

*“Giving Parents A Choice
and
Children A Brighter Future”*

Secretariat for Education
Department for Catholic Schools
412-456-3090

Attention Business Owners, Lawyers, Accountants and Architects

Background Information

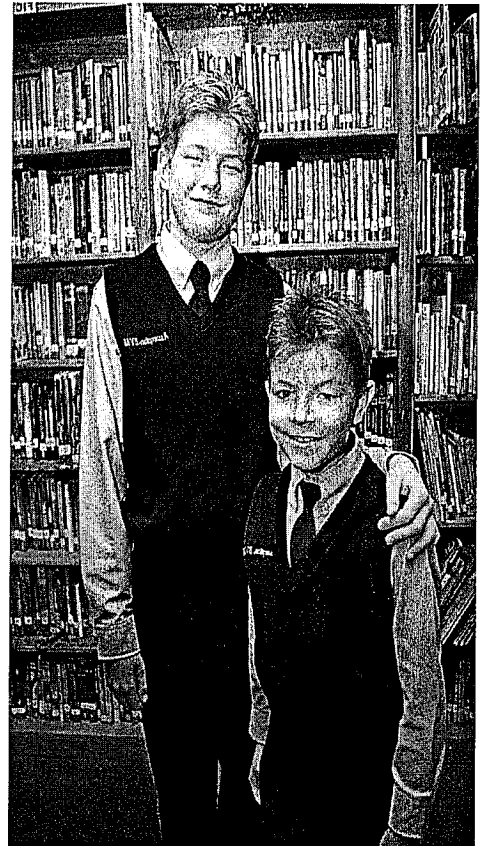
- In 2001 Pennsylvania passed the Educational Improvement Tax Credit (EITC) Program
- This law permits you to divert your state taxes to the Catholic school of your choice.
- You can give up to \$300,000 a year for K-12 and another \$150,000 to Pre-kindergarten.



- The state gives you a 90% tax credit for a two year pledge.
- You get a federal tax deduction for the gift.
- It costs you little or nothing to give.

EITC in a Nutshell

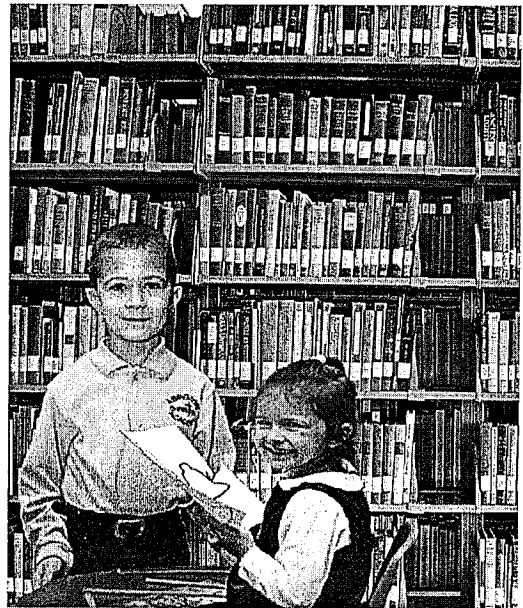
- Fill out Appendix I and email, fax or mail to Department of Community and Economic Development (DCED). Their fax number is 717-772-3581.
- The DCED approves your application and sends you a letter.
- You have 60 days to mail a check to the Scholastic Opportunity Scholarship Fund, Dr. Ron Bowes, 111 Boulevard of the Allies, Pittsburgh, PA 15222.
- The diocese will mail you a thank you letter which serves as your receipt.
- You mail this receipt back to the DCED and your tax credit is complete.



Information for Accountants

- There will be at least \$75 million in the EITC fund July 1, 2011.
- A business must complete and submit an EITC application **ANNUALLY** with the Department of Community & Economic Development (DCED), which will then determine whether the firm qualifies for the credit.
- C Corporations, S Corporations and Pass-through Entities are eligible to apply.
- Applications are processed by DCED on a first-come, first-served basis by day submitted.
- Tax credits cannot exceed the tax liability of a business for a given taxable year.
- Tax credits cannot exceed \$300,000 annually per business - \$150,000 for the pre-K program.
- A tax credit must be applied in the taxable year the contribution is made.
- Unused portions of tax credits may not be carried forward or backward.
- All applications received on a specific day will be processed by DCED on a random basis before moving on to the next day's application.
- A confirmation letter will be sent by DCED to confirm the business's approval status.

- Applications for the second year of a two-year commitment will be accepted beginning May 15 of the applicable year, and if received by DCED on or before July 1, will be processed prior to any other applications for tax credits received.
- Applications for the second year of a two-year commitment received after July 1, will be processed on a first-come, first-served basis by day submitted, along with all other business applications received for the fiscal year.
- DCED will acknowledge the credit following confirmation of the qualified contribution and will simultaneously provide the PA Department of Revenue with a copy of your confirmation letter.
- The PA Department of Revenue will immediately post the credit to the taxable year in which the contribution was made and will consider tax credits awarded under this program to be effective on the first day of the taxable year. Therefore, the credit will generally be on record well before the filing of the applicable tax report.
- To verify the postings of approved tax credits, call the PA Department of Revenue, Bureau of Corporation Taxes, Accounting Division to review the status of the business's tax account. The telephone number is 717-705-6225.



