



**House Education Committee
Informational Meeting- EITC
April 14, 2026, at 9:00 am, 140MC**

9:00am Call to Order

Committee Member Introductions
Opening Remarks- Chairman Schweyer

9:10am **Panel 1- Policy Perspective**

Ms. Stacey Knavel, Deputy Director
Pennsylvania Independent Fiscal Office

Mr. James O'Donnell, Director
Tax Credit Division, Department of Community and Economic Development

Ms. Amy Gill, Deputy Secretary for Tax Policy
Pennsylvania Department of Revenue

Ms. Meggan Swisher, Director of the Bureau of PATH Development and Support
Pennsylvania Department of Revenue

Ms. Anabel Aportela, Director of Research & Evaluation
Center for Student Achievement

10:00am **Panel 2- Program Perspective**

Attorney Jed Silversmith, Director
Montgomery County Scholarships, Inc. d/b/a Friends of Education

Mr. Paulo Nzambi, Head of School
Imani Christian Academy

Ms. Shannon Fugate, Executive Director
BAUM School of Art

10:55am Closing Remarks/Adjournment

All times are approximate and include time for questions. Live streamed at www.pahouse.com/live

Testimony on the Educational Tax Credit Program
House Education Committee

April 14, 2026

Stacey Knavel, Deputy Director, Independent Fiscal Office

Good morning Chair Schweyer, Chair Cutler, and members of the Committee. Thank you for the opportunity to provide testimony on Pennsylvania's Educational Tax Credit (ETC) program. Act 48 of 2017 required the Independent Fiscal Office (IFO) to review various tax credits over a five-year period. The office reviewed the ETCs during year four of the evaluation cycle and formally submitted the report to the Performance-Based Budget (PBB) Board on January 24, 2022. At the time of the review, total credits were capped at \$280 million annually. That number has since increased to \$680 million for fiscal year (FY) 2025-26.

The IFO analysis covered the period from FY 2015-16 (\$150 million program cap) to FY 2019-20 (\$280 million cap). As part of the review, the IFO solicited feedback from legislative staff, the Department of Revenue, the Department of Community and Economic Development (DCED) and 17 outside interest groups (e.g., scholarship organizations and business participants). Although five years of data were requested, in some cases, DCED was only able to provide detailed program data for the two most recent years (FY 2018-19 and FY 2019-20). The IFO analysis found that:

- For FY 2019-20, 68,430 students received \$145 million in ETC scholarships, an average of \$2,120 per student.
- Almost all firms (99%) made two-year commitments and received a tax credit equal to 90% of their ETC contribution.
- At the time of review, qualifying income thresholds for scholarship recipients were roughly 500% of federal poverty level (FPL) for a family of four. This was higher than all other states with a similar program and income limitations. Since some portion of these families could likely afford private school without a scholarship, it was unclear how much behavior was incentivized by the credit.
- Modest state savings were realized from students switching from public to private schools (\$350 per student on average) due to strong school district hold harmless provisions.
- Compared to other states with similar programs, Pennsylvania had the highest allowance for funds retained by organizations to cover administration and other

costs. For the years reviewed, the average share of contributions retained ranged from 8.0% to 8.8% across all organizations.

- As the cap on the EITC increased, additional contributions flowed disproportionately to a small number of large organizations. For the Educational Improvement Tax Credit (EITC) component, the top ten organizations received 26% of the contributions in FY 2015-16 and 47% in FY 2019-20. Over the five-year period, EITC contributions increased by \$92 million and 70% (\$64 million) flowed to the top ten organizations.
- Key ETC outcome data were not available for analysis due to statutory limitations on data collection. As a result, the IFO was unable to determine whether the ETC achieved the stated program goals or purpose or whether state program funds were used effectively.

The report included the following recommendations to enhance ETC program efficiency:

There should be more accountability for ETC contributions not used to fund scholarships or educational improvement programs. At the time of program review, only 80% of contributions were required to be used for scholarships or educational programs and the remaining 20% could be retained by the organization and used for any purpose. Because this spending reduced the amount of funds available for ETC programs, the IFO recommended (1) establishing guidelines for how retained funds could be used and (2) that documentation on the use of those funds be collected by DCED. In addition, the IFO recommended that the limit on retained funds be reduced from 20% to a share that was more in line with the limits set by other states with a similar program (3% to 10%). Act 33 of 2023 lowered the ETC retained contributions share to 10%.

To facilitate a meaningful and thorough evaluation of program effectiveness, the statute should be amended to allow the collection of certain key performance data. The report specifically noted six performance metrics necessary to capture basic demographic and outcome data. Act 33 of 2023 required that three of those metrics be collected and reported by DCED annually. The first report is due November 1, 2026 for FY 2025-26.

The per student cap on Education Opportunity Scholarship Tax Credit (EOSTC) scholarship awards should be eliminated. The EOSTC is a carve out for students living within the boundary of a low-achieving public school. It was unclear why the EOSTC scholarships, which were designed for the neediest students, were subject to a cap while the more generally available EITC scholarships were not.

Eliminate the early application period for firms renewing their two-year contribution commitments. Allowing these firms to apply early (before firms that had not previously participated in the program) effectively excluded new donors.

DCED should create an automated system for ETC application tracking and processing. At the time of review, the application process was largely manual, and stakeholders reported that they had to call DCED to determine application status and what, if any, additional documentation was required.

DCED should publish an annual report summarizing basic ETC program data. DCED was only able to provide two years of ETC data for analysis by the IFO. The ETC is currently Pennsylvania's largest tax credit, but in comparison to other states, it collected and published the least amount of data. The report recommended eight datapoints that could be collected and reported even with the statutory limitation on data collection.

The analysis also identified **three key decision points** for policymakers to consider when making future updates to the ETC program:

1. Does the significant waitlist for firms that want to participate in the program, but are unable to procure a credit allocation (997 firms and \$137 million in contributions for FY 2019-20) imply that the tax credit rate is too high? Would the same amount of contributions occur if the tax credit were awarded at a rate of 80% or even 60% of contributions?
2. At the time of program evaluation, it was noted that the household income thresholds for scholarship participation were higher than all other states with a threshold. If the intent is to provide scholarship opportunities to the neediest students, should the thresholds be lowered?
3. What is a reasonable share of contributions for an organization to retain to cover administrative expenses? Should there be a sliding scale so that smaller organizations (less contributions) can retain a higher share, but larger organizations (more contributions) retain less?

The final tax credit reports (year five) were approved by the PBB Board in January 2023, and the Board has not yet approved a schedule for subsequent tax credit reviews. As a result, no further analysis of the ETC program by the IFO is planned.

I am happy to address any questions that you may have at this time.

House Education Committee Informational Meeting
Department of Community & Economic Development Written Testimony
April 14, 2026

Good morning, Chairmen Schweyer and Cutler and members of the House Education Committee.

