



# FAIRMAN GROUP FAMILY OFFICE

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## HOW INDIVIDUAL TAXPAYERS CAN BENEFIT FROM PA EDUCATIONAL TAX CREDITS

### THOUGHT LEADERSHIP PERSPECTIVES

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**A TAX CREDIT IS A WONDERFUL THING BECAUSE IT LOWERS YOUR TAX BILL, DOLLAR FOR DOLLAR. WHAT COULD BE EVEN BETTER? LOWERING YOUR TAX BILL AND HAVING THE MONEY GO TOWARDS THE NOBLE CAUSE OF EDUCATION.**

Pennsylvania offers two educational tax credits as a means for providing families alternatives to their neighborhood public schools. The Educational Improvement Tax Credit (EITC) is a tax credit for contributions to a qualified Scholarship Organization, Educational Improvement Organization or Pre-Kindergarten Scholarship Organization. The Opportunity Scholarship Tax

Credit (OSTC) is a tax credit for contributions to an Opportunity Scholarship Organization that provides scholarships to help students, who reside in a low-achieving school district, attend another nonpublic school or a public school outside of their district.

### HOW INDIVIDUAL TAXPAYERS CAN BENEFIT

Individual taxpayers can take advantage of these tax credits on their Pennsylvania Individual Income Tax Returns through the use of a Special Purpose Entity (SPE). A SPE is a pass-through entity specifically established to aggregate contributions of donors and distribute the money to the qualified organizations.

*For more information on these credits and eligible educational institutions, refer to the websites below:*

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

*OSTC: <https://dced.pa.gov/programs/opportunity-scholarship-tax-credit-program-ostc/>*

SPEs are set up by organizations that apply for and receive educational tax credits from the Commonwealth of Pennsylvania. The individual taxpayer becomes a member of the SPE, contributes cash and tells the SPE to which institutions the money should be disbursed. The taxpayer receives a Schedule K-1 showing the amount of credit to report on their Pennsylvania Individual Tax Return.

The tax credit amount received by the taxpayer is equal to 75% of that year's contribution. If the donor commits to a two-year contribution, the tax credit equals 90% of the amount contributed. The credit can be used to offset the Pennsylvania tax liability in the year the contribution is made.

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*If a Taxpayer made a 2-year contribution commitment to a SPE and donated \$10,000 in Year 1 and \$10,000 in Year 2, they would—for each of those years—receive a PA tax credit of \$9,000 to apply against their PA income tax liability.*

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### FEDERAL TAX DEDUCTION

Another tax consideration is how the contribution is treated for Federal income tax purposes after the passage of the Tax Cuts and Jobs Act. The Taxpayer is allowed a Federal charitable contribution deduction for the difference between the amount

contributed and the state tax credit received. In the above example, a Taxpayer would be allowed a \$1,000 Federal charitable contribution deduction in each of the two years (\$10,000 contribution - \$9,000 PA Education Credit = \$1,000 Federal charitable contribution deduction).

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*How often do you get to direct how your tax dollars are allocated? Taxpayers should consider contributing to receive the EITC and OSTC. The contributions help further education in Pennsylvania and offer taxpayers a Pennsylvania tax credit and a Federal income tax deduction.*

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**THERE ARE MANY ORGANIZATIONS THROUGHOUT PA THAT APPLY FOR AND RECEIVE EDUCATIONAL TAX CREDITS. BLOCS (BUSINESS LEADERS FOR CATHOLIC SCHOOLS) AND THE JEWISH FEDERATION OF GREATER PHILADELPHIA ARE TWO EXAMPLES, BUT THERE ARE MANY OTHERS.**

**PLEASE CONTACT US TO DISCUSS FURTHER, RUN TAX PROJECTIONS TO DETERMINE YOUR OPTIMAL CONTRIBUTION AMOUNT, AND RECEIVE INFORMATION ABOUT ORGANIZATIONS WITH WHOM OUR CLIENTS HAVE WORKED IN THE PAST.**

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## ABOUT FAIRMAN GROUP FAMILY OFFICE

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