



# COVENANT

CHRISTIAN ACADEMY

## Central Pennsylvania Scholarship Fund for 2019

Randy Tarpey, CPA – CPSF Leader

EITC *Educational Improvement Tax Credits*

### FAQ: Special Purpose Entity (SPE) and Education Tax Credits\*

#### **Q. What is a Special Purpose Entity (SPE) as it pertains to Pennsylvania education tax credits?**

A Special Purpose Entity is a new class of pass-through partnerships that exists solely for the purpose of obtaining Education Improvement Credits (EITC/OSTC).

#### **Q. What does this mean for Covenant Christian Academy families and supporters?**

Covenant families and benefactors may be able to designate part of their Pennsylvania state tax liability for use by Covenant to enhance financial assistance for qualifying families.

#### **Q. What Special Purpose Entity has Covenant chosen to associate with?**

Covenant is associating with the Central Pennsylvania Scholarship Fund (a Pennsylvania approved scholarship organization) and one of several special purpose entities: New participants will use the HeHaller LLC Partnership and returning participants should use the same joinder as they used previously.

**Q. Are there any differences in procedure or limits between different joinders? (for example, HeHaller vs Children's Jubilee Scholarship #1 LLC)** There is no difference between these various Special Purpose Entities in terms of procedure, regulation or limits. New participants will need to join the HeHaller LLC, as previous Special Purpose Entities filled up last year and do not have any additional credits available beyond the ones reserved for previous donors.

#### **Q. When was the Central Pennsylvania Scholarship Fund formed? When were related SPEs established?**

Randy Tarpey established the Central Pennsylvania Scholarship Fund(CPSF) on September 13, 2011. With the amendment to Article XVII-F of the Tax Reform Code through Act 194, effective October 31, 2014, the EITC/OSTC definition of "business firm" and "pass-through entity" was expanded to allow for the use of credits on joint and personal income tax returns. As such, Randy established the Central Pennsylvania Special Purpose Entity on August 7, 2015, Entity number 6275436; the Central Pennsylvania Special Purpose Entity 2 LLC on December 19, 2016, Entity number 6488599; and Central PA AMT Partners on January 23, 2017, Entity number 6503274. Please visit <https://www.corporations.pa.gov/search/corptest> for further information.

#### **Q. Who is Randy Tarpey?**

Randy Tarpey has been a Certified Professional Accountant, License Number CA032075R, since 1993. His firm has two locations in Central Pennsylvania. Active in both his profession and the community, Randy gives freely of his time to the CPSF.



**Q. Why did Randy Tarpey create the CPSF?**

With a passion to help more children in Pennsylvania receive a quality, Christian education, Randy Tarpey established the CPSF. This vehicle for giving allows individuals and other legal entities not qualified to receive credits directly from Pennsylvania an opportunity to receive the same tax benefit.

**Q. Who can receive education credits through the SPE?**

At present, these SPEs offer membership to individuals/couples with a minimum PA tax liability of \$3500 annually.

**Q. How long after I purchase credits until Covenant receives my donation?**

Within 60 days following the receipt of the SPE's approval letter from the Commonwealth of Pennsylvania and upon completion of member payment, the SPE will make payment to Covenant in an amount equal to the credits awarded.

**Q. Who holds the brokerage account? Is it FDIC or otherwise insured?**

The Central Pennsylvania Scholarship Fund (CPSF) has bank accounts at local banks in Tyrone, Pennsylvania which are FDIC insured.

**Q. What/who provides the oversight of the LLC/SPE?**

Randy Tarpey is the SPE and CPSF leader, and his bonded CPA firm employees handle all funds (Randy does not handle donations). His firm is audited annually by another, unconnected CPA firm. Annual reports are filed with the Pennsylvania Department of Commerce and Economic Development (DCED). The Central Pennsylvania Scholarship Fund is licensed with and reports to the Pennsylvania Department of State Charity Commission annually.

**Q. If I participate in these tax credits, how much will it cost me?**

Upfront, during the fall months, you will need to make either a minimum donation of \$3500, or larger if you choose, up to the amount of your annual state taxes. When you file your taxes in the spring you will receive a refund of 90% of your donation from Pennsylvania and a federal benefit based on the 10% of your donation which was above your state tax liability.

**Q. Do I need to earn a particular income to qualify?**

This is based on tax liability, not income, therefore there each taxpayer's situation will differ. An individual or couple filing jointly must have a state tax liability of \$3,500 or more to participate. To see if you may qualify for 2017, you can find your PA tax liability on Form PA-40 Line 12 of your most recent tax return.

**Q. Can these credits be used on both individual and joint income tax returns?**

Yes, you qualify if your individual or combined PA tax liability is \$3,500 or more.



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### **Q. Do I have to be employed by a for profit business? What if I work for a business but my spouse works for a non-profit?**

*One member of the family must be employed by or own a for profit business.* If one works for a business and the other a non-profit, and you file joint returns, both qualify for the purposes of determining tax liability.

