax professionals across the state since 2017

SPEAKER

Who is Arete Scholars?



Arete is a nonprofit that helps economically disadvantaged children reach their highest potential through educational opportunity.

Since 2010, Arete has awarded more than 18,000 K-12 scholarships worth nearly $87 million. Scholarships are funded primarily by budget-favorable tax credit programs.



In the fall of 2013, Arete Scholars expanded to Louisiana, becoming **the state's first** K-12 School Tuition Organization (STO) to serve economically disadvantaged children. Arete team members have played a pivotal role in the success of the Tuition Donation Credit Program (TDC), impacting the lives of thousands of Louisiana children.

Collectively, our Louisiana team has over 24 years of experience working in the state's STO space.

What is the Tuition Donation Credit (TDC)?

- Created by the 2012 Louisiana Legislature as a tax rebate and later converted to a credit in 2017, the Tuition Donation Credit Program (TDC) empowers Louisiana families with the financial resources to choose the school that is the best fit for their child's learning and development needs-- academically and holistically.

- This program provides tax credits to Louisiana taxpayers who donate to tax-exempt, not-for-profit organizations called School Tuition Organizations(STOs) that provide scholarships to K-12 students.

- The TDC allows for a 95% nonrefundable state income tax credit that is uncapped, earned immediately, and can be claimed over 4 tax years



Why was the TDC passed?

Two-thirds of children beginning the fifth grade who cannot already read proficiently will wind up on welfare or going to jail.

A whopping 85% of juveniles in the court system are not functionally literate.

High-school dropouts have five times the risk of being incarcerated.

Only 15% of Louisiana's lower-income students can read with proficiency.

Source: NBC affiliate-Nexstar Media

LOUISIANA STATISTICS

Perpetually ranks **LAST** in the nation in most metrics, including education and poverty

One of the **LOWEST** high school graduation rates in America

LOWEST math and reading proficiency scores in the country

122,000 + children in **LOW-PERFORMING** schools

More than 50% of Louisiana children entering 4th grade **CANNOT READ** at grade level



EDUCATION CRISIS



National Education Crisis

- Louisiana's illiteracy rate is worse than the rest of the nation, and more than half of Americans between the ages of 16 and 74 cannot read above the sixth-grade level.
- One out of four children in the United States grows up without learning how to read.
- Most developed countries across the world have taught 99% and 100% of their citizens to ready proficiently, while more than 36 million adults in the United States lack basic literacy.

