

## Distributing NAP Tax Credits

Once an organization has a finalized NAP award agreement and the program year has begun on July 1, the organization can focus on distributing its allotment of NAP Tax Credits. Each donation must have a corresponding Donor Contribution Form completed for organizations and donors to reference for reporting and tax filing purposes.

### Eligible Donors

Organizations that have received an allocation of NAP Tax Credits may distribute those tax credits to **individuals, couples, or business corporations with an Indiana tax liability. Charitable organizations and foundations are NOT eligible donors.**

- **Donations from Organizations or Corporations:** Organizations and corporations are welcome to make NAP tax credit-eligible contributions. However, additional steps or information are required when reporting these contributions:
  1. If an organization or corporation wishes to claim the credits itself, the organization/corporation's information (including total donation amount) should be entered into the Donor Contribution Form. At tax time, the organization will then claim the tax credit. The organization's owner or stockholders must NOT claim the tax credits on their individual/personal tax returns.
  2. If an organization or corporation wishes to distribute the credits to its members or shareholders, then the value of the credits must be divided appropriately, and each division must be listed as a separate contribution in the Donor Contribution Form from the individual who will be claiming the credits. Ex: If Organization Z is splitting \$1,000 credits, from a \$2,000 donation, between 10 stockholders, each stockholder must receive a Donor Contribution Form with a \$200 donation and \$100 credit each.
- **Donations from Families or Couples:** If a couple files a joint tax return, then only the name and information of the Head of Household should be reported on the Donor Contribution Form.

If a couple files separately, only one person may claim the tax credit and so only their information should be provided on the Donor Contribution Form.

If a couple makes a single contribution, files separately, and wishes to divide their credits, then each individual should receive a Donor Contribution Form, with the donation divided appropriately between them.

- **Donation Examples Based on Donor Type:**

Sherlock Holmes purchases \$100 in NAP credits (a \$200 contribution), which he intends to claim on his Indiana State Tax Return.	Sherlock Holmes should be reported as the donor to IHADA.
Moriarty Consulting, LLC buys \$1000 in NAP credits (a \$2000 contribution) to offset their Indiana Corporate Tax Liability.	Moriarty Consulting, LLC should be reported as the donor to IHADA.
Mary and John Watson purchase \$250 in NAP credits (a \$500 contribution.) They intend to file jointly.	Only the head of household (John, in this case) should be reported as the donor to IHADA.
Baker Street Property Management, LP purchases \$1000 in NAP credits (a \$2000 contribution) which they intend to distribute to their five board members, who will each claim them individually.	Each of the Board Member's information must be collected and reported to IHADA. Each board member should be reported as an individual donor with a \$400 contribution.

## Eligible Contributions

- **Eligible contributions include:**

1. Cash
2. Check
3. Credit Card
4. Stock (that has been sold)
5. Donations designated to the recipient through United Way
6. In-Kind Donations (limited to building materials)
7. Property Donations (that will be used for or pertains to current NAP activity)
8. Donations from an IRA, including Qualified Charitable Distributions
9. Donations made from donor advised funds/trusts, in SOME cases

- **Multiple Donations:** If a donor makes several individual contributions to an organization that are eligible to NAP tax credits, each donation should receive a Donor Contribution Form. But when those amounts are reported to IHCD, they should be reported as a single donation using the total combined value of the donations and the date of the final contribution.
- **Rounding:** In the event that a donation must be rounded, it must be rounded up to the nearest cent and reported accordingly.
- **Stock: Stock must be sold in order to be eligible for NAP tax credits.** Due to all stock being sold, the contribution type for stock should also be shown as “cash.” The contribution amount that should be used for a stock donation is the amount of funds that the organization actually receives (the value of the stock at the time it was sold minus transaction fees and administration fees.)
- **United Way Designations:** Donations made to the recipient via United Way designations are eligible for NAP tax credits. It is vital that this transaction is documented accurately in the organization’s records. The contribution amount that should be used to determine the NAP credit is the amount of funds that the organization actually receives after United Way subtracts any administrative or processing fees. Therefore, the donation amount is almost never exactly 50% of what the donor has contributed. The contribution type should be shown as “cash.”
- **In-Kind Donations:** In-kind donations are limited to building materials that are to be utilized on the recipient’s NAP activity. **Services (sweat equity), supplies, and equipment are not eligible in-kind donations.** Building materials must be valued at the cost to the donor, not the retail cost. The contribution type should be shown as “property.” In addition, an organization cannot exchange NAP tax credits for rental payments or other assistance.
- **Property:** Donated property is eligible for NAP tax credits but must be used for or pertain to the current NAP activity. The value of the property should be obtained by using the current appraisal. Organizations must enter into and keep a copy of the deed conveying the property to them. The contribution type should be shown as “property.” The amount of the contribution that applies to the NAP project (the value of the property donated) is the amount that should be entered on the electronic reports. The organization, receiving the donation, should keep documentation of this transaction for their records in the form of a receipt, a thank you letter, or other relevant documents.
- **Donations from IRAs:** Donations from an individual’s IRA is an eligible NAP contribution, including Qualified Charitable Distributions. Make sure that the donor’s name is on the check.

