

INDIVIDUAL DEVELOPMENT ACCOUNTS (IDA) TAX CREDITS

January 8, 2021

IDA TAX CREDIT SUMMARY/REVIEW

- The tax credit program provides \$200,000 in tax credits annually to IDA Administrators to finance additional IDAs and help pay for expenses related to IDA administration.
- Tax credits are worth 50% of the value of a contribution. This means that a \$200 donation nets a \$100 tax credit.
- If Administrators distribute all tax credits, that provides up to \$400,000 in additional IDA funding.
- IDA TC is created by Indiana Code 6-3.1-18, with additional requirements in 4-4-28-13.
- Donations are reported to the Indiana Department of Revenue and a credit is given to the donor's state tax liability.

IMPORTANCE OF IDA TAX CREDITS

- IDA Funding is decreasing:
 - 2015: \$1 million from Federal, \$1 million from State
 - 2016: \$730K from Federal, \$970K from State
 - 2017/2018: \$0 from Federal, \$970K from State
 - 2019/2020: \$0 from Federal, \$870K from State (less 2020 budget cuts)
 - 2021/2022: ?
- Use of IDA Funding is starting to increase:
 - 2013/2014: 73% utilization
 - 2015: 41% utilization
 - **2016: 70% utilization**
 - **2018: 47% utilization**
- If you want to grow your program, IDA Tax Credits is a great option

TAX CREDIT BASICS

What is the difference between a Tax Credit, and a Tax Deduction?

A **tax deduction** reduces a taxpayer's taxable income.

A **tax credit** counts as if it were taxes already paid, and reduces the taxpayer's total tax liability.

Example:

Taxpayer income: \$40,000

Tax rate: 25%

Tax Liability: $(40,000 \times .25) = \$10,000$

- A \$1,000 tax **deduction** would reduce the taxpayer's taxable income to \$39,000.

$$40,000 - 1,000 = 39,000$$

$$39,000 \times .25 = \underline{\$9,750}$$

- A \$1,000 tax **credit** would reduce the taxpayer's tax liability to \$9,000.

$$40,000 \times .25 = 10,000$$

$$10,000 - 1,000 = \underline{\$9,000}$$

USE OF FUNDS RAISED FROM IDA TAX CREDITS

- Funds are received from donors – you do not claim them from IHCDAOnline
- Match funds must be used for new IDA accounts, not to increase match on accounts in the regular program
- Accounts must follow most recent IDA Manual and rules such as match rate (3:1, \$4,500 in match)

USE OF FUNDS RAISED FROM IDA TAX CREDITS

- Up to 20% of funds **RAISED** may be used for admin expenses, up to the first \$100,000 raised.
- Anything raised over \$100,000 (from \$50,000 in tax credits) must all go to match
 - Ex: if you are awarded \$10,000 in tax credits, distribute all of them, and receive \$20,000 in funding, up to \$4,000 can be used for admin
 - Ex: if you are awarded \$10,000 in tax credits, only distribute \$5,000, and receive \$10,000 in funding, only up to \$2,000 can be used for admin
 - Ex: if you are awarded \$60,000 in tax credits and distribute all of them, you'll receive \$120,000 in funding; only up to \$20,000 can be used for admin, while the other \$100,000 must be used for match

IDA TC MATH

- IHEDA assumes that all agencies want the full 20% admin allowed
- All accounts must provide a \$4,500 match
- That means each account is worth **\$5,625** (\$4,500 in match, \$1,125 in admin)
- In terms of tax credits, each account is worth **\$2,812.50**

Number of Accounts	Tax Credits	Funds Raised
1	\$2,812.50	\$5,625
2	\$5,625	\$11,250
3	\$8,437.50	\$16,875
4	\$11,250	\$22,500
5	\$14,062.50	\$28,125
6	\$16,875	\$33,750
7	\$19,687.50	\$39,375
8	\$22,500	\$45,000

IDA TC APPLICATION

- Starting in 2020, IDA TC Applications were combined with the regular IDA Application
- For 2021, expect applications to be released between March and April

Would your agency like to apply for 2020 IDA Tax Credits? *

- Yes
- No

Total number of IDA Tax Credit accounts requested; an even number of accounts is highly recommended: *

Expected match rate. Should be 3:1, unless otherwise approved by IHCD. *

Each IDA funded with Tax Credits is worth \$2,812.50 in credits. Once sold, those credits will raise \$5,625.00 in donations; 80% or \$4,500 of that should be used for match and 20% or \$1,125 can be used for Administrative costs.

