

EITC Special Purpose Entities (SPE)

“The Details”

(Revised 8/30/19)

What is a Special Purpose Entity (SPE)?

A Special Purpose Entity is a newer class of pass-through partnerships that exists solely for the purpose of obtaining EITC (Educational Improvement Tax Credit) credits. The SPE applies for millions of dollars of EITC credits each May 15th (and historically are awarded them since they get to apply on the renewal application date instead of July 1st, which is the application date for initial applicants and also the day when the funds typically run out). When you write your check, you essentially make a capital contribution to an LLC (limited liability company) and become a partner in that LLC. Your tax credit will be issued as a Schedule K-1 (“Partner’s Share of Income, Deductions, Credits, etc.”) which will be used to prepare your PA income tax return.

What SPE has FCS chosen to utilize?

FCS is utilizing the Central Pennsylvania Scholarship Fund, or “CPSF,” (a PA approved EITC scholarship organization) and the 23 Special Purpose Entity LLCs it manages. (Faith Christian donors have used the “15238 Mohawk, LLC” SPE in the past, but new donors most likely will be assigned to the “Christian School Association of Greater Harrisburg Partnership” in 2019.) Randy Tarpey, CPA, established the Central Pennsylvania Scholarship Fund in 2011 because of his passion to help more children receive a quality Christian education.

Eligibility requirements for individuals?

- Must be employed by a for-profit business or own a for-profit business, OR have a spouse who is employed by or owns a for-profit business and file tax returns with status of Married Filing Jointly. (A new letter ruling also allows individuals employed by a non-profit to participate if they own stock in a PA based company.)
- Must expect to owe a minimum of \$3,150 (90% of \$3,500) in PA state income tax on his/her own, or together with spouse if filing status is Married Filing Jointly.
- Minimum contribution amount is \$3,500 per year, with a 2 year commitment.

(Please consult your tax advisor for questions regarding your specific tax status.)

Eligibility requirements for businesses?

Remains similar to regular EITC program participation, but adds a few requirements, as follows:

- Businesses often eligible to participate: S Corps, C Corps, General Partnerships, Limited Partnerships, Limited Liability Companies (LLC)
- Businesses must pay one or more of the following Pennsylvania taxes annually:
 - o Personal Income Tax
 - o Capital Stock/Foreign Franchise Tax
 - o Corporate Net Income Tax
 - o And others detailed at <https://dced.pa.gov/programs/educational-improvement-tax-credit-program-eitc/>
- Minimum contribution of \$3,500 per year, with a 2 year commitment (must also have qualifying PA tax liability of at least \$3,150, which is 90% of \$3,500)

Do I need a certain income to qualify? How much may I contribute?

This program is based on tax liability, not income, therefore each taxpayer's situation will differ, but \$103,000 in PA taxable income can be used as a guide. An individual or couple filing jointly must have a state tax liability of \$3,150 or more to participate. To see if you may qualify, you can find your PA tax liability on Form PA-40 Line 12 of your most recent tax return. (Please consult your tax professional for advice on this matter.)

If I participate, how much will it cost me?

In December you will need to make either the minimum donation of \$3,500, or more if you choose, taking into consideration your anticipated PA state tax liability. When you file your taxes in the spring, you will receive 90% of your donation back from Pennsylvania in the form of a tax credit, as well as a federal tax benefit from the remaining 10% of your donation, if you itemize.

PLEASE NOTE: *You will lose ALL of the EITC tax credit if your awarded credit amount exceeds your actual PA tax liability, so we recommend you donate less than your estimated income will allow, especially if you are new to the program or your taxable income fluctuates from year to year. You may increase your donation in year 2 if you are comfortable with your ability to use the entire credit.*

What percentage of my contribution goes to FCS?

100% of your contribution goes to the school of your choice for EITC scholarship purposes. No portion of your donation is used for administrative purposes.