If the donation made is a Qualified Charitable Distribution, it will not count towards the donor’s federal taxable income, but it will also not be eligible for a federal charitable contribution deduction.

- **Donations from 401(k)s**: Donations from an individual's 401(k) are eligible for NAP tax credits. Make sure that the donor's name is on the check.

The distribution from the 401(k) that is donated will count towards the donor's federal taxable income but will also be eligible for a federal charitable contribution deduction.

- **Donations from donor advised funds/trusts**: Donations from donor advised funds/trusts are allowed in the following cases:
  1. Is the person seeking to claim the credit the actual donor (or one of the actual donors) to the DAF?
    - a. If yes, go to 2.
    - b. If no, no credit is permitted except to the DAF itself.
  2. Is the amount donated in excess of the individual's contribution to the DAF?
    - a. If yes, the maximum credit is the contribution less any prior distributions from the DAF by the donor. Go to 3.
    - b. If no, then go to 3.
  3. Is the contribution from funds donated to the DAF prior to August 28, 2018?
    - a. For purposes of this, treat distributions as first-in, first-out.
    - b. If yes, then the credit is allowable.
    - c. If no, then go to 4.
    - d. If the answer is partially yes and partially no, then yes to the pre-2018 portion and go to 4 for the post-2017 portion.
  4. For contributions to the DAF on August 28, 2018 and later, did the taxpayer comply with federal regulations under Section 170 and other federal provisions when the taxpayer can receive a benefit from a contribution?
    - a. If yes, permit the credit.
    - b. If no, deny the credit to the donor and allow for the DAF itself.
- **Membership Dues**: Dues or fees associated with membership into an organization are NOT eligible to receive NAP tax credits.
- **When Donations are Larger than Available Credits**: Sometimes, the NAP credits that an organization has available are smaller than a donor and their donation could receive. In those cases, the organization can still accept the full donation, but the amount on the Donor Contribution Form should only reflect the amount that will be eligible for a NAP Tax Credit.

For example:

- Organization Y has \$1,000 in NAP Tax credits left, which means only up to \$2,000 in donations would be eligible for a NAP tax credit.
  - Organization Y has a Donor who wants to donate \$5,000.
  - Organization Y can accept the full \$5,000 donation but must let the donor know that only \$2,000 of the donation would be eligible for NAP tax credits.
  - The \$2,000 would result in the Donor getting a \$1,000 Tax credit to the donor.
  - In the IHCDOnline Benchmark Report, only the NAP-eligible portion of the donation should be reported; in this example, that would be \$2,000, not \$5,000.
- **Maximum Contribution**: An individual contribution to an organization, as reported to IHCD for the purpose of NAP, may not exceed 200% of the total value of credits allocated to the organization during a program year. In other words, an organization must not promise a donor more NAP Tax

Credits then they were allocated by IHCD. **The sale of tax credits above and beyond the allocated amount to an organization will not be honored by IHCD or the IDOR.**

A donor may only claim up to \$25,000 in total tax credits each calendar year. The offset nature of the tax schedule (January – December) and the NAP cycle (July – June) makes it quite possible for a single donor to purchase far more than the statutory limit in a single tax/calendar year. It is recommended that donors who make significant purchases of tax credits be advised of this statutory limit. **Credits purchased in excess of this \$25,000 limit will not be redeemable**, even if they are purchased between two different program years or from multiple organizations.

- **Minimum Contribution:** An individual's reported contribution must be no less than \$100\*. If an individual donor makes several small contributions in the same calendar year that total an amount greater than \$100, they should be reported as a single contribution using the date of the final contribution.

*\*Exception: In the event that an organization has less than \$50 of tax credits remaining, then and only then will a donation of less than \$100 be accepted.*