

July 29, 2019

Effect of IRS Regulations on Endow Maryland Tax Credit

Introduction

In June 2019, the IRS issued final regulations stating that if a taxpayer makes a donation to a charitable organization or state or local government and receives a **state tax credit** in return for such donation, the taxpayer's federal charitable contribution deduction will be reduced by the amount of the credit.¹ The final regulations are substantially similar to proposed regulations issued by the IRS in August of 2018. These regulations may affect some Maryland taxpayers who give back to their local communities through the Endow Maryland tax credit.

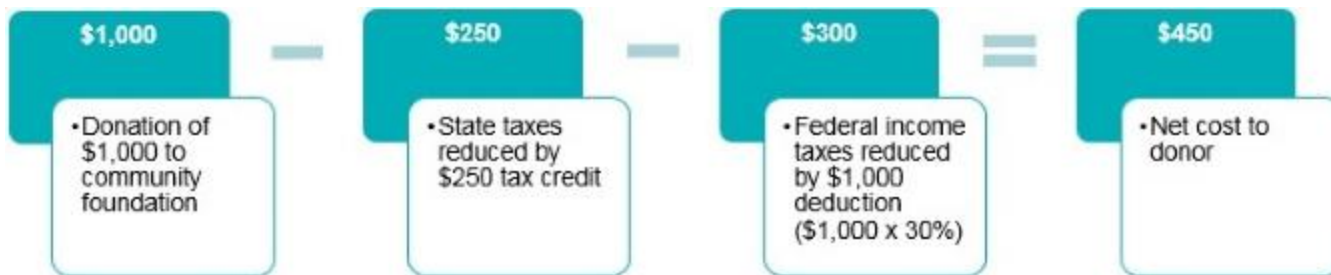
Endow Maryland Tax Credit

Endow Maryland is a state tax credit that promotes charitable giving in Maryland. For Maryland taxpayers who donate \$500 or more of cash or publicly traded stock to an endowment fund at an eligible community foundation, Endow Maryland provides a state tax credit equal to 25% of the amount donated.² For example, if a donor makes a \$1,000 donation to an eligible community foundation that qualifies for the Endow Maryland tax credit, the donor will receive a \$250 credit against his or her state taxes. Thus, the donor's "effective cost" of making the \$1,000 donation is \$750.

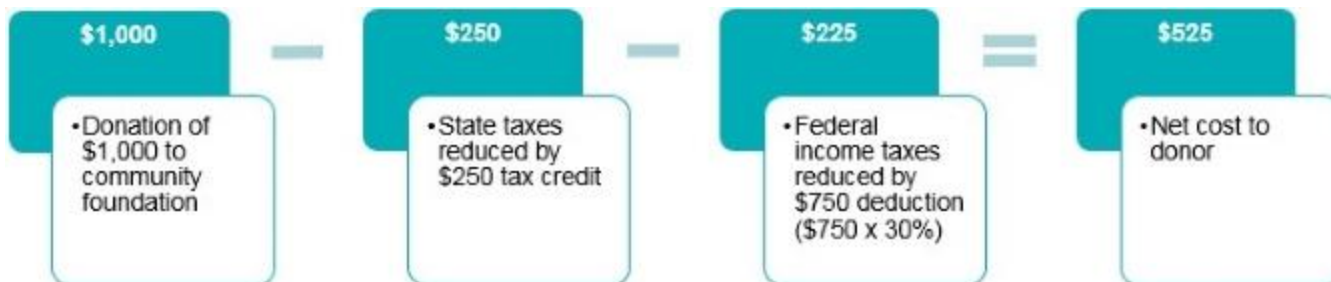
Effect of IRS Regulations

Prior to the issuance of the IRS regulations, a donor who itemized tax deductions (rather than claiming the standard deduction) could claim both a federal charitable contribution deduction on his or her federal income tax return for the full \$1,000 donated to the community foundation, plus the Endow Maryland tax credit, thus reducing the donor's effective cost of giving even further. As a result of the regulations, however, this benefit is somewhat curtailed, in that the available federal tax deduction is offset by the amount of the state credit. To illustrate this difference, below are two examples for a hypothetical donor with a marginal tax rate of 30%.

Example A – Prior to IRS regulations:



Example B – After IRS regulations:



Notably, the final regulations do not affect taxpayers who claim the standard deduction instead of itemizing deductions. **For taxpayers who claim the standard deduction, the effective cost of making a \$1,000 donation that qualifies for the Endow Maryland tax credit remains \$750.** This is because the donor still receives the economic benefit of the Endow Maryland tax credit (worth \$250) but does **not** incur the effect of the new regulations, since the donor does not claim a federal charitable contribution deduction.

The 2017 Tax Cuts and Jobs Act increased the standard deduction to \$12,000 (\$24,000 for married couples filing jointly), capped the deduction for state and local taxes at \$10,000, and eliminated miscellaneous deductions.³ Thus, approximately 88% of taxpayers will claim the standard deduction instead of itemizing deductions.⁴ Thus, many Maryland taxpayers who take advantage of the Endow Maryland tax credit will not be directly affected by the IRS regulations.

Footnotes

- [1] The regulations provide an exception for tax credits that are less than 15% of the taxpayer's charitable contribution.
- [2] The credit is capped at \$50,000.
- [3] These changes are effective for tax years 2018-2025.
- [4] According to an estimate from the Joint Committee on Taxation, approximately 88% of the 150 million households that file tax returns will claim the standard deduction (up from approximately 69% prior to passage of the 2017 Tax Cuts and Jobs Act).

Authors



[Yossi Ziffer](#)
Partner
+1 410.244.7550
[Email](#)



[Chris Moran](#)
Associate
+1 410.244.7604
[Email](#)