My name is Jimmy O'Donnell, and I am the Director of the Tax Credit Division within the Financial Management Center at the Pennsylvania Department of Community and Economic Development (DCED).

The Tax Credit Division's staff of seven is responsible for administering 12 different tax credit programs throughout the Commonwealth totaling over \$800 million dollars in tax credit awards on an annual basis. Our primary day-to-day duties focus on the administration of the EITC and OSTC programs, which in turn make up \$680 million in tax credit awards.

Each of the Educational Tax Credit programs allow participating businesses and individuals through special purpose entities to financially support non-profits and private schools throughout the Commonwealth and in return receive state tax credits based upon their donations. Participating non-profits and private schools are then required to use their EITC and OSTC funds to support students in Grades Pre-K through 12 through either innovative educational programming for public school students or private school tuition assistance. EITC and OSTC participating scholarship organizations annually provide over 110,000 private school scholarships to eligible students through the tax credit programs.

Governor Shapiro's proposed 2026-2027 Budget proposes to reallocate caps within the Education Improvement Tax Credit to provide more tax credits to Educational Improvement Organizations, while keeping the overall cap for the EITC program unchanged.

I appreciate the opportunity to speak before your committee, and DCED welcomes the opportunity to further discuss the EITC and OSTC programs. Thank you for your time, and I am happy to answer any questions members of the House Education Committee may have.

Testimony Before the House Education Committee
Department of Revenue
Tuesday, April 14, 2026

Chairman Schweyer, Chairman Cutler, and members of the committee, thank you for the opportunity to meet with you today to discuss the Department of Revenue's (Revenue) role in the Educational Improvement Tax Credit (EITC) and Opportunity Scholarship Tax Credit (OSTC) programs. Testifying on behalf of the department are Amy Gill, Deputy Secretary for Tax Policy, and Meggan Swisher, Director of the Bureau of PATH Development and Support.

As you know, the EITC/OSTC programs were established in 2001 and 2012, respectively, to provide financial assistance to families for tuition and education-related expenses through scholarship organizations. The programs offer business and individual tax credits to reduce their state tax liability by making contributions to eligible educational improvement or scholarship organizations that are approved by the Department of Community and Economic Development (DCED). These tax credits can be applied to a number of state taxes, including Personal Income Tax and Corporate Net Income Tax.

The EITC/OSTC programs are administered through both Revenue and DCED. Each agency has specific roles in carrying out these programs. Revenue administers the tax credits for the program, including verifying compliance, applying tax credits to the appropriate accounts for taxpayers, and processing refunds when applicable. Revenue and DCED work together and communicate regularly to administer these programs in an efficient manner.

There is a process for taxpayers to apply for and receive the tax credits under the EITC/OSTC programs. To provide a broader picture, we have broken down the process into steps that outline where Revenue and DCED interact and where each agency fulfills its own administrative duties, along with responsibilities of interested parties outside either agency:

- **Step 1:** Entities submit their applications to DCED. First time applicants apply in July and renewals apply in May.
- **Step 2:** DCED provides a list of applicants to Revenue, which runs compliance checks on the applicants, and the compliance reports are submitted back to DCED.
 - If the taxpayer is compliant, Revenue communicates a clearance status to DCED.
 - If the taxpayer is not compliant, Revenue issues a non-compliance letter to the taxpayer so the issues can be resolved.
 - If the taxpayer cannot resolve the issues, Revenue reports a final non-compliance status to DCED, and the taxpayer becomes ineligible for the credit.
- **Step 3:** After compliance is verified, DCED sends a letter informing the applicant that conditional credits have been reserved and that they must make contributions to their

- chosen school to remain eligible. The donation period runs from August through December for calendar year filers.
- **Step 4:** Entities make their donations. This donation typically happens before December 31, but some follow fiscal year schedules.
 - **Step 5:** Evidence of contributions is communicated to DCED by business entities.
 - **Step 6:** DCED validates that the contributions were made and sends weekly credit upload files to Revenue.
 - **Step 7:** Revenue posts tax credits to the appropriate entity account within the department's tax administration system within 2 days of receiving DCED records.
 - **Step 8:** There are two options for how to use the credit:
 - First, if an entity is not a Special Purpose Entity (SPE) or pass-through entity, it can choose to use the credits on its own tax return. For example, a Corporation, Bank, or Insurance Company may apply the credits to reduce taxes such as Corporate Net Income Tax, Bank Shares Tax, or Insurance Premiums Tax.
 - Second, if the entity is a SPE or a pass-through entity (such as an LLC, partnership, or S corporation) and its owners pay Pennsylvania Personal Income Tax, the entity may choose to pass the credits through to those owners. To do this, the entity must complete Form REV-1123 (Educational Improvement/Opportunity Scholarship Tax Credit Election Form). This form tells Revenue how much of the credit should go to each individual owner.
 - **Step 9:** Revenue processes the REV-1123 and allocates credits to owners for pass-through entities. Revenue processes tax returns for entities that do not elect to pass through the credit and claim the credit directly on the return.
 - **Step 10:** Owners that allocated credits from a pass-through entity claim the credits on their returns.
 - **Step 11:** Revenue validates credits and issues refunds if applicable.

As you can see, there are several steps that need to occur before taxpayers can receive a credit. For instance, even if the individual donor's PA-40 is filed prior to the April filing deadline, Revenue cannot process the allocation of the tax credit to the individual taxpayer until it has received the following information related to the entity awarded the tax credits:

- EITC or OSTC award from the DCED;
- The REV-1123 allocating the entity credit to the individual taxpayers; and
- The tax return filed by the entity electing to pass through credits to individual donors, so that Revenue can verify the amount of the credit available for allocation.

Regarding the point above, approximately 70% of Educational Tax Credit-related donations come through pass-through entities. Often these entities do not file their tax returns until the fall

after the end of the tax year via an extension. If the pass-through entity files on extension, Revenue is not able to start processing the return for the individual taxpayer until the fall, which could be a year after the individual donation was made.

That being said, Revenue has taken several steps to expedite processing times for EITC/OSTC recipients, including:

- Educating entities being awarded the credits about the impacts of filing on extension;
- Dedicating additional staff to focus on those returns when we have all required documentation we need;
- Making the REV-1123 form available electronically for the first time this year to further improve the process. This has led to the quickest processing time Revenue has ever had even with the program's growth by more than \$420 million in available credits (both EITC and OSTC) over the past five years; and
- Working with DCED to receive the award notifications from DCED weekly instead of monthly, allowing for quicker processing of the credits.

Revenue continues to actively work with both taxpayers and pass-through entities to streamline the overall process, while also proactively working to further shorten processing times.

In conclusion, Revenue is proud of the work we have done alongside DCED to make the process easier and to make processing times for these programs quicker for taxpayers across the commonwealth. We also continue to evaluate the department's needs to ensure that these programs are administered as efficiently as possible. Thank you for the opportunity to provide testimony on behalf of the Department of Revenue to share our role in these programs. We welcome any questions from the members of your committee.