What is the time frame for making a donation and receiving the tax credit?

- Applications may be submitted to CPSF any time until December 1st (but earlier is better, since tax credits awarded by the Department of Community and Economic Development are distributed by CPSF on a first come, first served basis until they are depleted.)
- CPSF will then let you know when to submit the corresponding donation check (this will happen before December 31st).
- Federal and PA K-1 forms needed to prepare your tax returns will arrive the following February to mid-March.
- Refunds that arise from an EITC tax credit usually are paid out in September.

Where are the funds held until they are disbursed to FCS?

The CPSF has bank accounts at local banks in Tyrone, Pennsylvania, which are FDIC insured.

What/who provides the oversight of the SPE/LLC?

Tami Clark is the Executive Director of CPSF and Randy Tarpey is the CPSF Board President. There are volunteers at Sickler, Tarpey and Associates, Randy's accounting firm, that handle the preparation of the SPE LLC tax returns and distribution of checks. His firm is audited annually by another independent CPA firm. Annual reports are filed with the Pennsylvania Department of Commerce and Economic Development (DCED). The Central Pennsylvania Scholarship Fund is licensed with, and reports to, the Pennsylvania Department of State Charity Commission annually (<http://www.charities.pa.gov/>).

Where can I go for even more information?

- PA DCED website (CPSF is active and in good standing as an approved Scholarship Organization): <https://dcled.pa.gov/scholarship-organizations/>
- Central Pennsylvania Scholarship Fund (CPSF) website: <https://www.pennsylvaniaeitc.org/>
- List of schools participating in the SPE program: <https://www.pennsylvaniaeitc.org/participating-schools.html>
- Christian School Association of Greater Harrisburg Partnership PA entity #6679534, online lookup: <https://www.corporations.pa.gov/search/corpsearch>
- Randy Tarpey, CPA, license #CA032075R, license lookup: <https://www.pals.pa.gov/#/page/search>

***** Faith Christian School EITC SPE program contact: Angela Fox 610-984-3484 *****



(person who will owe \$3,150
in PA income tax)

**SUPPORT FCS THROUGH
EITC SPE**

**DON'T DO
EITC SPE**

**2019
summer/fall
(12/1/19
application
deadline)**



(return 1 page application to CPSF)

Both are
paying PA
income tax
throughout
2019 via
payroll
deductions
or quarterly
estimated
payments



**December
2019**

CPSF

\$3,500



**2019
OUT OF POCKET:**

\$3,500

PLUS

\$3,150

\$3,150

**January
2020**

CPSF

\$3,500

FCS

(FCS receives every dollar donated to cover tuition
need grants made to current students, which also
helps to cover general operating costs)

**February/
March
2020**

CPSF



(CPSF sends all forms needed to include the \$3,150
tax credit on the donor's 2019 PA income tax return,
as well as a \$350 donation on the federal return,
if allowed to itemize)



(person who will owe \$3,150
in PA income tax)

**SUPPORT FCS THROUGH
EITC SPE**

**DON'T DO
EITC SPE**

April 15th



(file PA tax return with tax credit **AND**
deduct \$350 on the federal tax return, if
allowed to itemize)



**(typically)
September
2020**

PA Dept
of
Revenue



\$3,150



refund created by
tax credit

(when tax refunds arise from an EITC tax
credit, payments are usually issued in
September by the PA Dept. of Revenue)

RESULTS:

TOTAL OUT OF POCKET

\$3,500 (paid to CPSF)
3,150 (paid through withholding)
6,650
<3,150> (PA refund from tax credit)
<77> (federal benefit)*
\$ 3,423

\$3,150

** all required to be paid to PA anyway**

TRUE COST OF DONATION = \$273
(it only costs 8 cents for every dollar given to FCS!)

\$3,500 to FCS!!

\$0 to FCS

* assumes you itemize on your federal return at a 22% marginal tax rate ($\$350 \times .22 = 77$)