

Atonement ND Tax Credit Endowment Fund

This information is presented as an example, please consult your tax adviser for details.

NORTH DAKOTA TAXPAYERS MAY RECEIVE CREDIT FOR GIFTS TO ENDOWMENTS

North Dakota legislators continue to move the state to the cutting edge of state charitable income tax credits with legislation providing tax credits for gifts made to qualified North Dakota endowments. Giving to the Endowment Fund will help the mission and outreach of Atonement Lutheran Church.

Only the state of Montana offers credits similar to what North Dakota now offers. This tax credit makes it possible for individuals to give more, and through their contributions, have a greater impact on the mission of Atonement Lutheran Church through the Endowment Fund.

Definition

A qualified endowment is defined as an "irrevocable fund held by a North Dakota incorporated or established organization that is a qualified nonprofit organization; or a bank or trust company holding the fund on behalf of a qualified nonprofit organization."

An endowment is a fund held by a tax-exempt organization where the principal of the fund is not wholly expendable. Only the interest and appreciation earned in an endowment fund can be used for current operations.

Atonement ND Tax Credit Endowment Fund is a qualified fund.

Individuals

Planned gifts by individuals qualify for an income tax credit of 40 percent for gifts up to a maximum credit of \$10,000 per person, \$20,000 for a married couple with any excess unused credit to carry forward 3 years. This tax credit for planned gifts is also unique to North Dakota and gives North Dakotans a remarkable opportunity to make meaningful gifts to their favorite charities and get significant reduction in their income tax bills.

An individual may receive a 40 percent tax credit for contributions of \$5,000 or more (lump sum or aggregate in one year) to a qualified North Dakota endowment. If a donor is in a 28 percent federal tax bracket, the tax benefit may look like this:

Gift amount

\$5,000

\$25,000

\$50,000

Federal tax deduction

\$840

\$4,200

\$8,400

N.D. state income tax credit

-\$2,000

-\$10,000

-\$20,000

Potential Tax Savings

\$2,840

\$14,200

\$28,400

Businesses and Financial Institutions

Businesses and financial institutions (C corporations, S corporations, estates, limited liability companies and trusts) that make gifts to qualified endowments may qualify for a state income tax credit, which amounts to 40 percent of the value of the gift, up to a maximum credit of \$10,000 per year. Businesses may carry forward any unused credit for up to three taxable years (financial institutions excluded).

Atonement's Fund

Tax Credits Bring Great Tax Incentive for "Business" and Individual Gifts to Atonement's Qualified Endowment Fund

Are you a North Dakota individual taxpayer or an owner of a North Dakota business... or are you a beneficiary of a trust or estate which derives income taxable in North Dakota? If so, you have been presented with an unprecedented tax incentive if you make gifts that help secure the future of the Atonement Congregational Fund through a gift to the Atonement ND Tax Credit Endowment Fund.

The 2007 and 2011 North Dakota Legislatures have passed legislation which allows a significant income tax credit for certain gifts to "permanent, irrevocable" endowment funds of qualified North Dakota charitable organizations. This legislation pertains to certain "business" gifts made in a taxable year beginning after December 31, 2006 and also to certain gifts made by individuals and "businesses" made in taxable years beginning after 2010. Qualified donors will likely find that well over 50% of their gifts will be "subsidized" through State and Federal tax incentives!

We Have Established a Qualified Endowment Fund

The Atonement Congregational Fund has recently established the Atonement ND Tax Credit Endowment Fund. We have worked closely with professional counsel so that gifts to this recently established endowment fund will qualify for the major tax incentives established under 2007 and 2011 legislation.

The purpose of the Atonement ND Tax Credit Endowment Fund is to provide ongoing financial support in furtherance of the mission of the Atonement Congregational Fund and to help secure the financial stability of Atonement Lutheran Church.

The operating policies of the Atonement ND Tax Credit Endowment Fund allow for only limited distributions from the donors' gift contributions (principal). The income and net appreciation (and a portion of principal in certain situations) from the fund's invested assets may be used to support the mission of the Atonement Congregational Fund.

Eligible "Business" Donors

Gifts from the following entities may benefit from this tax legislation:

1. "C" corporations (pay tax at the corporate level)
2. "Pass-through" entities (tax credit usually claimed by owners)
 - a. Subchapter "S" corporations
 - b. Partnerships
 - c. Limited liability companies
3. Estates (if they file an income tax return)
4. Trusts
5. Banks (added 2011 in SB 2160)

The tax credit for gifts from estates and trusts will be allocated between these entities and their beneficiaries based on the portion of income which is distributed to those beneficiaries.

