

CREDIT FOR CONTRIBUTIONS THAT PROVIDE ASSISTANCE TO THE WORKING POOR

For taxable years beginning on or after January 1, 1998, Arizona law provides a credit for cash contributions made to certain charities that provide help to the working poor. This publication provides general information about Arizona's credit for taxpayers that make contributions to charities that provide help to the working poor. For complete details, refer to the Arizona Revised Statutes. In case of inconsistency or omission in this publication, the language of the Arizona Revised Statutes will prevail.

What is the maximum amount of the credit?

For 2005, the maximum credit for contributions made to organizations that help the working poor has increased from \$200 to \$300 for married taxpayers. For 2006 and later years, the maximum credit for contributions made to organizations that help the working poor will be increased from \$300 to \$400 for married taxpayers. If married taxpayers file separate returns, each spouse may claim 1/2 of the credit that would have been allowed on a joint return. The maximum credit allowed for single taxpayers or heads of households is \$200.

Who may claim this credit?

This credit is available only to individuals. Corporations may not claim this credit. A partnership may not pass the credit through to its partners. An S corporation may not pass the credit through to its shareholders. To be eligible for this credit, you must have itemized deductions and deducted charitable contributions on a **prior year's** Arizona return (1996 or later) at least once. This is necessary to establish a baseline year and amount. The credit is then figured on the amounts over and above the baseline amount.

How Can I Determine if a Charity Meets the Criteria to be Considered a Qualifying Charity?

You can ask to see a copy of the certification letter that the charity is required to send the Department of Revenue, or you may contact the department to see if the organization has filed a certification letter. The department publishes a list of organizations that have self-certified. To view a copy of this list, you may visit the department's website. You can also ask the following questions of the charity:

1. Is the charity exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code? Or is the organization a designated community action agency that receives community services block grant program monies pursuant to 42 United States Code Section 9901?

2. Does the charity spend at least 50% of its budget on services to Arizona residents who receive Temporary Assistance for Needy Families benefits or to Arizona resident low-income households?

Can I Qualify for the Credit if I Give to a Qualifying Charitable Organization Through an Umbrella Type Charitable Organization?

Yes. You must designate that the donation be directed to a member charitable organization or member group fund that would qualify on a standalone basis.

How Do I Figure My Baseline Year and Baseline Amount?

If you itemized deductions and deducted charitable contributions in 1996, that is by law your baseline year. The baseline amount is the total amount of charitable contributions deducted on Arizona Schedule A for the baseline year. This amount includes the total contributions deducted pursuant to Section 170 of the Internal Revenue Code. This includes cash, property, and mileage. For example, if a taxpayer deducted a total of \$500 in charitable contributions in 1996, \$500 is that taxpayer's baseline amount.

How Do I Figure My Baseline Year if I Did Not Itemize Deductions in 1996?

If you did not itemize deductions and deduct charitable contributions in 1996, then the baseline year is the first taxable year after 1996 that you itemized deductions and deducted charitable contributions.

How Do I Figure the Credit Once I Have Established a Baseline?

The amount of the credit is the amount of qualifying contributions that exceed the baseline amount. For example, if a taxpayer has a baseline amount of \$500, the taxpayer must give \$700 in total contributions that includes \$200 to a qualifying charitable organization to receive a \$200 tax credit. Likewise, a taxpayer could give \$600 in total contributions, including \$200 to a qualifying charitable organization, and receive a \$100 tax credit.

Can a Federal or State Audit Affect My Baseline Year and/or Dollar Amount?

Yes. The baseline year could be changed or established if your deductions are changed to or from itemized or to or from standard. The dollar amount could change depending on allowed or disallowed contributions. Remember that a taxpayer is required to notify the state

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of any federal audit changes within 90-days of the audit becoming final.

How Do I Figure the Baseline Year and Amount if My Filing Status Changes Due to Divorce, Marriage, Remarriage, or Death of a Spouse?

You must establish a new baseline year and amount following a filing status change listed above. This includes the filing of a joint return where the spouses are different.

For Additional Information, call:

Phoenix(602) 255-3381
Toll free from area codes 520 & 928 ...(800) 352-4090

For Hearing Impaired - TDD only:

Phoenix (602) 542-4021
Toll free from area codes 520 & 928 ...(800) 397-0256

Or Write to:

Arizona Department of Revenue
Taxpayer Information & Assistance
1600 W Monroe
Phoenix AZ 85007

For Related Tax Information:

Recorded Tax Information..... (602) 542-1991
Toll free from area codes 520 & 928 ...(800) 845-8192
Forms by Mail (602) 542-4260

Internet Address www.azdor.gov

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<http://www.azdor.gov/Refunds and Credits/charitablecredits.htm>