



MEMO

To: Interested Parties
From: Mark Schwartz and Laura Schwartz
Re: NAP- Personnel and Real Property Contributions
Date: January 2, 2008

When most people think of Pennsylvania's Neighborhood Assistance Tax Credit Program (NAP), they think of businesses contributing money to nonprofit organizations to support efforts to improve distressed areas of the Commonwealth. However, there are a number of ways to contribute to nonprofits, other than a direct contribution of money. These include, but are not limited to, contributions of personnel, real property and "in-kind" items. Following are brief descriptions of each:

Personnel Contributions- A business may loan personnel to a nonprofit organization, in order to provide expertise and technical assistance, and receive NAP credit. The credit will be based on the wages and benefit costs to the business of the loaned personnel. As an example, consider a law firm that loans one of its attorneys to a legal services program for one year. The members, shareholders, or partners of the firm (depending on whether the firm is structured as a LLC, corporation or partnership) would each receive a credit for the wage and benefit costs for the attorney for the year, in proportion to the share of the entity's distributive income to which the member, shareholder or partner was entitled. As an example, consider a law firm structured as a partnership, in which Partners A and B each hold a 50% partnership interest, *i.e.*, are each entitled to fifty percent of the firm's distributive income. If the law firm loans one of its associates to a legal services organization for a year, Partners A and B will each be entitled to a credit against his or her Pennsylvania Personal Income tax for fifty percent of the cost of the associate's wages and benefits for that year.

Similarly, a real estate development company that loans one of its construction managers to a community-based non-profit to oversee the development of affordable housing or a community revitalization project would be entitled to receive a tax credit for the value of the wages and benefits paid to the loaned employee during the time he or she worked for the non-profit. If the real estate development company were structured as a pass-through entity, such as an LLC or partnership, the principals would each receive a part of the tax credit for such wages and benefits, in proportion to their respective ownership interests.

Real Estate Contributions- A business may donate real property to nonprofit organizations and receive NAP credit. The credit will be based upon the value of the real estate, as determined by two separate and independent appraisals by certified real estate appraisers. In some instances, the business and nonprofit may work out a “bargain sale” in which the nonprofit pays a portion of the real estate’s value and the business donates the remaining value to the nonprofit. The business may be able to receive a credit in an amount up to the difference between the appraised value of the real property and the amount which the nonprofit paid to the business, as adjusted by IRS rules on Bargain Sales. Given the recent spike in mortgage foreclosures, a number of businesses may find themselves owning unwanted real estate and may be interested in receiving NAP credit for donating such real estate to a nonprofit, or negotiating a “bargain sale.”

In-Kind Contributions- A business may contribute items such as equipment, furnishings, building materials and vehicles to nonprofit organizations and receive NAP credit. As an example, a contractor that donated roofing materials to a nonprofit constructing a community center would receive NAP credit based on the net cost of the materials. Other examples include businesses donating furniture to a nonprofit for senior housing or computers and similar office equipment for job training programs.

Please let us know if you have any questions.