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Transforming Education IN PENNSYLVANIA

The Latest Facts About the Educational
Improvement Tax Credit (EITC) Program

The Latest Facts About the Opportunity
Scholarship Tax Credit (OSTC) Program

REACH
FOUNDATION



**Support for the
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Founded in 1991, the REACH Foundation is the Commonwealth's leading grassroots coalition seeking to educate the public on the benefits that school choice can bring to Pennsylvania's children and families.

The REACH Foundation represents business, religious, civic, taxpayer and non-profit organizations committed to educational achievement through choice. The REACH Foundation receives no government grants, but instead relies on the generosity of individuals and foundations for support.

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The REACH (Road to Educational Achievement through CHoice) Foundation and its sister organization, the REACH Alliance, are Pennsylvania's leading grassroots coalitions dedicated to ensuring parental choice in education.

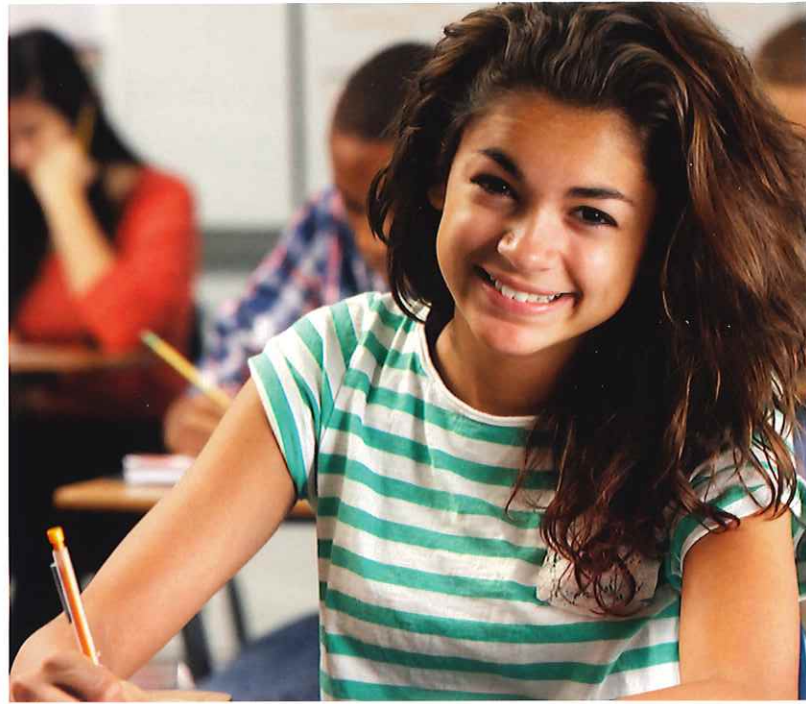
In 1991, the REACH Alliance was founded to coordinate the efforts to pass school choice legislation in Pennsylvania. REACH was instrumental in drafting and passing Pennsylvania's landmark Educational Improvement Tax Credit (EITC) Program, as well as its subsequent expansions. Since then, REACH has grown into a diverse coalition that includes members from the business community, ethnic and religious organizations, parents and taxpayer groups.

As a non-profit, the REACH Foundation is governed by an independent Board of Directors and funded through generous contributions of Pennsylvania citizens, churches and foundations. As the school choice movement has changed, so has REACH. REACH advocates and educates the public on the benefits of school choice, including tuition tax credits, traditional charter schools and the growing community of cyber-charter schools. REACH continues to educate Pennsylvania citizens, the General Assembly and the media to ensure that parents have a true choice in their children's education.

Pennsylvania enacted the nation's first educational tax credit aimed at corporations in 2001. Florida soon followed, and today 24 additional states and Washington, D.C. have joined in with school choice programs. We are proud of our state's pioneering EITC Program and the more than \$1.2 billion invested into Pennsylvania's public and private schools by corporations to date. REACH has remained quite active since our achievements in 2001 by providing our full resources, time and efforts, in conjunction with other school choice advocates, to ensure the protection and expansion of school choice programs in Pennsylvania.

