

Pa. Tax Credit Scholarships 101

Supporting educational opportunities for K–12 students

OVERVIEW: TAX CREDIT SCHOLARSHIP PROGRAMS

- Pennsylvania's Educational Improvement Tax Credit (EITC) and Opportunity Scholarship Tax Credit (OSTC) are state tax credit programs that provide K–12 students access to high-quality schools of their choice.
- Businesses and individuals fund student scholarships based on the donor's Pennsylvania Income Tax Liability. Donors receive a 75 percent (one-year commitment) or 90 percent (two-year commitment) tax credit and/or refund on their donation.
- Donations must be made to one of 200 [scholarship organizations](#) and may not be donated directly to a school. Donors may identify a school but may not identify a specific student to receive a scholarship donation.
- There are [85,570](#) Pennsylvania students across 66 of 67 counties, currently attend private schools because of tax credit scholarships.

HOW BUSINESSES CAN DONATE

- **Apply for tax credit:** Businesses can submit [an online application](#) for tax credits through the Pennsylvania Department of Community and Economic Development (DCED) website.
- **Contribute to scholarship organization:** After receiving an approval letter from DCED, businesses must donate to a scholarship organization within 60 days. There are [over 200 scholarship organizations](#) across the state that distribute funding to students.
- **File proof of donation:** Businesses must file proof of donation (often provided by the scholarship organization) to DCED and then can claim a tax credit on the next state tax filing.
- **When is the business application deadline?**
 - Businesses must submit their initial application for tax credits by July 1 or renewal applications by May 16 of each calendar year.
- **How much is the tax credit?**
 - The tax credit is worth 75 percent of the business' donation to the scholarship organization, with a maximum donation of \$750,000 per taxable year. When the business commits to two consecutive annual contributions, the tax credit increases to 90 percent.

- If the donation exceeds the tax liability, the donor will receive a tax refund for 75 or 90 percent of their donation.
- Donors contributing to the [Economically Disadvantaged Schools](#) EITC program receive a 99 percent tax credit or refund.

Understanding the EITC Tax Credit Program

Sample out of pocket costs to donors for a two-year commitment.

1. Original Pa. tax liability calculation	\$3,000
2. Write check/electronic bill pay to Scholarship Organization/SPE, donation flows to the school of your choice.	\$3,000
3. Scholarship Amount Received by School	\$3,000
4. Pa. refunds or credits 90% of your donation in lieu of taxes.	(\$2,700)
5. State Taxes Paid	\$300

*The average scholarship amount in 2021-22 (latest data available), was \$2,583 per scholarship.

- EITC tax credits can offset Personal Income Tax, Capital Stock/Foreign Franchise Tax, Corporate Net Income Tax, Bank Shares Tax, Title Insurance & Trust Company Shares Tax, Insurance Premium Tax, Mutual Thrift Tax, Malt Beverage Tax, or Surplus Lines Tax.

HOW INDIVIDUALS CAN DONATE

- **Determine tax liability.** A [tax credit calculator](#) can help donors calculate their estimated tax liability and donation. Taxpayers with at least \$500 of Pennsylvania tax liability are eligible to participate in the program.
- **Join a Special Purpose Entity (SPE):** Individuals can join limited liability companies set up for the sole purpose of allowing individuals to donate to tax credit scholarship programs. SPEs apply to the state on behalf of donors to receive tax credits. Many schools already have scholarship organizations and SPEs for this purpose. To be eligible for an SPE, individuals must:
 - Be a shareholder, partner, member, or employee of a for-profit firm. Employees of non-profit entities may also participate.
 - Meet the SPE's tax liability and/or income requirements.
- **Donate through the SPE:** Individuals can donate to SPEs and designate which private school should receive the donation. The SPE will distribute paperwork such as Federal K-1, PA K-1, and 1123 forms for individuals to submit with their state taxes in order to receive their tax credit.

HOW TO ENSURE GROWTH FOR EITC AND OSTC

- Funding for tax credit scholarships increased by \$225 million in 2023–24, providing scholarships for an estimated 100,000 students in 2024–25. Despite the success of this program, opponents continue to call for cuts to this life-changing legislation. Becoming a donor and [contacting your legislators](#) are the best ways to ensure the growth of this life-changing program.
- Arbitrary caps on the tax credit scholarship programs results in the state turning away millions of dollars in business and individual scholarship donations every year. As a result, 79,979 ***scholarship applications were denied*** in 2022–23, leaving low-income kids stuck in [low-achieving](#) public schools.
- Call or [email your state legislators](#) to ask them to support the tax credit scholarship bills that allow EITC and OSTC to grow in response to student demand for scholarships.

Total Tax Credits for EITC & OSTC

The Cap for Tax Credit Scholarships Quadrupled in the Past 10 years

