

Educational
Improvement Tax Credit
Program
Using Pennsylvania
State Tax Credits to
Advance Philanthropy

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Empowering Education Through EITC Contributions

Our Mission

At Friends of Education (FOE), we are dedicated to fostering high-quality educational opportunities for children in grades K-12. We have successfully allocated \$29 million in contributions to more than 100 Educational Improvement Organizations (EIOs) and Scholarship Organizations (SOs) for the 2024 calendar years. Together, we strive to create a brighter future for all students by enhancing educational access and excellence.

About Us

Jed Silversmith and Todd Unger are tax attorneys actively involved in supporting K-12 education through the EITC program. Brooke Mattingly is an academic development professional who has served four schools in the region, facilitating EITC, major, and annual gifts that advance their missions. Together, they are committed to making a positive impact throughout the Commonwealth through educational funding.



Educational Improvement Tax Credit Program

- 90% Pennsylvania state income tax credit based on a two-year commitment
 - 24 Pa. Stat. § 20-2001-B
- A tax credit is a dollar-for-dollar reduction in a taxpayer's liability.
- Example: A \$100 gift means that the participant's state tax liability will decrease by \$90

Educational Improvement Tax Credit Program

- Three types of EITC credits:
 - (1) K-12 Scholarships
 - (2) Pre-K
 - (3) Educational Improvement Organizations (“EIOs”)
- Enrollment is limited to businesses and special purpose entities (groups of individuals)

What is an Educational Improvement Organization (EIO)?

How Does it Differ from the Private School (SO) Tax Credit Program?

- An EIO is a nonprofit registered with the Department of Community and Economic Development which provides public innovative educational programs, services, and initiatives that improve student achievement in Pennsylvania.
- The EIO Program provides the same tax benefits as a Scholarship Organization, the difference is that the beneficiary is a charity that provides education programming to local public-school districts, not private schools.



Federal Reporting

- Participation in program must be reported on a federal tax return
 - Gift can be reported as a charitable gift (i.e., on taxpayer's Schedule A)
 - Gifts can be reported as an ordinary and necessary deduction for certain pass-through entities (i.e. partnerships and S-Corps)



What is Taxed in Pennsylvania

- **Pennsylvania has a flat income tax rate of 3.07%**
- **Pennsylvania taxes eight classes of income**
 1. Compensation
 2. Interest
 3. Dividends
 4. Net profits from the operation of a business, profession or farm
 5. Net gains or income from the dispositions of property
 6. Net gains or income from rents, royalties, patents and copyrights
 7. Income derived through estates or trusts; and
 8. Gambling and lottery winnings, including cash prizes from the PA Lottery
- Certain retirement payments including RMDs are **not** taxed.

How much should a donor give?

- The EITC credit is a dollar-for-dollar reduction equal to 90% of the gift
 - A participant who gives \$10,000 will receive a \$9,000 credit
- The EITC credit is not “refundable” meaning that there is no financial benefit to giving a gift with a credit that exceeds one’s Pennsylvania tax liability
- The EITC credit does not carry forward
- Donors with a tax liability from another state should consult a tax advisor

See Sample Tax Form 1



Leveraged benefits for an Individual

	Typical charitable gift	EITC charitable gift
Contribution	(\$10,000)	(\$10,000)
PA state tax credit	\$0	\$9,000
Federal deduction <i>(Assumes 37% rate)</i>	\$3,700	\$370
Out of pocket	(\$6,300)	(\$630)

- In certain circumstances pass-through entities may be eligible for a federal tax deduction for the full value of the donation. Illustrated and discussed below.

See Sample Tax Form 2

Leveraged benefits for an Individual

Example:

H and W, Pennsylvania residents who work in Pennsylvania, will earn \$300,000 in 2025.

They will pay \$9,210 in state income taxes.

Instead, they make a **\$10,000** gift to Elmwood Zoo through the EITC program.

H and W will now owe **\$210** in state income tax.

H and W may also receive a charitable deduction of \$370, so the potential cost is between **\$630** and **\$1,000**.

Elmwood Zoo keeps all \$10,000.

Mechanics for Businesses

- Businesses are eligible because they pay Pennsylvania taxes
 - Subchapter S corps and Partnerships are deemed eligible because they pay taxes at partner or shareholder level.
 - Flow-through partnership/S Corp takes federal deduction
- Owners of flow through credit receive state tax credit

Why would a business want to support an Educational Improvement Organization?