We are proud to say that our hard work and dedication has paid off, on June 30, 2012 House Bill 761 was passed into law expanding the popular Educational Improvement Tax Credit Program (EITC) and creating the Opportunity Scholarship Tax Credit Program (OSTC). The \$55 million OSTC program builds on the decade of EITC success, using the same tax credit funding mechanism, where business contributions will fund scholarships available to children from low and middle income families who reside in low-achieving school areas.

As the EITC program completes its second decade of existence, we believe it's more important than ever that



"The Educational Improvement Tax Credit Program is consistently recognized as one of the premier school choice programs in the nation. Its unique ability to allow businesses to directly invest in education is providing tens of thousands of children the opportunity to succeed."

—Robert Enlow, Foundation for Educational Choice President & CEO

parents understand the many options that school choice gives to them. In Pennsylvania, school choice takes many forms: from charter schools to home schooling, cyber schooling, private schools or electing to live in a certain public school district—many parents are taking an active role in their children's education. None of these options may be called a blanket solution for every family or every child—schooling is a highly personal decision that should not be taken for granted. As we move forward, it is our goal to advance the cause of each and every educational option available to Pennsylvanians.

The following is a compilation of facts and figures for the EITC Program and the OSTC Program in Pennsylvania. We hope that this publication provides insight into these programs and what they means to Pennsylvania's families. We thank you for your interest in participating.

Educational Improvement Tax Credit Program

A GREAT WAY FOR BUSINESSES TO DIRECT TAX DOLLARS

EITC scholarships have provided a lifeboat to tens of thousands of families looking for the right school for their child. Each time a child moves from a public to a non-public school and each time a child is able to stay in a non-public school as a result of the EITC, both taxpayers and families win!

The EITC has accomplished what many in Pennsylvania have been advocating for years: a way for the business community to get directly involved in education. The EITC enables companies to support local non-profit charities, at minimal cost, instead of sending their tax dollars to Harrisburg. It's that simple.

The business community has overwhelmingly responded to the challenge. More than 37,000 business applications have been approved since the program's inception, totaling more than 1.2 billion to programs all across Pennsylvania.

A BRIEF HISTORY

On May 7, 2001, by an overwhelming bipartisan majority, Pennsylvania made history by becoming the first state to pass an education tax credit aimed at corporations. Advocated by former Governor Tom Ridge and a diverse coalition, House Bill 966—the Educational Improvement Tax Credit (EITC)—provides companies with a 75% tax credit for donations to a non-profit scholarship or educational improvement organization. The tax credit increases to 90% if the company commits to making the same donation for two consecutive years.

Despite the popularity of the program, the EITC Program was decreased for the first time ever in 2009-2010 due to the tough economy. It was the only school choice program in the nation to be cut. The devastation stemming from the cut to the program in 2009-2010 was catastrophic, with over 6,000 scholarships lost, but even with the distressing decrease to the program, the EITC remains a national model and continues to help thousands of children in the Commonwealth. Since then, and with community and grassroots support, the program has grown steadily. Due to overwhelming demand and popularity, the legislature has increased the cap on the EITC Program and pre-K EITC several times since its enactment in 2001, with a current cap of \$185 million.

EITC BY THE NUMBERS

Latest available data from 2018

- More than **44,600** students received EITC scholarships for the 2017-2018 school year.
- Since the program's inception, more than **37,100** business applications have been approved.
- There are **263** Scholarship Organizations, **918** Educational Improvement Organizations and **194** Pre-K Scholarship Organizations... and the numbers keep growing!
- More than **\$1.2 billion** has been contributed to EITC organizations since 2001.
- All of Pennsylvania's 67 counties received EITC money during the 2017-2018 fiscal year, including **500** school districts.
- Over **575,500** scholarships were given out to children in need since the program's inception.

"EITC has helped thousands of students attend schools of their choice. This puts them and their parents in control of their education."

