

PA EDUCATIONAL IMPROVEMENT (ETC)

&

OPPORTUNITY SCHOLARSHIP (OSTC)

Tax Credits

Summer 2021



Copyright Notice

- Any reproduction or unauthorized use of these materials, without the express written permission of Donald J. Reddinger, CPA

Disclaimer

This information is intended to serve solely as an aid in continuing professional education. Due to the constantly changing nature of the subject of the materials, this information is not appropriate to serve as the sole resource for any accounting opinion or return position, and must be supplemented for such purposes with other current authoritative materials. This information has been carefully compiled from sources believed to be reliable, but its accuracy is not guaranteed. In addition, Michael Freker is not engaged in rendering legal, accounting, or other professional services and will not be held liable for any actions or suits based on these slides or comments made during the presentation. If legal advice or other expert assistance is required, seek the services of a qualified and competent professional.

“Special Purpose Entities” (SPE)

What is a Special Purpose Entity (SPE)?

A Special Purpose Entity is an Entity formed exclusively to participate in the PA Education Tax Credit Programs. For the first time, qualified individuals can participate in the Educational Tax Credit Program.

A “Special Purpose Entity” may be comprised of Shareholders, Partners, Members or “**EMPLOYEES**” of one or more other qualified business firms. A “PA Qualified Business Firm” is an entity that is subject to PA taxes. (Note a single member LLC is a “PA qualified Business Firm” but a sole proprietor is not).

“Special Purpose Entities” (SPE)

Who Can become a member of a “Special Purpose Entity”?

An individual can become a SPE Member if they:

PA Requirements

Work for a “Qualified Business Firm

Or

Have an ownership interest in a Qualified Business Firm
(can be privately or publicly owned)

SEC Requirements

SPE’s may also be regulated by federal and PA SEC rules. If the SPE **IS** regulated by PA SEC, you must be a PA resident as well as a “qualified accredited investor”.

“SPE’S Continued

The distribution of tax benefit will be determined at the “Special Purpose Entity” level and not based on the other PA Qualified businesses firm that was used to qualify, their SPE participation.

A qualifying “Special Purpose Entity” may be established to apply for the credit, and the “Special Purpose Entity” may then pass-through the credit to its members; the members would contribute capital for the sole purpose of funding EITC and OSTC scholarships.

Special Purpose Entity

This New “Special Purpose Entity” eliminates reasons some large organizations which did not participate in prior years

- 1) Out of State Partners
- 2) All items had to be prorated based on ownership percentage of the large organization
- 3) Determination of which qualified school or institution would actually receive the donation

General Program Requirements

State Tax Credit

- If you make a 2 year commitment, then you are entitled to a State Tax Credit equal to 90% of your donation.
- If you make a 1 year commitment, then you are entitled to a State Tax Credit of 75% of your donation.
- There is also a special pre-kindergarten program where the credit is 100% of the first \$10,000.

Tax Calculation Example

	<u>State Tax Credit</u>
Donate \$10,000 – one year commitment	\$ 7,500
Donate \$10,000 – two year commitment	
Year one credit	\$ 9,000
Year two credit	\$ 9,000

Tax Calculation Example

	<u>Normal</u>	<u>1 Year</u>	<u>2 Year</u>
Contribution	\$10,000	\$10,000	\$10,000
State Tax Credit	-	(7,500)	(9,000)
Federal Tax Savings – 35% (Assumed)	(3,500)	-	-
Federal Tax Savings on Excess Contribution over State Tax Credit	<u>-</u>	<u>(875)</u>	<u>(350)</u>
Net Cost (Out of Pocket)	\$ 6,500	\$ 1,625	\$ 650
Net Cost Percentage	65%	16.25%	6.50%
Tax Percentage Savings	N/A	4 Times	10 Times

Note: Additional Tax Benefits may also be realized if an individual is subject to the federal alternative minimum tax or can if the individual can itemize deductions on the Federal Form 1040

Pitfalls to be avoided

- It is a “USE IT OR LOSE IT” credit.

The credit is not refundable. Thus if you do not owe tax in the current tax year, the credit cannot be carried back, carried forward or refunded.

- Must project PA taxable income for future years when using a 2 year commitment
- The donor must be able to deduct a charitable contribution
 - a.) “C” Corporations are limited to 10% of taxable income.
 - b.) Individuals must itemize their deductions and are limited to 50% of taxable income.

DATES ARE EXTREMELY IMPORTANT

1) Application Date:

New Entities: July 1, 2021

Last Year Participants: May 15, 2021 to June 30, 2021

2) Donation Date- within 60 days after Award Letter from DCED

3) Proof of Contribution-within 90 days after Award Letter to DCED

4) Pass Through Entities:

File PA Form 1123 by due date of PA Business Entity

(includes extension) PA Return

How do I have to notify the state that I want to make a donation?

