

STATE TAX CREDIT FAQs!!!

1. How do I make a qualifying donation to a pre-K collaborative?

Contact the lead partner for the collaborative to which you wish to donate. A list of all the approved early learning collaboratives is found on the next page, along with contact information for the person responsible for collecting donations. You may donate to the collaborative as a whole or to a specific provider within the collaborative. Collaboratives always welcome cash donations. However, you can also donate in-kind resources, such as goods or services. Contact the collaborative first to see if the goods or services will be accepted. Once you have made a donation, the Mississippi Department of Education (MDE) will issue you a donation certificate to allow you to claim the tax credit when you file your taxes.

2. If I want to donate to a specific provider instead of the whole collaborative, how do I do that?

Follow the same steps that you would to donate to the collaborative, except tell the lead partner that you want your donation to be earmarked for a specific provider.

3. Is there a limit on how much of a tax credit I can claim?

You can donate an unlimited amount to a collaborative or specific provider. However, any individual or organization can only receive a credit of up to \$1,000,000.00 in a single year.

4. How do I claim the pre-K tax credit?

When you file your taxes, you must fill out form 80-401, which can be found on the Department of Revenue's website each year. The Department of Revenue will verify your eligibility through MDE. Keep your donation certificate as your documentation.

5. What is the total amount of credits available for this tax year?

The Mississippi Department of Revenue can approve 1:1 tax credits up to the amount the legislature appropriates to the *Early Learning Collaborative Act* each year. In 2022, the legislature appropriated \$24 million to the program, so there are \$24 million in tax credits available.

6. When do I need to make my donation in order to claim the tax credit?

Donations must be made during the calendar year for which a tax return is filed. For tax returns filed during next calendar year, the donation must be made this calendar year.

7. How will the Department of Revenue determine who receives the tax credit if the cap is reached?

MDE issues a donation certificate to donors in the order that donations are received to ensure that the tax credit is available at the time of donation. As long as you have a donation certificate, you can claim the tax credit, regardless of the order in which you file your state taxes. This new process incentivizes donors to donate early in the year, rather than wait until December.

8. As an individual, if I have too much money withheld from my income and I make a qualifying donation in order to claim the tax credit, how much money will I get in a refund?

A tax credit reduces the amount of taxes that a person owes. The Department of Revenue (DOR) will first calculate the amount of taxes you owe based on your income. This is called your tax liability. DOR will subtract from your tax liability any tax credits you can claim. Then, your withholdings (money that you had withheld for taxes from your paycheck each pay period), if any, will be applied to the amount of remaining tax liability after subtracting your tax credits. If you have had more taxes withheld from your paycheck than your remaining tax liability after subtracting your tax credits, you will qualify for a refund for the amount of withholdings that you overpaid.



For example, let's assume that you earned \$50,000 in taxable income in a year, and you are required to pay 20% in taxes, or \$10,000. (In other words, your tax liability is \$10,000.) During the tax year, you also made a qualifying donation of \$2,000 to your local collaborative. This donation means you can claim a \$2,000 tax credit, which will reduce your tax liability to \$8,000.

Tax liability of \$10,000 — Tax credit of \$2,000= Remaining tax liability of \$8,000.

Let's also assume that you had \$8,500 withheld from your paycheck over the course of the year. Because your withholdings were greater than your remaining tax liability, you would qualify for a refund in the amount of the overpayment:

Remaining tax liability of \$8,000 – Withholdings of \$8,500 = Overpayment of \$500 = Refund of \$500

It is very important to note that while your withholdings are refundable, the tax credit itself is not refundable. This means that if you make a qualifying donation that is greater than your tax liability, you will not get a "refund" for the amount of the donation greater than your liability.

For example, let's assume again that your tax liability is \$10,000, but this time, you make a qualifying donation of \$15,000. Since the tax credit is not "refundable," you will not receive the \$5,000 as a refund; instead, your current year tax liability has been reduced to \$0. Since your tax liability is \$0 in this example, any withholdings from your earnings will be returned to you as a refund.

What happens to the \$5,000 from our example? The pre-K law allows donors to "carry forward" unused portions of the tax credit. In other words, if you can claim a tax credit that is greater than your tax liability in the year you donated, you can "carry forward" the unused portion for the next three years to apply to future taxes. As in our example, if you donated \$15,000 but only owed \$10,000, you can apply the \$5,000 extra that you donated in this tax year to your taxes for next year. Tax credits that are "carried forward" do not count against the cap, so if you donate extra this year and the cap is reached next year, you can still use your remaining tax credit next year.

9. If my company pays too much in its quarterly estimated tax payments and makes a qualifying donation in order to claim the tax credit, how much money will the company receive in a refund?

See the answer to #8. The process to calculate a refund would be the same, except instead of withholdings, a company should substitute its estimated tax payments.

10. Is the tax credit refundable?

No. See the answer to #8 to understand what refunds you might qualify for.

11. How will I know when the tax credit cap is reached if I want to donate?

Your local collaborative can tell you what remains of the tax credit at the time you wish to donate. If you are concerned the cap may be reached quickly, you can request that MDE "hold" the contribution spot for 30 days, pending the paperwork documenting the donation. You will need to indicate the collaborative receiving the donation as well as the amount. Remember, regardless of when or if the cap is reached, the Department of Revenue will award the tax credit to donors with a donation certificate when they file their taxes.

12. Do I need to file my taxes quickly in order to claim the tax credit?

No, because MDE is now tracking tax credit eligibility in real time, donors with a donation certificate will receive the credit regardless of when they file. The Department of Revenue publishes the forms and instructions for state taxes in January of each year. As soon as the new form is out for claiming a tax credit, you can file your tax return.

13. Can I claim the state tax credit and a federal tax deduction for the same qualifying donation?

No. In years past, the IRS regulations about using the same donation for a state tax credit and a federal deduction were ambiguous; however, the IRS finalized rules in 2019 that prohibit the practice if the full amount of the donation is used for a state tax credit. Since the pre-K tax credit is 1:1 (in other words, 100% of the donation can be used for credit) and any unused amount can be carried forward, there is no remaining amount that can be used for a federal deduction if a donor claims the pre-K tax credit. This means that a donor should choose whether to use their pre-K donation for either the state tax credit or a federal deduction. Donors should make this decision based on their own circumstances in consultation with their tax advisors. For more information, we encourage you to read the final regulations on charitable contributions and state and local tax credits on the IRS website: <https://www.irs.gov/newsroom/final-regulations-on-charitable-contributions-and-state-and-local-tax-credits>.

14. How will I know what the cap is every year?

The legislature must annually appropriate money to fund the pre-K program. The tax credit cap is dependent upon this annual appropriation. Your local collaborative can tell you what money was appropriated and, therefore, what the cap is.

15. What if I am eligible for a state tax credit larger than what I owe in state taxes?

You can "carry forward" unused portions of the tax credit for up to three years. See the answer to #8 for more explanation.