Arizona Empowerment Scholarship Accounts (ESAs)

History and Impact on the State General Fund

Presentation to the

House Education Committee, Pennsylvania Legislature

April 14, 2026

Anabel Aportela, Ph.D.

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What are ESAs?

Began in 2011 as a school choice option for students with disabilities, previously enrolled in a public school.

Expanded to include students in D/F schools, military families, in foster care, etc., in subsequent years

Beginning in 2022-2023 school year, available to any Arizona resident, regardless of prior enrollment in an Arizona public school

Provides 90% of the charter equalization formula for the student (including weights) to use for any allowed educational purpose. *Does not have to be used in a school setting.*

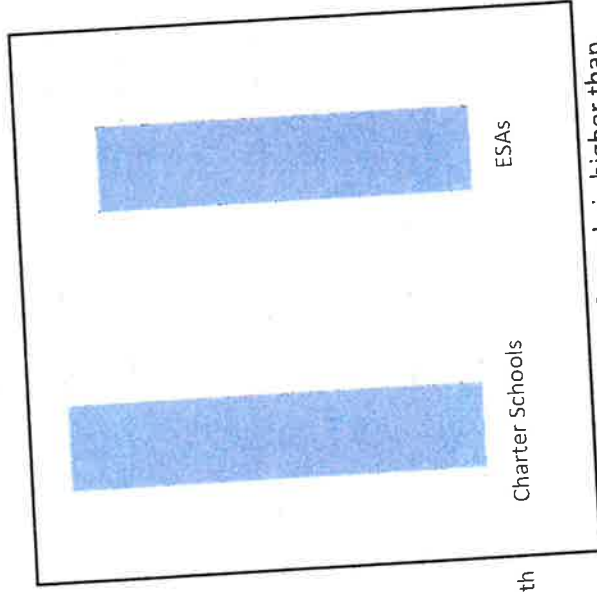
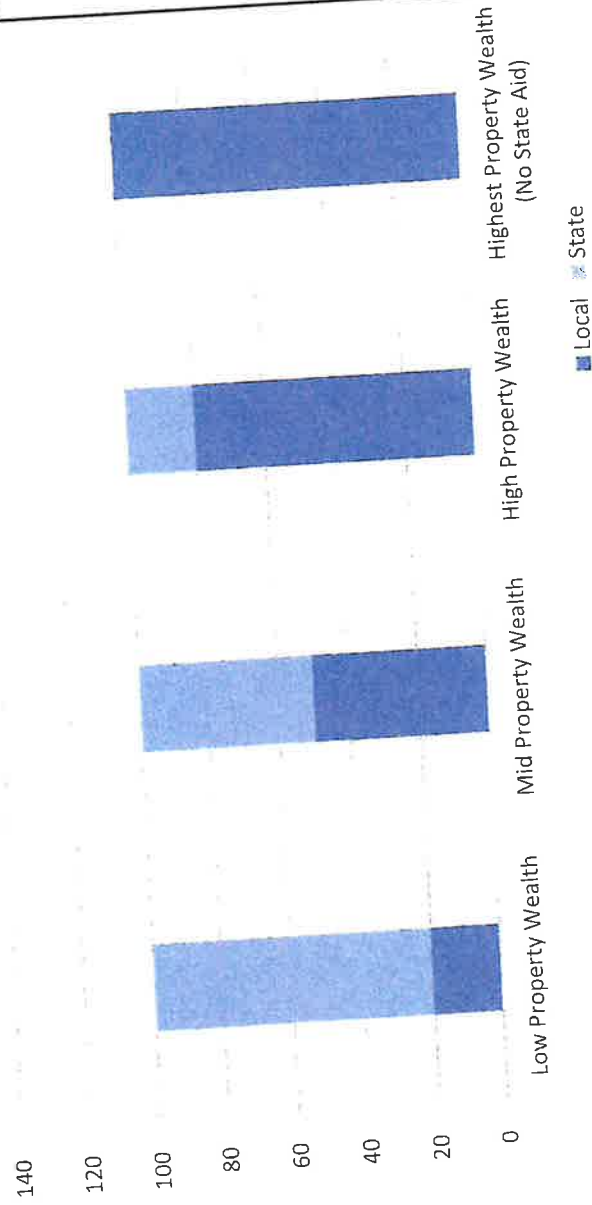
Entire cost falls on the state general fund with no cap on enrollment or total program cost.

ESAs are the latest addition to the state's school choice options.

| 1912 | 1980 | 1995 | 1998 | 2011 | 2023 |
|--|--|--|--|---|---|
| Arizona Constitution directs the legislature to provide for "a general and uniform public school system" | Current school funding formula (aka equalization formula) is established | Charter schools and inter- and intra-district open enrollment policies are established | School Tuition Organization (STO) Income Tax Credits are established | Empowerment Scholarship Accounts (ESAs) are established for students with disabilities only | Universal ESAs begin in 2022-23 school year |

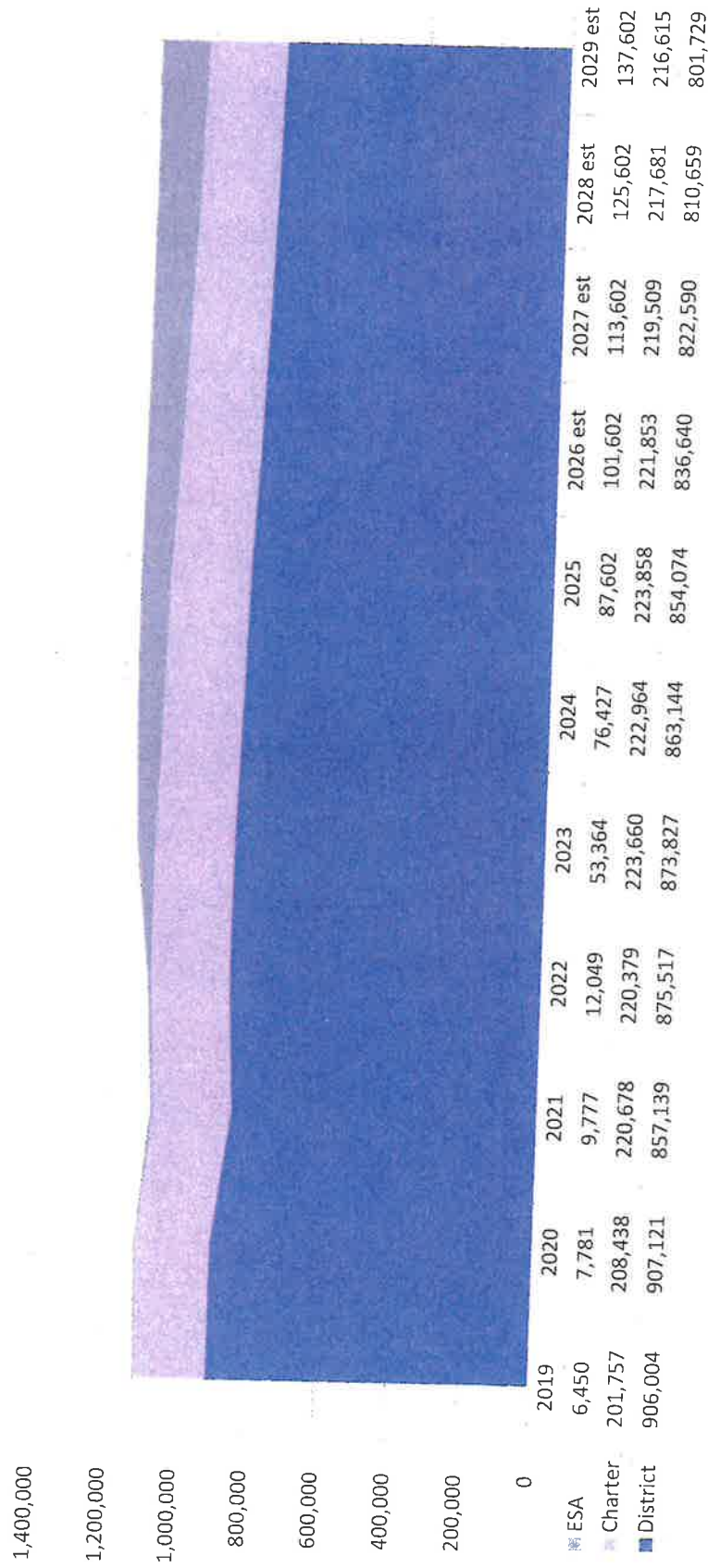
1980: State general fund equalizes funding based on a uniform primary tax rate.