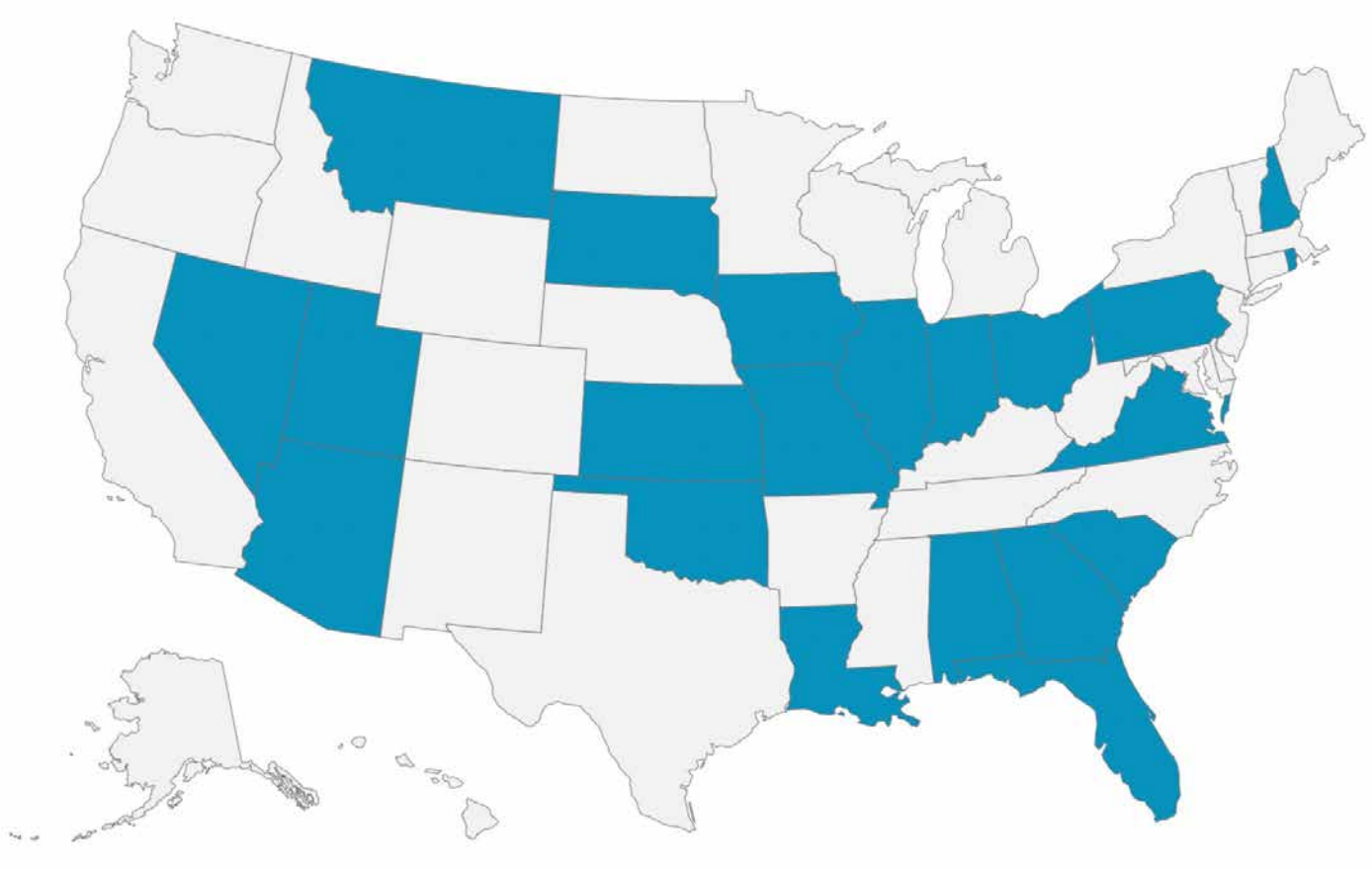
Source: NBC affiliate-Nexstar Media

NATIONAL PROGRAMS

26 Tax Credit Scholarship programs across 21 states

325,168 students across the U.S. attending quality schools on a Tax Credit Scholarship

$1 billion + in Tax Credit Scholarships granted across the U.S. annually



TAX CREDIT SCHOLARSHIP PROGRAMS IN 21 STATES

Who Benefits?



Child

Allows access to elementary school or high school that best fits the learning needs of the child, regardless of their ZIP code or household income



Parent

Allows parent to choose the school they believe will help their child flourish academically and holistically



School

Enables school to accept students that deserve to be there but cannot afford it



Taxpayer

Gives taxpayer power over their tax dollars and choose the impact those dollars have in their community



State

Saves the state money, per Louisiana Department of Education



WHO'S INVOLVED

School Tuition Organizations (STO):

State-approved 501(c)(3) that administers the program and provides scholarships through the tuition donation credit.

example: Arete Scholars

Qualified Schools:

BESE-approved or accredited Louisiana K-12 nonpublic schools. Over 200 schools participate in the TDC program by partnering with approved STOs.



