

TO: Honorable Stan Saylor, Republican Chair, House Education Committee  
Honorable James Roebuck, Democratic Chair, House Education Committee  
Honorable Bernie O'Neill, Republican Chair, House Finance Committee  
Honorable Jack Wheatley, Democratic Chair, House Finance Committee

FROM: James O'Donnell, Director, Tax Credit Division, Center for Business Financing  
Pennsylvania Department of Community and Economic Development

RE: Update on the Educational Improvement Tax Credit Program and the Opportunity  
Scholarship Tax Credit Program

DATE: April 5, 2016

### Educational Improvement Tax Credit Program

Article XVII-F of the Tax Reform Code established the Educational Improvement Tax Credit (EITC) program in August 2001. The EITC program provides tax credits to participating businesses which contribute to approved non-profits and private schools serving students in Pre-K through 12<sup>th</sup> grade either through the form of private school scholarships or innovative educational programming for public school students. The program began in 2001 with a budgeted amount of \$30 million and since that time has grown on several occasions to the current budgeted amount of \$100 million. There are three types of non-profit organizations within the EITC program. These include Scholarship Organizations (SO), which provide tuition assistance to financially eligible students in Grades K-12 to attend private schools; Educational Improvement Organizations (EIO), which offer innovative educational programming to public school students in Grades K-12; and Pre-K Scholarship Organizations (PKSO) which provide tuition assistance to financially eligible students to attend an academic based Pre-K program. The current (fiscal year 2015-16) breakdown of funding within the EITC program is as follows: SO = \$60 million, EIO = \$30 million, PKSO = \$10 million.

Participating K-12 EITC businesses are eligible to receive tax credits equal to 90% of their donation amount if agreeing to participate for two consecutive tax years. This percentage decreases to 75% if an applicant elects to participate for only one year. The maximum credit under the K-12 component of the program is currently \$750,000 per business entity. The Pre-K component of the EITC program allows for businesses to claim a 100% tax credit on their first \$10,000 contributed with each additional amount being calculated at 90% up to a maximum credit of \$200,000 per business entity. The business application period begins annually on May 15<sup>th</sup> and runs through July 1<sup>st</sup> with all applications being accepted on a first-come first-served basis. Approved businesses make their donations directly to the organization(s) of their choosing. No EITC funds pass through DCED for distribution. Once a business makes all its donations, it is required to report back to DCED to documenting those donations. At that point DCED requests that the PA Dept. of Revenue award tax credits.

Over the years there have been a few legislative changes to the EITC program. The first and biggest change to the program since 2001 allows for all current EITC participating businesses to renew their applications during the early application window of May 15<sup>th</sup> – June 30<sup>th</sup>. In years past, when an applicant completed its two-year cycle it was required to wait until July 1<sup>st</sup> and re-apply as an initial applicant. With all current participants now being eligible to renew during the early window we have encountered a situation where there are no longer credits available on July 1<sup>st</sup> for first-year business applicants interested in applying under the EIO component of the program. Secondly, the Pre-K component has been adjusted to allow for business participants to apply for two consecutive tax years with no adjustment to their tax credit calculations. In all prior years Pre-K participants were only eligible to participate annually on a one-year cycle. The most recent change to the program allows for business participants that are not approved for EITC credits to check a box on the on-line application to have their applications automatically approved for an alternative tax credit under the Opportunity Scholarship Tax Credit program.

Currently there are over 1,100 non-profits and private schools throughout the Commonwealth participating in the EITC program. Since the program's inception in 2001, nearly \$985 million have been donated by participating businesses to participating non-profits and private schools resulting in the award of over \$877 million in business tax credits. School year 2014-2015 saw the awarding of 34,800 EITC K-12 scholarships and 6,500 EITC Pre-K scholarships.. The more than \$33 million donated to Educational Improvement Organizations during the 2014-2015 school year assisted thousands of innovative educational programs, including -literacy programs at community libraries, environmental education at nature centers, STEM programming for all grade levels, dual enrollment courses at participating universities, and internship opportunities in various industries.

#### Opportunity Scholarship Tax Credit Program

Article XVII-F of the Tax Reform Code established the Opportunity Scholarship Tax Credit (OSTC) program in August 2012. The OSTC program provides tax credits to participating businesses that contribute to approved non-profits and private schools serving students in Grades K-12. These contributions provide scholarships to eligible students whose families reside within the attendance boundary of a low-achieving public school to attend a private school or a public school outside of their district of residence. The PA Dept. of Education has identified and published the list of low-achieving public schools which are classified as public elementary or secondary schools ranking in the bottom 15 percent of their school designation. There are approximately 400 individual public schools classified as low-achieving throughout Pennsylvania, with most being located in the southeast and southwest regions of the Commonwealth.

The program began with a budgeted amount of \$50 million and has seen credit demand grow since the initial year, with the credit demand being fully exhausted for the first time in Fiscal Year 2014-2015. Participating OSTC businesses are eligible to receive tax credits equal to 90% of their donation amount by agreeing to participate for two consecutive tax years. This percentage decreases to 75% if an

applicant elects to participate for only one year. The maximum credit is currently \$750,000 per business entity. The business application period begins annually on May 15<sup>th</sup> and runs through July 1<sup>st</sup>, with all applications being accepted on a first-come first-served basis. Approved businesses make their donations directly to the organization(s) of their choosing. No OSTC funds pass through DCED for distribution. Once a business makes all its donations, it is required to report back to DCED to document those donations. At that point DCED requests that the PA Dept. of Revenue award tax credits.

Legislative updates to the program since inception include the elimination of the maximum credit limits from a time period of October 1<sup>st</sup> – November 30<sup>th</sup>. This allows for current participants with tax liabilities beyond their current \$750,000 approved tax credit to apply for additional credits if available. One additional update to the program allows for DCED, as of January 1<sup>st</sup> of each year, to roll over any remaining OSTC credits to the EITC program to be awarded in the form of K-12 and Pre-K scholarship tax credits.

Currently there are over 150 non-profits and private schools participating in the OSTC program. Since program inception in 2012, nearly \$108 million dollars have been donated by participating businesses to these participating non-profits and private schools, resulting in the award of over \$94 million in business tax credits. There were 15,000 OSTC scholarships awarded to eligible students and families during the 2014-2015 school year.