

# Financial Adviser

## Educational Improvement Tax Credit Program Now Available to Pass-through Entities

The Educational Improvement Tax Credit (EITC) was established as a mechanism for businesses to become more involved in education through donations to nonprofit scholarship or educational improvement organizations. Scholarship organizations are those that provide scholarships to children so that they can attend the school of their choice; educational improvement organizations fund a variety of programs in schools throughout the state. The Pennsylvania Department of Community and Economic Development (DCED) maintain a list of approved organizations to which qualifying contributions can be made. EITC scholarships have provided families the ability to move from failing public schools and also have helped families struggling to remain in nonpublic schools. During the 2007-2008 fiscal year, 44,000 children in Pennsylvania benefited as a result of EITC.

The EITC has been in existence since enacted by Governor Tom Ridge in 2001. However, with the approval of the Pennsylvania State Budget and School Code Bill for 2008-2009, several changes were enacted. For the first time since its inception, Subchapter S corporations and general and limited partnerships can fully participate in the program.

In order to participate in the EITC, a company must be authorized to conduct business in the Commonwealth of Pennsylvania and be subject to any of the following 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, Personal Income Tax of S Corporation shareholders, or partners in a general or limited partnership.

### HOW THE EITC WORKS

The credit provides companies with a 75-percent tax credit for donations to the educational charities; however, the credit increases to 90 percent should the company be willing to commit to making the same donation for two consecutive years. In the case of contributions to pre-kindergarten scholarship organizations, a business may receive a tax credit equal to 100 percent of the first \$10,000 and 90 percent of any additional amount. The maximum credit allowed is \$300,000 per tax year, with the exception of donations to pre-kindergarten scholarship organizations, which have a cap of \$150,000 per tax year.

### EXAMPLE CREDIT SCENARIO

As an example, consider an S Corporation paying more than \$30,000 in capital stock tax for 2008 with federal taxable income of \$400,000 and a sole shareholder who is in the 35-percent tax bracket. The company decides it would like to donate \$30,000 each of the next two years, resulting in a 90-percent credit applied to the capital stock tax. Dependent upon the details of the taxpayer's situation, significant savings could be realized on federal and state income taxes that help to offset the remaining capital stock tax that is due. Altogether, in this scenario the taxpayer would have spent roughly \$1,000 in order for their educational charity to receive \$30,000. This may be money well spent when considering you have the choice of which educational/scholarship organization that you will contribute to; as opposed to paying the taxes directly to the state and leaving it to the legislators to determine how the funds will be spent.

### ADMINISTRATION OF THE CREDIT

To participate in the program, an

application must be submitted to the DCED Center for Business Financing. If approved, the company must provide written evidence to the DCED within 90 days of approval that the contribution was made within 60 days of approval. The Pennsylvania Department of Revenue considers tax credits to be effective on the first day of the taxable year in which the contribution was made. Any remaining tax credits from the year of the contribution may not be carried forward, backward, refunded, or transferred, making proper tax planning a necessity prior to the application process.

*Applications for the Educational Improvement Tax Credit Program are processed on a first-come, first-served basis. For assistance in determining the appropriate credit amount to apply for, as well as assistance in filing your company's application, contact Michael Neubauer at McGill, Power, Bell & Associates, LLP at 814/453-6594 or [mneubauer@mpbcpa.com](mailto:mneubauer@mpbcpa.com).*

*Michael S. Neubauer, CPA, CVA, MBA, is a supervisor in the Erie office of the certified public accounting firm of McGill, Power, Bell & Associates, LLP. His area of specialization is the manufacturing niche. Neubauer serves as the secretary for the Erie Chapter of the Pennsylvania Institute of Certified Public Accountants (PICPA), the treasurer of the Presque Isle Partnership, and was recently named one of the PICPA's 40 under 40 members to watch.*