WHO'S INVOLVED

Qualified Students:

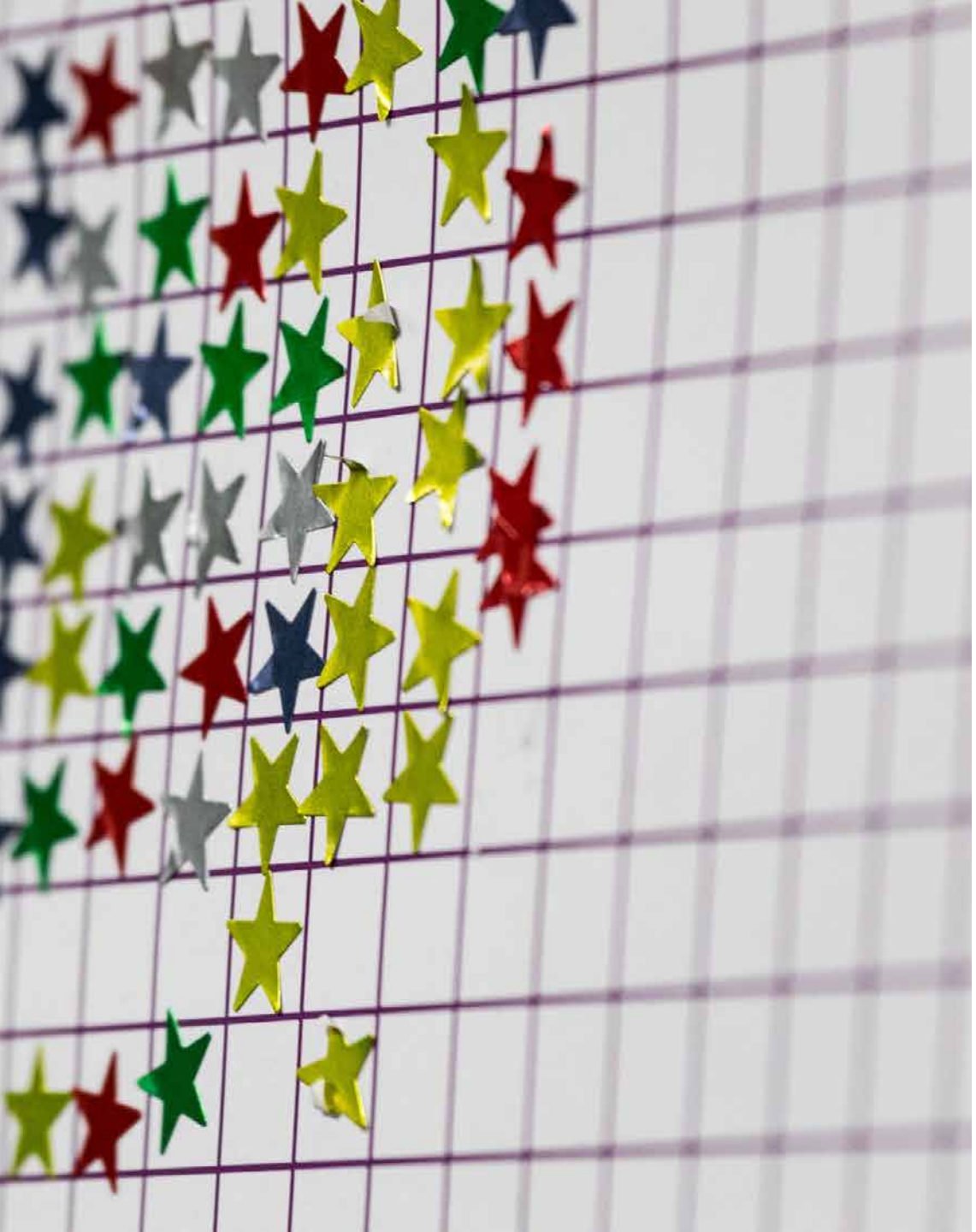
- have a family income that does not exceed 250% of the federal poverty line;
- be a resident of Louisiana;
- have attended a public school on October 1st and February 1st of the most recent school year;
- be entering kindergarten for the first time; or
- have participated in the Louisiana Scholarship Program/Tuition Donation Program the previous school year.

