DESCRIPTION OF S. 2224

TAX CREDIT FOR CONTRIBUTIONS TO PROGRAMS PROVIDING JOB TRAINING TO CERTAIN INDIVIDUALS

Scheduled for a Hearing

on

July 15, 1982

by the

Committee on Finance

Prepared by the Staff

of the

Joint Committee on Taxation

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INTRODUCTION

This document describes S. 2224 (Senator Specter), which would provide a tax credit for contributions to charitable organizations that provide job training for handicapped and economically disadvantaged individuals and displaced workers. The bill is scheduled for a hearing on July 15, 1982, by the Committee on Finance.

I. SUMMARY

Under present law, contributions to tax-exempt organizations generally are deductible. Tax credits, however, are not permitted for charitable contributions to tax-exempt organizations that provide job training nor are they permitted for charitable contributions in general.

The bill would provide a tax credit equal to 20 percent of charitable contributions made to tax-exempt organizations that provide job training exclusively to handicapped or economically disadvantaged individuals or to displaced workers. The credit would be nonrefundable and could not exceed $250,000. The bill would apply to contributions made in taxable years beginning after December 31, 1981.

II. DESCRIPTION OF THE BILL

Present Law

Present law generally allows income tax deductions for charitable contributions (Code sec. 170). The term "charitable contribution" generally includes a contribution or gift to, or for the use of, an organization that is organized and operated exclusively for one of the purposes enumerated in section 501(c)(3) 1/. The providing of job training and guidance to unskilled and under-employed workers may qualify as a charitable purpose so long as the manner of its achievement is otherwise charitable.2/ Tax credits are not provided for charitable contributions.

Explanation of the Bill

The bill would allow as a credit against tax an amount equal to 20 percent of the qualified job-training charitable contributions of the taxpayer for the taxable year.

A qualified job-training charitable contribution would be a charitable contribution to a qualified job-training organization. A qualified job-training organization would be an organization that meets the following two requirements: (1) it is exempt from tax under Code section 501(a) as an organization described in section 501(c)(3) and (2) it is certified by the appropriate regional office of Employment and Training Administration of the Department of Labor as providing job training solely to handicapped individuals, economically disadvantaged

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1/ Code sec. 501(a) provides for the exemption from Federal income tax of certain organizations that are "organized and operated exclusively for religious, charitable, scientific, or educational purposes . . . no part of the net earnings of which inures to the benefit of any private shareholder or individual," and which meet certain other specified requirements.

2/ See Rev. Rul. 67-72, 1967-1 C.B. 125 and Rev. Rul. 68-504, 1968-2 C.B. 211.

individuals, or displaced workers (or to any combination of these individuals).3/

Limitations on credit

The maximum amount of credit for any taxpayer would be $250,000. Furthermore, the credit could not exceed a taxpayer's tax liability, as reduced by other allowable credits.

If the amount of a taxpayer's credit exceeds tax liability, then that amount could be carried back to each of the three taxable years preceding the year of the excess credit, and could be carried forward to each of the fifteen taxable years following the year of the excess credit.

3/ Job training, for purposes of the bill, would be instruction in vocational and other skills necessary to obtain employment or a higher grade of employment.

A handicapped individual would be an individual who has a physical or mental disability which for that individual constitutes or results in a substantial handicap to employment, and who can reasonably be expected to obtain employment, or a higher grade of employment, as a result of job training.

An economically disadvantaged individual would be any individual who (1) receives cash welfare payments under a Federal, State, or local welfare program; (2) has an income, for the 6-month period before applying for job training, that would have met the qualifications for Federal, State, or local welfare payments or, if computed on an annual basis, would not exceed the poverty level established by the Director of the Office of Management and Budget; or (3) is a member of a family that meets either of these requirements.

A displaced worker would be an individual who (1) was employed by an establishment on a full-time basis for at least one year; (2) was not employed by the establishment in an executive, administrative, or professional capacity; and (3) is currently unemployed because of a change in the technology of such establishment, or a total or partial closing of such establishment by reason of competing technology.

Special rules

In the case of a controlled group of corporations, all members of the same controlled group would be treated as a single taxpayer, and the credit (if any) allowable to each member would be the proportionate share of qualified job-training charitable contributions giving rise to the credit.

In the case of subchapter S corporations, the credit would be apportioned pro rata among the shareholders.

In the case of an estate or trust, the credit would be apportioned between the estate or trust and the beneficiaries on the basis of the income of the estate or trust allocable to each.

In the case of partnerships, the credit would be allocated among the partners under regulations to be prescribed by the Treasury.

Special rules also would be provided with respect to carryovers of the credit in certain corporate acquisitions.

Effective Date

The bill would apply to taxable years beginning after December 31, 1981.