



Frequently Asked Questions – *A Guide for the Business Community*

Q. *What are Educational Improvement Tax (EITC) Credits?*

A. A tax credit for a business that makes a donation to a scholarship or educational improvement organization(s). 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-serve basis.

Q. *How much of a tax credit can I get for my business?*

A. If a company provides a written two-year commitment of equal funding, they receive a 90% tax credit (existing charitable deductions still apply with this credit, increasing the value of the tax credit). If the company chooses to participate for only one year they receive a tax credit of 75% against taxes owed. The pre-kindergarten tax credit is an automatic 90% tax credit for a one or two-year commitment. The first \$10,000 donated to a pre-kindergarten tax credit is 100% deductible. Eligible companies may take up to \$950,000 in tax credits per year (\$750,000 through the SO Program and \$200,000 through the Pre-K Program). In addition, businesses may participate in the OSTC Program and apply for up to \$750,000 in OSTC tax credits. The OSTC offers a 75% tax credit with a one-year commitment and a 90% tax credit with a two-year commitment.

Q. *What are Pre-Kindergarten Tax Credits?*

A. A tax credit for a business that makes a donation to a pre-kindergarten organization(s). Pre-Kindergarten organizations award scholarships to children across Pennsylvania to assist them in attending pre-kindergarten.

Q. *What are Opportunity Scholarship Tax Credits (OSTC)?*

A. OSTC is similar to the EITC Program in that it allows businesses to apply for tax credits against their Pennsylvania tax liability and help children with scholarships. The OSTC scholarships are targeted to children residing within the attendance boundaries of the state's lowest performing public schools. Businesses may participate in the OSTC Program in addition to the EITC and may apply for up to an additional \$750,000 in tax credits. The OSTC offers a 75% tax credit with a one-year commitment and a 90% tax credit with a two-year commitment. Businesses apply online through the State's Single Application at www.newpa.com.

Q. *What businesses qualify to participate in the EITC/OSTC?*

A. Businesses in Pennsylvania that pay any of the following taxes: Corporate Net Income Tax; Bank and Trust Company Shares Tax; Title Insurance Companies Shares Tax; Insurance Premiums Tax; Mutual Thrift Institutions, Malt Beverage and Pennsylvania Personal Income taxes from the business income of a pass-through entity.

Q. What scholarship organizations can businesses contribute to in order to receive the credit?

A. Organizations eligible to receive EITC/OSTC contributions must be a recognized IRS 501(c)(3) and distribute at least 80% of their annual receipts to eligible students or to innovative programs. Additionally, they must register with the Department of Community and Economic Development (DCED) and be listed (put on a list of eligible organizations).

Q. How do businesses know which scholarship and educational improvement organizations are listed?

A. They can visit the Pennsylvania Department of State's Website at www.newpa.com and search for EITC.

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

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

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

A. Businesses apply on line using the State's single application process available at www.newpa.gov. A review is completed to make sure the company does not owe back taxes. If the scholarship or educational improvement organization is listed with the Department and there is money available in the program, tax credits will be awarded on a first-come, first-serve basis. After approval, businesses must make their contribution(s) within 60 days.

Q. Where do I submit my educational tax credit application?

A. Businesses apply online through the State's Single Application at www.newpa.com.

Q. When does a business that commits to the same contribution for two consecutive years apply for the EITC in the second year?

A. Applications for the second year of a two-year contribution commitment will be accepted beginning May 15 of the applicable year, and if received by the DCED before July 1, will be processed prior to any other applications for tax credits received by the DCED. Current educational tax credit donors (EITC, OSTC and PKSO) who wish to start a new two-year commitment should also apply between May 15 and June 30 to secure their tax credits for a new two-year commitment.

If there are any questions please reach out to us.

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Q. When does a participating business that would like to apply for a new two-year commitment apply for educational tax credits?

A. Businesses that completed a two-year commitment for educational tax credits (EITC, PKSO and OSTC) in the immediately preceding year should apply for a new two-year commitment between May 15 and June 30.

Q. Must I contact the PA Department of Revenue upon receipt of notification of the credit?

A. No, the DCED will acknowledge the credit following confirmation of the qualified contribution. The DCED 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 this 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.

Q. How do I claim the credit when filing a Corporate Tax Report?

A. On the face page of the Corporate Tax Return there is a matrix in which you record the tax liability, payments and credits of record. You may include the EITC in the payment/credit column.

Q. Must I adjust Federal taxable income for the amount of approved EITC in the calculation of Pennsylvania taxable income?

A. No. Unlike the Employee Incentive Tax Credit, there is no provision in the statute requiring an adjustment to Federal taxable income for the amount of EITC for purposes of calculating Pennsylvania taxable income. However, questions regarding how an EITC might affect Federal taxable income for Federal taxation purposes should be addressed to the Internal Revenue Service (IRS).

Q. May I elect to not use a net operating loss deduction in the calculation of the businesses corporate taxes?

A. No. There is no provision in the statute that modifies the calculation of Capital Stock Franchise Tax or Corporate Net Income Tax.

Q. Which is used first to pay the tax, the EITC or cash?

A. Generally, the EITC will be employed first, to offset taxes owed for the year in which the qualifying contribution occurred. The remaining tax deficiency (if any) will then be resolved using cash monies on deposit in the account.

Q. I had submitted cash payments to satisfy quarterly prepayment requirements. Can the EITC be used to substitute for the cash payments?

A. Yes, any cash payment submitted as prepayment of taxes is available for refund or transfer upon written request to the PA Department of Revenue, Bureau of Corporation Taxes, Accounting Division, Department 280701, Harrisburg, PA 17128-0701, ATTN: Refund Section.

Q. May I assign all or a portion of the EITC to another account?

A. No, this credit is nontransferable and nonrefundable. Application of the EITC is limited to taxes due in the year in which the qualified contribution occurred. The PA Department of Revenue will monitor the business' account and evaluate the appropriate application of the credit upon receipt of the appropriate tax report. Any EITC in excess of the self-assessed tax value will be removed from the account. The PA Department of

Revenue will again revisit the business' account following settlement (review of the tax report) at which time the PA Department of Revenue will reinstate the credit, if appropriate, or remove further amounts of credit should the business' tax be reduced.

Q. May I transfer all or a portion of the EITC within a business' account for a prior or future year tax liability?

A. No, the credit is limited to the taxable year in which the qualified contribution was made. Unused portions of the credit may not be carried forward or backward.

Q. Are there any additional forms that I should complete if I am using EITC credits against tax liability for a pass-through entity?

A. Yes, please see Pennsylvania Department of Revenue Form 1123. Rev 1123 must be completed every year an educational tax credit donation is made.

Q. Who can I call to verify postings of credits approved by DCED?

A. You can 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.

Q. Who do I call regarding the status of my application for EITC?

A. Contact DCED at 717.787.7120 or RA-EITC@pa.gov.