—Senator Mike Folmer

THE EITC PROGRAM	AMOUNT OF TAX CREDITS ALLOCATED	% TAX CREDIT FOR CONTRIBUTION	MAXIMUM AMOUNT OF TAX CREDITS A BUSINESS CAN CLAIM
Scholarship Organizations (SOs)	\$135 million	<ul style="list-style-type: none"> • 75% for a one year commitment • 90% for a two year commitment – 90% each year • Deductible amount of contribution for Federal tax purposes may be limited or reduced. 	\$750,000
Educational Improvement Organizations (EIOs)	\$37.5 million	<ul style="list-style-type: none"> • 75% for a one year commitment • 90% for a two year commitment – 90% each year • Deductible amount of contribution for Federal tax purposes may be limited or reduced. 	\$750,000
Pre-K Scholarship Organizations (PKSOs)	\$12.5 million	<ul style="list-style-type: none"> • 100% for the first \$10,000 • 90% for the remainder of the contribution • Deductible amount of contribution for Federal tax purposes may be limited or reduced. 	\$200,000

The \$750,000 cap (\$200,000 for pre-kindergarten) on tax credits for contributions to scholarship and pre-kindergarten scholarship organizations will be lifted from October 1 through November 30 if credits have gone unclaimed. The per-business caps go back in place after November 30.

“The EITC program is a great example of private/public partnership and how these partnerships can play a direct role in combating some of our larger societal issues. In this case, business, community organizations and government joining together to give parents the opportunity to make the best option for their children.”

–Senator Anthony Williams

Opportunity Scholarship Tax Credit Program

The Opportunity Scholarship Tax Credit Program, capped at \$55 million, allows businesses to contribute to an opportunity scholarship organization to provide funding to eligible students who reside within the attendance boundaries of a low-achieving school. A "low-achieving school" is defined as a public elementary or secondary school in Pennsylvania ranking in the bottom 15 percent of their designation as elementary or secondary school based on combined math and reading scores on the most recent PSSA results available on the Pennsylvania Department of Education's website. This term does not include a brick-and-mortar charter school, cyber charter school or area vocational-technical school. Students residing within the boundaries of a low-achieving school as of the first day of classes are eligible to apply for an opportunity scholarship, including a student entering kindergarten. Eligible students may include children residing within the boundaries of a low-achieving school who:

- Currently attend a low-achieving school; or
- Are currently enrolled in a non-public school; or
- Were previously home schooled; or
- Were previously attending a charter or cyber charter

Eligible students are defined as those school-age children living in the attendance boundary of a low-achieving school as of the first day of classes and whose household income meets the following criteria:

- \$90,000 plus \$15,842 for each dependent member of the household
- For students with a disability, additional adjustments for the allowance will be made pursuant to the law

The Pennsylvania Department of Education will annually publish a list of the bottom 15 percent of elementary schools and the bottom 15 percent of secondary schools, based on combined math and reading PSSA scores, and identify them as low-achieving schools.

OSTC BY THE NUMBERS

Latest available data from 2018

- More than **14,500** students received OSTC scholarships for the 2017-2018 school year.
- Since the program's inception, more than **4,300** business applications have been approved.
- There are **186** Opportunity Scholarship Organizations... and the numbers keep growing!
- More than **\$246 million** have been contributed to OSTC organizations since the program's inception!
- **41 counties** across Pennsylvania received OSTC money during the 2017-2018 fiscal year.
- Over **65,000** scholarships were given out to children in need since the program's inception.

A GREAT WAY FOR BUSINESSES TO DIRECT TAX DOLLARS

OSTC scholarships can provide a lifeboat to low-income families looking for the right school for their child. Each time a child moves from a public to a non-public school and each time a child is able to stay in a non-public school as a result of the OSTC, both taxpayers and families win!

The OSTC is building on years of EITC success, which is what many in Pennsylvania have been advocating for years: a way for the business community to get directly involved in education. The OSTC enables companies to support local non-profit charities, at minimal cost, instead of sending their tax dollars to Harrisburg. It's that simple. The OSTC offers a tremendous incentive for companies to direct their tax dollars into their community. In addition to the state tax credit received, many companies can also deduct their contribution on their federal tax return, costing them virtually nothing to have a profound impact on the lives of children.



