

2019 Arizona Tax Law includes New Charitable Deduction

Arizona Legislation (HB 2757) was passed in May 2019 which increased the AZ 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 charities. Starting in 2019, most taxpayers are allowed to take the AZ standard deduction PLUS a deduction for 25% of their charitable contributions.

AZ Tax CREDITS still exist

There are five different credits that individuals or married couples may claim on their tax return due to charitable donations. The table shows the maximum allowable credit for each type of charitable organization for 2020. If taxpayers contribute the maximum to each type of charity, they could reduce their 2020 AZ income taxes by up to \$4965 if married filing jointly, and \$2483 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 Tax Form	Maximum Credit (for 2020)		Carryover Allowed?
		Married Filing Joint	All Other Filing Statuses	
Qualifying Charitable Organizations (QCOs)	321	\$800	\$400	5 years
Public Schools	322	\$400	\$200	5 years
Private School Tuition Organizations (STOs)	323/348	\$2,365	\$1,183	5 years
Military Family Relief Fund	340	\$400	\$200	No
Qualifying Foster Care Charitable Organizations (QFCOs)	352	\$1,000	\$500	5 years
Max AZ Credit for Charitable Contributions	301	\$4,965	\$2,483	

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). However, they may still benefit by carrying over the contributions to future years.

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/sites/default/files/media/CREDITS_2020_qco.pdf

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. The list of QFCOs can be found at: https://azdor.gov/sites/default/files/media/CREDITS_2020_qfco.pdf

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. However, you must report to the AZ Dept of Revenue the specific school code to which contributions were donated. The school addresses and codes can be found at: https://azdor.gov/sites/default/files/media/PUBLICATI ON_ADESchoolListing.pdf

Private School Tuition Organizations (STOs)

Two separate nonrefundable tax credits are available to individuals for contributions made to a Certified School Tuition Organization which provides scholarships for students enrolled in Arizona private schools. The list of STOs can be found at: https://azdor.gov/sites/default/files/REPORTS_sto-i-list.pdf

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>. This fund reached its limit the beginning of October for 2020 donations.

Other Changes to AZ Tax Law

The changes for 2019 included Arizona's elimination of 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.

The 2020 AZ legislature did adopt most of the Internal Revenue Code changes as of Dec 2019 – but that does not mean that they will follow things like the CARES Act or other federal legislation passed after Dec 31, 2019. So, that means that there may be changes approved in 2021 that will affect your 2020 tax return (filed in 2021).

More Arizonans likely to Itemize

But Arizona has always treated itemized deductions a little differently than the IRS. For federal tax purposes in 2020, only medical expenses in excess of 7.5% of adjusted gross income count as itemized deductions for federal purposes. 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 itemize and deduct their charitable contributions or they can use the new higher standard deduction and still deduct 25% of their charitable donations on their AZ tax return. In addition, AZ has several non-refundable tax credits for donations to specific charitable organizations. For 2020, the IRS also will allow up to \$300 of cash donations to be deducted even if taxpayers do not itemize.

2017 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.

CARES Act 2020

In March 2020, Congress passed the CARES Act which allows "cash" donations of up to \$300 per tax return to be deducted from income when taxpayers do not otherwise itemize. That means that even if taxpayers do not itemize, they may still benefit from charitable contributions on their federal tax return.

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



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

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Deductions and Credits for Charitable Contributions

Updated for 2020



**You can still reduce your
Arizona and Federal taxes via
Charitable Donations
even if you don't itemize!!!**



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