

Georgia Rural Hospital Organization Tax Credit: Potential Federal Tax Benefit for Some Pass-Through Entities

Federal deductibility was carved out for C-Corporations

When the IRS eliminated the federal deductibility of contributions to state income tax credit programs last year, they followed up by providing a safe harbor for C-corporations, indicating that if the contributions to state income tax credit programs constitute ordinary and necessary business expenses, then the businesses may deduct them as such.

Federal deductibility may be restored for Pass-Throughs

Although not definitely expressed in the June 2019 IRS Notice, a Treasury Department official is on record as stating that pass-through business entities will be permitted to deduct charitable contributions to state income tax credit programs, like Georgia HEART, if they qualify as ordinary and necessary business expenses.

- The Treasury official indicated that this position will be contained in a new Proposed Regulation to be issued in the near future for comment.

Will all Pass-Through contributions qualify for this deduction?

No. The contribution must be an ordinary and necessary business expense in order to qualify for the deduction. An ordinary expense is one that is common and accepted in a trade or business. A necessary expense is one that is helpful and appropriate for the trade or business. An expense does not have to be indispensable to be considered necessary.

What tax impact could this have on the Pass-Throughs?

When a pass-through business is permitted to take a federal business deduction, the net income of the business to the business owner is reduced by the amount of the contribution, which, in essence, could have the same tax result as if the business owner received a federal charitable deduction.

Georgia HEART is currently in dialogue with the Georgia Department of Revenue regarding this opportunity, in order to ensure that (1) the pass-through entity may take the business deduction in order to receive the beneficial federal tax treatment, and that (2) the individual pass-through owner may receive the Georgia income tax credit. We will update you with any and all developments.