



Open Hand of Fredericksburg

Understanding the NAP Tax Credit and How It Can Benefit You and Your Family

Neighborhood Assistance Tax Credit (NAP)

The purpose of the Neighborhood Assistance Program (**NAP**) is to encourage individuals and families to make donations to approved non-profit, 501(c) (3) organizations, for the benefit of disadvantaged people. In return for your contributions, tax credits equal to 65 percent of the donation may be applied against your Virginia state income tax liability.

As an added “plus”, the contribution is 100% deductible on the taxpayer’s federal return. Taxpayers may choose to donate appreciated stock in place of cash which will avoid payment of the federal capital gains tax, and thereby further benefiting both the taxpayer and the non-profit.

The bottom line is that NAP tax credits allow taxpayers to support a worthy cause and save taxes as well.

Individuals and families must make a minimum donation \$500 up to a maximum of \$125,000. An individual and/or family can make multiple donations that equal at least \$500 and at the most \$125,000 in a taxable year. Tax credits are deducted from an individual’s or family’s allocation for the program year in which the donation is made. If multiple donations are made to Open Hand during the taxable year, but fall into two different program years, the tax credit is deducted from the program year in which the minimum donation amount was reached.

Example - A \$200 donation to Open Hand was made on Feb 1, 2017 and a \$300 donation to Open Hand was made on July 1, 2016. The tax credit is deducted from the 2016 - 2017 allocation.

Open Hand of Fredericksburg is a neighborhood organization and thus is responsible for maintaining records of donations and tax credits made to them. Open Hand of Fredericksburg will provide summaries of tax credits that have been issued only upon request.



Qualified Donations, Donation Date, Value of Donation and Supporting Documents

Donation Type	Donation Date	Donation Value	Supporting Documents
Check Money Order	Date mailed or hand delivered or date on check if it is post dated	Amount of check or money order	Copy of check or money order
Cash		Amount of cash or check	Receipt that shows the donors name and Open Hand (neighborhood organization)
Credit Card	Date of transaction	Full amount of the donation (includes any fees unless notified otherwise)	Receipt of online confirmation that shows date of donation and the name of Open Hand (neighborhood organization)
Electronic Funds Transfer	Date of the check or transfer	Amount of cash, check, transfer or payroll donation	Copy of the check or statement (if the check or statement do not state the donors name, then a letter or other written documentation is necessary to demonstrate the donation was made by the donor)
Payroll Deduction	Date of last payroll deduction	Amount of payroll deduction	Copy of payroll account that shows the amount donated, date of donation, donor's name, and name of Open Hand (neighborhood organization)
Marketable Securities Stocks and Mutual Funds	Date transferred (not when they were converted to cash)	Stocks - # of shares times avg or high/low/mean prices per share on the trade date	Copy of the letter from the brokerage firm or a copy of the transaction report from the donor's portfolio, that shows the name of the organization, donation, # of units, high/low/mean or net asset value for mutual funds



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Understanding Tax Credits vs. Tax Donations

So let's start with a brief lesson on "*What are tax credits?*" The best way to describe tax credits is in contrast to what most taxpayers understand... tax deductions. Tax deductions *reduce the amount of your income subject to tax*. Tax credits *directly reduce the tax itself*.

For example, assume you or your family spends \$5,000 that results in a *tax deduction*. That will *reduce your taxable income* by \$5,000. In a 25% tax bracket, you would save \$1,250 in taxes.

Now compare that with a \$5,000 *tax credit*. That amount is subtracted from the amount of *tax owed* as opposed to an offset to income ... as is the case with a tax deduction. *Result: Your tax bill is reduced by the full \$5,000 tax credit!*

The purpose of tax credits is to encourage investment in activities and efforts that will stimulate employment, enhance employee skills development, promote research & development and motivate participation in social and environmental improvements. Individuals and families find tax credits trump tax deductions every time in saving tax dollars.