THE OSTC PROGRAM	AMOUNT OF TAX CREDITS ALLOCATED	% TAX CREDIT FOR CONTRIBUTION	MAXIMUM AMOUNT OF TAX CREDITS A BUSINESS CAN CLAIM
OSO	\$55 million	<ul style="list-style-type: none"> • 75% for a one year commitment • 90% for a two year commitment – 90% each year • Deductible amount of contribution for Federal tax purposes may be limited or reduced. 	\$750,000

The \$750,000 cap on tax credits for contributions to opportunity scholarship organizations will be lifted from October 1 through November 30 if credits have gone unclaimed. The per-business caps go back in place after November 30.

OSTC

STEP-BY-STEP GUIDE FOR ACCOUNTANTS

Companies can claim the credit against:

- Corporate Net Income Tax
- Bank and Trust Company Shares Tax
- Title Insurance Companies Shares Tax
- Insurance Premiums Tax
- Mutual Thrift Institutions Tax
- Malt Beverage Tax
- Personal Income Tax—Subchapter s-corporations and other “pass-through” entities will be able to use the credit against the shareholder, member or partners’ PA personal income taxes.

Large partnerships and LLC’s are able to create smaller subsidiary partnerships whose members can then participate in the EITC program.

INFORMATION FOR ACCOUNTANTS

- There is \$135 million allocated annually for scholarships, \$12.5 million for pre-K scholarships and \$37.5 million for innovative educational programs.
- There is \$55 million allocated annually for the OSTC Program.
- A business must complete and submit an EITC or OSTC application annually with DCED, which will then determine whether the firm qualifies for the credit.
- Applications are processed by DCED on a first-come, first-served basis.
- Tax credits cannot exceed the tax liability of a business for a given taxable year or the personal tax liability of the owners if used in a “pass-through” entity situation.
- Tax credits cannot exceed \$750,000 annually per business, \$200,000 for the Pre-k program.
- Generally, a tax credit must be applied in the taxable year the contribution is made. An exception is made in the case of “pass-through” entities with the required completion of PA form REV-1123.
- Unused portions of tax credits may not be carried forward or backward.
- All applications received on a specific day will be processed by DCED on a random basis before moving on to the next day’s applications.
- A confirmation letter will be sent by DCED to confirm the business’s approval status.
- Applications for the second year of a two-year commitment will be accepted beginning May 15 of the applicable year, and if received by DCED on or before July 1, will be processed prior to any other applications for tax credits received.
- Businesses renewing a two-year commitment may also submit their online application beginning May 15 of the applicable year.
- Applications for the second year of a two-year commitment received after July 1, will be processed on a first-come, first-served basis by day submitted, along with all other business applications received for that fiscal year.
- First year C-corporation and S-corporation applications may be submitted for the tax credits beginning on July 1.
- DCED will acknowledge the credit following confirmation of the qualified contribution and will simultaneously provide the PA Department of Revenue with a copy of your confirmation letter.
- The PA Department of Revenue will immediately post the credit to the taxable year in which the contribution was made and will consider tax credits awarded under the program to be effective on the first day of the taxable year. Therefore, the credit will generally be on record well before the filing of the applicable tax report. In the case of pass-through entities, PA form REV-1123 must be completed and mailed by the due date of the entities tax return, including extension, in order to pass the credits through to the owners.
- To verify the postings of approved tax credits, call the PA Department of Revenue, Bureau of Corporation Taxes, Accounting Division to review the status of the business’ tax account. The telephone number is 717.705.6225.

*** After January 1st of each fiscal year, DCED will be permitted to transfer unused credits from the OSTC Program to the EITC Program. For example, a business firm applicant that unsuccessfully applied for an Educational Improvement Tax Credit may elect to have DCED transfer unused Opportunity Scholarship Tax Credits to the Educational Improvement Tax Credit program.*

*** DCED will contact SO and Pre-K applicants who have been placed on the waiting list to inquire about credit transfers and subsequent application approval.*

*** Applicants receiving approval due to credit transfers after January 1st will receive a 75% credit for a one-year commitment.*

