



# Just the FAQs

## STO Tax Credit

# What does the STO mean to Holy Family?



- In 2015, 467 qualified Iowa students received \$1,125,876
  - Awards ranged from \$300 to \$5,510
  - STO restrictions insist that every family needs to pay at least 5% of tuition
- STO dollars allow us to concentrate local tuition assistance dollars to middle class families that fall just outside STO eligibility and out-of-state families

# What is the STO Tax Credit?



- Income tax credit available to Iowa taxpayers
- For charitable contributions to an STO

# What is an STO?



- STO stands for School Tuition Organization
- Special type of charity formed under Iowa law
- Provides tuition grants to qualifying students
- In grades K-12 (not preschool or college)
- To attend accredited nonpublic Iowa schools

# Where did STOs come from?



- Iowa Educational Opportunities Act of 2006
- Signed by Governor Culver in June, 2006
- Similar programs exist in Arizona, Florida, Pennsylvania, and Rhode Island



# Where do STO contributions go?



- By law, at least 90% of all contributions must be given to qualifying students in the form of tuition grants
- Qualifying students live in households whose income is less than three times the federal poverty guideline
- A family of four with income of less than \$72,750 qualifies to apply for a tuition grant

# How much credit is available for 2015?



- Iowa Department of Revenue has allocated tax credits totaling \$12 million to Iowa's 12 STOs
- This means the STOs can raise over \$18.4 million in qualifying charitable contributions
- The Our Faith, Our Children, Our Future STO is authorized to raise \$5,479,436 this year

# What is the Iowa tax benefit?



- Donors receive an Iowa tax credit equal to 65% of their STO contribution
- This is not merely a deduction, which would give a benefit of less than 9%
- This is a credit that reduces the actual tax liability of the taxpayer
- The credit also reduces the taxpayer's school district surtax, which magnifies the benefit

# What is the federal tax benefit?



- School tuition organizations are qualified Section 501(c)(3) charities
- STO contributions are deductible on federal return of taxpayers who itemize deductions
- Actual tax benefit depends on marginal tax bracket, but ranges from 0% to 39.6%

# Are there other tax considerations?

- Taxpayers who pay alternative minimum tax (AMT) may realize even greater tax benefits
- Some of the tax benefits may be repaid in the following year
- Donors should always check with their tax advisor to see how the STO credit affects them



# What is the total tax benefit?



<b>State</b>	Credit that offsets Iowa income tax dollar for dollar	<b>65%</b>
<b>Surtax</b>	Magnifies basic state benefit by local school district surtax	<b>Up to 13%</b>
<b>Federal</b>	Value of deduction is based on marginal federal tax bracket	<b>Up to 39.6%</b>
<b>Total</b>		<b>65 to 100%+</b>

# Who qualifies for the credit?



- Individuals
  - Iowa residents get the full 65% credit
  - Nonresidents get a portion of the credit
- Other entities
  - C corporations & S corporations
  - Estates & trusts
  - Partnerships & LLCs

# Can you show me an example?



- Assume we have a married couple, filing a joint return for federal and state purposes
- Their taxable income is \$90,000, and they itemize deductions for federal tax purposes
- This couple donates \$1,000 to a school tuition organization for their favorite school

# Example



	<b>State</b>	<b>Federal</b>	<b>Total</b>
Tax Before STO Contribution	5,853	10,719	16,572
Benefit of Iowa Credit	-650		-650
Benefit of Federal Deduction		-250	-250
Tax After STO Contribution	5,203	10,469	15,672
Total Benefit of Contribution	<b>900 (tax savings) ÷ 1,000 (contribution) = 90%</b>		

# Can you share some real-life examples?



- Case 1: Iowa Lottery Winner
- Case 2: STO Board Member

# Case 1: Iowa Lottery Winner



- Taxpayer won \$800,000 in Iowa Lottery
- Taxpayer was in highest federal tax bracket
  - Effective federal tax rate exceeded 35%
- Taxpayer made STO contribution of \$55,000
- Taxpayer saved \$58,000 in income taxes

# Case 2: STO Board Member



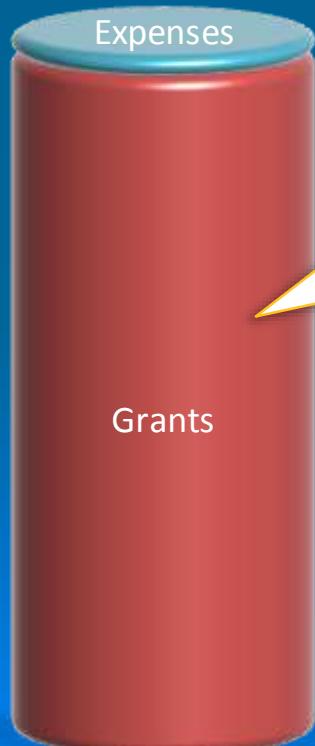
- Taxpayer was not in highest federal bracket
- Taxpayer was subject to AMT
- Taxpayer made STO contribution of \$5,000
- Taxpayer saved \$4,997 in income taxes

# How do cost and benefit stack up?



- Assume a local donor in the 15% federal bracket makes an STO contribution of \$1,000.

In this case,  
the donor  
has an out  
of pocket  
cost of  
**\$200...**



...but qualifying  
students  
receive **\$968** in  
tuition grants!

That's  
almost **five**  
times as  
much!



# What are the contribution limits?

- Each taxpayer may give as much or as little as desired—there is no statutory limit
- The credit itself is nonrefundable—it can't be used to reduce your state tax below zero
- But it will increase your refund if your withholding exceeds your net tax
- Unused credits can be carried over and used against tax for up to five more years



# What forms of gift are acceptable?



- Cash
- Investments
- Any other asset easily convertible to cash

# When should donations be made?



- Before December 31
- Before all allotted credits have been awarded

# Why should I contribute early?



- Because the race is on—contributions are allocated first to the schools that raise them
- If a school doesn't raise enough to cover local need, it must rely on leftovers from the other schools

# Give TODAY!



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