



ARE YOU TAKING ADVANTAGE OF THE MICHIGAN TAX CREDITS?

As the year end approaches, many of our clients love to give charitable contributions to their favorite charities. The Federal government allows the contribution as an itemized deduction that will in turn lower your taxable income. To go along with the Federal deduction, the State of Michigan offers three distinct tax credits for certain contributions.

Public Contribution Credit. A partial income tax credit can be claimed for donations to a qualifying Michigan public institution. Gifts qualify for the credit if given to:

- Michigan colleges or universities and their fundraising organizations
- Michigan public libraries
- Michigan public museums
- Michigan public broadcasting stations

Community Foundation Credit. A partial income tax credit can be claimed when you donate to an endowment fund of one the certified community foundations. High School education or development foundations do **not** qualify for this credit. However, many area High Schools have set up a fund inside the Grand Rapids Community Foundation. You should check with the development director of your local school to see if they have set up this fund. If not, they are missing a golden opportunity to increase their foundation assets.

Homeless Shelter/Food Bank Credit. A partial income tax credit can be claimed when a donation is made by cash or check to a qualifying shelter for homeless persons, food bank, a food kitchen, or other entity whose **primary** purpose is to provide overnight accommodation, food or meals to indigent persons. Donations to organizations which provide other services or shelter and food as a secondary purpose such as second hand stores, churches and The Salvation Army do **not** qualify for this credit.

Credit Calculation. Each credit is calculated as follows:

- 50% of the contribution with the credit not exceeding \$200 (\$100 for a single return). Therefore, the credit is on the first \$400 contribution (\$200 for a single return).

Example: Let's look at how the federal deduction and the state credits work. Assume a married couple filing a joint return itemizes deductions and is in the 25% federal tax bracket. This couple gives \$400 to the University of Michigan, another \$400 gift to the

Grand Rapids Community Foundation and yet another \$400 gift to West Michigan Gleaners.

Cash outlay at time of contribution	\$1,200
Three MI tax credits allowed at \$200 each	\$ 600
Net Federal tax savings due to itemized deduction	<u>\$ 150</u>
Net after tax cost of the three contributions	\$ 450

In other words, once all tax savings have been calculated, the taxpayers were able to gift away \$1,200 to three qualifying charities of their choice and the true cost to them will be only \$450 after all tax benefits are recognized.

It is important to realize that there is only one credit available for each of the three credit categories. So a person can not expect three credits if they gave GVSU, UofM and Calvin College each \$400. They would only get one credit for the Public contributions.

We hope this letter inspires you to benefit others with a year end gift. If you have any questions about this tax savings idea, please do not hesitate to call.

Vander Lugt, Mulder, DeVries & Elders