EITC and OSTC: C-corporation Participation

	NO CONTRIBUTION	75% CONTRIBUTION	90% CONTRIBUTION
Net Income before contribution and CNI Tax	\$220,000	\$220,000	\$220,000
EITC Contribution (Not deductible for PA)	—	\$10,000	\$10,000
PA Taxable Income before PA CNI tax	\$220,000	\$220,000	\$220,000
PA CNI Tax (9.99%) *	\$21,978	\$21,978	\$21,978
Federal Income after PA CNI Tax	\$198,022	\$198,022	\$198,022
PA Tax Savings *	—	—	—
EITC (PA CNI Tax Savings)	—	\$7,500	\$9,000
PA Tax Savings Total	—	\$7,500	\$9,000
Federal Taxable Income	\$198,022	\$195,522	\$197,022
Federal Tax (21%)	\$41,585	\$41,060	\$41,375
Federal Tax Savings	—	\$525	\$210
Total Tax Savings	—	\$8,025	\$9,210
Annual Cash Required to Contribute \$10,000	—	\$1,975	\$790
% Effective Total Tax Savings when Contributing \$10k with an EITC		80.25%	92.10%

* PA does not allow a deduction of the contribution used to qualify for the EITC.



"It is heartening to see all four caucuses work together to preserve a program that is so important to Pennsylvania's families. This is truly a bipartisan effort and we are thankful that lawmakers recognize the value of the EITC."

—Otto Banks, REACH Executive Director

EITC and OSTCL C-Corporation Vs. Pass-Through Entity

Credit Against PA Corporate Net Income Tax or PA Personal Tax	C-CORPORATION		PASS-THROUGH ENTITY	
	NO CONTRIBUTION	90% CONTRIBUTION	NO CONTRIBUTION	90% CONTRIBUTION
Net Income before contribution and Tax	\$220,000	\$220,000	\$220,000	\$220,000
EITC Contribution (Not deductible for PA)	—	\$10,000	—	\$10,000
PA Taxable Income	\$220,000	\$220,000	\$220,000	\$220,000
PA CNI Tax (9.99%) / PA Personal Income Tax (3.07%)	\$21,978	\$21,978	\$6,754	\$6,754
Federal Income after PA Tax	\$198,022	\$188,022	\$220,000	\$210,000
PA Tax Savings (See Note 1 below)	—	—	—	—
EITC Credit Available for PA CNI or PA Personal Tax	—	\$9,000	—	\$9,000
Total PA Tax Savings	—	\$9,000	—	\$9,000
Fed/PA Taxable Income before Adjustments	\$198,022	\$188,022	\$220,000	\$210,000
Add Back: Benefit for State Tax Credit Recvd. (See Note 2 below)	—	\$9,000	—	\$9,000
Net Federal Taxable Income	\$198,022	\$197,022	\$220,000	\$219,000
Federal C-Corp Tax (21%) / Federal Ind. Tax from Pass-Through (Assume 35%)	\$41,585	\$41,375	\$77,000	\$76,650
Federal Tax Savings	—	\$210	—	\$350
Total PA Tax Savings	—	\$9,210	—	\$9,350
Net Cost to Contribute \$10,000	—	\$790	—	\$650

Note 1: PA does not allow a deduction for the contribution used to qualify for the EITC.

Note 2: Benefit for State Tax Credit Received: The Charitable Contribution deduction is only reduced for the amount that an individual's state and local taxes exceed the \$10,000 State and Local Tax limitation. This calculation assumes the limitation has already been exceeded prior to participation in EITC.

Above calculation does not include computations for Alternative Minimum Tax or other tax circumstances that may or may not apply to each individual situation. Please contact your tax advisor for specifics to your overall situation. Above calculation assumes the business is reporting the contribution payment as a charitable contribution under code section 170 for tax purposes and not as an ordinary business deduction under code section 162.





Legislative Achievements

Since REACH created the EITC Program in 2001 in cooperation with the PA House and Senate, we have continued our work by expanding the program in funding and creating the OSTC Program in 2012. We work closely with legislators each year to ensure the continued expansion of the program and make certain that it continues to run appropriately.