Qualified Donors:

- Must be required to file a LA tax return (individual, business, fiduciary)
- Upon donation, donor earns 95% tax credit immediately
- Taxpayer may be eligible for full or partial federal deduction
- Credit applies to the tax year in which the donation is made

WHO IS ELIGIBLE TO DONATE?

- **Louisiana resident individuals** who are required to file a federal income tax return are required to file a Louisiana income tax return.
- **Nonresident individuals** who earn net income from property located in La., from services rendered in La., from business transacted in La., or from sources within La. are required to file a Louisiana income tax return.
- **Corporations** subject to taxation pursuant to Title 47, Subtitle II, Chapter 1 are required to file a Louisiana corporation income tax return.
- **Fiduciaries, such as trusts and estates,** subject to taxation pursuant to LA R.S. 47:300.1, et seq. who have net income of $2,500 or more, has gross income of $6,000 or more, regardless of the amount of net income or who have beneficiary of the fiduciary who is a nonresident of Louisiana are required to file a Louisiana fiduciary income tax return.



How Does It Work: Role of STO

- STOs play a critical role in the Tuition Donation Credit Program by: a) galvanizing Louisiana taxpayers to directly provide economic resources to Louisiana families; and b) conducting the scholarship application and award process to enable marginalized children to attend the school that their parent feels will best prepare their child for success.
- Students apply directly to STOs for scholarships. STOs ensure the student qualifies under state guidelines. Once a student receives a scholarship, the student can take it to one of the nonpublic schools that partners with the STO
- Award students and verify enrollment each quarter. Also follow strict reporting guidelines with state agencies throughout the year and perform an annual audit.
- Determine the amount of the scholarship, with a maximum set at 10-20% less than the state's per-pupil amount (MFP). At least 95 cents of every dollar goes to scholarships; STOs operate on 5% or less.

How Does It Work: Role of CPA

- CPA informs client of estimated tax owed for 2023 tax year
- Client makes donation by December 31 or within fiscal year for corporations
- Once donation is made, client receives two forms
  - Standard Donation Acknowledgement Letter
  - State-Issued Tax Credit Receipt (Form R-10604)
- CPA files Louisiana tax return and attaches Form R-10604



DONOR TAX CREDIT PROCESS

Steps		Description
1	**Initial Donation**	**A donor makes an initial donation to a School Tuition Organization (STO) with any applicable stipulations.**
2	**Verification of Donation**	**The Louisiana Department of Education (“LDE”) verifies the amount of each taxpayer’s donation with the STO.**
3	**Issue Donor Receipts**	**The LDE issues receipts to the STOs for the amount of the donation used on student scholarships. The STO will then distribute these receipts to their donors.**
4	**Donor Claims Credit on Return**	**The taxpayer attaches this receipt when filing his income tax return. The taxpayer must have the receipt on or before the due date of the return in order to claim the credit for the preceding tax year.**
5	**Final Verification of Donation**	**The LDE verifies the amount of each taxpayer's donation spent on student scholarships by way of quarterly reporting and by the Annual Program Report STOs submit in January. (Answer revised on November 1, 2022.)**

Source: LA Department of Revenue

Donation Specific Stipulations

Donors may impose specific stipulations on any donation that they make to an STO. However, unless otherwise in alignment with one of the stipulations listed below, a donor may not earmark their donation to fund scholarships for a specific student or a specific school.

Donor Stipulations	Donors may designate their donations for:
Special Education	• Special education students in general; • Students with a specific type of exceptionality; or • An individual special education student
Group of Schools	• A group of two or more schools. ○ For example, a donor could designate their funds to be used specifically for a group of schools located in a specific parish. However, the donor could not designate the donation for a specific school in that parish.
Time Frame to Use the Donation	• If not designated, the STO may carry forward a donation to another school year
Administrative Fees	• A donor may also designate their entire donation to be used for administrative purposes.

