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Registered Investment Advisors - Certified Public Accountants - Real Estate Brokers

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### **75% Charitable Tax Credit**

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Here's an article on a new Illinois tax law that shows you how to erase all your Illinois income taxes. For every dollar you contribute, you lower your Illinois income tax by 75 cents! We love it! You must sign up for this program and be approved by January 31st of each year.

#### **INVEST IN KIDS ACT OF 2017**

The Invest In Kids Act allows income tax credits for taxpayers who make authorized contributions to a scholarship granting organization(SGO). The act became effective August 31, 2017, and is scheduled to be repealed on January 1, 2024.

SGOs are IDOR-approved nonprofit organizations that receive qualified contributions that are then disbursed to qualified nonpublic schools in Illinois in the form of scholarships for eligible students. Applications for SGO status for the 2018-2019 school year must be submitted electronically through IDOR's website at [www.tax.illinois.gov](http://www.tax.illinois.gov) between December 1, 2017, and January 15, 2018. SGOs must apply for approval each year. SGO-approved scholarships for the 2018-2019 school year must be granted no later than February 1, 2018.

Starting in 2018, IDOR can issue up to \$75 million in tax credits for authorized contributions to scholarships each calendar year. These credits will be awarded annually on a first-come, first-served basis in a way that is geographically

proportionate to enrollment in recognized nonpublic Illinois schools. For purposes of awarding the credits, Illinois will be divided into five regions with the same boundaries as those for the Illinois Appellate court districts. A listing of the counties in each court district can be found at [illinoiscourts.gov](http://illinoiscourts.gov).

## ELIGIBLE STUDENTS

An eligible student for purposes of this act is a member of a household whose federal adjusted gross income (AGI) for the year prior to the year the student initially receives as a scholarship does not exceed 300% of the federal poverty level (FPL). Once the child receives scholarship, the household AGI cannot exceed 400% of the FPL.

Note, FPLs are measures of income issued each year by the Department of Health and Human Services. The FPLs can be found at <https://aspe.hhs.gov/poverty-guidelines>.

The student must be eligible to attend an Illinois public elementary school or high school in the semester immediately preceding the semester for which the student first receives a scholarship. Alternatively, the student may be starting school in Illinois for the first time when they first receive a scholarship. These scholarships may only be used for eligible students attending nonpublic schools, recognized under Section 2-3.25o of the Illinois School Code. In addition, the student must reside in Illinois during the time they receive a scholarship.

Example. Jason and Jill brown are Illinois residents with two children aged 11 and 12. In 2017, the Browns' federal AGI was \$60,000 and their children attended the local public school. The Browns expect their federal AGI to increase to \$75,000 in 2018 and would like their children to obtain a scholarship to attend a local nonpublic school for the 2018-2019 school year.

The applicable 2017 FPL for the Browns is \$24,600. Their 2017 AGI is less than 300% of the FPL ( $\$24,600 \times 3 = \$73,800$ ). Their expected 2018 AGI is less than 400% of the FPL ( $\$24,600 \times 4 = \$98,400$ ). Consequently, they meet the income requirements for 2017-2018.

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## ALLOWABLE COSTS

This scholarship may only be used to cover necessary costs and fees of eligible students. This includes the customary charge for instructions and use of facilities in general and the additional fixed fees charged for specified purposes that are generally required of nonscholarship recipients (e.g., costs associated with student assessments).

## TAXPAYER BENEFITS

Illinois taxpayers who are approved by IDOR can receive state income tax credits of 75% of the total qualified contributions they made to SGOs during a tax year. A taxpayer's credit cannot exceed \$1 million per year. For this purpose, the definition of Illinois taxpayers includes any individual, corporation, partnership, trust, or other entity subject to the Illinois income tax.

Individual Illinois taxpayers may specify that their qualified contributions be directed to a particular school or subset of schools but not to a particular student or group of students. Corporations (including S corporations), partnerships, and trusts cannot specify that their qualified contributions be directed to a particular school or subset of schools or to a particular student or group of students.

## APPROVAL PROCESS

To obtain IDOR approval to make such contributions, the taxpayer must apply online through MyTax Illinois at [tax.illinois.gov](http://tax.illinois.gov). Accordingly, the taxpayer must have a registered MyTax Illinois account to apply for the credit. IDOR encourages taxpayers to create a MyTax Illinois account as soon as possible to avoid processing delays when the application system becomes available.

Approval is automatic as long as the regional and state thresholds have not been met. Taxpayers should include the name of the SGO and identify the region the taxpayer wants their contribution to benefit.

## APPLICATION

The application for the Invest in Kids tax credit will be available through MyTax Illinois on January 2, 2018

A taxpayer must apply in January of each year in which they want to be approved for a new tax credit.

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## CLAIMING A CREDIT

Once a taxpayer is approved by IDOR, they are issued a contribution authorization certificate (CAC) by IDOR. The taxpayer must provide a copy of the CAC with their contribution to the SGO within 60 days. The SGO will then issue a certificate of receipt (COR) within 30 days of receiving the taxpayer's contribution. The taxpayer can then use the approved credit when they file their 2018 income tax return.

If the taxpayer's credit exceeds their liability for the year, the unused amount can be carried forward and applied to the taxpayer's tax liability in the subsequent five tax years. The credit cannot be carried back to previous years.

Example. On January 8, 2018, Katy Goodfellow files an online application indicating she intends to contribute \$100,000 to an approved SGO. Katy's expected 2018 Illinois tax liability is \$25,000. As long as the regional or the total statewide maximums have not been reached, Katy will receive a CAC from IDOR authorizing her \$100,000 contribution to the SGO, which equates to a \$75,000 ( $\$100,000$  qualified contribution  $\times$  75%) tax credit. Katy must obtain a COR from the SGO within 30 days of receipt of her \$100,000 contribution. Katy can then claim the Invest in Kids tax credit on her 2018 Illinois tax return. The remaining tax credit amount is carried forward until fully utilized (for a maximum of five years).

## CREDIT LIMITATION

If a taxpayer claims a federal income tax deduction for any qualified contribution, they cannot also claim an Invest in Kids credit with respect to the same contribution.