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## Gratitude Goes Green: Nonprofit Organizations Say Thank You To Donors with Tax Benefits

Each year, many individuals decide to support the missions of nonprofit organizations through charitable contributions. Often, donors receive letters of thanks noting their level of support and the tax deductible portion of their donation. For a select few “green-minded” organizations and their supporters, these letters may reveal another kind of tax benefit: Contributors to nonprofit-sponsored renewable energy projects may find that their letters also report their portion of the State Renewable Energy Credit—this credit can offset income tax on the state tax return. In these instances, donors receive both a federal charitable deduction *and* a State Credit!

In August 2007, North Carolina passed Senate Bill 3 establishing the state’s Renewable Energy and Energy Efficiency Portfolio Standard. This bill requires that 12.5% of the state’s energy needs are derived from renewable resources by 2021. As a result, the state created incentives targeted to achieve this goal. These incentives do not expire until December 15, 2015. For companies other than nonprofits this means a 35% credit spread over 5 years. For nonprofits however, which cannot use these credit to offset tax, the state allows them to pass these credits directly to their donors!

In order to pass this credit along to its donors, a nonprofit must keep track of these donations separately. At the end of the year, each donor should receive a letter outlining specific information necessary for reporting on the donors’ state tax return. When evaluating for-profit and nonprofit energy credits, the timing of the credit’s use is very important: For-profit companies must apply the credit evenly over a 5-year period, whereas a donor can apply the *entire* nonprofit credit to the year the project is placed into service.

Donors to nonprofit sponsored renewable energy projects can now see their contributions pay-off in two ways: A charitable donation on Schedule A of their federal return (for the full amount of the donation) and a portion of the 35 % tax credit on the renewable energy project on their state return. Because the state allows the Energy Credit on its return, the amount recorded as charitable donation needs to be added back into taxable North Carolina income. Donors can also use the Energy Credit to offset up to 50% of state tax liability.

Any credits not used in the first year the project's service are carried forward for five years. Consider the following example:

- Total qualified cost of a renewable energy project = \$40,000; applicable federal tax rate of 35 % and a state tax rate of 7.75%
- Donor contributes \$1,000 towards this project
  - Donor earns an itemized deduction worth \$350
  - Donor adds back this deduction into taxable income— resulting in a state tax increase of \$78
  - Donor receives a state credit of \$350

**Donor's federal and state combined benefit: \$622 (\$350 - \$78 + \$350)**

This is a tremendous benefit to the donor, especially when compared to direct monetary donations; instead of a \$428 benefit (\$350 + \$78) a donor receives \$622 for the **same donation amount**. Additionally, nonprofits providing for the future with a green project will also benefit from a lifetime revenue stream!

For organizations considering investing in a green initiative, benefits exist to their donors, the organization, and future generations. It is important that before embarking on a renewable or sustainable energy project, organization leaders speak with a tax professional able to communicate and recognize all of the available opportunities and requirements.



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