2001

The EITC Program was created for students K-12, and included the creation of the Educational Improvement Organization (EIO) Programs, with a total funding of \$30 million

- K-12 SO funding: \$20 million
- EIO Funding: \$10 million

2003

The EITC Program was expanded by \$10 million, for a new total of \$40 million

- K-12 SO funding: \$26.7 million
- EIO funding: \$13.3 million

2004

The EITC Program created its pre-K program, bringing the total funding for EITC to \$45 million

- K-12 SO funding: \$26.7 million
- Pre-K funding: \$5 million
- EIO funding: \$13.3 million

2005

The EITC Program was expanded by \$4 million, for a new total of \$49 million

- K-12 SO funding: \$29.3 million
- Pre-K funding: \$5 million
- EIO funding: \$14.6 million

2006

The EITC Program was expanded by \$10 million, for a new total of \$59 million

- K-12 SO funding: \$36 million
- Pre-K funding: \$5 million
- EIO funding: \$18 million

2007

The EITC Program was expanded by \$16 million, for a new total of \$75 million

- K-12 SO funding: \$44.7 million
- Pre-K funding: \$8 million
- EIO funding: \$22.3 million

2008

EITC legislation was amended to allow S-corporations to claim EITC credits against their Pennsylvania personal income tax paid through the pass-through entity

2009

First cut to the program, decreasing its funding from \$75 million to \$60 million

- K-12 SO funding: \$38 million
- Pre-K funding: \$6.4 million
- EIO funding: \$15.6 million

2011

The EITC Program was expanded by \$15 million, for a new total of \$75 million

- K-12 SO funding: \$44.7 million
- Pre-K funding: \$8 million
- EIO funding: \$22.3 million

2012

The EITC Program was expanded by \$25 million, for a new total of \$100 million. The OSTC Program was created, capped at \$50 million.

- K-12 SO funding: \$60 million
- Pre-K funding: \$10 million
- EIO funding: \$30 million
- OSTC funding: \$50 million

2014

The EITC legislation was expanded to include Special Purpose Entities.

2016

The EITC Program was expanded by \$25 million, for a new total of \$125 million

- K-12 SO funding: \$75 million
- Pre-K funding: \$12.5 million
- EIO funding: \$37.5 million
- OSTC funding: \$50 million

2017

The EITC Program was expanded by \$10 million, for a new total of \$135 million

- K-12 SO funding: \$85 million
- Pre-K funding: \$12.5 million
- EIO funding: \$37.5 million
- OSTC funding: \$50 million

2018

The EITC Program was expanded by \$25 million, for a new total of \$160 million

- K-12 SO funding: \$110 million
- Pre-K funding: \$12.5 million
- EIO funding: \$37.5 million
- OSTC funding: \$50 million

2019

The EITC Program was expanded by \$25 million, for a new total of \$185 million. The OSTC Program was expanded by \$5 million, for a new total of \$55 million.

- K-12 SO funding: \$135 million
- Pre-K funding: \$12.5 million
- EIO funding: \$37.5 million
- OSTC funding: \$55 million

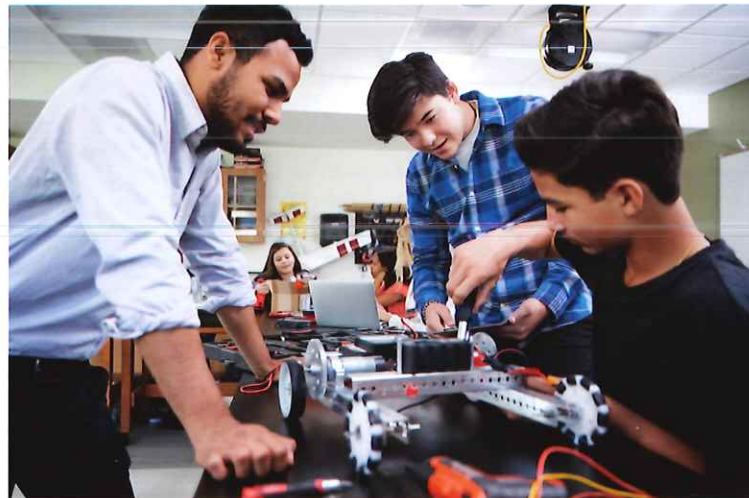
Pass through entity contribution to the pre-k EITC

