

The Greater Ravalli Foundation Endowment

SPECIAL INCOME TAX SAVINGS INCENTIVES FOR MONTANA CORPORATIONS, PARTNERSHIPS AND LIMITED LIABILITY COMPANIES

Gifts to endowment accounts of Montana charities by Montana businesses yield substantial income tax saving opportunities. The Greater Ravalli Foundation is beginning to build an endowment created in perpetuity to fund a number of post high school annual scholarships for Bitterroot Valley students. The financial goal is to raise as much as \$2 million to conservatively fund \$100,000 of annual scholarships.

In the State of Montana, resident businesses or entities carrying on rental activities formed as C or S corporations, partnerships and Limited Liability Companies (LLCs) can make outright gifts specifically earmarked toward endowments of Montana charities. C corporations can receive a Montana income tax credit amounting to 20% of the value of the gift, limited to \$10,000 in one year. Accordingly, a gift of \$50,000 by a Montana C corporation yields the maximum credit and a federal charitable income tax deduction limited to 10% of taxable income (unused federal charitable deductions carry over for five years). The maximum credit that a shareholder of an S corporation, a partner of a partnership, or a member of an LLC can claim is \$10,000. Accordingly, those pass-through entity small businesses involving multiple owners could actually make contributions in excess of the individual C corporation contribution limitation. However, the credit must be apportioned among the individual owners consistent with their apportionment of income or loss, or, in the case of an S corporation, their percentage of stock ownership. The credit must be used in the year of the donation and does not carry over.

Using an example of a \$50,000 direct cash gift from a single Montana S corporation shareholder in the maximum federal income tax bracket for 2006 of 35%, yields a significant combined Montana and federal income tax savings of \$27,500. If appreciated publicly traded stock or other publicly traded securities were used, the income tax savings is further increased by the savings of avoiding federal and state capital gains tax.

For those of you Montana business entities and residents of this state, please keep The Greater Ravalli Foundation in mind in your year-end tax planning discussions with your tax advisor. By gifting to the scholarship endowment, you will be providing a source of permanent income to provide perpetual funding for all future scholarship programs for the benefit of Bitterroot Valley youth.