- Business is a vendor of the EIO
- Business has a geographic presence so a gift might foster goodwill
- Employees of business have children who attend school district
- Reasonable expectation of financial return commensurate with the amount donated.

\$10,000 donation from a pass-through entity	
Contribution	(\$10,000)
Federal deduction (Assumes 37% rate)	\$3,700
PA state tax credit	\$9,000
Out of pocket	\$2,700

See Sample Tax Form 3

Stewarding Businesses

Elmwood Zoo can offer corporate sponsors:

- Press Releases Acknowledging Donation.
- Recognition on Legacy Stewards Board.
- Listing with hyperlink on Corporate Partnerships Webpage.
- Customizable Sponsorship Opportunities to Showcase your Business

Leveraged benefits for Businesses

Example:

S is a local car dealership that's owned by H, a Pennsylvania resident.

S earns \$2,700,000 in net income (i.e., profit). W has income of \$300,000. H & W pay \$92,100 in state income taxes.

S donates \$100,000 Elmwood Zoo through the EITC program. Elmwood Zoo promotes S as a local supporter on its website.

S receives a federal deduction of \$37,000, which flows through to H&W.

A \$90,000 tax credit passes through to H&W as well. H&W receive total tax benefits of **\$127,000. Elmwood Zoo keeps all \$100,000.**

What is a SPE?

- **Business Firm Requirement**: Program was originally for only businesses subject to personal income tax, capital stock/foreign franchise tax, corporate net income tax, bank shares tax, title insurance & trust company shares tax, insurance premiums tax (excluding unauthorized, domestic/foreign marine, mutual thrift tax, surplus lines tax).
- In 2015, “Business firm” was expanded to include an entity subject to malt beverage tax and a **special purpose pass-through entity** (“SPE”).
- Recognized by Pennsylvania law as an entity whose purpose is to distribute tax credits to individuals and small businesses
- The EITC credit is awarded to a SPE
 - Individuals or businesses may join SPE
- A SPE is a partnership under federal tax law



Eligibility for Individuals

- Not all taxpayers are eligible to join a SPE
- Donor must own or be employed by a “business firm”
- A “business firm” is registered in PA and pays taxes in PA
- Example: Home Depot, John Smith plumbing (located in Philadelphia)
- Who is not eligible?
 - Employees of non-profits (e.g., hospitals, universities)
 - Federal, state and local employees
 - Individuals who work for a New Jersey company
- If taxpayer owns a single share of a business firm, they qualify.
E.g., a federal employee who owns one share of Comcast stock.

Partnering with Friends of Education

- We streamline the process for individuals and businesses who want to participate in the EITC program.
- Partnering with over 150 Non-Profit Organizations
- No need to apply to the lottery or form a SPE. We have available credits this spring and at year end.
- Friends of Education is looking for two-year partners. We can accommodate donors who are seeking one year. These donors can still obtain a 90% state income tax credit.
- Donors are not obligated to a donation amount in their second year of participation.
- Minimum EITC Contribution \$5,000
- Take advantage of the significant opportunity for EITC contributions available now.

Gift Statistics from Last Year

- Smallest gift: **\$5,000**
- Median gift: **\$10,000**
- Average gift: **\$19,000**

Next Steps

- Notify Jennifer Conti, Development Director, 215-873-9184, jconti@elmwoodparkzoo.org that you intend to make a EITC donation.
- Individuals enroll by signing joinder and making capital contribution to the SPE.
- EITC-EIO funds must be distributed to your EIO no later than December 31, 2025
- Friends of Education will send the Form K-1 in February 2026 reporting the tax credit and federal deduction
- Repeat steps in 2026 (if applicable).



Questions



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Resources

- Below is a link to the current Pennsylvania law governing the Educational Improvement Tax Credit (“EITC”) program.

<https://casetext.com/statute/pennsylvania-statutes/statutes-unconsolidated/title-24-ps-education/chapter-1-public-school-code-of-1949/article-xx-b-educational-tax-credits/section-20-2005-b-tax-credits/>

- Below is a link to the Department of Community and Economic Development which administers the EITC program.