PAPERWORK & FILING

One Form:

- State-issued Tax Credit Receipt (Form R-10604); received from LDE/STO

Filing:

- To claim the Tuition Donation Credit, taxpayer must attach form R-10604 to LA income tax return

R-10604 (1/18)

LOUISIANA DEPARTMENT of REVENUE

Receipt for Donations to School Tuition Organization Tax Credit

Louisiana Revised Statute 47:6301

Attach Form R-10604 to your Form IT-540, IT-540B, IT-540B-NRA, CIFT-620, IT-541, or R-6922.

Donor Certification – To be completed by the Louisiana Department of Education. Please complete this section before submitting it to the donor. A separate Form R-10604 must be used for each donation.

Date of Donation *(mm/dd/yyyy)*: 1/7/2022

Type of Donor: Individual

PLEASE PRINT OR TYPE

Name of Taxpayer/Entity	Last Four Digits of Social Security No./Entity Louisiana Revenue Account No.
John Deaux	1234
Name of Taxpayer's spouse *(if joint individual income tax return)*	Spouse's Last Four Digits of Social Security No. *(if joint individual income tax return)*
Name of School Tuition Organization (STO): Arete Scholars Louisiana	
School Year *(YYYY–YYYY)*: 2021-2022	Amount of donation used by a School Tuition Organization (STO) to fund scholarship: $2,500.00

SAMPLE

Authorized Representative of the Louisiana Department of Education

To be valid, this must be an original form and must have a signature of the authorized representative of Louisiana Department of Education.

Signature	Print Name	Date *(mm/dd/yyyy)*
[redacted]	[redacted]	01/31/2022

Donor's Claim Portion – To be completed by the Louisiana taxpayer who made the donation certified above. Please complete this section of the form and attach to your tax return.

Taxpayer's Mailing Address

Address		
City	State	ZIP
Telephone Number		

Declaration of Taxpayer

I declare that to the best of my knowledge of all available information, this credit receipt is true and complete and complies with all statutes, rules and regulations, and any other policy pronouncements related to this credit as indicated above. I understand that upon the indication of a misrepresentation of the facts therein I am subject to legal and tax consequences, including a total recapture of credits granted as a result of the misrepresentation.

Signature of Taxpayer	Date *(mm/dd/yyyy)*
Signature of Spouse *(if joint return)*	Date *(mm/dd/yyyy)*



TIMELINES & FEDERAL DEDUCTIBILITY BY ENTITY

Individual

- Donation made anytime within calendar year (December 31 deadline for tax year)
- Donations can be made in lieu of quarterly estimated tax payments
- Federal charitable contribution deduction on 5% not credited by state; no deduction on 95% credit (quid pro quo test)

S-Corps, LLCs, Partnerships

- Donation made anytime within calendar year if liability flows through to shareholders on individual return; donation made within fiscal year if liability is taken at the entity level
- Flows through to individual return unless elected to be taxed at entity level; in that case, safe harbor may apply; deductible under section 162, rather than section 170

C-Corps

- Donation made anytime within company's fiscal year
- Per IRS regulations, C-corporations may fully deduct donation as a necessary and ordinary business expense on federal return under Section 162, rather than Section 170

CLAIMING CREDIT ON STATE RETURN

- INDIVIDUAL: Nonrefundable Priority 3 Credit, Code 424, Included on Schedule J of IT-540
- C-CORP: Nonrefundable Priority 3 Credit, Code 424, Claimed on Schedule NRC-P3 – Part I of CIFT-620
- FIDUCIARY: Nonrefundable Priority 3 Credit, Credit Code 424, Claimed on Schedule NRC-P3 – Part I of IT-541

Additional Nonrefundable Priority 3 Credits

Enter credit description and associated code, along with the dollar amount of credit claimed. *See the instructions.*

	Credit Description	Credit Code	Amount of Credit Claimed
6			6 .00
7			7 .00
8			8 .00
9			9 .00
10			10 .00
11			11 .00

IMPORTANT! Only these codes can be claimed on Lines 6 through 11.

