



The Silver Academy
Central PA's Jewish Day School



Jewish Federation
OF GREATER HARRISBURG

PA Education Tax Credit Programs*

Pennsylvania's Gift to Jewish Schools

* information valid as of March 2017

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EITC & OSTC

Programs that essentially let Pennsylvania **BUSINESS** and **INDIVIDUAL** taxpayers direct most of their taxes to our schools instead of Pennsylvania

Always consult your accountant when making tax decisions



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**You can redirect your
Pennsylvania taxes
to OUR School**

Sound too good to be true?



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It is TRUE.

You CAN do it.

It is EASY.



Who Can Participate?*

Almost any ***BUSINESS ENTITY*** or ***INDIVIDUAL***
that pays Pennsylvania taxes!

- ✓ **Businesses**
- ✓ **Individuals**
- ✓ **Sole Proprietorships**
- ✓ **Partnerships**
- ✓ **Independent Contractors/
Consultants**

NOTE:

Into which of these
categories the
donor falls
determines
HOW they can
participate



ABOUT THE PROGRAMS

TWO Tax Credit Categories	EITC	OSTC
FOUR Programs in Total	SO, Pre-K, EIO	OSTC
THREE Programs for Scholarships	SO, Pre-K	OSTC

DEFINITIONS

TAX CREDIT PROGRAM	GRADE	DONORS TAX CREDIT	AWARDING PARAMETERS
SO (Scholarship Organization)	K-12	75% - 1 year 90% - 2 years	Scholarships for students whose families meet program guidelines
OSTC (Opportunity Scholarship Tax Credit)	K-12	75% - 1 year 90% - 2 years	Scholarships for students whose families meet program guidelines
PKSO (Pre-Kindergarten Tax Credit)	Pre-K	100% - \$10K & under 90% - over \$10K 1 & 2 year available for each tax credit %	Scholarships for students whose families meet program guidelines
EIO (Education Improvement Organization)	K-12	75% - 1 year 90% - 2 years	Not a Scholarship Program. Provides funding for organizations which provide enhanced curriculum to public schools



AMOUNTS AVAILABLE

Passage of HB 1606 on March 16, 2017	TOTAL
EITC increased by \$25 million	\$175 million
SO increased	\$105 million
EIO increased	\$52.5 million
PKSO increased	\$17.5 million



BUSINESSES

A **BUSINESS** participates by:

- Submitting its own application at www.newpa.org/eitc

OR

- Having the owner join an SPE as the shareholder or partner of a business (because those taxes are passed through to their individual taxes)

NOTES:

- It is possible for a **business owner** to participate **BOTH** as its own business (C-Corp, LLC, LLP, etc...) AND as an individual through an SPE, if the taxes filed are separate.
- The individual does NOT need to reside, NOR does the business need to be incorporated in Pennsylvania, but Pennsylvania taxes must be paid.



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SPECIAL PURPOSE PASS-THROUGH ENTITY (SPE) Vehicle through which **INDIVIDUALS Participate in EITC/OSTC**

The only way **Individuals** can participate in EITC/OSTC is by joining an SPE – Special Purpose Entity. This includes:

- ✓ W-2 Employees
- ✓ Consultants/Independent Contractors
- ✓ Sole Proprietors
- ✓ Individual Partners or Shareholders
- ✓ Possibly Retirees

NOTE:

Married couples who file jointly may participate in an SPE.



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Requirements for Individuals Joining a Special Purpose Entity Through Jewish Harrisburg Scholarship I LLC For Jewish Scholarships

Special purpose pass-through entities (SPEs) are created for the purpose of making contributions. Its shareholders, partners or members, composed of owners or employees of other business firms, must meet specific requirements as outlined by law and/or the operating documents of the specific SPE.

Highlights of Requirements for Individuals joining the Jewish Harrisburg Scholarship I LLC (You can create your own SPE) Must meet the SEC Defined Accredited Investor Requirement

- Rule 501 of Regulation D
 - Individual income of \$200,000 or Husband/Wife combined income of \$300,000 in each of the last two years *OR*
 - \$1,000,000 net investable assets excluding primary residence



SPECIAL PURPOSE ENTITY

An Expanded Definition of a Business

The Commonwealth recently expanded the definition of what constitutes a "Business" to include a **Special Purpose Entity (SPE)**.

