

EITC Special Purpose Entities (SPE)

“The Details”

(Revised 9/10/2022)

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 (after successfully reserving a tax credit via the non-binding joinder form), 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 Special Purpose Entity LLCs it manages. (Faith Christian donors have used the “15238 Mohawk, LLC” SPE in the past, but new donors may be assigned to one of the other 22 SPE LLCs managed by CPSF, based on credit availability – all of their SPEs function identically.) 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. *However, owning as little as one share (directly, not through a mutual fund) of a company that does business in Pennsylvania like Netflix, Walmart, Apple, Ford, or PPL satisfies this rule!!*
- 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?

Around 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 should be submitted to CPSF any time until September 30th (but earlier is better, since tax credits are awarded on a first come, first served basis until they are depleted. In 2021, tax credits ran out in mid-November.) Donors who miss out on tax credits in the fall may be able to participate in the following year's spring round of credits, so please complete and submit the joinder, even if you missed the September 30th target date!*
- CPSF will then let you know when to submit the corresponding donation check (this will happen before December 31st for the fall round of tax credits).
- 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. (When you electronically file your PA return, the PA Department of Revenue starts processing refunds in their new fiscal year which begins July 1.)

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. Volunteers at Sickler, Tarpey and Associates, Randy's accounting firm, prepare the SPE LLC tax returns and distribute the funds to schools. 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 CPSF 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://dced.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>
- 15238 Mohawk, LLC entity #6555010, online lookup: <https://www.corporations.pa.gov/search/corpsearch>
- Randy Tarpey, CPA, license #CA032075R, license lookup: <https://www.pals.pa.gov/#/page/search>

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