AZ equalization formula based on Qualifying Tax Rate (QTR)



Charter school formula is higher than district formula.
 ESA formula is 90% of charter formula.

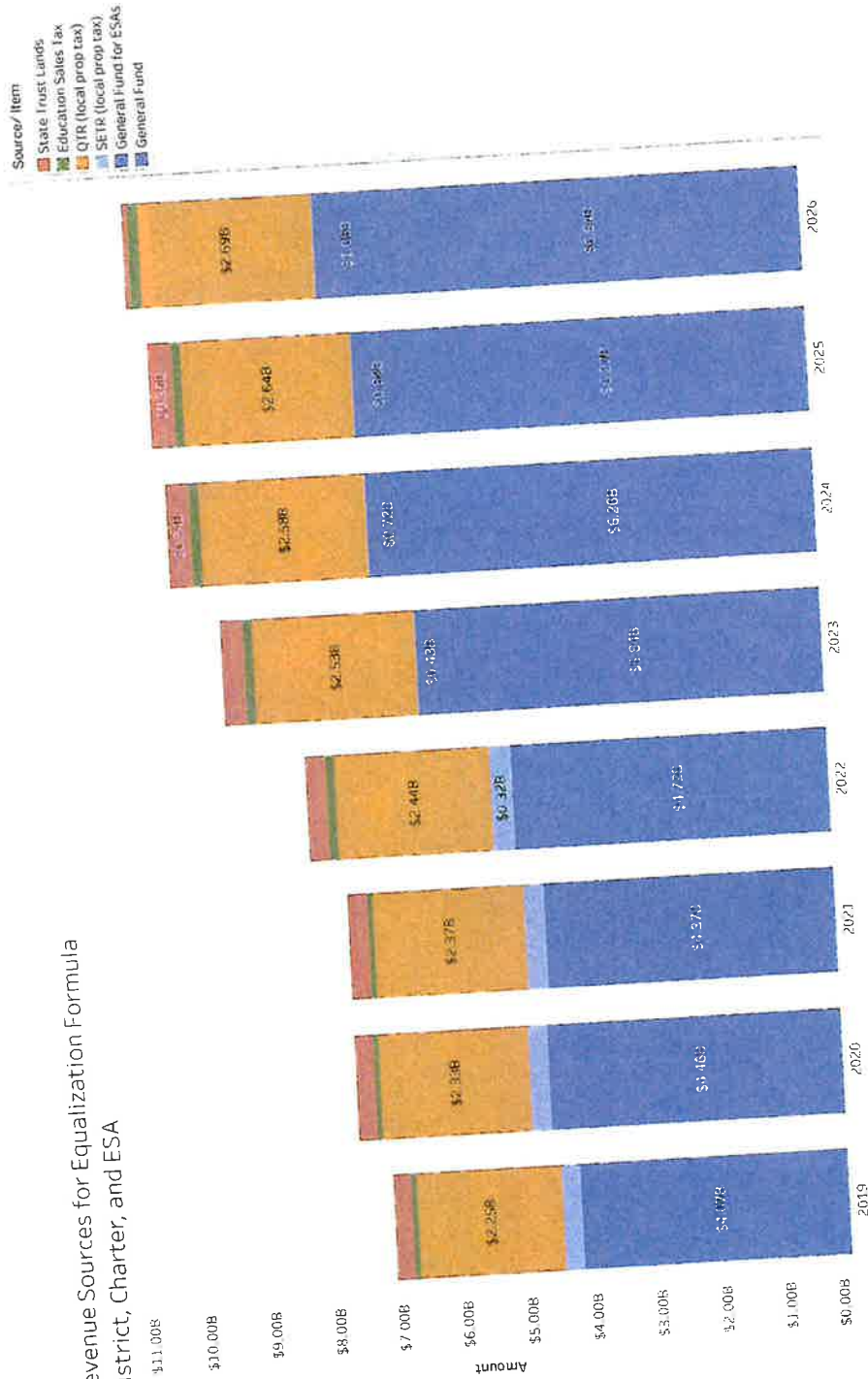
Equalization formula for 30% of students will be funded entirely by state general fund by 2029.



