HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 108 includes language that prevents taxpayers who itemize from claiming both a deduction and a credit for the same contribution. **DATE:** January 21, 1999

Version: As Introduced

Authors: Pawlenty and others

Subject: Income tax credit for contributions to organizations that provide services to the poor

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Overview

Allows a nonrefundable tax credit equal to 75 percent of contributions to charities that provide direct services in Minnesota to people with incomes below 185 percent of the federal poverty guidelines. The maximum credit is $200 for married couples filing joint returns, and $100 for all other taxpayers. The maximum credit is subject to an income-based phaseout.

Background

Under current law, taxpayers who claim itemized deductions at the federal level may deduct charitable contributions from both federal and state taxable income; those who claim the federal standard deduction may not. H.F. 108 includes language that prevents taxpayers who itemize from claiming both a deduction and a credit for the same contribution.

1 **Additions to federal taxable income.** Requires taxpayers who claim a credit for charitable contributions and who claimed the federal itemized deduction for charitable contributions to add the amount of the credit back to federal taxable income. This prevents taxpayers from receiving both a deduction and a credit for the same contribution.

2 **Charitable contributions credit.**

Subd. 1. Credit allowed. Allows a nonrefundable credit equal to 75 percent of contributions to a qualified charity. The maximum credit is $200 for married taxpayers filing joint returns, and $100 for all other taxpayers. The credit is subject to an income-based phaseout that starts at $80,000 and ends at $100,000 for married joint filers, and that starts at $40,000 and ends at $50,000 for all other filers.

Subd. 2. Definitions. Defines "qualified charity" as an organization that

- is a 501(c)(3) organization that is exempt from tax under the Internal Revenue Code
- uses at least 70 percent of its total spending for direct services, and not more than 30 percent of its spending for administration and fund-raising
- receives less than 50 percent of its funding from government
- has as its predominant activity the provision of direct services in Minnesota to individuals with incomes below 185 percent of the federal poverty guidelines ($30,433 for a family of four in 1998)

Provides that for organizations that maintain dedicated funds for helping low-income people, the 70 percent spending on direct services requirement applies only to the dedicated fund. Clarifies that organizations that provide food and shelter are considered to meet the requirement of providing services to people with incomes below 185 percent of the poverty guidelines.

Defines "direct services" to mean any benefit or service intended to prevent or alleviate poverty.

Subd. 3. Timing of contributions. Allows contributions made from January 1 through April 15 to qualify for the credit for the previous tax year.

Subd. 4. Documentation. Requires qualified charities to provide donors with receipts for use in claiming the credit. Specifies that the receipt must state that the contribution is to be used for the provision of services in Minnesota. Requires all qualified charities that accept contributions to make an annual report to the department of revenue in a form and manner prescribed by the commissioner.

Subd. 5. Annual returns of qualified charities. Requires qualified charities to make available copies of their annual returns filed under section 6033 of the Internal Revenue Code. These are returns that 501(c)(3) organizations are required to file to document their tax-exempt status.

3 **Effective date.** Effective beginning in tax year 1999.