



BLB&B Advisors, LLC
FINANCIAL GUIDANCE SINCE 1964™



How to Use Your PA State Tax Liability to Fund Access to Education

From religious schools of all denominations to independent college-prep to special needs, Pennsylvania—and particularly the Delaware Valley—is known for its strong and varied K-12th grade private school landscape. A private school, however, charges a tuition that often makes access to that type of education out of reach for many families, including middle income families. Many private schools, therefore, have scholarship funds at their schools or connect their students to outside scholarship organizations to fund a child’s tuition.

Many of these schools and scholarship groups in Pennsylvania raise funds through a long-standing corporate tax credit program, the (EITC)¹, that allows companies paying Pennsylvania corporate taxes to fund scholarships, and in turn, get a state tax credit.

But did you know that this program is also available for individuals who pay Pennsylvania state personal income tax? When people think of scholarships, they often think of higher education. But EITC is focused exclusively on providing access to primary and secondary education in the Commonwealth.

¹ The Educational Improvement Tax Credit program encompasses several similarly related state tax credits, including the Opportunity Scholarship Tax Credit or OSTC that provides K-12th grade scholarships to children who would otherwise be stuck in a failing school, as defined by the state Department of Education. Note that this EITC is not the same, or at all related to, the federal Earned Income Tax Credit also known as EITC.

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Since 2014, the PA EITC law has allowed “special purpose entities” (SPE) to qualify for these credits. What that means is that an individual taxpayer can join with other individuals to create a SPE and each of those taxpayers can qualify for a state tax credit based on their ownership interest in the SPE (more to come in a second on that).

How do you create such an entity? Luckily, you do not have to, because many already exist. Simply find one, join, donate to their scholarship fund, and take advantage of the tax credit for the current tax year. Many private schools in our region have SPEs you can join, and there are scholarship organizations, such as [Children’s Scholarship Fund Philadelphia](#), [Central Pennsylvania Scholarship Fund](#) and [Business Leadership Organized for Catholic Schools](#), that also manage SPEs and need individuals to join now before year-end. BLBB Charitable, the giving arm of BLBB Advisors, supports several of these organizations, as well as many schools in our region that accept EITC funds (such as [The Center School](#), [Community Partnership School](#), [Cristo Rey High School](#), [Germantown Academy](#), [Gwynedd Mercy Academy High School](#), [LaSalle College High School](#), [Mary Mother of Redeemer Catholic School](#), [The Meadowbrook School](#), [Mount Saint Joseph Academy](#), [Regina Coeli Academy](#), and the [Woodlynde School](#)).

Let’s back up for one minute to explain why a tax credit (versus a deduction) is so appealing.

Since most people already get deductions for gifts made to charity, you may wonder why this tax credit is so beneficial. A deduction merely lowers the income you will pay taxes on, which then reduces your taxes; but a credit directly reduces the amount of taxes you owe (dollar-for-dollar). The below example highlights why a tax credit is more financially beneficial:

	\$2,500 Deduction	\$2,500 Tax Credit
Adjusted Gross Income	\$100,000	\$100,000
(less tax deduction)	\$2,500	
Taxable Income	\$97,500	\$100,000
Tax rate (PA state tax rate)	3.07%	3.07%
Calculated Tax	\$2,993	\$3,070
(Less Tax Credit)		\$2,500
Your Tax Bill	\$2,993	\$570

Now that we know the financial benefit of a tax credit, how do we calculate how much of a tax credit you will get? The amount of the credit depends on the amount of your donation to the scholarship fund through the SPE. Most schools and scholarship groups that have these SPEs for individuals require a two-year commitment to the program because the Commonwealth provides a 90% tax credit for two consecutive years of funding at the same level. That means if you donate \$10,000 this year, you will receive a state tax credit of \$9,000, and if you donate \$10,000 again next year, you also will receive a state tax credit of \$9,000 for your 2022 taxes.² You will need to check with the school or the scholarship organization to

² EITC credits must be used in the year in which your donation was made, and one cannot carry-forward or carry-back the tax credits to other tax periods.

confirm whether a two-year commitment is required or how a one-year donation would work.³ In addition to the \$9,000 Pennsylvania credit, you would *also* get a \$1,000 federal tax deduction each year!

If the tax credit is 90% of the amount you donate to the school or scholarship fund through membership in the SPE, then you should figure out how much to donate based on what you believe your estimated 2021 state tax liability will be.⁴ Now that more than half the year is over, this is a bit easier to predict. You will want to predict (and donate) conservatively, especially if a two-year level commitment is required, and you need to consider estimated state taxes for 2022 as well. In most cases, this is not as hard as it seems, and your accountant can help you conservatively estimate your state tax liability.

Now is the time to consider if your tax liability can be turned into educational opportunities for the Commonwealth children in our region.⁵ BLBB has a lot of experience with the EITC. Contact your BLBB financial advisor at (215) 643-9100 if you want to know more about these programs and their benefits.

³ According to the EITC legislation, a one-year commitment to the program provides the donor with a 75% state tax credit (as opposed to 90%).

⁴ Again, unused credits cannot be carried forward to future tax periods.

⁵ Note that you cannot earmark scholarship funds for particular students or families through these programs.