



***Amplify your giving to Springside Chestnut Hill Academy (SCH) while reducing your PA state taxes.***

Springside Chestnut Hill Academy (SCH) has established a multi-member LLC / special purpose entity for the sole purpose of supporting EITC and OSTC scholarships at SCH—SCH Scholarship LLC #1. As a special purpose entity (SPE), its members/donors are able to make a donation to SCH Scholarship LLC and receive a 90% tax credit against their PA state tax liability. (Participation in the LLC requires a 2-year commitment at the same level each year).

The recent changes in the federal tax code have created a strong incentive for high income individuals to participate in **Pennsylvania's Educational Improvement Tax Credit (EITC) and Opportunity Scholarship Tax Credit (OSTC) programs**. The following changes are now in effect for individuals, in relation to state taxes and charitable giving:

- Maximum individual deduction allowed for state and local taxes (including property taxes) is \$10,000
- Contributions to an approved organization through EITC/OSTC are partially deductible against your federal taxable income based on current guidance from the IRS.

#### **SCH Scholarship LLC Membership Requirements**

- Qualify under the Income OR Net Worth test
- Make a two-year commitment at the same level for each year
- \$5,000 per year minimum contribution

#### **Do You Qualify?**

##### **Income Test:**

- Be recognized as an accredited investor or your individual income must have exceeded \$200,000 in each of the two most recent years or your joint income together with your spouse exceeded \$300,000 in each of those years; AND
- You reasonably expect to earn individual income of at least \$200,000 this year or joint income with your spouse of at least \$300,000 this year.

##### **Net Worth Test:**

- Your individual or joint net worth exceeds \$1,000,000

#### **EITC/OSTC**

The EITC/OSTC program allows the individual to make a gift to an eligible scholarship organization such as SCH Academy in return for a 90% tax credit (two-year commitment to give at the same level both years) of the gift amount that can be used to pay their state taxes. The donor may also count the non-tax credit portion of the gift as a charitable deduction on their federal taxes.

The scholarship gifts received through EITC/OSTC are used to support SCH students who meet the financial need requirements as determined by the state. In addition, OSTC scholarships have a geographic requirement that the eligible student resides within the boundaries of a low-achieving school as defined by the state.

Following are examples of how these changes may affect your total taxable federal earnings.

**DISCLAIMER:** SCH Academy does not provide tax, legal or accounting advice. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for tax, legal or accounting advice. You should consult your own tax, legal and accounting advisors before engaging in any transaction.

#### **Overall Assumptions:**

- Individual is a PA Resident who itemizes their taxes but will be limited to the tax benefit from their state and local taxes (SALT) under the 2019 tax code.
- Gross Earnings: \$350,000 (taxable at the local, state and federal level pre-deductions)
- State and Local Taxes (SALT): 6% (for illustrative purposes, we are using a combined rate of 6%)
- Federal tax rate: 35% (for illustrative purposes, we are using a flat 35% tax rate on gross earnings to highlight the marginal savings.)

The following table summarizes the differences for an individual under the new tax code:

	Ex. A: 2019 NO DONATIONS	Ex. B: 2019 WITH REGULAR DONATION	Ex. C: 2019 WITH EITC/OSTC DONATION
EITC/OSTC Donation	\$0	\$0	\$10,000
Regular Donation	\$0	\$10,000	\$0
State and Local Taxes (SALT)	\$21,000	\$21,000	\$21,000
SALT payments less 90% tax credit for EITC/OSTC Donations	\$21,000	\$21,000	\$12,000
Federal Taxable Earnings Before Deductions	\$350,000	\$350,000	\$350,000
Federal SALT and Charitable Deduction	\$10,000	\$20,000	\$11,000
Net Federal Taxable Earnings	\$340,000	\$330,000	\$339,000
Net SALT and Donation Payments	\$21,000	\$31,000	\$22,000
Federal Taxes (35% flat tax rate)	\$119,000	\$115,500	\$118,650
<b>Total Federal, SALT, and Charitable Donation Payments</b>	<b>\$140,000</b>	<b>\$146,500</b>	<b>\$140,650</b>
<b>Total Cost of Donation</b>	<b>\$0</b>	<b>\$6,500</b>	<b>\$650</b>
<b>Total Benefit to SCH student</b>	<b>\$0</b>	<b>\$10,000</b>	<b>\$10,000</b>

By making an EITC donation of \$10,000, the individual ends up only paying \$650 more than making no donation, but is able to generate a benefit of \$10,000 to an SCH Student. The EITC program essentially allows individuals to make very large, meaningful charitable gifts at a very low cost to the donor.

#### Example A: No EITC/OSTC or Regular Donation in 2019

State and Local tax payments: \$21,000

Donation: \$0

Estimated Federal Taxes: \$119,000

Total Federal, SALT, and Charitable Contribution Payments: \$140,000

#### Example B: Regular Donation in 2019

State and Local tax payments: \$21,000

Donation: \$10,000

Estimated Federal Taxes: \$115,500

**Total Federal, SALT, and Charitable Contribution Payments: \$146,500**

**Cost of \$10,000 donation: \$6,500**

#### Example C: PA Resident participating in the EITC/OSTC program in 2019:

State and Local tax payment: \$21,000 - \$9,000 = \$12,000 (\$9,000 is a credit from the state for participating in EITC/OSTC)

EITC/OSTC donation: \$10,000

Estimated Federal Taxes: \$118,650

**Total Federal, SALT, and Charitable Contribution Payments: \$140,650**

**Cost of \$10,000 donation: \$650**

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