Total tax credits requested (# of requested accounts x \$2,812.50). *

Total funding expected to be raised from IDA Tax Credits (# of requested accounts x \$5,625) *

Total funding expected to be spent on Match (# of requested accounts x \$4,500) *

Total funding expected to be spent on Admin (should be # of requested x \$1,125 or less) *

IDA TC AGREEMENT AND GUIDANCE

- The application is combined with the regular IDA application, but the agreement is separate
- Agreements are for one year, July-June
- All awarded tax credits must be distributed during that time; anything that isn't distributed by June 30, 2022 is forfeit
- In past few years, IHEDA relied on guidance to provide program rules and regulations
 - **In 2021, look out for additions to the IDA Manual specifically for IDA Tax Credits**

CONTRIBUTION POLICY

- Awardees may begin accepting contributions on July 1, as long as they have a fully executed Grant Agreement has been returned by IHCDA.
- Credits for donations can only be claimed in the calendar year that the donation was made in.
 - This means that for your 2021-2022 credits, if a person donates in 2021, they will claim the credit on their 2021 taxes.
 - If they donate in early 2022, they will claim the credit on their 2022 taxes.

ELIGIBLE DONORS

Organizations or Corporations

- Organizations and corporations are welcome to make NAP tax credit eligible contributions.
- Additional steps or information may be required when reporting these contributions, based on whether the organization or its shareholders claim the credits.

Families or Couples

- See manual for how to treat donations and credits if a couple files jointly or separately

Donor advised funds

- See manual for how to treat donations from donor advised funds (*July 17 update*)

No charitable organizations or foundations!

ELIGIBLE DONATIONS

Eligible Contributions:

- Cash
- Check
- Credit Card
- Stock (which has been liquidated)
- Contributions designated through United Way (minus United Way's cut)

Ineligible Contributions

- Services (sweat equity), supplies, and equipment are not eligible in-kind donations
- Membership dues or fees

CONTRIBUTION LIMITS

- Multiple donations are allowed, to one or many organizations
 - If multiple donations are made to one agency, and all donations are credit-eligible, then the donor should receive a contribution form for each donation
- A single donor may only claim up to \$25,000 in total credits (for \$50,000 in donations) each calendar year, even if they donated to multiple organizations. Anything beyond that will not be honored.
- Donations need to be at least \$100, for a \$50 credit, UNLESS an agency has less than \$50 left in credits

REPORTING DONOR CONTRIBUTIONS

- Twice a year, IHCDCA requires updates on distributed tax credits: January and July
- Within the donation report, Administrators must supply the following information:
 - Donor name
 - Donor SSN or FID
 - Address
 - Date of Contribution
 - Amount of Contribution
 - Amount of Expected Tax Credit
- If one donor contributed multiple times, they should be listed once, their donations and credits totaled, and the date of their most recent contribution provided
- IHCDCA provides this information to IDOR, which confirms the credits claimed on the donor's taxes

REPORTING ACCOUNTS

- In the same file as the Donor Report, IDA Administrators must report the accounts they have opened under the Tax Credit program
- Information provided on the report includes: name, TC contract they were opened under, the amount saved, the amount provided in match, the asset type they are working towards, etc.
 - This report will probably be updated for 2021

Thank you for participating in this webinar.

**If you have any unanswered questions,
please contact us at
IDA@ihcda.in.gov**

**A copy of this webinar will be available shortly on the IHCDA website*