<https://dced.pa.gov/programs/educational-improvement-tax-credit-program-eitc/>

- In 2015, the PA Department of Revenue issued Informational Notice Miscellaneous Tax 2015-01, which offered guidance on Special Purpose Entities. The link is below.

https://www.revenue.pa.gov/TaxLawPoliciesBulletinsNotices/InformationalNotices/Documents/info_notice_misc_tax_2015-01.pdf

- In 2018, the Internal Revenue Service issued a notice of proposed rulemaking and notification of public hearing, which relates to programs like the EITC program in Pennsylvania. Below is the link to the proposed rulemaking regarding contributions in exchange for state and local tax credits.

<https://www.federalregister.gov/documents/2018/08/27/2018-18377/contributions-in-exchange-for-state-or-local-tax-credits>

- In 2019, the Internal Revenue Service issued final rules for programs like the EITC program in Pennsylvania. These rules discuss the availability of an advertising deduction under I.R.C. § 162 for businesses that participate in programs like the Educational Improvement Organization program. Below is the link to the notice of proposed rulemaking regarding the treatment of payments to charitable entities in return for consideration. The link is below:

<https://www.federalregister.gov/documents/2019/12/17/2019-26969/treatment-of-payments-to-charitable-entities-in-return-for-consideration>

- In 2020, the Internal Revenue Service issued final regulations for programs like the EITC program in Pennsylvania. These rules discuss the availability of a deduction under I.R.C. § 162 for businesses that participate in the Educational Improvement Organization program. Below is a link to the Internal Revenue Service’s official interpretation of the statute. The link is below:

<https://www.law.cornell.edu/cfr/text/26/1.162-15>

Sample Tax Form 1

PA-40 2021 06-21 (FI)		2100210059	OFFICIAL USE ONLY	
START →		Social Security Number (shown first)		
		Name(s)		
12. PA Tax Liability. Multiply Line 11 by 3.07 percent (0.0307). 12.				
13. Total PA Tax Withheld. See the instructions. 13.				
↓ ESTIMATED TAX PAID ↓	14. Credit from your 2020 PA Income Tax return. 14.			
	15. 2021 Estimated Installment Payments. Fill in oval if including Form REV-459B. <input type="radio"/> 15.			
	16. 2021 Extension Payment. 16.			
	17. Nonresident Tax Withheld from your PA Schedule(s) NRK-1. (Nonresidents only) 17.			
	18. Total Estimated Payments and Credits. Add Lines 14, 15, 16 and 17. 18.			
Tax Forgiveness Credit, submit PA Schedule SP				
19a	Filing Status:	<input type="radio"/> Unmarried or	<input type="radio"/> Married	<input type="radio"/> Deceased
19b	Dependents, Section II, Line 2, PA Schedule SP			

Sample Tax Form 2

651121

Schedule K-1 (Form 1065)

Department of the Treasury
Internal Revenue Service

2021

For calendar year 2021, or tax year

☐ Final K-1 ☐ Amended K-1 OMB No. 1545-0123

Partner's Share of Income, Deductions, Credits, etc.

▶ See separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
83-0893536

B Partnership's name, address, city, state, and ZIP code

FRIENDS OF EDUCATION LLC
26 E. ATHENS AVENUE
ARDMORE, PA 19003

C IRS center where partnership filed return ▶
E-FILE

D ☐ Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.)

F Name, address, city, state, and ZIP code for partner entered in E. See instructions.

PHILADELPHIA, PA 19118

G ☐ General partner or LLC member-manager ☒ Limited partner or other LLC member

H1 ☒ Domestic partner ☐ Foreign partner

H2 ☐ If the partner is a disregarded entity (DE), enter the partner's:

TIN _____ Name _____

I1 What type of entity is this partner? **INDIVIDUAL**
I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here ☐
J Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	0.0000000 %	0.0000000 %
Loss	0.0000000 %	0.0000000 %
Capital	0.0000000 %	0.0000000 %

Check if decrease is due to sale or exchange of partnership interest ☐
K Partner's share of liabilities:

	Beginning	Ending
Nonrecourse	\$	\$
Qualified nonrecourse financing	\$	\$
Recourse	\$	0. \$

Check this box if item K includes liability amounts from lower tier partnerships ☐

Part III Capital Account Analysis

Beginning capital account	\$
Capital contributed during the year	\$ 10,000.
Current year net income (loss)	\$ -1,000.
Other increase (decrease) (attach explanation)	\$ -9,000.
Withdrawals & distributions	\$()
Ending capital account	\$ 0.

M Did the partner contribute property with a built-in gain (loss)?
☐ Yes ☒ No If "Yes," attach statement. See instructions.

