



FAQs for EITC

Q. What is the K-12 EITC program?

Pennsylvania allows individuals and businesses to obtain a state tax credit (not a deduction) equal to 90% of their Pennsylvania state tax liability for eligible contributions. These contributions must be made to schools that provide tuition to students from low-income households. The program is part of the Educational Improvement Tax Credit ("EITC") program.

Q. What's the difference between a credit and a deduction?

Tax credits directly reduce the amount of tax you owe, giving you a dollar-for-dollar reduction of your tax liability. A tax credit valued at \$1,000, for instance, lowers your tax bill by \$1,000. The EITC credit is equal to 90% of the donor's donation, e.g., a \$10,000 donation yields a \$9,000 credit. Deductions, on the other hand, reduce how much of your income is subject to taxes. Deductions lower your taxable income by the percentage of your highest federal income tax bracket. If you fall into the 35% tax bracket, a \$1,000 deduction saves you \$350.

Q. Does this program offer a credit or a deduction?

Both. Donors receive a credit equal to 90% of their donation and a deduction for the remaining 10%. Friends of Education encourages donors to consult with their tax advisor before participating.

Q. Are individuals eligible to participate?

Individuals may not participate directly. Individuals may join Friends of Education LLC, which is a Special Purpose Entity ("SPE"). The SPE distributes the credits to the individuals.

Q. Are there restrictions?

To participate, the applicant must be a shareholder, partner, member or employee of a "business firm," which is an entity authorized to do business in Pennsylvania. Participants may not be delinquent with their Pennsylvania state tax liabilities.

Q. How do I participate?

Participants join our SPE, Friends of Education LLC. A SPE is a limited liability company that exists solely for the purpose of obtaining tax credits in the EITC program. Individuals sign a joinder agreement and make their contribution to the entity. The entity transfers 100% of the contribution to the private school (or private schools) of the donor's choice.



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Q. Is this a two-year commitment?

We ask that participants make a two-year commitment to the program. Individuals, who advise us that they may not be able to participate in year two, may withdraw at our discretion. Likewise, individuals and businesses with a large one-time event are eligible to participate at our discretion.

Q. Do both spouses need to enroll?

No, only one family member per household should enroll and that individual must be affiliated with a Pennsylvania business firm. Both spouses' tax liability may be offset with a credit on a joint return. Example: H and W seek to join Friends of Education. H owns a restaurant in Philadelphia. W is employed at a hospital in New Jersey. H and W are Pennsylvania residents and both pay Pennsylvania state income tax. W is not eligible to enroll but H is eligible. H may obtain a credit equal to the Pennsylvania state tax liability of H and W.

Q. Is there a minimum contribution?

Friends of Education offers membership to individuals/couples to participate with a minimum annual contribution of \$6,500.

Q. Does this impact my Pennsylvania state withholding?

Yes. Individuals may adjust their withholding for the year. All participants are advised to seek advice from a tax professional.

Q. What is the appropriate level of participation?

To maximize the leveraged nature of the program, individuals and businesses should participate in an amount equal to about 110% of their state tax liability. This program is based on the applicant's Pennsylvania tax liability (or joint tax liability), not income, therefore each taxpayer's situation will differ. PA tax liability is reported on Form PA-40 Line 12. These credits are not refundable. That means if someone gives more than 110% of their state tax liability, they will not receive a tax benefit for any amount that exceeds the 110% threshold.

Q. Do I need to earn a particular income to qualify?

This program is based on the applicant's Pennsylvania tax liability (or joint tax liability), not income, therefore each taxpayer's situation will differ. As a rule of thumb, most of our members have household income of at least \$200,000. All participants should consult with their professional tax advisor before participating.

Q. Where do I obtain an application/joiner?

Applications are available by contacting Todd.Unger@pataxcredits.org

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Q. When and where do I submit my application/joiner?

Your application may be submitted at any time during the year. Tax credits will be distributed on a first come first served basis until the tax credits which have been awarded to by the Department of Community and Economic Development are depleted. An application is not accepted for membership until the paperwork is completed and payment is received.

Q. How do I indicate the school that is to receive my contribution?

On your application, identify the school of your choice. Within sixty days of the date that Friends of Education receives its approval from the State, your gift will be remitted to the school.

Q. When will I receive documents to file with my income taxes?

In February 2023, your Federal and State K-1 forms will arrive. The Federal K-1 will list your participation and Federal charitable contribution, which you deduct on Schedule A if you itemize. Your Pennsylvania K-1 will list your 90% PA tax credit, which will go on Payment line 23 OC for Other Credit on your PA-40.

Q. May I select a student who will receive this scholarship money?

No, the program only allows us to direct money to the private school of the donor's choice, not a specific student.

[Visit our site at pataxcredits.org for more information.](http://pataxcredits.org)