

**MEMORANDUM**

**TO: Education Interim Committee**

**FROM: Tony Zammit, Acting Deputy Chief Legal Counsel**

**DATE: January 7, 2022**

**SUBJECT: Department of Revenue's HB 279 Donations Portal**

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This memorandum serves to update this Education Interim Committee with information and statistics collected by the Department of Revenue (DOR) about the two credits the donations portal administers.

At 8:00 a.m. on January 3, 2022, the DOR opened the donations portal for public school districts (PSD) and student scholarship organizations (SSO) to seek preapproval from the DOR of donations for the two tax credits established by HB 279 (2021). Between PSDs and SSOs, more than \$1,150,000 of credit was preapproved in the first six minutes of the portal being open.

**The Process**

As an initial point, it is important to explain that claiming a donation as a credit involves three parties: the taxpayer who makes the donation, the PSD or SSO that receives the donation and seeks preapproval of the credit, and the DOR that preapproves the credit. Donating taxpayers cannot access the donations portal or otherwise directly seek preapproval of a donation from the DOR. Instead, the preapproval process must be performed by the PSD or SSO that received the taxpayer's donation. The DOR's role is limited to preapproving the donations that are registered by the PSDs and SSOs.

As provided in §§ 15-30-3110 and 15-30-3111, MCA, the basic process begins with a taxpayer making a cash donation to a PSD or an SSO.<sup>1</sup> The PSD or SSO then uses the DOR's donation portal to seek preapproval of that donation for the credit. The DOR's system uses date and time stamps of the PSD or SSO recording the donation to assign priority and measure the respective available aggregate thresholds. Once a PSD or SSO receives preapproval, they are provided with a receipt to provide to the taxpayer who donated. That taxpayer then uses that receipt to claim the credit when they file their 2022 Montana income tax return.<sup>2</sup>

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<sup>1</sup> A taxpayer can donate to both a PSD and SSO and, if preapproved, can receive a tax credit against their Montana income taxes for both donations.

<sup>2</sup> This will be the filing the taxpayer makes in calendar year 2023.

## The Donations Portal

The donations portal has information about both credits and is available and updated in real time at [EducationDonations.mt.gov](https://EducationDonations.mt.gov).

To facilitate the preapproval of donations for the tax credit (as described in §§ 15-30-3110 and 15-30-3111, MCA), the DOR built an online donations portal and completed testing in November 2021. The DOR published its *Tax Credits for Qualified Education Contributions* guide in late November 2021, which was downloaded more than 320,000 times by the end of 2021. On December 8 and 9, 2021, the DOR conducted training demonstrations for PSDs and SSOs to learn how the portal operated. On December 15, 2021, the DOR opened the donation portal for PSDs and SSOs to create accounts and add users. This early registration process also allowed for any troubleshooting and questions about the portal to be addressed. PSDs and SSOs were immediately able to add up to five total users to register donations from taxpayers when the portal opened on January 3, 2022.

During this time, the DOR also answered approximately 80 phone calls and 50 emails about the portal from PSDs and SSOs, including calls and emails the morning of January 3, 2022, prior to the portal's opening.

The operation of the portal was simplified as much as possible. A registered PSD or SSO user was required to simply input specific data into the system. The required data included:

- Donation amount
- Name of donor
- Donor's last four digits of their Social Security Number or the donor's Federal Employer Identification Number (in the case of a business)
- Donor's mailing address
- Donor's physical address (a checkbox was provided to copy if the same as the mailing address)
- Donor's email address

Upon completion of inputting that data, the user submitted that data. The donations portal affixed a date and time stamp to the submission of the data. This date and time stamp of the submission determined the priority for claiming the credit, and the DOR promulgated ARM 42.4.803(3) establishing this in rule. If the user submitted the data and the amount of the donation was within the aggregate threshold, the donation was preapproved.

On the back end, when a user submitted data, the donations portal checked the submission for numerous criteria. In relevant part, those included:

- the requisite data fields were filled in by the user;
- the per-taxpayer threshold of \$200,000 was not met; and
- the amount of the donation was available within the aggregate threshold amount.
  - If not, the maximum amount of preapproved credit was limited to the remaining amount.

If the donation amount was more than the remaining amount of credit available, the user was prompted with the remaining credit available, and the user was given 60 seconds to accept the reduced, remaining amount or cancel the donation.

### **Innovative Education Credit**

The Innovative Education Program Credit (IEC)<sup>3</sup> at § 15-30-3110, MCA, provided \$1,000,000 of credit available for donations made to a Montana PSD. At 8:05:35 a.m., the \$1,000,000 aggregate threshold cap for the IEC was met. More than \$950,000 of the IEC aggregate threshold cap had been preapproved by 8:03 a.m.