- You must apply for this credit with the PA Department of Community and Economic Development (DCED) Electronic Single Application before you make a donation.
- Applications are processed on a first-come-first-served basis by day submitted.
- Last year:
 - For the PA EITC only 1st day applications received were approved. The state maximum was exceeded on the first day.

Process for Obtaining the EITC and OSTC

- 1) Determine the PA tax liability for a one or two year period.
- 2) Apply for credit with using the DCED's electronic Single Application.
If Pass Through Entity **MUST ELECT** this on the application
DO NOT MAKE THE CONTRIBUTION UNTIL YOU RECEIVE APPROVAL FROM DCED
- 3) DCED will send you a letter notifying you of their approval.
- 4) The business entity must make the contribution
- 5) Once approved, you have **60 DAYS** to make your contribution and **90 DAYS TO** send proof of such to DCED.
- 6) The qualified school or institution provides you with an acknowledgement, and then you mail this acknowledgement to DCED.
- 7) Pass through entities – Form Rev 1123 is the official election to split credit, if applicable, between the business entity itself or its owners. Form Rev 1123 must be filed by due date (includes extensions) of regular business return.

FORM 1123 MUST BE SENT SEPARATELY FROM ENTITY'S PA TAX RETURN

When can I apply for the Credits?

- For 7/1/21 to 6/30/22 year
 - Entity must register on DCED website prior to application
 - New first year applications for the EITC and OSTC can be filed beginning on July 1, 2021
 - Applications for the EITC and OSTC participants of the preceding year receive priority and can file application beginning on May 15, 2021 but no later than June 30, 2021.

Maximum Credit per Year

- There is a maximum amount at the state level and once the level is exceeded, then, the state will deny your application. It is anticipated that this maximum will be exceeded the first day for PA EITC Credit and OSTC.
- There is a maximum credit of \$750,000 (Donation maximum \$833,333 at 90%) per business entity. For each Credit Program (EITC and OSTC). Combined maximum per entity is 1,500,000 credit (Donation Maximum is \$1,666,666)

Who can use this credit?

- Corporate entities who are subject to PA tax. A Single Member LLC is a qualified Business entity but a Sole-Proprietor is not.
- Business Entities or owners of “pass through entities”.
- The credits are not available to individuals, except to owners of “pass through entities” or to members of new “Special Purpose Entities”
- The contribution must be made by the business entity or the special purpose entity.

Who can use this credit?

Current year PA business taxes can be offset. If the Business entity is a “pass through” entity then the credit that is not used by the business can “pass through” to the individual owners which will allow the owners to use the credit to offset their PA personal income taxes.

The owners may use the credit against their entire Joint Pennsylvania tax liability. (Not limited to business income from the pass through entity)

What is a pass through entity?

Flow through entities include:

- Subchapter “S” Corporations (can be PC Corps)
- General Partnerships
- Limited Liability Partnerships (LLP)
- Limited Liability Companies (LLC)- taxed as partnerships or taxed as a single member LLC
- Business trusts which operate a business and are taxed as partnerships
- New Special Purpose Entities

What types of taxes can be offset by the EITC?

- Corporate taxes – Corporate Net Income tax, Capital Stock Franchise Tax, Bank and Trust Company Shares Tax, Title Insurance Companies Shares tax, Insurance Premiums Tax, Mutual Thrift Institutions Tax or Malt Beverage Taxes
- Personal Income Tax- The Personal Joint Income Tax of the owners of pass through entities.

NOTE: Joint PA income tax liability (now includes spouse), not limited to just the business income from the pass through entity. Prior to 2014 this was not the case and the owner had to file a separate PA Income Tax return as did their spouse.

EDUCATIONAL IMPROVEMENT TAX CREDIT PROGRAM (EITC)

<https://dced.pa.gov/programs/educational-improvement-tax-credit-program-eitc/>

LIST OF EDUCATIONAL IMPROVEMENT ORGANIZATIONS FOR THE EITC

PROGRAM-PLEASE NOTE THE MONIES TO DONATE TO EDUCATIONAL IMPROVEMENT ORGANIZATIONS GOES QUICKER AND ARE SOMETIMES HARDER TO GET