N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)

Beginning	\$
Ending	\$

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1 Ordinary business income (loss)	0.	14 Self-employment earnings (loss)	0.
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2 Net rental real estate income (loss)		15 Credits	
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3 Other net rental income (loss)			
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4a Guaranteed payments for services		16 Schedule K-3 is attached if checked <input type="checkbox"/>
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4b Guaranteed payments for capital		17 Alternative min tax (AMT) items
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4c Total guaranteed payments		
------------------------------	--	--

5 Interest income		18 Tax-exempt income and nondeductible expenses
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6a Ordinary dividends		
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6b Qualified dividends		
------------------------	--	--

6c Dividend equivalents		19 Distributions
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7 Royalties		20 Other information
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8 Net short-term capital gain (loss)		
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9a Net long-term capital gain (loss)		
--------------------------------------	--	--

9b Collectibles (28%) gain (loss)		
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9c Unrecaptured section 1250 gain		
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10 Net section 1231 gain (loss)		
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11 Other income (loss)		
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12 Section 179 deduction		21 Foreign taxes paid or accrued
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Other deductions	1,000.	
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22 <input type="checkbox"/> More than one activity for at-risk purposes*	
--	--

23 <input type="checkbox"/> More than one activity for passive activity purposes*	
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*See attached statement for additional information.

For IRS Use Only

PA Schedule RK-1 (06-21)

2021 Resident Schedule of

Shareholder/Partner/Beneficiary Pass Through Income, Loss and Credits

2107212918

Final N

(Individual=1, PA S Corp=2, All Other Corp=3, Owner 1
Estate/Trust=4, Partnership=5, LLC=6, Exempt=7)

Shareholder's Stock Ownership % 00000

PHILADELPHIA PA 19118

Amended N

Beneficiary's year-end Distribution % 00000

FRIENDS OF EDUCATION LLC

Partner's % of Profit sharing % 00000

ARDMORE PA 19003 830893536

Loss sharing % 00000

Fiscal Year N (Estate/Trust=E, Partnership=P, PA S Corp=S, LLC=L)

Capital Ownership % 00000

Short Year N General Partner or N Limited Partner or Y

LLC Member-Manager

Other LLC Member

SECTION III

SECTION IV

SECTION V

SECTION VI

SECTION VII

- PA-Taxable Business Income (Loss) from Operations
- Interest Income
- Dividend Income
- Net Gain (Loss) from the Sale, Exchange or Disposition of Property
- Net Income (Loss) from Rents, Royalties, Patents and Copyrights
- Income from Estates or Trusts
- Gambling and Lottery Winnings (Loss)

- Resident Credit. Submit statement.
- Total Other Credits. Submit statement.

- Distributions of Cash, Marketable Securities, and Property - not including guaranteed payments
- Guaranteed Payments for Capital or Other Services
- All Other Guaranteed Payments for Services Rendered
- Guaranteed Payments to the Retired Partner
- Distributions from PA Accumulated Adjustments Account
- Distributions of Cash, Marketable Securities, and Property
- Nontaxable income (loss) or nondeductible expenses required to calculate owner's basis.
- Submit statement.

Note: Lines 17 through 20 are for information purposes only.

- Owner's Share of IRC Section 179 allowed according to PA rules
- Owner's Share of Straight-Line Depreciation
- Partner's Share of Nonrecourse Liabilities at year-end
- Partner's Share of Recourse Liabilities at year-end

174621 12-06-21 CCH

NOTE: Amounts from this schedule must be reported on the appropriate PA Tax Return.


2107212918

2107212918

Sample Tax Form 3

PA Schedule RK-1 (06-21)
2021 Resident Schedule of
Shareholder/Partner/Beneficiary Pass Through Income, Loss and Credits

2107212918

Final N

(Individual=1, PA S Corp=2, All Other Corp=3, Estate/Trust=4, Partnership=5, LLC=6, Exempt=7) Owner 3

Shareholder's Stock Ownership % 00000

JAMISON PA 18929 Amended N

BENEFICIARY'S year-end Distribution % 00000

EDUCATIONAL OPPORTUNITIES LLC

Partner's % of Profit sharing % 00000

WYNDMOOR PA 19038 830877830

Loss sharing % 00000

Fiscal Year N (Estate/Trust=E, Partnership=P, PA S Corp=S, LLC=L) L

Capital Ownership % 00000

Short Year N General Partner or LLC Member-Manager N Limited Partner or Other LLC Member Y