Description	Code
Organ Donation	202
Previously Unemployed	208
Owner of Accessible and Barrier-free Home	221
New Jobs Credit	224
Eligible Re-entrants	228
Apprenticeship (2007)	236
Biomed/University Research	300
Tax Equalization	305

Description	Code
Manufacturing Establishments	310
Other	399
Refunds by Utilities	412
Donation to School Tuition Organization	424
QMC Music Job Creation Credit	454
Neighborhood Assistance	457
Research and Development	458
Ports of Louisiana Import Export Cargo	459

Description	Code
LA Import	460
LA Work Opportunity	461
Youth Jobs	462
Apprenticeship (2022)	463
Donation to Qualified Foster Care Charitable Organization	464
Inventory Tax Credit Carried Forward and ITEP	500
Ad Valorem Natural Gas Credit Carried Forward	502
Atchafalaya Trace	504

Description	Code
Cane River Heritage	506
Ports of Louisiana Investor	508
Enterprise Zone	510
Recycling Credit	550
Other	599

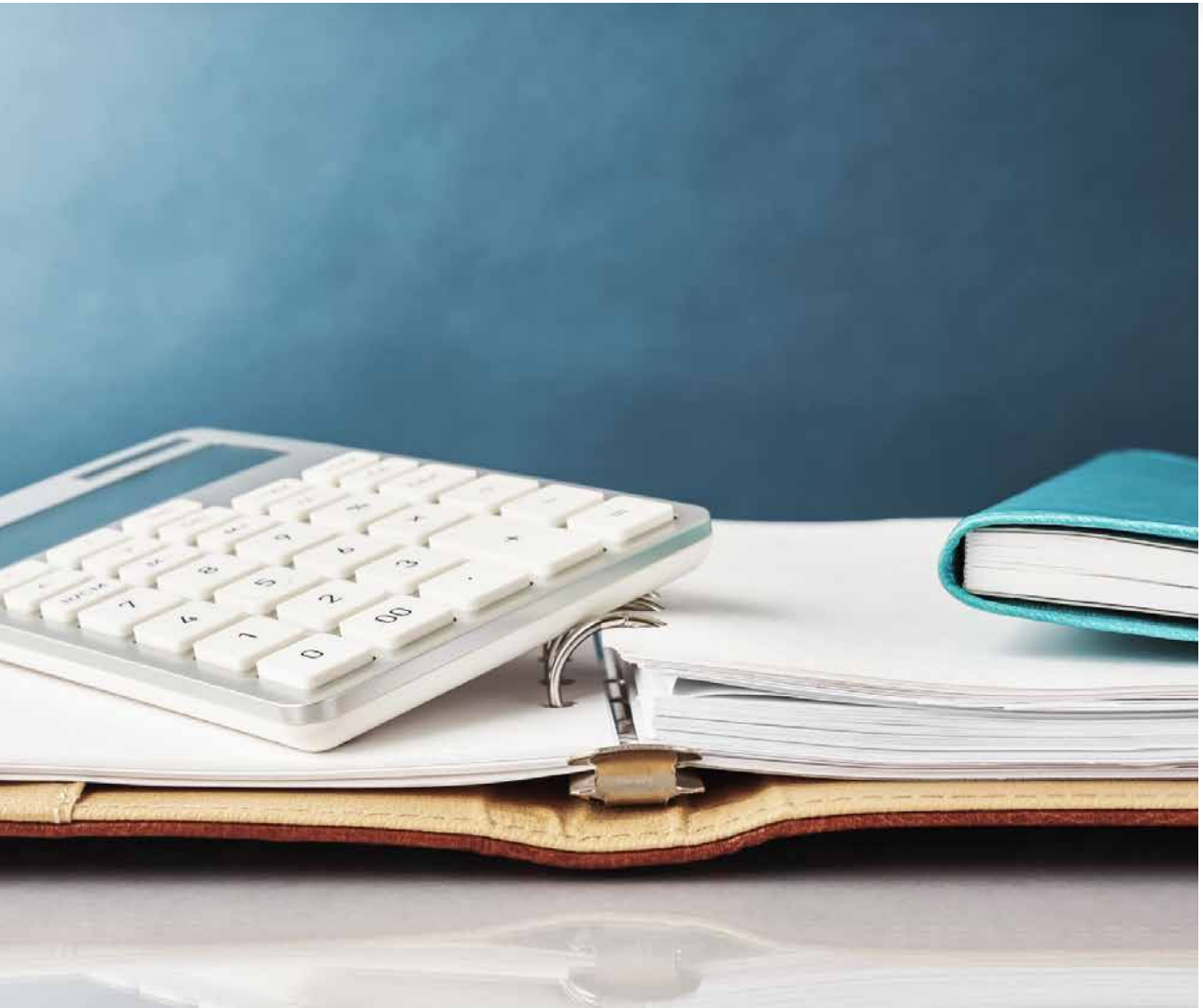
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Donation Example