	NO CONTRIBUTION	\$10,000 CONTRIBUTION	\$20,000 CONTRIBUTION
Net S-corp Income before contribution (PA Taxable Income)	\$640,000	\$640,000	\$640,000
EITC Contribution (Not deductible for PA)	—	\$10,000	\$20,000
PA Taxable Income	\$640,000	\$640,000	\$640,000
PA Personal Income Tax (3.07%)	\$19,648	\$19,648	\$19,648
PA Tax Savings (See Note 1 below)	—	—	—
EITC Credit available for Personal Tax	—	\$10,000	\$19,000
Total PA Tax Savings	—	\$10,000	\$19,000
Fed Taxable Income From S-Corp before Adjustments	\$640,000	\$630,000	\$620,000
Add Back: Benefit for State Tax Credit Recvd. (See Note 2 below)	—	\$10,000	\$19,000
Net Federal Taxable Income from S-corp	\$640,000	\$640,000	\$639,000
Federal Tax from S-corp (Assume 35% bracket)	\$224,600	\$224,000	\$223,650
Federal Tax Savings	—	—	\$350
Total Tax Savings	—	\$10,000	\$19,350
Net Cost to Contribute	—	—	\$650

Note 1: PA does not allow a deduction for the contribution used to qualify for the EITC.

Note 2: Benefit for State Tax Credit Received: The Charitable Contribution deduction is only reduced for the amount that an individual's state and local taxes exceed the \$10,000 State and Local Tax limitation. This calculation assumes the limitation has already been exceeded prior to participation in EITC.

Above calculation does not include computations for Alternative Minimum Tax or other tax circumstances that may or may not apply to each individual situation. Please contact your tax advisor for specifics to your overall situation. Above calculation assumes the business is reporting the contribution payment as a charitable contribution under code section 170 for tax purposes and not as an ordinary business deduction under code section 162.



Pre-K EITC: C-Corporation

	NO CONTRIBUTION	\$10,000 CONTRIBUTION	\$20,000 CONTRIBUTION
Net Income before contribution and Tax	\$250,000	\$250,000	\$250,000
EITC Contribution (Not deductible for PA)	—	\$10,000	\$20,000
PA Taxable Income before PA CNI Tax	\$250,000	\$250,000	\$250,000
PA CNI Tax @9.99% (Deduct): Before EITC Benefit*	(\$24,975)	(\$24,975)	(\$24,975)
Reduction in PA Taxes from EITC	—	\$10,000	\$19,000
PA CNI Tax after Applying EITC Benefit	(\$24,975)	(\$14,975)	(\$5,975)
Net Federal Taxable Income	\$225,025	\$225,025	\$224,025
Federal Corporation Income Tax (21%)	\$47,255	\$47,255	\$47,045
CASH REQUIREMENT:			
Amount of Contribution	—	\$10,000	\$20,000
EICT—Savings in PA Taxes	—	(\$10,000)	(\$19,000)
Federal Tax Savings	—	—	(\$210)
Total Tax Savings	—	(\$10,000)	(\$19,210)
Cash Requirement for \$10,000 contribution	n/a	—	n/a
Cash Requirement for \$20,000 contribution	n/a	n/a	\$790

* PA does not allow a deduction of contribution used to qualify for the EITC.





FREQUENTLY ASKED QUESTIONS

A Guide for the Business Community

What are Educational Improvement Tax Credits?

The EITC is a tax credit for businesses that make donations to scholarship or educational improvement organizations. Scholarship organizations award scholarships to children across Pennsylvania to assist them in attending the schools of their choice. Educational improvement organizations fund innovative projects in public schools across the Commonwealth. The EITC Program is administered by the Department of Community and Economic Development (DCED) on a first-come, first-served basis. Total tax credits approved shall not exceed \$135 million per fiscal year for the EITC Program, \$12.5 million annually for the pre-K EITC Program, and and \$37.5 million annually for EIOs.

What are Opportunity Scholarship Tax Credits?

The OSTC is a tax credit for businesses that make donations to opportunity scholarship organizations. OSOs award scholarships to children across Pennsylvania to assist them in attending the schools of their choice. The OSTC Program is administered by the Department of Community and Economic Development (DCED) on a first-come, first-served basis. Total tax credits approved shall not exceed \$55 million per fiscal year for the OSTC Program.

Can my business receive a \$750,000 credit for the EITC and a \$200,000 tax credit for the pre-K EITC at the same time?

