Q. What is the EITC program?
Pennsylvania's Educational Improvement Tax Credit (EITC) program allows individuals and businesses to receive a **state tax credit (not a deduction)** equal to **90% of their Pennsylvania state tax liability** for eligible contributions. These contributions must be directed to a non-profit organization that either:

1. Provides tuition assistance to students from low-income households, or
2. Has registered with the Commonwealth as an approved *educational improvement organization* ("EIO") because it provides innovative education programming to K-12 students in Pennsylvania.

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

- **Tax Credits** directly reduce your tax liability on a dollar-for-dollar basis. For example, a **$1,000 credit** lowers your tax bill by **$1,000**.
- **Tax Deductions, on the other hand,** lower your taxable income based on your tax bracket. For example, if you are in the **35% tax bracket**, a **$1,000 deduction** reduces your tax bill by **$350**.
- The **EITC credit is equal to 90% of the donor's contribution**. Example: A **$10,000 donation** yields a **$9,000 credit**.

Q. Does the PA EITC program offer a tax credit or a tax deduction?
Both. Donors receive:

1. A **90% tax credit** on their Pennsylvania state tax liability.
2. A federal **deduction** for the remaining **10%**. In some instances, business donors may obtain a 100% federal deduction if there is a *reasonable expectation of a financial return commensurate with the amount donated.*

Q. I thought this program was only for scholarships at private schools?
No. Your tax credit donation can also be directed toward **EIOs**. These organizations are registered with the Department of Community and Economic Development to provide innovative K-12 public education. They include a wide range of non-profits including theatres, public radio stations, museums, boy scout and girl scout troops, summer camps, and zoos.

Q. Are individuals eligible to participate?
Individuals cannot participate directly but may join a **Special Purpose Entity ("SPE")** which distributes tax credits to individuals. Friends of Education has SPEs available for individuals who want to support private schools or EIO charities.

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 SPE. The SPE transfers 100% of the contribution to the private school or Educational Improvement

Organization(s) of the donor's choice. Donors can make tax credit donations to multiple schools or Educational Improvement Organizations.

Q. Are there any restrictions?
Yes. To participate, an applicant must be:

- A **shareholder, partner of, member in, or an employee** of a Pennsylvania **business firm** (a business authorized to operate in Pennsylvania).
- **The individual or business must not be delinquent** on Pennsylvania state taxes.

Q. How do I participate?
Participants join a special purpose entity that has been awarded credits. To join, we ask the donor to sign an agreement called a joinder. Within that agreement, the donor decides to what private school or EIO the donor wishes to support. Donors interested in joining should contact info@pataxcredits.org and ask for the joinder agreement.

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 enroll for one year. Likewise, individuals and businesses with a large one-time event are eligible to participate for one year at our discretion.

Even if a donor participates for one year, they can still obtain a 90% state income tax credit as long as our special purpose entity uses the same amount of tax credits in year two.

Q. Do both spouses need to enroll?
No, only one spouse per household should enroll, and that spouse must be affiliated with a Pennsylvania business. If filing jointly, both spouses will use the credit to lower their joint PA tax liability.

For example:
H owns a restaurant in Philadelphia and **W** works as a doctor at a hospital in New Jersey. H & W are Pennsylvania residents and file jointly. **H is eligible** to participate, but **W is ineligible because she works for a New Jersey non-profit**. **H may obtain a tax credit. That tax credit will offset** both H and W's **joint** Pennsylvania state tax liability. The result would be unchanged if H's business was not profitable.

Q. Is there a minimum contribution?
Participation in Friends of Education requires a minimum donation of $5,000.

Q. Does this impact my Pennsylvania estimated tax payments or withholdings from my paycheck?
Yes. The tax credits lower your Pennsylvania tax liability and are treated as tax payments for the year your donation is made. As a result, they may reduce your required estimated tax payments or result in a tax refund of withholdings when you file your tax return. All participants are advised to seek advice from a tax professional.

Q. What is the appropriate level of participation?
Donors should contact their tax advisors before making this decision. 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. Does Pennsylvania tax capital gains?
Yes, Pennsylvania taxes capital gains at **3.07%**. Tax liabilities from stock sales or business sales can be offset with an EITC tax credit, just like wage-related or self-employment tax liabilities.

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. What if I reside or work out of state?
Out-of-state residents who have Pennsylvania source income may not benefit from this program. The answer will depend on whether your domicile state has a separate state income tax. Generally, ***residents of states with a state income tax*** will not benefit because their domicile state will not give them a credit for an EITC donation which offsets PA tax. ***Residents of states with no state income tax*** *(i.e. residents of Florida)* will likely achieve tax savings. Some PA residents that work in New Jersey may obtain a benefit by making an EITC donation. Regardless of your situation, all donors should consult a tax advisor.

Q. Where do I obtain an application/joinder?
Applications are available by contacting info@pataxcredits.org.

Q. When and where do I submit my application/joinder?
Tax credits will be distributed on a first come first served basis until the tax credits which have been awarded 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 or charity that is to receive my contribution?
On your joinder agreement which Friends of Education will provide you, identify the school or charity of your choice.

Q. How do I report my tax credit donation and federal deduction?
In February of 2026, Friends of Education will send you a state and federal K-1 form. The state K-1 will report the state tax credit, and the federal K-1 will report a federal deduction. 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. The federal deduction will be reported on Schedule A of the Form 1040 if you itemize. If you do not itemize, then you would report the standard deduction which is an amount established

by Congress. In some instances, you may be able to take a 100% federal deduction. We recommend that you consult your tax advisor.

Q. May I select a student who will receive this scholarship money?
No, the program only allows a donor to direct money to the private school of the donor's choice, not specific students.