Educational Improvement Tax Credit Program

Business Guidelines & Applications

Award of Tax Credits to Business Firms for Contributions to Scholarship Organizations, Educational Improvement Organizations and Pre-Kindergarten Scholarship Organizations

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Educational Improvement Tax Credit

Award of Tax Credits to Business Firms

I. Purpose

Under Article XVII - F of the Tax Reform Code of 1971, 72 P.S. Section 8701-F, 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 operating businesses that make contributions to Scholarship Organizations and/or Educational Improvement Organizations and/or Pre-K Scholarship Organizations contained on a list published by the Department.

II. Eligibility

Entities eligible to apply for EITC are operating businesses authorized to do business in the Commonwealth of Pennsylvania that are subject to 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, or Mutual Thrift Institutions Tax or a tax under Article XVI of the Act of May 17, 1921, known as the Insurance Company Law of 1921. Such businesses include pass-through entities. To receive tax credits, businesses must be approved to make contributions to Scholarship Organizations (SO) and/or Educational Improvement Organizations (EIO) and/or Pre-K Scholarship Organizations (PKSO) that are on the list of such organizations published by the Department.

For purposes of the EITC, a "contribution" from a business 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 activities that are part of the applicant business’s normal course of business.

The current list of Scholarship Organizations, Educational Improvement Organizations and Pre-K Scholarship Organizations can be found on the Department's web site at www.newPA.com/EITC.

III. Application and Approval

A. Business SO and EIO Application

All applications for the Educational Improvement Tax Credit Program must now be completed and submitted online using DCED’s Single Application for Assistance which can be accessed at newPA.com or www.esa.dced.state.pa.us. Paper applications will no longer be accepted. To ensure timely consideration of applications, applicants should carefully follow instructions outlined in the online Single Application, and provide all requested information at the time of application. A hard copy signature page must be printed from the online application, signed and submitted to the Department within 15 days of application submission in order to be considered for tax credits.

A business may submit multiple applications, per the type of organization to which the business would like to make its contribution. The combined total may not exceed $750,000 in tax credits.

B. Business SO and EIO Application Requirements

Applicants will be required to complete all required fields within the online Single Application. For applicants who are applying from out-of-state please select “Statewide Project” under the required county dropdown menu on the addenda tab of the application. Upon successful submission of the online application the hard copy signature page must be printed, signed and submitted to the Department within 15 days of application submission in order to be considered for tax credits.
C. Business SO and EIO Application Approval

An eligible business that submits an application to the Department and that agrees to make a contribution to an organization whose name is set forth on the current list of Scholarship Organizations or Educational Improvement Organizations maintained by the Department shall be awarded Educational Improvement Tax Credits to the extent that such tax credits remain available for the fiscal year in which application is made.

A business will be approved for a tax credit equal to 75% of its contribution(s) to listed organization(s), up to a maximum of $750,000 per taxable year. The tax credit may be increased to 90% of the contribution(s) made, up to a maximum of $750,000 per taxable year, if the business agrees at the time of application to provide the same amount of contribution for two consecutive tax years. To ensure the receipt and retention of the 90% tax credit, the business must make the same amount of contribution in each of the two consecutive tax years.

Applications for tax credits for program fiscal year 2014-15 (July 1, 2014 through June 30, 2015) will be accepted beginning July 1, 2014. Tax credit applications will be processed on a first-come-first-served basis by submission date. All applications received on a specific day will be processed on a random basis prior to acceptance of the next day's applications. Applications will be approved until the amount of available tax credits is exhausted.

A business that has been approved for tax credits (at 90%) based upon a consecutive two-year commitment, must submit another application to the Department no later than June 30 of the first program fiscal year to ensure the availability and application of tax credits for the second consecutive year. Applications for the second year of a two-year commitment will be accepted beginning May 15, and, if received by the Department on or before June 30, will be processed prior to any other applications for tax credits received by the Department. Applications for the second year of a two-year commitment that are not received on or before June 30 will be processed on a first-come-first-served basis by submission date, along with all other business applications received by the Department, with no assurance that tax credits will remain available at the time of processing.

A business that has fulfilled a two-year commitment in the most recently completed fiscal year may renew their application beginning May 15 for another two-year commitment. Applications submitted after June 30 to renew a two-year commitment which was fulfilled in the most recently completed fiscal year, will be processed on a first-come-first-served basis by day submitted. There is no assurance that tax credits will remain available for applications submitted as part of a two-year commitment renewal.

D. Business Pre-K Tax Credit Application

All applications for the Pre-Kindergarten component of the Educational Improvement Tax Credit Program must now be completed and submitted online using DCED’s Single Application for Assistance which can be accessed at newPA.com or www.esa.dced.state.pa.us. Paper applications will no longer be accepted. To ensure timely consideration of applications, applicants should carefully follow instructions outlined in the online Single Application, and provide all requested information at the time of application. A hard copy signature page must be printed from the online application, signed and submitted to the Department within 15 days of application submission in order to be considered for tax credits.

E. Business Pre-K Application Requirements

Applicants will be required to complete all required fields within the online Single Application. For applicants who are applying from out-of-state please select “Statewide Project” under the required county dropdown menu on the addenda tab of the application. Upon successful submission of the online application the hard copy signature page must be printed, signed and submitted to the Department within 15 days of application submission in order to be considered for tax credits.
F. Business Pre-K Application Approval
An eligible business that submits an application to the Department and that agrees to make a contribution to an organization whose name is set forth on the current list of Pre-K Scholarship Organizations maintained by the Department shall be awarded Pre-K Tax Credits to the extent that such tax credits remain available for the fiscal year in which the application is made.