Yes. As long as a company has the tax liability, they can receive both tax credits in the same fiscal year.

Why are tax credits more attractive than a standard charitable donation?

While deductions reduce your amount of taxable income, tax credits reduce your actual tax bill, dollar-for-dollar. Tax credits are utilized AFTER your tax liability is established.

What scholarship and educational improvement organizations can businesses contribute to in order to receive the credit?

Organizations eligible to receive EITC contributions must be a recognized 501(c)(3) and approved by DCED and distribute at least 80% of their annual receipts to eligible students or to innovative programs.

Can businesses contribute to more than one scholarship or educational improvement organization?

Yes. Businesses can donate to as many organizations as they choose. They may also donate to a scholarship and an educational improvement organization at the same time.

What is the process for businesses to receive the tax credit?

Businesses must submit an online application for the tax credit, which is available through the DCED website. If there are funds available and the company does not owe back taxes, DCED will send an approval letter to the applicant. The company then has 60 days to make its donation(s) and then an additional 30 days to send proof of the donation(s) to DCED. This entire process must take no more than 90 days from the date of their approval.

If you have additional questions about the EITC, please contact the REACH Foundation or your local EITC organization.

Glossary

Educational Improvement Tax Credit (EITC) Program – Enacted by the Pennsylvania legislature in May 2001, the EITC provides Pennsylvania companies with a tax credit up to 90% for contributions to nonprofit scholarship or educational improvement organizations.

Scholarship Organizations (SOs) – Non-profit organizations that provide scholarships to children in Pennsylvania to attend the school of their choice – public, non-public or religious. Scholarship organizations must distribute at least 80% of their EITC funds in scholarships annually. Families of children receiving scholarships must meet state income guidelines, as well as the guidelines of the SO granting the scholarship.

Pre-Kindergarten Scholarship Organizations (PKSOs) – Non-profit organizations that provide scholarship to children attending a pre-K program.

Education Improvement Organizations (EIOS) – Non-profit organizations that partner with local public schools to fund innovative programs in Pennsylvania public schools. Examples of innovative programs that have been funded through EITC donations are wireless computer labs and before- and after-school programs. Career and technical schools with eligibility are also able to receive business donations within the EIO program.

Opportunity Scholarship Organization (OSO) – Non-profit organizations that provide scholarships to children in Pennsylvania to attend the school of their choice – public, non-public or religious. Opportunity Scholarship organizations must distribute at least 80% of their OSTC funds in scholarships annually. Families of children receiving scholarships must meet state income guidelines, as well as the guidelines of the OSO granting the scholarship.

Tax Credit – A dollar-for-dollar reduction in the tax payment required for a business. The EITC is a tax credit of the amount of the donation made.

501(c)(3) – An IRS term for a tax-exempt public charity. Contributions to these charities are tax deductible. All EITC organizations must have 501(c)(3) status.

The Department of Community and Economic Development (DCED) – The state agency that administers the EITC.



C-corporation – A corporation that is taxed under 26 U.S.C.11 and Subchapter C of chapter 1 of the Internal Revenue Code. A C-corporation fails to meet any requirement for S-corporation qualification.

S-corporation – A corporation that makes a valid election to be taxed under subchapter 1 of the Internal Revenue Code.

Pass-through Entity – Legal entity where income flows through the investors to avoid dividend tax. They are technically “non-entities” because they are not taxed. Instead the tax “flows-through” to another tax return. Includes qualified Sub Chapter S Trusts.

Special Purpose Entity – This is a form of pass-through entity that is created specifically for the purpose of making contributions to Scholarship Organizations and Educational Improvement Organizations, in contemplation of receiving tax credits that are passed through to the individual owners or members of the SPE. SPE’s must be composed exclusively of owners or employees of other business firms.

THE ANNUAL EITC BIRTHDAY PARTY

Each year, in early May, the REACH Foundation celebrates the EITC’s birthday by gathering on the steps of the State Capitol. The party attracts thousands of parents, children, teachers and legislators who celebrate this landmark program and urge the General Assembly to expand it. We would love for you to join us next year! To RSVP e-mail us at mail@paschoolchoice.org or give us a call at 717-238-1878.



REACH

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