

THE RHODE ISLAND SCHOLARSHIP TAX CREDIT

FAQ

The RI Corporate Scholarship Tax Credit encourages qualified businesses to help low-income families afford an independent school education for their children in return for substantial tax credits. Children in grades K-12 in families with an annual household income of not more than 250% of the federal poverty level are eligible for scholarships.

WHICH BUSINESSES CAN PARTICIPATE? C-Corporations, S-Corporations, Limited Liability Partnerships and Limited Liability Corporations may receive up to a \$100,000 tax credit annually for a donation to a certified scholarship-granting organization. Companies are selected by lottery. The total tax credit cap for 2014 is \$1,500,000.

HOW DOES THE TAX CREDIT WORK? Businesses can choose to make a 1- year or 2- year commitment. A 1- year commitment results in a 75% credit while a 2- year commitment results in a 90% credit with a maximum credit of \$100,000. Therefore, a business can contribute up to \$111,111 per year. Donors can also claim the contribution as an itemized deduction on federal returns, although the state deduction will be reduced, since the donor is paying less tax. Taxpayers subject to the Alternative Minimum Tax realize even greater benefits than those outlined below.

EXAMPLES OF TAX CREDIT BENEFIT FOR A TAXPAYER IN THE 33% TAX BRACKET		
\$ AMOUNT OF BUSINESS CONTRIBUTION	ESTIMATED NET COST AFTER 75% TAX CREDIT (1-YR COMMITMENT)	ESTIMATED NET COST AFTER 90% TAX CREDIT (2-YR COMMITMENT)
\$ 50,000	\$ 8,375	\$ 3,350
\$100,000	\$ 16,750	\$ 6,700

ARE PASS-THROUGH ENTITIES ELIGIBLE? The credit passes through to the shareholder/member/partner pro-rata based on ownership percentages. The credit can be claimed on RI-1040 against ALL of the taxpayer's RI tax, not only against the income from the pass-through entity, including spouse's income, W-2 income, investment income, etc. The pass-through entity does not have to have income to qualify for the credit. A taxpayer can use an entity that has no business income and pass the credit through. For example, if an RI taxpayer were an S-corporation that also has a nonresident shareholder, that corporation would not want to contribute. But if that RI taxpayer also owns an LLC that has an unrelated source of revenue, i.e., rental property in the LLC, the LLC qualifies to make the contribution.

CAN NON-RESIDENTS APPLY? The credit does not help a nonresident since it would be negated by a reduction of the credit for tax paid to other states on their home state returns.

HOW DOES A CONTRIBUTION BECOME A SCHOLARSHIP? Scholarship tax credit contributions are distributed to certified Scholarship Granting Organizations (SGOs). SGOs are charitable organizations—representing two or more private schools—that administer tuition assistance grants to eligible students, allowing them to attend any qualified participating school of their parents' choice. A corporation may allocate its contribution to one or more SGOs.

WHAT IS STEPS? STEPS (Scholarships to Economically Poor Students) is one of the certified SGOs. Community Preparatory School, San Miguel School, Sophia Academy, and Grace School (part of Meeting Street) participate in the Scholarship Tax Credit via STEPS.

HOW DOES MY BUSINESS APPLY FOR AN RI CORPORATE SCHOLARSHIP TAX CREDIT? Qualified businesses can apply for the tax credit by filling out and submitting an application available from an SGO or on-line. The program is limited to \$1.5 million in approved tax credits annually. Once the annual cap is reached no more tax credits will be approved until the following year. Applications must be submitted to the RI Division of Taxation on July 1. If STEPS is the SGO or one of the SGOs that you are designating, then Lisa Dantas from STEPS will connect with you to collect your application and hand deliver it to the State on July 1.

WHEN ARE CONTRIBUTIONS DUE? Within 30 days of submittal, businesses receive an approval or denial from the Division of Taxation. Approved businesses have 120 days to make the contribution to the SGO. Businesses whose tax credit application is not approved are under no obligation to make a donation to STEPS.

WHOM CAN I CONTACT FOR MORE INFORMATION? Please contact Lisa Dantas at Community Preparatory School, 401-521-9697, ext. 4, for more information about scholarship contributions and student eligibility or to request an application. More information is also available at www.rischolarshipalliance.org and www.tax.ri.gov/Credits/index.php

Robert Mancini, Executive Director of the Rhode Island Society of Certified Public Accountants, RISCPA, strongly encourages qualified businesses take advantage of this extraordinary opportunity to give low-income children access to an independent school education, while earning a significant tax credit and the public recognition that comes from charitable giving.

Join the list of Rhode Island companies benefitting from the RI Scholarship Tax Credit Program through STEPS:

**Amica Life
Amica Mutual
Arlen Corporation
Atlantic Furniture
Barreto & Schwartz
Community Matters
Delta Dental
Federal Properties
FM Global**

**GPS
Jamie Moore Appraisal Services
Jeneet
Nova Cleaning
Scott Volkswagen
Taco
Webster Bank
Weybosset Research & Management**