A business may receive a tax credit equal to 100% of the first $10,000 contributed to a Pre-K Scholarship Organization(s) during the taxable year, and may receive a tax credit equal to 90% of any additional amount contributed during the taxable year, up to a maximum of $200,000 of tax credits per taxable year.

Applications for tax credits for program fiscal year 2014-15 (July 1, 2014 through June 30, 2015) will be accepted beginning July 1, 2014. Tax credit applications will be processed on a first-come-first-served basis by day submitted. All applications received on a specific day will be processed on a random basis before moving on to the next day's applications. Applications will be processed until the amount of available tax credits is exhausted.

IV. Earning of Tax Credits
Upon receipt of written notification from the Department that the business has been approved for tax credits, the business must make its contribution(s) to an approved Scholarship Organization(s) and/or Educational Improvement Organization(s) and/or Pre-K Scholarship Organization(s) within 60 days of the date of the letter, and must provide proof of the contribution in the form of a written acknowledgment from the organization, to the Department within 90 days of the date of the approval letter. A business will only receive tax credits for donating to the type of organization and amount that is specified in the application and approval letter. For services donated to an organization that will not be performed until after the 60-day period, the business must submit a copy of a letter sent by the business to the recipient organization, dated within 60 days of the date of the approval letter and signed and accepted by the recipient organization committing the business to donate the services described. The Department of Revenue will consider tax credits awarded under this program to be effective on the first day of the taxable year in which the contribution was made.

If the business does not make the contribution within 60 days of the date on the approval letter, or the Department does not receive proof of contribution within 90 days of the letter, the approval of tax credits will be rescinded.

No tax credits shall be approved for activities that are part of the applicant business’ normal course of business.
V. Use of Tax Credits - As administered by the PA Department of Revenue

The EITC Irrevocable Election to Pass Through form (REV-1123) is available at www.revenue.state.pa.us

(Reference: Forms Publications, Forms for Business, Corporation Tax)

For questions regarding utilization of the Educational Improvement Tax Credit, contact the PA Department of Revenue at (717)772-3896. For questions regarding the REV-1123 call (717)705-6225.

Qualified businesses, including pass-through entities, may apply the credit against the following Pennsylvania state taxes:

- Capital Stock/Foreign Franchise Tax
- Corporate Net Income Tax
- Bank Shares Tax
- Title Insurance & Trust Company Shares Tax
- Insurance Premiums Tax (excluding surplus lines, unauthorized, domestic/foreign marine)
- Mutual Thrift Tax
- Tax under the Insurance Company Law of 1921
- Personal Income Tax

Upon receipt of proof of a contribution, the Department of Community and Economic Development will notify the Department of Revenue to apply the EITC against the appropriate taxes identified by the business firm in its application.

- The entity decides if the tax credit will be applied towards corporation tax and/or passed through to its partners, shareholders or members.
- The tax credit cannot be sold or assigned.
- Although any unused tax credits may not be carried forward, the entity may elect in writing prior to the due date of the entity’s tax return to pass through all or a portion of the tax credit to its owners in the taxable year of the contribution or the taxable year immediately following the year of contributions in the following manner:
  1. Make an irrevocable election in writing to pass through the entire EITC to its owners in proportion to the share of the entity’s distributive income to which the owners are entitled for use by the owners in the taxable year in which the contribution is made or in the taxable year immediately following the year in which the contribution is made.
  2. Apply all or a portion of the EITC to the entity’s tax liability for use in the taxable year in which the contribution is made and make an irrevocable election in writing to pass through the remaining EITC to its owners in proportion to the share of the entity’s distributive income to which the owners are entitled for use by the owners in the taxable year in which the contribution is made.
  3. Apply all or a portion of the EITC to the entity’s tax liability for use in the taxable year in which the contribution is made and make an irrevocable election in writing to pass through the remaining EITC through to its owners in proportion to the share of the entity’s distributive income to which the owners are entitled for use by the owners in the taxable year immediately following the year in which the contribution was made.
• An election to pass through an EITC must be made by the pass-through entity on or before the due date, including extensions, of the report for the pass-through entity for the year in which the contribution is made. A separate election must be submitted for each year. If an election is not made to pass through any unused EITC to the owners, the EITC will expire.

• An EITC granted for any one taxable year may not exceed the combined tax liability of the entity and its owners. Additionally, an EITC not used in the taxable year in which the contribution was made may not be carried forward or carried back and it is not refundable or transferable (except for an approved election to apply any unused EITC to the tax liability of the owners in the taxable year immediately following the year in which the contribution is made). A pass through EITC can be applied to all classes of income earned by the owners.

• Credit cannot be applied for any tax withheld by an employer from an employee.

• To make an irrevocable election to pass through an Educational Improvement tax credit to partners, shareholders or members, a business should visit the Department of Revenue’s website at www.revenue.state.pa.us and complete REV-1123, Educational Improvement Tax Credit Election Form, which is also used for the Opportunity Scholarship Tax Credit program.

• The entity must complete a separate REV-1123 each year the tax credit is awarded and not used in whole or in part.

• REV-1123 must be sent to the Revenue’s Bureau of Corporation Taxes by the tax return filing due date (including extensions) of the entity. However, REV-1123 must be sent separately from the entity’s tax return.

• The amount of the tax credit passed through to partners, shareholders or members is based on the percentage of income distribution from the entity receiving the tax credit.

• The tax credit may be applied to 100 percent of the entity liability or 100 percent of the entity owners’ liabilities.

VI. Contact Information

For program inquiries:

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