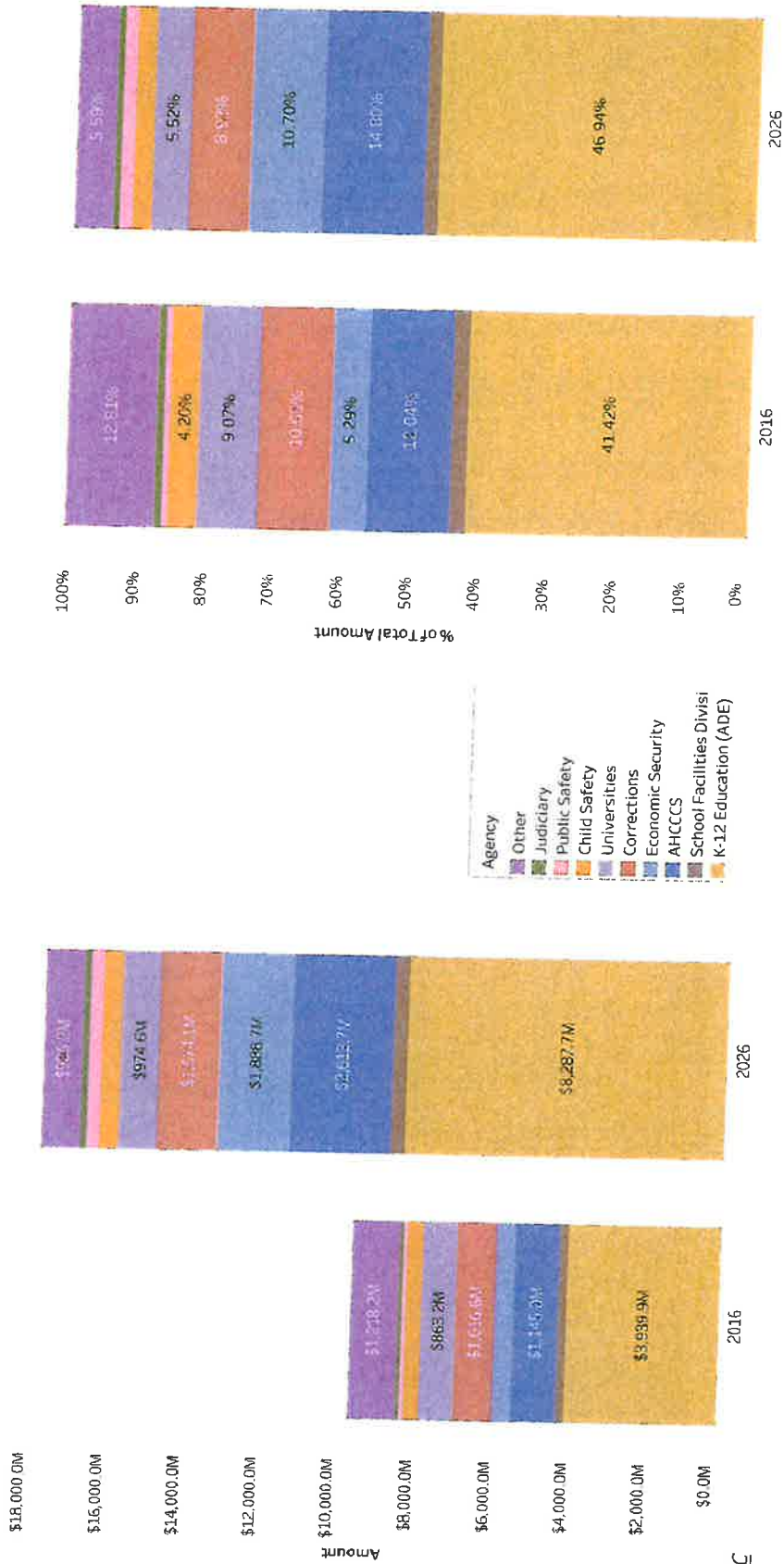
Source: Joint Legislative Budget Committee, FY27 Baseline Book, Table 3

Despite declining enrollment in public schools, the cost of the formula continues to increase.

Revenue Sources for Equalization Formula District, Charter, and ESA



Cost of K-12 is putting pressure on the state general fund. FY26 Appropriations, Top 10 State Agencies



Source: JIBC

ESA Transparency and Accountability

What we know and what we don't know.



Arizona Department of Education is the primary source of data for ESAs.

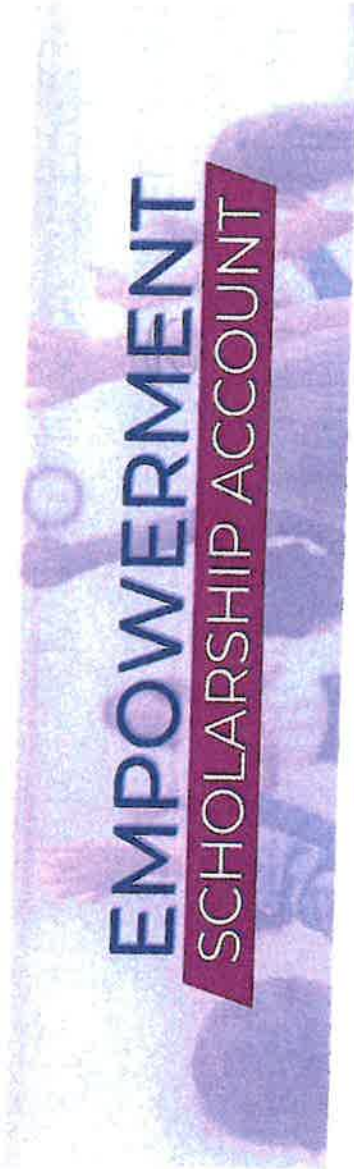


Select Language ▾



Parents Educators & Administrators Programs About ADE Data & Systems ADEConnect **Q**

Home Empowerment Scholarship Account Program Welcome to Empowerment Scholarship Account



APPLY NOW FOR THE 2026-2027 SCHOOL YEAR

Students enrolled for the 2025-2026 School year

 **102,852*** 

Arizona students benefit from an Empowerment Scholarship Account

(* AS of 04/06/2026)

Quarterly Reports Required by Statute

Data Elements Included (snapshot)*

- Participation # for each quarter, by eligibility category, including special education, ELL and grade
- Participation by zip code
- Participation by district/charter previously enrolled
- Award amounts
- Approved expenses by categories

