



2018-2019 Local Government Charitable Funds

Board of Education August 14, 2018



Charitable Funds - Overview

- **New York State's income tax system conforms to and interacts with the federal tax system in various ways.**
- **Changes to the federal tax system will have an impact on the State's income tax system.**
- **December, 2017 the Federal Government enacts the Tax Cuts & Job Act of 2017. This new Federal tax law limits the deductibility of State and Local Taxes (SALT) by imposing a \$10,000 cap on these tax deductions.**
- **NYS responds to the changes to the federal tax system by restructuring the State's tax system. The adopted legislation authorizes school districts and local governments to create charitable funds for public education and charitable purposes.**



Charitable Fund - Legislation

- **The adopted legislation authorizes school districts and local governments to create charitable funds for public education and charitable purposes.**
- **School districts and local governments are authorized to provide a local property tax credit up to 95% of the donation.**
- **If utilizing a charitable fund, taxpayers with more than \$10,000 in state and local taxes who itemize their deductions may see a reduction in their federal tax liability.**



Charitable Fund - Establish a Fund

- **To establish a fund to accept charitable contributions, the local governments and school districts must enact a local law or resolution. Local governments and school districts are authorized to establish a property tax credit for those who donate to these charitable funds. The maximum value of the property tax credit is 95% of the value of the contribution.**
- **Contributions received in these funds are to be used for charitable purposes. For a school district, this must be for educational purposes.**
- **Contributions must be unrestricted, meaning that the donor may not place any restrictions on the use of the donated funds.**



Charitable Fund - How it Works - Example

- **Using a school tax liability of \$10,000 and 95% tax credit – individual would make a \$10,000 donation to the District's charitable fund. The individual may deduct the \$10,000 from their taxable income when filing their tax return.**
- **The charitable fund would issue a tax credit of \$9,500 or 95% of the contribution and transfer \$9,500 to the school district. The charitable fund would keep \$500 and the individual would pay an extra \$500 to satisfy their school tax liability.**



Charitable Fund – Internal Revenue Service

- On May 23, 2018 the IRS issued Notice 2018-54 which announced that the US Treasury Department and the IRS intend to propose regulations addressing the federal income tax treatment of contributions made to state and local charitable funds. The notice did not provide a timeline for when the guidance will be issued.
- The IRS has warned taxpayers to proceed with caution after states like New York approved workarounds involving charitable funds to circumvent new federal limits on deductions for state and local taxes.
- The Notice cautions, the proposed regulations will make clear that the requirements of the Internal Revenue Code, informed by substance over form principles, govern the federal income tax treatment of such transfers.



Charitable Funds – What Others Are Doing

- It is our understanding that the Town of Somers will be waiting for IRS guidance before proceeding further with this matter.
- The Lakeland and North Salem school districts, which the Town of Somers has small portions of these school districts within its town borders, are also awaiting IRS guidance before proceeding with this matter.
- The Mamaroneck CSD has publically stated that they will not be establishing a charitable fund at this point in time as the newspaper reports that Mamaroneck believes that the IRS will not treat contributions to a charitable fund as charitable contributions.
- The Town of Rye will set up a charitable fund as their Town Supervisor publicly stated that they felt it was the town's responsibility to provide the opportunity for its taxpayers to take advantage of the provision.
- The Rockland County Executive has stated that Rockland County will not set up a charitable fund.



Board Member Questions?