How the Tax Credit Works for "Business" Gifts

An income tax credit is far more valuable than a deduction since a credit offsets the computed income tax. This particular tax credit is claimed on the North Dakota income tax return. The amount of the credit is 40% of the value of a gift made to a qualified (permanent, irrevocable) endowment fund of a ND nonprofit organization, provided that the gift is deductible for Federal tax purposes. The tax credit allowed in any one year may not exceed the current year tax liability; unused credits may be carried forward for up to three additional tax years.

The annual limitation on this tax credit is \$10,000, determined at the entity level. Therefore, eligible gifts totaling up to \$25,000 per year will bring about the maximum annual credit.

Clarifying Examples

Situation #1 -XYZ, Inc., a North Dakota "C" corporation, makes a \$15,000 gift to the Atonement ND Tax Credit Endowment Fund during its fiscal year ending September 30, 2012. In addition to providing a tax deduction on XYZ's Federal corporate tax return, this gift qualifies XYZ, Inc. for a \$6,000 ($\$15,000 \times 40\%$) tax credit on its North Dakota corporate income tax return. The \$6,000 credit completely offsets the \$3,500 tax computed for the year ending September 30,

2012. The unused \$2,500 tax credit will be available for use over the next three succeeding tax years.

Situation #2- Partnership ABC has four equal partners. All of the partners are North Dakota residents. During its 2012 tax year, ABC makes a gift of \$20,000 to the Atonement ND Tax Credit Endowment Fund. ABC also makes a gift of \$5,000 to another qualified North Dakota endowment fund that year. The total ND income tax credit available to the partnership is \$10,000 (\$25,000 x 40%). Since the partnership passes through its tax attributes to the four individual owners, each of the four partners will receive a \$2,500 income tax credit for use on their 2012 North Dakota individual tax returns.

How the Tax Credit Works for Individual Donors

The 2011 legislation allows a 40% tax credit for gifts by individuals to a qualified endowment fund held by a qualifying North Dakota non-profit organization. If an individual makes a gift(s) to such an endowment fund, the aggregate of the year's gifts to a particular fund must be \$5,000 or more. The maximum credits that may be claimed under this subsection are \$10,000 (\$25,000 in gifts) for an individual or \$20,000 (\$50,000 in gifts) for married individuals filing jointly.

Unused credits may be carried forward for up to three additional tax years.

Example of Gifts to Multiple Endowments

Consider a donor who made a \$20,000 gift Endowment Fund A for Charity X. Additionally, the same donor made five gifts of \$1,000 each to Endowment Fund B of Charity Y, in addition to making a \$2,500 gift to Endowment Fund C of Charity Z. (All funds were "true endowments" and therefore the gifts had the potential to qualify for the tax credits). Since the gifts to Endowment Fund C totaled less than \$5,000, they do not qualify. The gifts to Charities X and Y do qualify; Therefore, the total qualifying gifts were \$25,000 and created a tax credit of \$10,000.

Example of Tax Benefit to Individual Taxpayer

Mrs. Smith, a North Dakota resident, donates \$20,000 in cash to the Atonement ND Tax Credit Endowment Fund. She receives an \$8,000 tax credit (40%) on her ND return. If she is in the 28% Federal tax bracket, her Federal tax savings are \$3,360 (28% of \$12,000; \$12,000 is the difference between the \$20,000 charitable deduction offset by an \$8,000 reduction in the state income tax deduction). The "cost" of her \$20,000 gift is offset by \$11,360 in tax savings (56.8% of the gift amount).

An Invitation

Gifts to the Atonement ND Tax Credit Endowment Fund will enable us to look to the future with increased confidence as we continue to fulfill our vital mission. If you are a North Dakota individual taxpayer or an owner (or beneficiary) of one of the qualifying businesses or other entities listed above, we hope that you will consider a gift to the Atonement ND Tax Credit Endowment Fund.

Contact the chair of the Congregational Fund, Dave Lysne or the church office at 701-237-9651. Your gift would be highly valued and appreciated for many years!

This information is provided for educational purposes only. Please consult your own attorney, accountant or financial advisor for advice on your situation.