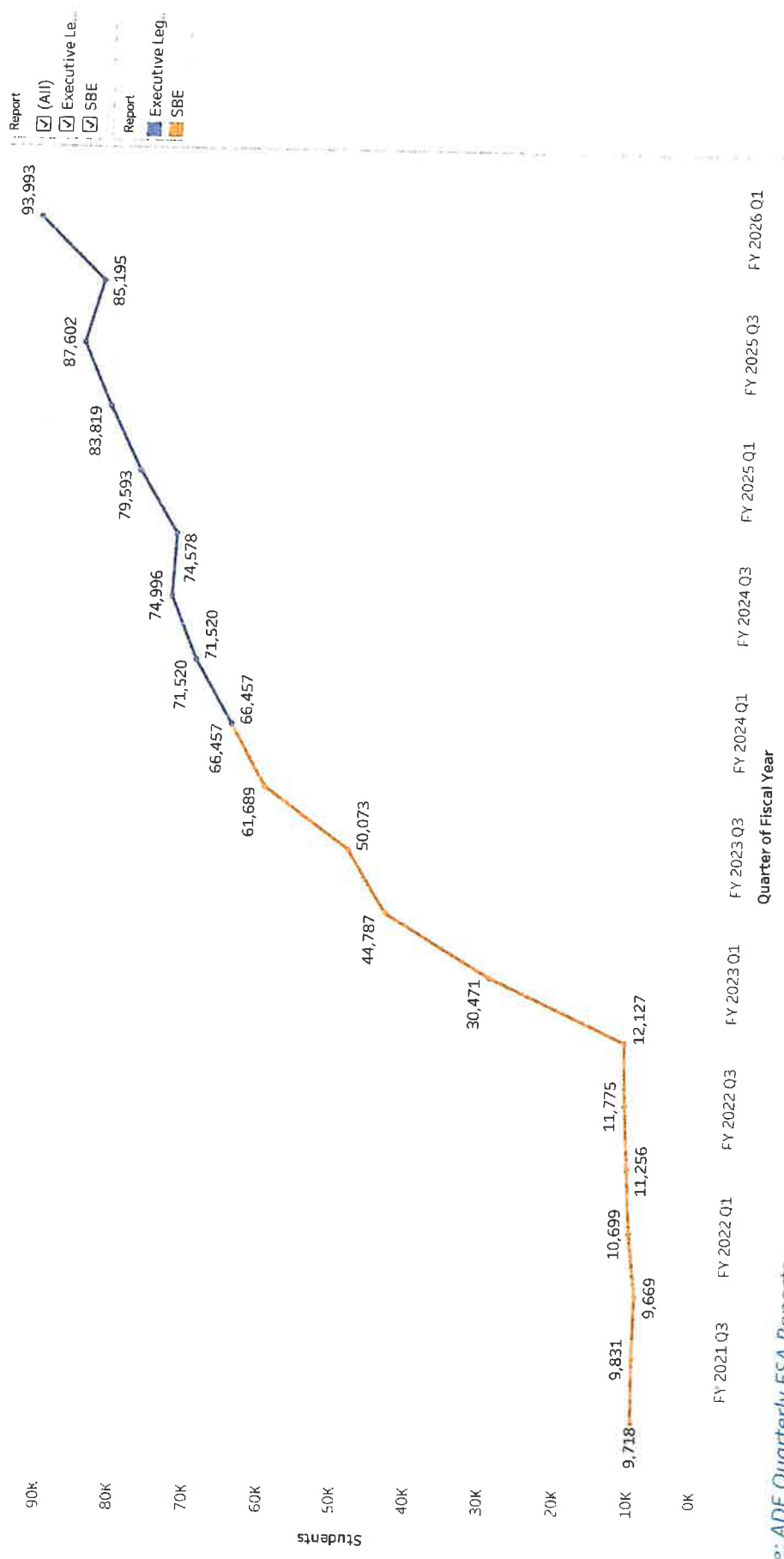


Arizona Empowerment Scholarship Account
(ESA) Program

Fiscal Year 2026 Quarter 2 Report
Pursuant to Arizona Revised Statutes §15-2406

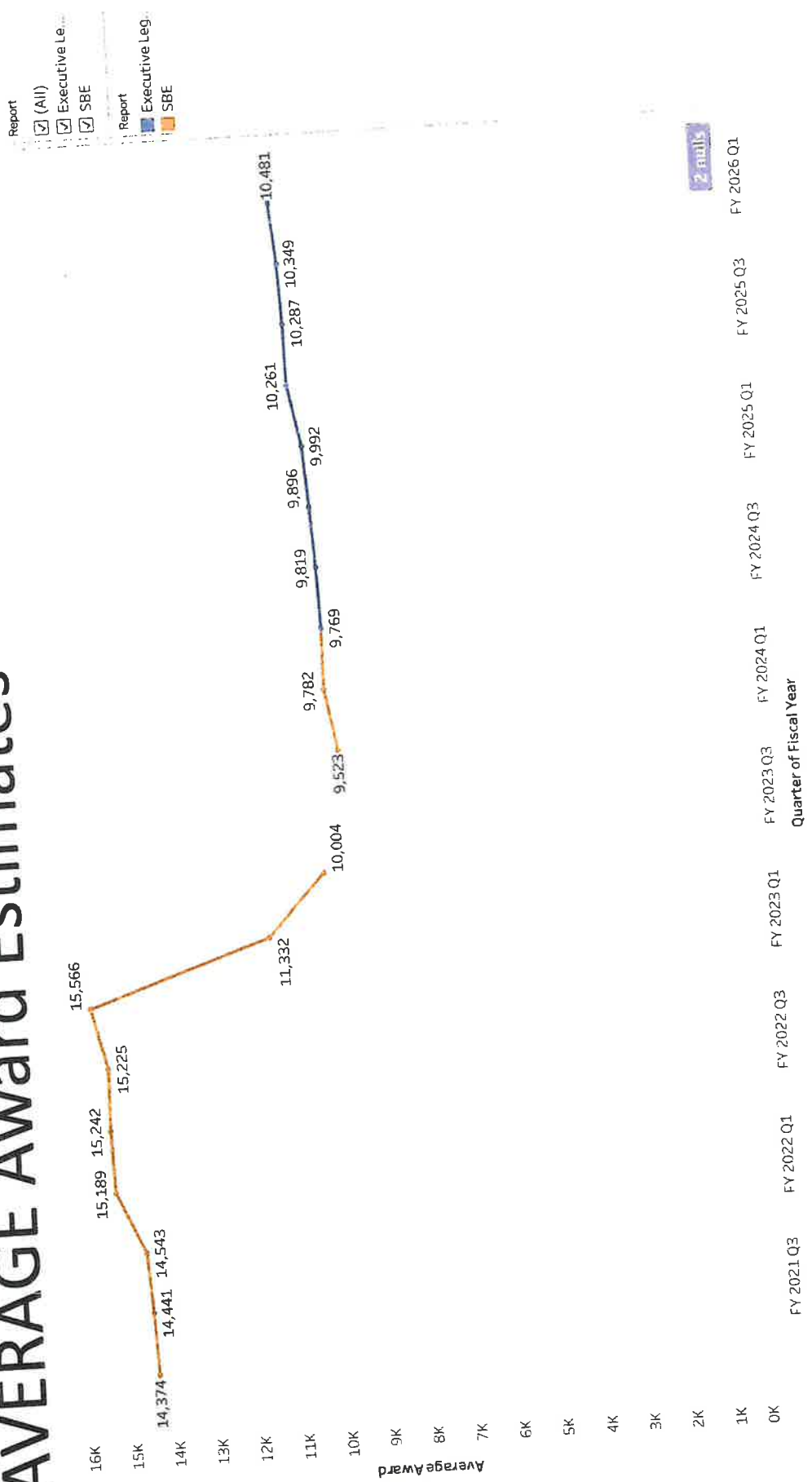
*varies by report over time

Student participation in ESA



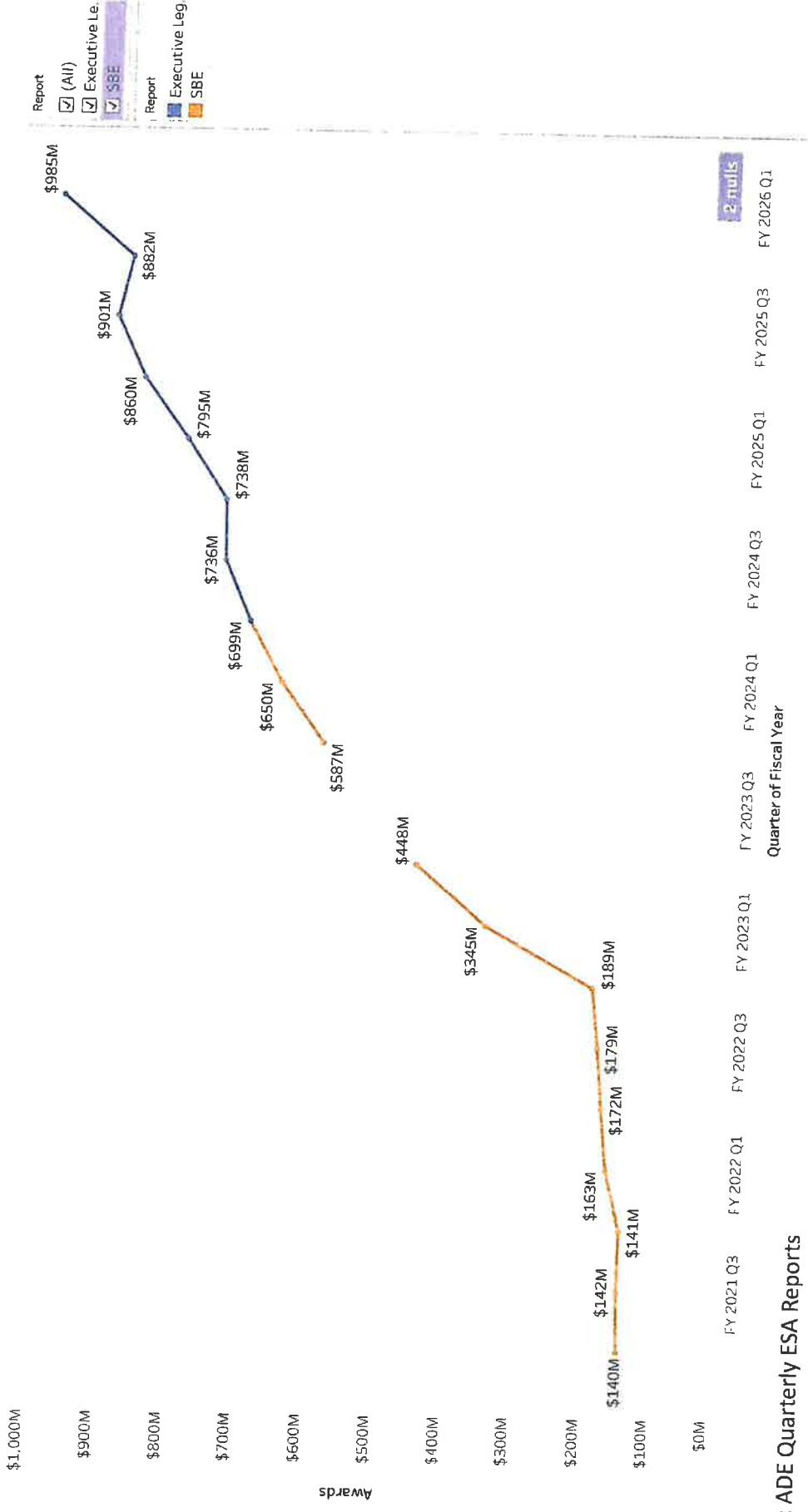
Source: [ADE Quarterly ESA Reports](#)

AVERAGE Award Estimates*



Source: ADE Quarterly ESA Reports

Total Award Estimates*



Source: ADE Quarterly ESA Reports

Data elements not included in ESA Quarterly Reports (or what we have questions about)

- Trends, including exits/graduations
 - ESA students returning to public schools (and potential cost)
- ESA setting (private or home school)
 - including private school name and location
- Academic achievement of ESA students
- Demographic information for ESA students (poverty, race/ethnicity)
- Total **actual** costs
 - JLBC publishes estimates
 - ADE quarterly reports do not account for partial-year participation/award amounts reported

Anabel Aportela, Ph.D.

Anabel has over thirty years of experience performing research and education policy analysis in Arizona and nationally. Her areas of expertise are school finance, school accountability and student achievement, as well as charter schools and school choice.

Anabel has a B.A. in Public Policy and M.A. in Education Policy Analysis from Stanford University and a Ph.D. in Education Leadership and Policy Analysis from the University of Wisconsin-Madison.

She currently works as a consultant to several educational organizations and can be reached at anabel@meaningfulinfo.com.





April 8, 2026

The Hon. Peter Schweyer
Majority Chair
House Democratic Education Committee
Room 128
Main Capitol Building
Harrisburg, PA 17120-2134

Re: Statement from Friends of Education regarding April 14, 2026 testimony

Dear Chairman Schweyer:

On behalf of Montgomery County Scholarships, Inc. (“MCS”), I thank the Committee for the opportunity to speak about the Educational Improvement Tax Credit (“EITC”) program. By way of background, I am the director of MCS, which is registered as a Scholarship Organization (“SO”) with the State’s Department of Community and Economic Development (“DCED”). I am also a director of PA Tax Credits LLC, a management company, that processes gifts for Educational Improvement Organization (“EIO”) charities. Our organizations operate under the moniker “Friends of Education.”

Background

