



# Federal Tax Information

## IMPORTANT UPDATES FOR BUSINESSES PARTICIPATING IN GEORGIA STUDENT SCHOLARSHIP PROGRAM (GASSO)

The IRS completed defining regulations in August 2020, that will allow for the deductibility of GeorgiaSSO payments on their Federal Tax Returns. Pass-through business entities will be allowed to deduct contributions and directly reduce your Federal Taxable Net Income if they qualify as ordinary and necessary business expenses. A direct link to the IRS regulations can be found here: [IRS Document# 2020-17393 - Treatment of Payments to Charitable Entities in Return for Consideration](#)

### WHY IS THIS IMPORTANT?

- This proposal allows that a payment made by a pass-through business to a charity, such as GeorgiaSSO's program, may qualify for an ordinary and necessary business expense deduction. This is in addition to the state income credit that is currently in place.
- Payments that are made with the reasonable expectation that those payments will provide a financial return in kind may qualify for this federal deduction.
- This deduction reduces the taxable net income for the pass-through business on a federal level which results in federal tax savings.

### HOW DOES THE IRS DETERMINE IF THE PAYMENT QUALIFIES AS A DEDUCTION?

- Guidance from the IRS states: "A payment or transfer to or for the use of an entity described in section 170(c) that bears a direct relationship to the taxpayer's trade or business and that is made with a reasonable expectation of financial return commensurate with the amount of the payment or transfer may constitute an allowable deduction as a trade or business expense rather than a charitable contribution deduction under section 170"
- Further example guidance state: "Payments to charity programs that the pass-through entity reasonably believes will generate a significant degree of name recognition and goodwill in the communities where it operates and thereby increase its revenue may treat that payment as an expense of carrying on a trade or business"
- Additionally: "If a C corporation makes a payment to or for the use of an entity described in section 170(c) and receives or expects to receive in return a State or local tax credit that reduces a State or local tax imposed on the C corporation, the C corporation may treat such payment as meeting the requirements of an ordinary and necessary business expense for purposes of section 162(a) to the extent of the amount of the credit received or expected to be received."

### HOW DOES THIS IMPACT MY GEORGIA INCOME TAX CREDIT?

There is no impact or change to your Georgia Income Tax Credit deduction. This program compliments the Georgia Income Tax Credit that you currently receive by allowing you to leverage the same donation for qualified State and Federal deductions.

*This information is provided by GeorgiaSSO to assist with knowledge of recent tax changes and does not constitute tax advice. GeorgiaSSO recommends that you consult with your designated tax or accounting representative to determine eligibility for this program.*

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