1	PA-Taxable Business Income (Loss) from Operations	1	-9990
2	Interest Income	2	0
3	Dividend Income	3	0
4	Net Gain (Loss) from the Sale, Exchange or Disposition of Property	4	0
5	Net Income (Loss) from Rents, Royalties, Patents and Copyrights	5	0
6	Income of/from Estates or Trusts	6	0
7	Gambling and Lottery Winnings (Loss)	7	0
8	Resident Credit. Submit statement.	8	0
9	Total Other Credits. Submit statement.	9	89910
10	Distributions of Cash, Marketable Securities, and Property - not including guaranteed payments	10	0
11	Guaranteed Payments for Capital or Other Services	11	0
12	All Other Guaranteed Payments for Services Rendered	12	0
13	Guaranteed Payments to the Retired Partner	13	0
14	Distributions from PA Accumulated Adjustments Account	14	0
15	Distributions of Cash, Marketable Securities, and Property	15	0
16	Nontaxable income (loss) or nondeductible expenses required to calculate owner's basis.	16	0
17	Owner's Share of IRC Section 179 allowed according to PA rules	17	0
18	Owner's Share of Straight-Line Depreciation	18	0
19	Partner's Share of Nonrecourse Liabilities at year-end	19	0
20	Partner's Share of Recourse Liabilities at year-end	20	0

NOTE: Lines 17 through 20 are for information purposes only.

174821 12-06-21 OCH

NOTE: Amounts from this schedule must be reported on the appropriate PA Tax Return.

Schedule K-1 (Form 1065)
Department of the Treasury
Internal Revenue Service

2021

Final K-1 Amended K-1 OMB No. 1545-0123

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1 Ordinary business income (loss) -99,900.

2 Net rental real estate income (loss)

3 Other net rental income (loss)

4a Guaranteed payments for services

4b Guaranteed payments for capital

4c Total guaranteed payments

5 Interest income

6a Ordinary dividends

6b Qualified dividends

6c Dividend equivalents

7 Royalties

8 Net short-term capital gain (loss)

9a Net long-term capital gain (loss)

9b Collectibles (28%) gain (loss)

9c Unrecaptured section 1250 gain

10 Net section 1231 gain (loss)

11 Other income (loss)

12 Section 179 deduction

18 Other deductions

14 Self-employment earnings (loss)

15 Credits

16 Schedule K-1 is attached if checked

17 Alternative min tax (AMT) items

18 Tax-exempt income and nondeductible expenses

19 Distributions

20 Other information

21 Foreign taxes paid or accrued

22 More than one activity for at-risk purposes*

23 More than one activity for passive activity purposes*

*See attached statement for additional information.

Part I Information About the Partnership

A Partnership's employer identification number 83-0877830

B Partnership's name, address, city, state, and ZIP code EDUCATIONAL OPPORTUNITIES LLC 506 E GRAVERS LN WYNDMOOR, PA 19038

C IRS center where partnership filed return E-FILE

D Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.) 84-

F Name, address, city, state, and ZIP code for partner entered in E. See instructions.

JAMISON, PA 18929

G General partner or LLC member-manager Limited partner or other LLC member

H1 Domestic partner Foreign partner

H2 If the partner is a disregarded entity (DE), enter the partner's

I1 What type of entity is this partner? CORPORATION

I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here

J Partner's share of profit, loss, and capital:

Beginning	Ending
Profit 0.0000000%	0.0000000%
Loss 0.0000000%	0.0000000%
Capital 0.0000000%	0.0000000%

Check if decrease is due to sale or exchange of partnership interest

K Partner's share of liabilities:

Beginning	Ending
Nonrecourse \$	\$
Qualified nonrecourse financing \$	\$
Recourse \$	0 \$ 0

Check this box if item K includes liability amounts from lower tier partnerships

L Partner's Capital Account Analysis

Beginning capital account	\$
Capital contributed during the year	\$ 99,900.
Current year net income (loss)	\$ -99,900.
Other increase (decrease) (attach explanation)	\$
Withdrawals & distributions	\$()
Ending capital account	\$ 0.

M Did the partner contribute property with a built-in gain (loss)?

Yes No If "Yes," attach statement. See instructions.

N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)

Beginning	\$
Ending	\$