

Arizona Deductions and Credits for Charitable Contributions



You can still reduce your Arizona taxes through Charitable Contributions, even if you don't itemize!!



Federal Tax Law Change Reduced Charitable Contributions

The Tax Cuts and Jobs Act of 2017 passed by the U.S. Congress increased the standard deduction amounts and decreased the number of taxpayers who itemized deductions by an estimated 65%. As a result, during the regular tax season, taxpayers deducted \$54 billion less in charitable contributions on their 2018 tax returns compared to 2017.

Arizona Tax Law includes New Charitable Deduction

Legislation (HB 2757) was passed in Arizona in May 2019 which increased the standard deduction (it is now the same dollar value as the federal standard deduction). However, taxpayers who do not itemize on their tax return can still benefit from making donations to charity. Starting in 2019, taxpayers can choose to take the AZ standard deduction PLUS a deduction for 25% of their charitable contributions.

The changes to Arizona itemized and standard deductions will first affect taxpayers' 2019 tax returns.

AZ Tax CREDITS still exist

There are five different credits that individuals or married couples can claim on their tax return due to charitable donations. The table shows the maximum allowable credit for each type of charitable organization. If taxpayers contribute the maximum to each type of charity, they could reduce their AZ income taxes by up to \$4869 if married filing jointly, and \$2435 for all other filing statuses.

In addition, taxpayers generally have up to the original due date of their tax return, April 15, to donate to specific charitable organizations, claim these nonrefundable credits, and still reduce their Arizona tax liability.

Taxpayers should be specific when talking with their tax professional where donations were made. Starting with the 2018 tax returns, taxpayers claiming the following AZ tax credits are required to report more information about the organizations to which they donated (i.e. the five-digit code assigned to qualifying charitable organizations and qualifying foster charitable organizations or the nine-digit CTDS code assigned to each public and charter school).

Deductions reduce taxpayer's taxable income. On the other hand, credits reduce the tax liability dollar-for-dollar. Non-refundable credits, like the following AZ Individual Tax Credits, can reduce a taxpayer's liability to zero, but if their income is low enough that they don't owe any taxes, they will not be given a refund (unlike the refundable Increased Excise Tax Credit).

Qualifying Charitable Organizations (QCOs)

One of the more commonly claimed nonrefundable AZ tax credits is available for cash contributions to Qualifying Charitable Organizations that provide immediate basic needs to residents of Arizona who receive temporary assistance for needy families (TANF) benefits, are low income residents of Arizona, or are individuals who have a chronic illness or physical disability. The list of QCOs and QFCOs can be found at: <https://azdor.gov/tax-credits/contributions-qcos-and-qfcos>

Public Schools

Taxpayers are not required to have school age children in order to claim the nonrefundable individual tax credit for fees or cash contributions paid to a public school located in Arizona for the support of certain extracurricular activities or to pay for qualified character education programs.

Military Family Relief Fund

A nonrefundable individual tax credit for cash donations made to the Military Family Relief fund which is administered by the Arizona Department of Veterans' Services. Donors must designate whether the contributions are for pre-9/11 or post-9/11 veterans. Note: Since the Arizona legislature has placed an annual maximum aggregate credit of all taxpayers of \$1 million for contributions to the Military Family Relief Fund, check whether contributions are still deductible for the current tax year at <https://dvs.az.gov/mfrf>.

	AZ Tax Form	Maximum credit (for 2019)	
		Married Filing Joint	All Other Filing Statuses
Qualifying Charitable Organizations (QCOs)	321	\$800	\$400
Public Schools	322	\$400	\$200
Private School Tuition Organizations	323	\$1,138	\$569
Military Family Relief Fund	340	\$400	\$200
Certified School Tuition Organizations	348	\$1,131	\$566
Qualifying Foster Care Charitable Organizations (QFCOs)	352	\$1,000	\$500

Private School Tuition Organizations

Two separate nonrefundable tax credits are available to individuals for contributions made to a Certified School Tuition Organization which provides scholarships for K-12 students enrolled in Arizona private schools.

Qualifying Foster Care Charitable Organizations (QFCOs)

This individual income tax credit is available for cash contributions to Qualifying Foster Care Charitable Organizations that provide immediate basic needs to at least 200 qualifying individuals in the foster care system.

Other Changes to AZ Tax Law

Arizona also followed the federal law and eliminated the personal exemptions, but did not get rid of the exemptions for blind individuals or those 65 or older. To help reduce the tax liability of families, Arizona created a new non-refundable dependent credit.

More Arizonans likely to Itemize

But Arizona has always treated itemized deductions a little differently than the IRS. For federal tax purposes in 2019, only medical expenses in excess of 10% of adjusted gross income count as itemized deductions. However, Arizona will continue allowing all deductible medical expenses to count toward itemizable deductions. (Note: Arizona still follows federal law in terms of defining what is an allowable medical expense, so medical marijuana is not deductible.) That means that some taxpayers may use the standard deduction on their federal tax returns, but because of large medical expenses, chose to itemize their deductions on their Arizona tax return.

Summary

Starting in 2019, AZ taxpayers can choose to deduct their charitable contributions when they itemize, or they can use the new higher standard deduction and still deduct 25% of their charitable donations. In addition, AZ has several non-refundable tax credits for donations to specific charitable organizations.

With the higher AZ standard deduction, fewer taxpayers without large medical expenses will likely itemize. However, Arizona income taxes can still be reduced through charitable contributions, even if taxpayers don't itemize.

So, keep on giving, and keep those donation receipts!

This flyer contains general advice. Since each tax situation is unique, taxpayers should consult with a tax professional for more information.

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