I am a native Pittsburgher. I attended Duke University and the University of Pennsylvania Carey Law School. I subsequently clerked for a federal judge in Washington, D.C., worked at the U.S. Department of Justice’s Tax Division, and then at the Philadelphia Office of Blank Rome LLP. I am also a member of the Pennsylvania bar.

In 2018, while at Blank Rome, I was introduced to the EITC program following the enactment of the Tax Cuts and Jobs Act and its state and local tax (“SALT”) deduction limitations. Anticipating increased demand, I formed a special purpose entity (“SPE”) to support my children’s schools. What began as raising approximately \$150,000 as a parent volunteer has since grown into an organization that facilitated over \$40 million in EITC contributions in 2025.

Overview of the EITC program

A participating business receives a 75% Pennsylvania tax credit (or 90% credit if it commits to the same contribution for two consecutive years) on donations to approved SOs or EIOs, capped at

101 Greenwood Avenue, Suite 380
Jenkintown, PA 19046
(215) 253-8511



\$750,000 annually.¹ The credit may be applied against personal income tax, corporate net income tax, and certain other state business taxes.²

Donors must be a “business firm.” This is a broad definition which includes businesses that are registered in Pennsylvania and file a Pennsylvania tax return.³ The definition also includes SPEs, namely pass-through entities, the sole purpose of which is the making of contributions and whose shareholders, partners or members are composed of owners or employees of other business firms.⁴

There are three categories of EITC credits:

Scholarship organizations (SOs) – nonprofit charities that provide scholarships to K-12 students based on financial need. To qualify, an organization must be tax-exempt under Section 501(c)(3) and meet specific program requirements, including distributing at least 90% of its annual EITC receipts (or 85% if it meets certain efficiency thresholds based on its Form 990) toward eligible scholarship programs. SOs must be registered with the State. In practice, intermediary charities (such as our organization) often aggregate contributions from businesses and SPEs and distribute those funds to participating schools, streamlining administration and compliance. The SO program is allocated \$375 million. Schools are not required to register as an SO to receive funds; they may receive scholarship support through a registered SO. Some schools operate their own SO, while others partner with an existing organization.