Tax Donation Amount	$10,000	$100,000
Tuition Donation Credit	+$9,500	+$95,000
Federal Tax-Deductible Portion	$500	$5,000
Donor Tax Bracket	24%	37%
Federal Tax Savings	+$120	+$1,850
Net Cost of Tax Credit Donation	$380	$3,150

*Arete Scholars does not provide tax, legal, or accounting advice. Any illustrative material is prepared for information purposes only.

Effect of Credit on Declaration of Estimated Tax



- A taxpayer is generally required to pay declarations of estimated tax (commonly referred to as quarterly estimates) if the taxpayer's income tax liability exceeds the taxpayer's credits, including withholdings, allowable against the income tax liability.
- Taxpayers who donate to a school tuition organization may factor the credit amount into their calculation of declarations of estimated tax by reducing the declaration payments as appropriate.
- Allows clients to hold onto money all year and then make payment at the end of the year.
- Should overestimate, rather than underestimate, to avoid an underpayment penalty. Taxpayers should refer to the Department's forms and instructions for Declarations of Estimated Tax and Underpayment of Tax Penalty Computation.

WHAT'S NEW AFTER 2022?

IT—540: SCHEDULE E– ADJUSTMENTS TO INDIVIDUAL INCOME

No More Add Back of Donation to School Tuition Organization Credit

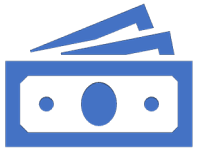
This **add-back is no longer needed** because Act 395 of the 2021 Regular Legislative Session limited excess federal itemized deductions to medical and dental expenses, which eliminated the double state benefit for a donation to a school tuition organization, effective December 31, 2021.



Other Frequently Asked Questions



Can my client receive a full or partial federal deduction and the state credit?



Can my client donate through a DAF or via RMD and still receive the tax credit?



Can my client make a gift of appreciated stock? How does that work?



Why would the state do this and is there any fear of the credit going away?



How does this affect public schools?

APPENDIX

- Arete Scholars – www.aretescholars.org
- Tax credit programs by state - https://www.edchoice.org/school-choice/types-of-school-choice/tax-credit-scholarship/
- Tuition Donation Credit legislation (ACT 377) - http://legis.la.gov/legis/ViewDocument.aspx?d=1052397
- Department of Education TDC webpage - https://www.louisianabelieves.com/schools/tuition-donation-credit-program
- Department of Education: Bulletin 134 - https://www.doa.la.gov/media/qeuo5bsg/28v155.doc
- Department of Revenue TDC FAQ - https://www.revenue.louisiana.gov/FAQ/QuestionsAndAnswers/72
- Department of Revenue Information Bulletin 18-024 - http://revenue.louisiana.gov/lawspolicies/rib%2018024.pdf

QUESTIONS

Please contact us with your questions regarding the Tuition Donation Program, and how your clients can leverage their tax liability to change the lives of marginalized children.



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THANK YOU!



ARETE SCHOLARS