

Educational Improvement Tax Credit

Scholarship Educational Improvement Organizations

I. Introduction and Purpose

Under Article XX-B of the Public School Code of 1949, 24 P.S. Section 20-201-B, et seq., the Educational Improvement Tax Credit (EITC) is to be administered by the Department of Community and Economic Development (the Department). Tax credits may be awarded to business firms that make contributions to Scholarship Organizations and/or Educational Improvement Organizations and/or Pre-Kindergarten Scholarship Organizations contained on a list published by the Department. The current organizational lists can be found on the EITC web site, which is linked to the Department's web site, at www.dced.pa.gov/EITC.

A business firm may receive a tax credit equal to 75% of its contribution to a Scholarship Organization and/or to an Educational Improvement Organization that is included on the current list published by the Department, up to a maximum of \$750,000 per taxable year. The tax credit may be increased to 90% of the contribution made, up to a maximum of \$750,000 per taxable year, if the business firm agrees to provide the same amount of contribution to an organization for two consecutive years.

The purpose of these guidelines is to establish the process whereby a Scholarship Organization or an Educational Improvement Organization may be included on the list of organizations published by the Department.

II. Scholarship Organization

A. Eligibility

An organization that desires to be included on the Department's list of Scholarship Organizations must meet the following criteria:

1. The organization must be a nonprofit entity.
2. The organization must be exempt from payment of federal income tax under section 501(c)(3) of the Internal Revenue Code.
3. The organization must contribute at least 80% of its annual EITC receipts to a scholarship program that meets the requirements of the Act and these guidelines.

For the purpose of the EITC, the term "annual receipts" shall mean the total amount or value of contributions received by an organization from business firm awarded tax credits during that organization's fiscal year.

B. Scholarship Program

A scholarship program must demonstrate all of the following characteristics:

1. The program must provide tuition to eligible students to attend a school located in this commonwealth. For the purposes of the EITC, the term "tuition" shall also include school-related fees charged by a school, including a special education school. School-related fees shall include fees charged by a school to all students for books, instructional materials, technology equipment and services, uniforms and activities.

A school includes any public or nonpublic kindergarten, elementary school or secondary school at which the compulsory attendance requirements of the commonwealth may be met and which meets the applicable requirements of Title VI of the Civil Rights Act of 1964.

A special education school is a school or program within a school that is designated specifically and exclusively for students with disabilities listed in Title 34 CFR §300.8 and meets one of the following: (1) is licensed under the Private Academic Schools Act; (2) is accredited by an accrediting association approved by the State Board of Education; (3) is a school for the blind or deaf receiving commonwealth appropriations; or (4) is operated by or under the authority of a bona fide religious institution or by the commonwealth or any political subdivision thereof.

2. An eligible student is a school age student, including an eligible student with a disability, who is a resident of Pennsylvania, who is enrolled in a school located in this commonwealth and who is a member of a household with an annual household income of not more than **\$90,000** except that an additional income allowance of **\$15,842 is permitted for the student and for each other dependent** (as defined by the IRS) living within the same household. To be considered an eligible student with a disability, a student must meet the following criteria: (1) is either enrolled in a special education school or has otherwise been identified as a “child with a disability” as defined in Title 34 CFR §300.8; (2) needs special education and related services; (3) is enrolled in a school and (4) is a member of a household that does not exceed the maximum annual household income. “School age” ranges from the earliest admission age for a school's kindergarten program (or if the school has no kindergarten program, the earliest age at which the student may begin school), through the age attained upon graduation from secondary school or 21 years of age, whichever occurs first. With respect to an eligible student with a disability, multiply the sum of \$90,000 plus the allowance(s) of \$15,842 per student and dependent, by the support level factor of 1.50 if the student is not enrolled in a special education school or by the support level factor of 2.993 if the student is enrolled as a student in a special education school.

A household includes an individual living alone or an individual living with the following:

- a. a spouse, parent and their unemancipated minor children;
 - b. other unemancipated minor children who are related by blood or marriage; or
 - c. other adults or unemancipated minor children living in the household who are dependent upon the individual.
3. In calculating household income for the purpose of determining student eligibility, all moneys and property received of whatever nature and from whatever source are to be included, except for the following:
 - a. Periodic payments for sickness and disability other than regular wages received during a period of sickness or disability.
 - b. Disability, retirement or other payments arising under workers' compensation acts, occupational disease acts and similar legislation by any government.
 - c. Payments commonly recognized as old age or retirement benefits paid to persons retired from service after reaching a specific age or after a stated period of employment.
 - d. Payments commonly known as public assistance or unemployment compensation payments by a governmental agency.
 - e. Payments to reimburse actual expenses.
 - f. Payments made by employers or labor unions for programs covering hospitalization, sickness, disability or death, supplemental unemployment benefits, strike benefits, social security and retirement.
 - g. Compensation received by United States servicemen serving in a combat zone.

4. The award of scholarships under a scholarship program must be made without limiting availability to only students of one school.
5. **The amount of a scholarship paid to or on behalf of a student may not exceed the actual amount of tuition charged by the school in which the student is enrolled, nor exceed the actual amount of tuition charged by the school to non-scholarship students.**
6. The scholarship program must have policies in place concerning;
 - a. rebates or refunds of scholarship monies for students who withdraw from a school prior to the end of the period for which tuition has been paid; and
 - b. the maintenance of confidentiality of information pertaining to student eligibility in a scholarship program, including income information.
7. Scholarship Organizations shall maintain full and accurate records with respect to the receipt of contributions from business firms and expenditure of those contributions. These records shall be maintained a period of not less than three years.
8. For purposes of the EITC, a "contribution" from a business firm is a donation of cash, personal property or services the value of which is the net cost of the donation to the donor or the pro rata hourly wage, including benefits, of the individual performing the services. No tax credits shall be approved for contributions which constitute activities that are part of the applicant business's normal course of business.
9. The approved Scholarship Organization will be responsible for supplying a contribution receipt to the business firm. Receipts, on Scholarship Organization letterhead, shall include the following information: company name, amount of contribution and, if applicable, date of check, and date check received. If a company has multiple entities each entity should be receipted separately. If your organization has both a Scholarship Organization and an Educational Improvement Organization listing, that information should also be reflected on the receipt. The Scholarship Organization shall use the name by which they have been approved by the Department for participation in the EITC program on their receipts. For a sample receipt, see Appendix VI.

C. Initial Application

If an organization desires to be placed on the list of Scholarship Organizations published by the Department, the organization must submit the following to the Department:

1. A completed organization profile, in the format set forth in the Appendix II to these guidelines.
2. A copy of the organization's exemption under section 501(c)(3) of the Internal Revenue Code, or documentation showing that the organization is included within a group ruling for exemption under section 501(c)(3).
3. A description of the scholarship program operated by the organization. The description must address all of the criteria for a scholarship program as set forth in these guidelines, including the application and review process and income verification procedures utilized by the organization.

Completed applications will be reviewed by the Department and the applicant will be notified within 60 days from date of receipt whether or not the application has met the requirements of the Act and these guidelines. If the Department determines that the application meets the requirements, the applicant's name will be included on the Department's list of Scholarship Organizations for the fiscal year in which the application was received.