In 2018 Pennsylvania allows you to join an SPE if you own stock in a Pennsylvania company. The letter ruling they issued referenced PPL which has a direct purchase program for their stock. Owning a share of a public company that is registered in Pennsylvania will qualify you to be in a SPE.

### **Q. Can I participate if I am retired?**

If you are retired, you must own a small business (receive an annual K-1 form) or work for a business (receive an annual W-2 form) to qualify as a member of an SPE and receive EITC/OSTC tax credits. Some retirees qualify due to side jobs or residual ownership of businesses and some do not.

### **Q. Why must I commit to two years? Can I increase or decrease my tax credit donation amount the second year?**

The Special Purpose Entities require a two year commitment of at least \$3500 per year in order that its members receive a 90% tax credit, (the State awards a 75% tax credit when you commit for only one year, or a 90% tax credit when you commit to two consecutive years). If unexpected circumstances occur that dictate your second year donation must be reduced from your original commitment, such as loss of job or reduction in tax liability, please contact the SPE. You may increase your donation in the second year up to the amount of your PA tax liability.

### **Q. How do I decide the amount to contribute in 2019 if I don't know my tax liability for 2020?**

If your income is consistent, use the amount from 2018 PA-40 Line 12. Please consult your financial professional for advice on this matter.

### **Q. Where do I obtain an application?**

Applications are available from the Covenant office or by email at [peggy.frantz@discovercovenant.com](mailto:peggy.frantz@discovercovenant.com) ; PH (717) 540-9885 ext. 232

### **Q. When and where do I submit my application?**

Your application may be submitted at any time during the remainder of 2019, until December 31. Tax credits will be distributed on a first come first served basis until the funds which have been awarded Central Pennsylvania Scholarship Fund by the Department of Community and Economic Development are depleted.

For federal purposes 10% of the donation/investment in the SPE is a charitable contribution deductible on your federal itemized deductions (Schedule A). Every donor incurs an upfront cost to make the donation. To calculate your specific benefit from the federal donation portion of this program you will need to calculate the value of your donation for federal purposes based on your regular or Alternative Minimum Tax (AMT) tax rate. The benefits range from 3% to 26% depending on your personal tax situation.

### **Q. Do I reapply each year to the same SPE I joined originally?**

Each year you are asked to reinvest in the same SPE you originally joined. If you fail to do so, your membership is terminated.



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## **Q. How do I indicate that Covenant Christian Academy is to receive my contribution?**

On your application form note Covenant Christian Academy in the space designated for Name of School, and indicate the tax credit amount for which you are applying in the place designated Amount \$.

## **Q. Can I include my contribution check at the same time I submit my application? To whom do I write my contribution check?**

You may include your contribution check with your application. Your check will be held by the SPE until 60 days after the tax credit award letter from DCED arrives. Some of the award letters have already arrived for 2019, so your check is due 60 days after you receive notification of acceptance (as early as October 15<sup>th</sup>, 2019.) **Your check should be written to HeHaller LLC for all new donors (or the same SPE you participated in before if you participated in prior years).** Please be sure to note **“Covenant Christian Academy”** on the memo line of your check.

## **Q. What should I do after I receive application approval from HeHaller LLC?**

Once you receive notification of approval from CPSF, write and mail your contribution check to **HEHaller LLC and Mail to: 227 Jefferson Ave, Tyrone, PA 16686 Attn: Tami Clark** by the indicated deadline (which may be as early as Oct 15<sup>th</sup>). *It is important to note that if all of the tax credits received by CPSF are distributed to other partners by the time your check is received, your check may be returned. Therefore, the sooner you are able to send your check, the more likely you are of being granted a tax credit.*

## **Q. When will I receive documents to file with my income taxes?**

Your Federal and State K-1 forms will arrive the first week of February, 2020. The Federal K-1 will list your investment and Federal charitable contribution, which you deduct on Schedule A if you itemize. Your PA K-1 will list your 90% PA tax credit, which will go on Payment line 23 OC for Other Credit on your PA-40.

## **Q. What percentage of my contribution goes to HeHaller LLC or Central PA Scholarship Fund (CPSF) for administrative purposes?**

100% of your contribution goes to Covenant Christian Academy's financial assistance program. No portion of your donation is used for administrative purposes. HeHaller LLC and CPSF are volunteer organizations.

## **Q. How can I be assured that my contribution is given to Covenant?**

You will receive a letter from Covenant early in 2020 indicating your donation has been received.

## **Q. When Covenant receives my contribution, what is it used for?**

Your contribution is strictly used for Covenant's financial assistance program, distributed to need based families who make application through Covenant Christian's financial assistance process. The EITC and OSTC tax credits were created by the legislature for the purpose of providing tuition assistance in the form of scholarships for eligible students.

***\*This is not tax advice, consult a tax or financial professional for how this applies to you.***

*You may drop off your completed application at Covenant Christian Academy (Attn: SPE Tax Credits / Peggy Frantz)*

*Or mail to: Mr. Randy Tarpey, Kebr Partnership, 227 Jefferson Avenue Tyrone, PA 16686. [RandyTarpey@gmail.com](mailto:RandyTarpey@gmail.com), PH (814) 942-4406*