SAMPLE TAX CALCULATIONS

EITC: C-corporation Participation

	No Contribution	75% Contribution	90% Contribution
Net Income before Contribution and CNI Tax	\$220,000	\$220,000	\$220,000
EITC Contribution	\$0	\$10,000	\$10,000
Federal Taxable Income before PA CNI Tax	\$220,000	\$210,000	\$210,000
PA CNI Tax @9.99%	\$21,978	\$20,979	\$20,979
Federal Income after PA CNI Tax	\$198,022	\$189,021	\$189,021
PA CNI Tax Savings (after deduction for contribution)	\$0	\$999	\$999
EITC (PA CNI Tax Savings)	\$0	\$7,500	\$9,000
PA Tax Savings Total	\$0	\$8,499	\$9,999
Federal Taxable Income	\$198,022	\$196,521	\$198,021
Federal Tax	\$60,479	\$59,893	\$60,478
Federal Tax Savings	\$0	\$586	\$1
PA Tax Savings Total	\$0	\$8,499	\$9,999
Federal Tax Savings Total	\$0	\$586	\$1
Total Tax Savings	\$0	\$9,085	\$10,000
Annual Cash Required to Contribute \$10,000	\$0	\$915	\$0
% Effective Total Tax Savings when Contributing \$10k with an EITC 0%		90.85%	100.00%

EITC: S-corporation Participation with Capital Stock and Franchise Tax

Assumptions:

Federal taxable income <\$100,000 per year.

Individual shareholders in the 35% tax bracket.

PA Capital Stock tax <\$20,000 per year.

Commitment to contribute the same amount to a scholarship organization for each of the next two years.

For each of the years to which the commitment is made:

The corporation will receive a PA Capital Stock Tax Credit of \$18,000 (\$20,000 contribution x90%).

The shareholders will receive their prorated share of the following:

Federal tax deduction of \$20,000 for each year resulting in Federal tax savings of \$7,000.

Loss of the \$18,000 Federal deduction for the PA Capital Stock tax each year resulting in an additional tax liability of \$6,300.

PA tax deduction of \$20,000 for each year resulting in a PA tax savings of \$614 for each year.

	2008
Contribution	\$20,000
Federal Tax Reduction	\$(7,000)
PA Capital Stock Tax Reduction	\$(18,000)
PA Tax Reduction	\$(614)
Increase in Federal Tax due to decreased PA Capital Stock Tax Deductions	\$6,300
Net Financial Cost	\$686

Pre-K EITC: C-corporation Participation

- The \$250,000 level of taxable income allows for the full deduction of the assumed \$10,000 and \$20,000 in charitable contributions for federal corporate income taxes in the year of contribution.
- The federal and state corporate entity is a C-corporation and the tax rates are those currently in effect.
- The EITC which cannot be carried forward is used to offset PA taxes, as set forth in the Act, in the year of contribution.
- The EITC has been applied to reduce the deductible PA taxes for purposes of computing the federal income tax.



	No Contribution	\$10,000 Contribution	\$20,000 Contribution
Income before Contribution & PA CNI Tax	\$250,000	\$250,000	\$250,000
Charitable Contribution (Act 2003-48)	\$0	\$10,000	\$20,000
Income before PA CNI Tax	\$250,000	\$240,000	\$230,000
PA CNI Tax @9.99% (Deduct): Before EITC Benefit *	\$(24,975)	\$(23,976)	\$(22,977)
PA CNI Tax @9.99% (Deduct): Reduction in PA Taxes from EITC	\$0	\$10,000	\$19,000
PA CNI Tax after Applying EITC Benefit	\$(24,975)	\$(13,976)	\$(3,977)
Federal Taxable Income	\$225,025	\$226,024	\$226,023
Federal Corporation Income Tax (39% tax bracket)	\$71,010	\$71,399	\$71,399

Cash Requirement:

	\$0	\$10,000	\$20,000
Amount of Contribution	\$0	\$10,000	\$20,000
EITC - Savings in PA Taxes	\$0	\$(10,000)	\$(19,000)
Net increase in Federal Corporation Income Taxes **	\$0	\$389	\$389
Cash requirement for \$10,000 contribution	n/a	\$389	n/a
Cash requirement for \$20,000 contribution	n/a	n/a	\$1,389

* For purposes of illustrating a business's cash requirements for the \$10,000 and \$20,000 contribution to pre-K scholarship organizations, no consideration is given to a reduction in PA CNI Tax, which may result from the charitable contribution deduction.

** Resulting from reduced PA tax deduction and increased deduction from contributions.



The EITC offers a tremendous incentive for companies to direct their tax dollars into their community. In addition to the state tax credit received, many companies can also deduct their contribution on their federal tax return, costing them virtually nothing to have a profound impact on the lives of children. Offered here are several sample tax calculations for C-corporations and subchapter S-corporations. For more samples, please review our accounting brochure. For a copy call REACH at (717) 238.1878. Of course, company tax situations vary so you should consult your tax preparer.