- ✓ Must be registered with the State, obtain Federal and PA identification numbers, and be created for the sole and only purpose of passing through the PA taxes of individuals (W-2 employees, partners, shareholders, sole proprietors, consultants/contractors, retirees)
- ✓ Typically an LLC and must have an operating agreement of some kind which acts as its legal structure and document.
- ✓ Conducts no business other than participating in EITC/OSTC.
- ✓ Uses the sum of taxes of the individuals who join it to make an application to DCED for participation in the EITC/OSTC programs.
- ✓ Applies like any other business to DCED to participate in EITC/OSTC



How to Participate through a SPECIAL PURPOSE ENTITY

- ❑ **Join Jewish Scholarship LLC**
 - I will connect you with Aaron Dym for you to discuss with him directly
 - Requirement highlights: SEC accredited investor
 - Individual members can direct their contribution to specific school(s)
 - There is no cost to join

- ❑ **Join another SPE**

Donor will need to follow that SPE's process

- ❑ **Create an SPE**
 - Will likely need an attorney & CPA
 - Minimum of two members as required by law
 - The entity file an application with Harrisburg

NOTE:

SPE makes contribution to schools through FJDS. Members of the SPE each receive a K-1 to claim PA Tax Credit and Federal Deduction.



PARTNERSHIPS

A **Partnership** participates by:

- Making its own application for ALL its owners together (each partner may designate their contribution to a different school)

OR

- Individual owners/partners form their own SPE or join an SPE

OR

- Individual owners/partners join another SPE



THE EITC/OSTC LOTTERY

How it Works

- Priority applications are “funded” first (renewing applicants on May 15th)
- Then new (July 3rd) applications are funded with any remaining tax credits left over after the May 15th applications are “funded”
- First come-first served by date of submission, beginning July 3rd at 12:01 am and NOT BEFORE OR IT IS REJECTED
- Wait list for applications not approved because tax credits have all been assigned



What a Donor should Know when Determining Application Amount

- Be sure PA tax liability allows for that amount.
- Donor should consult their tax expert. Payment may be made in advance of knowing their exact tax liability.
- Be specific as to the TAX YEAR for which the donor will be making their application.
- The 2nd year of a 2 year commitment must be for the same amount as the 1st year (the prior year), or there may be a penalty and/or adjustment to the tax credit amount.
- The 1st of the next 2 year commitment can be a different amount than during the previous 2 year commitment.
- A donor can participate in MORE than one tax credit program, if their tax liability allows.



What is the Maximum Contribution?

For a **BUSINESS** submitting their own application, maximums are:

- EITC/OSTC/EIO = **\$833,333** contribution (\$750,000 tax credit)
- PKSO = **\$221,111** (\$200,000 tax credit)

NOTE:

There is no minimum for a business entity applying on its own.

For **INDIVIDUALS** submitting through an **SPE**:

Each individual's minimum and/or maximum amount will be specified by the SPE.



What should I ask the Donor?

Do you pay Pennsylvania Taxes?

- Most residents and businesses do, but not everyone.

What do you do?

- Are you an owner of the business?
- Are you an employee of a business?
- Are you an independent contractor (1099)?
- Are you retired?

*Knowing this information will help you
determine how to proceed*



Next Steps for Business Owners

July 3rd is the date a new application **MUST BE** submitted

- www.newpa.com/eitc
- Application is available in mid-late April.
- Application can be completed online and saved.
- **DO NOT SUBMIT EARLY** (before 12:01 am on 7/3) or application will be denied. Time of day on 7/3 does not matter.
- A proxy can submit the application on behalf of the donor
 - Use Online Preparation form to compile all information
 - Use Step-by-Step document for guidance
 - Both forms are available at:
www.silveracademypa.org/eitc--corporate-giving.html



Next Steps for An Approved Business Application

- Donor should receive a letter from DCED between late August – through mid-October as to whether or not their application was approved.
- If business receives an approval letter, the following must be submitted to the Foundation within 60-days of the date on the approval letter:
 - Payment, DCED approval letter, Donation Confirmation to Federation
- Federation will send an Acknowledgment & Receipt letter to business, which business must then submit to DCED within 90 days of the date on the approval letter.
- All businesses will need to file a Rev-1123 form.



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When the BUSINESS donor asks:

"What will this cost me? What do I have to do?"

For applications directly to DCED:

- 10 minutes to complete the online DCED application (a proxy can do this for you) at www.newpa.com/eitc.
- Donor's accountant takes the state tax credit and the federal deduction, and completes PA-Dept of Rev-1123 form when the entity files its tax return



When the **INDIVIDUAL** donor asks: *"What will this cost me? What do I have to do?"*

For **INDIVIDUALS** whose participation is through an SPE:

- Donor will need to read through and sign an Operating Agreement to join the SPE
- Submission of payment to the SPE upon notification that DCED has approved its application and donor's portion of "membership" is due to the SPE
- The SPE will submit payment to the Foundation in the amount of the total paid by its "membership" within 60 days of the approval letter date – NO ACTION IS NEEDED BY DONOR
- Donors accountant taking the state tax credit and the federal deduction
- SPE will provide a K-1 to the donor



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Jewish Scholarship LLC Entities

New LLC's, each formed as a **Special Purpose Entity (SPE)** to allow individuals who are shareholders, partners or members, or employees of other business firms, to participate in the EITC and OSTC programs



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QUESTIONS