



GEORGIA GOAL

SCHOLARSHIP PROGRAM, INC.



A Peach of a Deal for Pass-Through Businesses

Recent Federal Tax Regulations Allow for Business Deductibility of GOAL Payments

- Recent IRS [proposed regulations](#) provide that a payment made by a pass-through business to a charity (such as an SSO for a designated private school) may qualify for an **ordinary and necessary business expense deduction**, even where the owners receive a state income tax credit for the payment.
- Businesses can deduct payments relevant to their trade or business that are made with the reasonable expectation of financial return commensurate with (but, according to the IRS, not necessarily equal to) the amount of the payment.
 - The business expense deduction reduces the taxable net income of the pass-through business owner at the federal level, resulting in federal tax savings.

What is the “Test” to Determine if the Payment is Deductible?

- If the business “reasonably believes the program will generate a significant degree of name recognition and goodwill in the communities where it operates and thereby increase its revenue,” a federal business expense deduction may be available *even though the business does not have a business relationship with the SSO or private school*.
- An example in the IRS Proposed Regulations explains that the business expense deduction may be available for payments made by a business located in a state “for use in projects that improve conditions in the state,” which could include greater K-12 educational opportunities that improve educational outcomes, result in fiscal and economic savings for the state, and attract business to the state.
- The business should estimate the possible goodwill benefit and document the steps taken to derive the benefit (though the IRS does not require certainty of the outcome).
- **For examples of federal tax benefit, which is \$3,500 for a \$10,000 contribution under certain circumstances, see: <https://tinyurl.com/QEECredit>**

Georgia Income Tax Credit for Pass-Through Owner

- The Georgia tax treatment for SSO contributions is unchanged – the individual owners of the pass-through entities receive a 100% Georgia income tax credit for their share of the business payment determined by their percentage of business ownership.

Per new Georgia DOR regulations, the pass-through entity will make the payment to receive the federal benefit and will submit the application for the Georgia credit under the owner's name.

We recommend that you consult with your tax professional about this tax planning opportunity, as GOAL does not provide tax advice.