Ten PSDs received preapproval for donations from the DOR:

<b>PSD</b>	<b>Total Donations</b>	<b>Total Amount</b>
Big Sky School K-12	4	\$694,000.00
Bonner Elem	1	\$1,000.00
Great Falls Elem	1	\$40,000.00
Kalispell Elem	1	\$10,000.00
Kalispell HS	3	\$70,000.00
Livingston Elem	8	\$73,000.00
Montana City Elem	2	\$55,000.00
Shepherd Elem	1	\$50,000.00
Somers Elem	1	\$5,000.00
Whitefish Elem	1	\$2,000.00

As can be seen from the table, it appears that three users from the Livingston Elementary School District were able to record two donations each before the aggregate threshold cap was met out. This is evident by comparing the total number of users permitted per PSD (five) to the total donations preapproved for the district (eight).

While the DOR is still analyzing the database from the donations portal, the following are some preliminary statistics that can be reported specifically about the IEC.

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<sup>3</sup> The DOR learned that “IEP” is a widely used acronym in the education world for the Individualized Education Program. To avoid confusion, “IEC” is used as the acronym for the Innovative Education Program Credit here.

1. Between December 15, 2021, until immediately before the portal opened on January 3, 2022:
  - 172 PSDs registered for the donations portal. This represents about 43% of the number of Montana school districts;
  - 113 individual users registered representing the 172 PSDs; and
  - 64 users requested representation of more than one PSD.
  
2. Between 8:00 a.m. and 10:00 a.m. on January 3, 2022:
  - the \$1,000,000 IEC was preapproved on behalf of 23 donors;
  - there were 20 individuals and three businesses that made donations that received preapproval for the credit;
  - 27 PSD users were logged into the donations portal when the aggregate threshold cap was met;
  - PSD users were attempting to receive preapproval for 28 additional donations totaling approximately \$273,000 when the aggregate threshold cap was met;
  - including the 23 donations that received preapproval, there was a total of 77 requests for preapproval of donations made by PSDs on January 3, 2022;
  - PSDs submitted 63 requests for preapproval before the aggregate threshold cap was met;
  - an additional 14 attempts for preapproval were made after the aggregate threshold cap had been met; and
  - 54 donations were cancelled.

### **Student Scholarship Organizations**

SSOs were also active the morning of January 3, 2022. SSOs recorded approximately \$140,000 of preapproved credit in the first 30 minutes of the portal's operation. As of 10:00 a.m. on January 7, \$200,000 had been preapproved and \$800,000 of credit was available.

As of January 7, 2022, there are five SSOs registered with the Department. Four have received the following preapproval for donations from the DOR:

<b>SSO</b>	<b>Total Donations</b>	<b>Total Amount</b>
ACE Scholarships SSO, Montana, LLC	6	\$112,000
Holy Spirit Catholic School	3	\$46,000
St. Mary's Catholic School	2	\$12,500
St. Matthew's Catholic School	8	\$29,500

The following are some preliminary statistics that can be reported specifically about the SSO donations:

- the \$200,000 preapproved thus far was on behalf of 18 donors;
- there were 19 individuals that made donations that received preapproval for the credit; and
- two SSO users logged into the donations portal when the portal opened.

While the rate of preapproval sought by SSOs for donations was not as fast as was seen with PSDs, this is likely a function of economy of scale when comparing the users. There were far more PSDs registered for the portal than approved SSOs. However, the DOR is anticipating that the full \$1,000,000 available for donations to SSOs will be preapproved by the end of calendar year 2022.

### **Next Steps**

From the DOR's perspective, the process and the donations portal worked seamlessly to implement what the Montana Legislature provided for in statute. However, the DOR is already working to compile as much data from the portal and feedback from PSDs and SSOs to evaluate what worked well and how the donations portal could be improved for future years.

The first step is in the analysis of the data from the portal. The DOR hopes to finalize the preliminary data reported in this memorandum (along with other useful information) over the coming months to provide transparency and useful metrics for PSDs, SSOs, the Legislature, and the public.

Simultaneously, the DOR is seeking feedback from SSOs and PSDs about the portal and the donations process, as well as the trainings and guidance documents that the DOR published prior to the portal opening. Questions were sent on January 7, 2022, to all the contacts with PSDs and SSOs. The DOR is also reviewing its *Tax Credits for Qualified Education Contributions* guide to see if it can be revised to provide better information and guidance based on the experiences of users.