

Tax deductions

By Lance M. Werner

It is always a bit of a challenge to decide on a topic for this column. There are so many noteworthy subjects to address. After some consideration, I have decided (based on a request that I received) that it would be useful to discuss donor income tax benefits for contributions made directly to public libraries, in contrast to gifts made to library friends groups.

Federal income tax *deductions* are available to taxpayers making charitable donations to public libraries and friends groups. State income tax *credits* are available to taxpayers making charitable contributions to public libraries. A tax *deduction* enables the taxpayer to claim a percentage of the donation made from their adjusted gross income. A tax *credit* is an amount of money that may be subtracted from the computed tax itself. What does that mean? Simply put, tax credits offer “more bang for the buck”.

Public libraries

Everyone knows that charitable organizations with IRS 501(c)(3) status may accept tax-deductible gifts and donations. However, a “public library”, as that phrase is defined under section 2 of the State Aid to Public Libraries Act, 1977 PA 89, MCL 397.552, does not possess 501(c)(3) status under the Internal Revenue Code of 1986 (the Code), unless the library applies for it. Although it is possible for a public library to obtain 501(c)(3) status under the Code, federal income tax benefits are available without it.

Significantly, public libraries automatically possess deductibility status under another provision of the Code Title 26, Subtitle A, Ch. 1, Subchapter B, Pt VI, section 170(c)(1) and 170(b)(1)(A)(v) of the Code. The issue of whether or not a public library possesses 501(c)(3) status or governmental entity status under section 170(c)(1) of the Code is moot because the federal tax benefits are identical.

Regarding federal tax deductions, section 170 (c)(1) of the Code provides that a taxpayer, both an individual and a corporation, may claim an income tax *deduction* for charitable donations made to “[a] State, a possession of the United States, or any political subdivision of any of the foregoing, or the United States or the District of Columbia, but only if the contribution or gift is made for exclusively public purposes.”

Michigan law also provides for tax benefits made for charitable contributions to public libraries. Section 26 of the Income Tax Act of 1967 (the Act), 1967 PA 281, MCL 206.26 defines “taxpayer” as “any person subject to the taxes imposed by this act”. Section 260 of the Act, MCL 206.260, expresses:

A taxpayer may *credit* against the tax imposed by this act for the tax year, an amount, subject to the applicable limitations provided by this section, equal to 50% of the aggregate amount of charitable contributions made by the taxpayer during the tax year to... a public library.

It is also noteworthy that section 260 of the Act imposes a limit on the amount of credit a taxpayer may claim. Section 260(2), MCL 206.260 states:

For a taxpayer other than a resident estate or trust, the amount allowable as a credit under this section for a tax year shall not exceed \$100.00, or for a husband and wife filing a joint return as provided in section 311, \$200.00.

The credit limitation above places a cap of \$100 for the individual and \$200 for a married couple for all eligible charitable donations.

Business taxpayers that are not subject to the Act but have other state tax liability, can make charitable donations to public libraries and claim a *credit* against the tax imposed by the Michigan Business Tax Act, 2007 PA 36 under section 421, MCL 208.1421.

Charitable organizations and foundations supporting public libraries

Many of Michigan's public libraries receive invaluable service from the dedicated efforts of their friends groups including, but not limited to: book sales, charitable events and advocacy. Many of these organizations possess tax-exempt status as provided by section 501(c)(3) of the Code and are "qualified organizations". The Code provides that a taxpayer, both an individual and a corporation, may claim an income tax *deduction* for charitable donations made to "qualified organizations" that are "organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes", such as friends of the library groups.

Conclusion

It is useful to be aware of the tax incentive differences between libraries and friends groups. Hopefully, the discussion above will prove helpful when responding to questions from donors about what tax incentives are available for contributions made to public libraries and to friends groups.

As always, this discussion has been furnished as an informational service of the Library of Michigan and is not intended in any way to constitute legal advice. Please feel free to contact Lance M. Werner, the library law specialist at the Library of Michigan - by phone at (517) 373-1299 or e-mail at wernerl@michigan.gov - for further information.