

## **Tax Advantages of the Alabama Accountability Act of 2013**

The Alabama Accountability Act recently passed by the Alabama state legislature provides tax saving opportunities while providing funding to our state's school children. The act helps parents with the cost of private school tuition or the cost of transferring their kids to a different school if their child's school is designated as failing.

In order to fund the additional cost of placing students in non-failing schools, the state of Alabama has opted to give its citizens a tax credit for the amount of money they contribute to scholarship funds that help kids attend standard meeting schools.

These scholarship programs must be approved by the state to provide assistance to low income students. Once approved, these organizations will be labeled qualified Scholarship Granting Organizations, or SGOs.

The credit itself works in the following manner. The maximum credit allowed for an individual is \$7,500 or one-half of your current year tax liability. Therefore, an individual return that has a liability of \$15,000 will maximize the credit.

Corporations are also allowed to take the credit. The amount of the credit allowed for these entities is 100% of the charitable contribution.

A certain process must be followed in order to receive the credit. Each individual or corporation must reserve their tax credit on the Alabama Department of Revenue website [www.revenue.alabama.gov](http://www.revenue.alabama.gov). After navigating to this website, click on the (My Alabama Tax) link on the left hand side of the screen. If you do not have a My Alabama Tax Account, the following information is needed to sign up: your social security number or tax id number, your 2011 Alabama adjusted gross income, and your email address.

Once registered and signed in, click on the SGO Donation reservation link to reserve your tax credit. After the reservation of the credit has been completed, the donation must be made to the designated SGO within a thirty day time frame.

Taking this credit is advantageous not only because you deduct a tax credit on your state of Alabama return, but an individual taking the credit will also be allowed a federal itemized deduction for the amount of the contribution.

This scholarship credit also provides alternative minimum tax advantages as well. If an individual is subject to alternative minimum tax, it is more advantageous to take the charitable contribution itemized deduction of the amount donated to the scholarship granting organization when compared to taking the itemized deduction for the tax paid to Alabama. The reason for this is taxes paid to the state are considered a preference item for alternative minimum tax. For the individuals subject to alternative minimum tax, state taxes are disallowed as a deduction when computing this tax.

Time is of the essence if you would like to take advantage of this credit. A twenty five million dollar cap has been put on the amount of the credit that can be taken statewide. Each block of credit used must be reserved in advance on the My Alabama Tax website described above. Once the maximum amount of the credit has been reserved, individuals and corporations will no longer be able to utilize the tax benefits of this program.

It is also important that you discuss your individual tax situation with us when determining if and how to utilize this credit. In addition to using the credit on your return, you may be able to lower your 3<sup>rd</sup> and 4<sup>th</sup> quarter estimated payments, or reduce your Alabama withholdings from your payroll.

We thank you for allowing us to serve you, and if you should have any questions or need any assistance regarding this or any other accounting matter, please do not hesitate to contact us.