<https://dced.pa.gov/educational-improvement-organizations/>

LIST OF SCHOLARSHIP ORGANIZATIONS FOR THE EITC PROGRAM

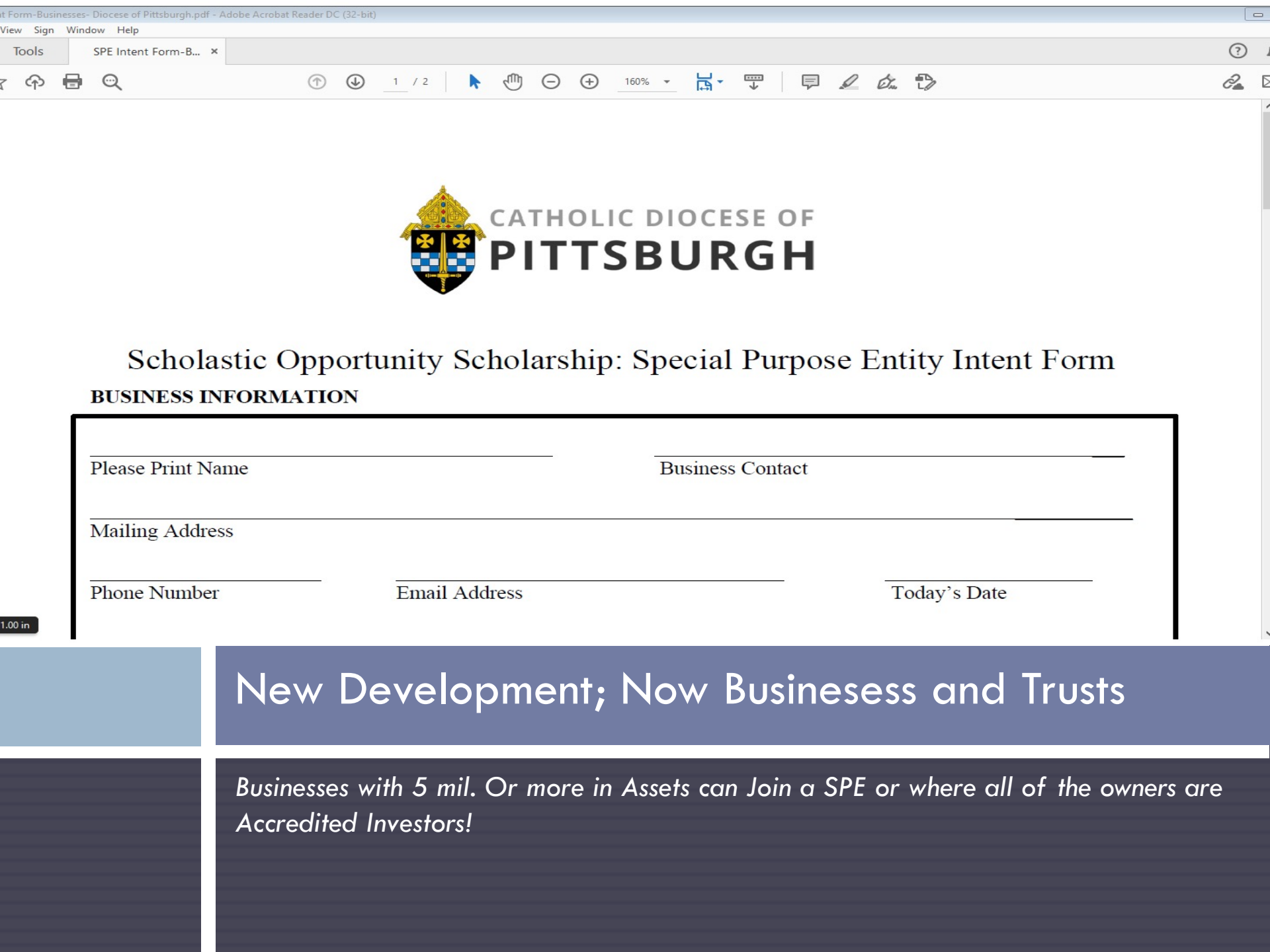
<https://dced.pa.gov/scholarship-organizations/>

OPPORTUNITY SCHOLARSHIP TAX CREDIT PROGRAM

<https://dced.pa.gov/programs/opportunity-scholarship-tax-credit-program-ostc/>

LIST OF OPPORTUNITY SCHOLARSHIP ORGANIZATIONS FOR THE OSTC PROGRAM

<https://dced.pa.gov/opportunity-scholarship-organizations/>



CATHOLIC DIOCESE OF
PITTSBURGH

Scholastic Opportunity Scholarship: Special Purpose Entity Intent Form

BUSINESS INFORMATION

Please Print Name

Business Contact

Mailing Address

Phone Number

Email Address

Today's Date

New Development; Now Businesses and Trusts

Businesses with 5 mil. Or more in Assets can Join a SPE or where all of the owners are Accredited Investors!