

Educational Tax Credit Program Special Purpose Entities Quick Reference Sheet

Eligibility for Businesses

Businesses must pay one or more of the following taxes annually:

- Personal Income Tax
 - Capital Stock/Foreign Franchise Tax
 - Corporate Net Income Tax
 - Bank Shares Tax
 - Title Insurance & Trust Company Shares Tax
 - Insurance Premium Tax (excluding surplus lines, unauthorized, domestic/foreign marine)
 - Mutual Thrift Tax
 - Malt Beverage Tax
 - Retaliatory Fees under section 212 of the Insurance Company Law of 1921
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Businesses often eligible to participate:

- S Corporations
- C Corporations
- General Partnerships
- Limited Partnerships
- Limited Liability Companies (LLC)

Eligibility for Individuals

Individuals must be employed by or own a For Profit Company or have a tax filing status of Married Filing Jointly with a spouse who is employed by or owns a For Profit Company. A new letter ruling also allows individuals employed by a non-profit participate if they own stock in a Pennsylvania based company.

Please consult your tax advisor for questions regarding your specific tax status.

Process

1. **The Special Purpose Entity (SPE) applies online** for approval to participate in the PA tax credit program
 - a. EITC—supports need-based financial aid for K-12 students
 - b. OSTC—supports need-based financial aid for K-12 students residing within the boundaries of a low achieving school
2. **Business or individuals become an accredited member of the SPE by completing a Joinder Agreement**, indicating the amount of their capital contribution and designating a school to receive their contribution.
3. **Department of Community & Economic Development (DCED) grants approval** for participation to the SPE.
4. **SPE notifies members of approval and requests capital contribution** for the current tax year. All contributions must be made within 60 days of the approval.
5. **Business makes a capital contribution** to the SPE.
6. **SPE passes through all contributions to the Scholarship Organization (SO)**, and handles all paperwork with the DCED.
7. **SO distributes funds** to the member's designated private school(s).
8. **In February of the following tax year, members receive tax filing documents:**
 - a. PA Department of Revenue form 1123 for the SPE – Verifies that the tax credit exists for the SPE and the member's personal portion has been transferred to their Tax ID or Social Security Number when filing PA State Income Tax Return
 - b. Schedule K-1 – Indicates the members share in the SPE and used when filling Federal Income Tax Return

Participation

- **Minimum contribution amount of \$3,500**
- **Individuals must earn a minimum of \$115,000 in state taxable income individually or together, if filing status is Married Filing Jointly**
- **Individuals or couples (Married Filing Jointly) - one must work for a business or own a business**
- **Business or individual receives credits against Pennsylvania State Taxes for 90% of that amount each year.**
- **Example of minimum donation:**
 - ✓ Business or individual makes a contribution of \$3,500
 - ✓ \$3,150 is used as credits against State taxes

Educational Tax Credit Program

Special Purpose Entities

Donor Guide

1. Completing Joinder Agreement

- a. Sign Joinder Agreement
- b. Return Joinder Agreement to:
 - Tami Clark
 - 227 Jefferson Ave.
 - Tyrone, PA 16686
 - Direct Line 814-682-9035
 - Fax 814-684-1061
 - t.clark@hksickler.com

2. Making Initial Capital Contribution

- a. The Central Pennsylvania Scholarship Fund will contact the donor when it receives notification that it has been awarded tax credits and request the donor's initial capital contribution. The donor will receive a copy of the award letter from the DCED with the letter requesting any capital contribution. The Central Pennsylvania Scholarship Fund has 60 days from the date on the letter to collection all capital contributions and make a donation to the Central Pennsylvania Scholarship Fund.
- b. Donor sends their capital contribution directly to the Special Purpose Entity that they are a member of.
- c. The Central Pennsylvania Scholarship Fund via numerous Special Purpose Entities acknowledges receipt of the capital contribution with the donor.

3. Activity in the Year Following the Donation

- a. The donor will receive the following tax documents from their partnership in the Special Purpose Entity in February:
 - PA Department of Revenue form 1123 for the SPE – Verifies that the tax credit exists for the SPE and the member's personal portion has been transferred to their Tax ID or Social Security Number when filing PA State Income Tax Return
 - Schedule K-1 – Indicates the members share in the SPE and used when filling Federal Income Tax Return
- b. The school will receive 100% of the donor's contribution for tuition assistance in the next school year.

4. Making Second Capital Contribution

- a. The Central Pennsylvania Scholarship Fund will contact the donor when it receives notification that it has been awarded tax credits and request the donor's second capital contribution.
- b. The rest of the process for Year 2 is the same as above.

5. Process in Year 3

- a. The process in Year 3 will mirror the process in Year 1. The donor will be asked by the Central Pennsylvania Scholarship Fund to sign a new two-year Joinder Agreement and an initial capital contribution, when it is awarded tax credits. The rest of the process will mirror Years 1 & 2.
- b. Therefore, donors will be asked for capital contributions (initial or second) every year and to resign Joinder Agreements every other year.