September 2017

Thank you for your interest in blessing our students through participation in an EITC **Special Purpose Entity**. This is truly an amazing opportunity and we are very excited to see how God may use this program to help meet our financial needs this year and beyond. In this document I explain the SPE opportunity as concisely as possible. While I have labored to ensure that this information is accurate, I am not a tax expert or authority. **Please consult your own tax professional to ensure that the EITC / SPE program fits your personal situation.**

**Background on Special Purpose Entities**

The Educational Improvement Tax Credit (EITC) is a state program that allows eligible businesses to receive up to a 90% tax credit on contributions to an ETIC scholarship organization. In 2014, Pennsylvania’s EITC legislation was amended to allow certain **individuals** (rather than only businesses) to participate in the EITC tax credit program through what is called a Special Purpose Entity (SPE). Mr. Randy Tarpey, an accountant from Tyrone, PA, is the manager of an SPE called the *Children’s Jubilee Scholarship #1 LCC*. This SPE has been granted a significant amount of tax credits from the state that he is looking to distribute to private schools in central PA. ***Covenant has an opportunity to fully fund our needs-based scholarship by maximizing this EITC capacity.***

**How it Works**

* An “accredited investor” signs a joinder agreement to participate in the SPE. In the agreement, investor will confirm status as a qualified investor, designate the amount of initial capital contribution, and designate the school to be benefited. **Please list Covenant Christian Academy in Harrisburg as the beneficiary.** (To maximize the tax credit benefit, investor should make contribution so that 90% of its value is an amount as close as possible to their Pennsylvania tax burden without going over).
* **To receive the 90% tax credit, investor must commit to participating in the SPE for 2 years.** If investor only intends to participate for one year, they will receive a 75% tax credit.
* Prior to the end of the calendar year, investor must send check to the SPE in the amount they have determined. Investor will receive a tax credit for 90% of this amount (if committed to two year participation).

Joinder and check should be mailed to:
Children’s Jubilee Scholarship #1 LCC
227 Jefferson Avenue
Tyrone, PA 16686
*Please also email* *David.Sonju@DiscoverCovenant.com* *so we can keep track of our participants.*
* In late January or early February, the SPE will distribute the contributed amount to the designated school through an EITC scholarship organization.
* The investor will receive a federal K-1 listing the contribution. This can be an itemized deduction on Schedule A of their FEDERAL tax return as a contribution to a 501(c)(3). The amount for the federal tax benefit will vary according to one’s tax bracket.
* The investor will also receive a state K-1 and a transfer form to transfer the tax credit from their K-1 to their personal PA tax return. **The investor can claim 90% of the invested amount as a credit / payment to be used against their joint personal PA tax liability.**
	+ So, for example, for a $10k investment in the SPE, the investor would receive $9k off their PA tax bill (and withholdings or payments already made will be refunded – note, however, that processing of tax refund will likely be delayed until at least June).
* In early fall of the following year, the investor will receive a notice from Mr. Tarpey prompting a second contribution for the subsequent year, repeating the above process.

**Who Can Participate**

In order to qualify as an “accredited investor,” an individual must meet the following requirements and agree to participate for two years.

* Annual income of at least $200k (joint income of at least $300k) OR a net worth of >$1m.
* A PA tax liability of at least $3500
* Must not be employed by the government or by a non-profit charity.

**Note: Business owners (S-Corporations, Partnerships, and certain LLC’s) can also participate in the SPE. Ask David Sonju for separate Joinder agreement for businesses.**

**Risks, Rewards, and other Details**

* The main risk is that an investor overestimates his or her tax liability. In such a case, the excess contribution would not receive a tax benefit on PA return.
* If the tax credit turns out to not be available for some reason, the SPE will refund your investment. There are no fees involved in this SPE as Mr. Tarpey is volunteering his services, so the entire amount would be returned.
* The main benefit – aside from the joy of knowing you are supporting students to receive a classical Christian education – is that you could receive a very significant tax reduction on both your federal and state returns. See the scenario below.
* So long as the program continues, investors should be able to continue receiving this tax credit for as long as they want to continue in the SPE. In their second year, we believe participants will be able to sign up again for another two years.

**A Scenario**

Joe Taxpayer estimates his PA tax liability for 2016 to be $9000. He signs the joinder agreement to join the SPE and sends a check for $10k to the SPE before December 31. He will receive a $9k tax credit for his PA taxes and a $2800 reduction in his federal income tax for 2017.

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| --- | --- | --- | --- | --- |
| **EITC – Special Purpose Unit** | **Year 1** | **Year 2** | **Year 3** | **Total** |
| Investment in SPE (which will be distributed to school of his choice)  | $10,000 | $10,000 |  | $20,000 |
| PA Tax credit | ($9000) | ($9000) |  |  |
| Reduction in federal tax for charitable contribution Scenario assumes tax payer itemizes the deduction on Schedule A and is in the 28% tax bracket.  | ($2800) | ($2800) |  |  |
| Increase in federal tax – reduction of PA tax in subsequent year (PA tax credit \* federal tax rate) |  | $2520 | $2520 |  |
| Net cash out-of-pocket for individual contributor | ($1800) | $720 | $2520 | $**1440** |

**If you would like to take advantage of this opportunity or if you have any questions, please contact one of the people listed below.**

Sincerely,

****
David Sonju
Head of School

**David Stansbury
Board Treasurer****Dave@stansburycpa.com** **(717) 315–9171**

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Board Vice President****T.Feliciano1@gmail.com** **(717) 319-2433**

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