Educational Improvement Organization (EIOs) – nonprofit charities which provide enrichment programming to K-12 school students. These organizations represent a wide range of exempt groups including zoos, theatres, Boy Scout troops, technical schools, as well as sports and youth organizations. \$74.5 million is allocated to this program.

Pre-K SOs – these credits are identical to the K-12 SO credits except they serve pre-school students. These credits differ because the maximum award is \$200,000, and the first \$10,000 is subject to a 100% state tax credit. The award is also always 90% whether the donor gives for one or two years. \$30.5 million is allocated to this program.

¹ 24 P.S. § 20-2005-B(a)–(b).

² 24 P.S. § 20-2002-B.

³ 24 P.S. § 20-2002-B.

⁴ Pa. Dep’t of Revenue, Informational Notice – Miscellaneous Tax 2015-01: Education Tax Credits (Mar. 17, 2015).



Donors are awarded a specific type of credit and must donate to a registered entity.

The State also has two other programs: Opportunity Scholarship Tax Credits (“OSTC”) (\$90 million) and Economically Disadvantaged Schools (“EDS”) (\$60 million). OSTC tax credits limit the award per student. Recipient schools receive money for serving students from underperforming school districts. OSTC offers the same tax credit as the EITC program.

A school is eligible for EDS if at least 51% of the students attending the school in the immediately preceding academic year received a scholarship. EDS offers a 99% credit to business firms which make two-year commitments. DCED is authorized to approve only one Opportunity Scholarship Organization – Economically Disadvantaged Schools per year.⁵

How Friends of Education operates

Friends of Education distributes tax credits through SPEs. Donors who either want to support a specific charity or who otherwise want to take advantage of these tax credit opportunities join our SPE by signing a partnership agreement. When DCED notifies us that we can collect money for a specific SPE, we notify donors who fund their current year contribution. We distribute the funds consistent with the donors’ wishes. In the following March, our organization files a Form 1065, partnership tax return, for each SPE that makes an EITC gift. We then distribute partnership tax forms to each participant allowing them to claim a federal deduction and their credit on their individual or business returns.

Most gifts designated for eligible schools, including nonpublic schools and qualifying special education schools, are transferred from the SPE to our nonprofit SO, MCS. MCS then collects data from participating schools (a redacted report is attached) and distributes funds.

When a donor opts to support an EIO charity, the SPE writes a check to the EIO charity. We then collect acknowledgement letters from the EIO charities and file those with DCED. The EIO charities provide a report to DCED on their use of the funds.

The SPE distributes money within the earlier of 60 days of receiving its award letter or year end. MCS distributes money as soon as it receives a scholarship report that comports with DCED guidelines.

⁵ 24 P.S. § 20-2002-B, 24 P.S. § 20-2005-B & 24 P.S. § 20-2003-B(d.3).



All participants at Friends of Education receive a 90% state tax credit even if the donor is only participating for one year. These donors receive the 90% credit because the SPE – not the individual – contracts with the State to make a two-year pledge. Our organization will backfill the donors' slot within the SPE by finding another donor.

Benefits of the SPE structure

The EITC program is an economic development tool that drives private investment into education across the State. The effectiveness of that tool depends on its ability to access Pennsylvania's tax base, operate efficiently at scale, and ensure compliance in an increasingly complex tax environment.

Expands Access to the State's Primary Tax Base. Pennsylvania's tax system is heavily weighed toward personal income tax, which accounts for approximately 70% of total state tax revenue. Before 2015, participation in the EITC program was limited to traditional business entities. The SPE structure bridges that gap. By allowing individuals to participate through pass-through entities that qualify as "business firms," the program aligns with the State's largest source of tax revenue and expands the pool of participants. The SPE structure is foundational to the program's scalability. Without it, the program would remain constrained to a narrower corporate base, leaving substantial capacity untapped.

Reduces Administrative Burden on the State. The SPE structure streamlines administration for DCED. Friends of Education's donor base includes more than 1,350 participants. Without aggregation through SPE, there would be over 1,300 separate interactions with DCED. Instead, DCED interfaces with a limited number of SPEs and approved organizations.

Ensures Compliance and Reduces Risk. The EITC program involves multiple filing deadlines and technical requirements administered by both DCED and the Department of Revenue. Even sophisticated taxpayers can miss deadlines or misunderstand the interaction between state tax credits and federal tax law. As a result, we have observed donors who forfeited credits and paid retroactive tax penalties. The SPE structure provides centralized guidance and administration. Without this layer, the risk of noncompliance increases, undermining both taxpayer confidence and the effectiveness of the program. My team consists of a second tax attorney and together we can interface with donors, donors' advisors, and development officers. We also retain a large accounting firm which has expertise in the program and technical partnership tax issues, thereby allowing us to manage the reporting of contributions in an efficient, accurate, and secure manner.



Promotes Statewide Distribution of Funds. The SPE structure enhances the geographic reach of the program. Without aggregation, contributions tend to follow existing relationships and may become concentrated in limited areas. By contrast, the SPE framework allows for deployment of funds across the State, ensuring that a broader range of communities and programs benefit.

EITC funding is in significant demand

We have seen EITC funding demand increase substantially. Notably, there is a growing demand for supporting EIO charities. In the course of our work with EIOs we have encountered a number of especially compelling organizational narratives:

- EIO funding can be used to fund technical education opportunities for students in a K-12 setting. We have partnered with groups like Aerium, a Johnstown based charity, which is using funds to educate students on Aviation and drone technology throughout the State.
- EIO funding can be used to fund the State's financial literacy mandate to provide high school instruction on financial literacy in 2026-27. *See* Act 35 of 2023, amending Section 1551 of the Public School Code. We partner with Financial Scholars which trains teachers and provides curriculum in public schools in two counties.
- EIO funding can be used to provide out-of-school time ("OST") programming. The Joint State Government Commission issued a report in June 2021 estimating that the State yields a return on investment of approximately \$6.69 in benefits for every \$1 invested in Pennsylvania OST programs.⁶ These savings are based on reduced rates of high school dropout, teen pregnancy, substance use, and crime/delinquency.
- EIO funding can be used to reach public school students. We work with education foundations throughout the state which funnel these gifts directly to public schools districts.

⁶ [2021-06-25 Afterschool ROI Web 6.25.21.pdf](#)



- EIO funding can be used to assist special needs students. We partner with the Bournelyf Special Camp, Andrew's Gift, Woods Services, Variety, the Children's Charity of the Delaware Valley, and Melmark, among others which provided services needed to students with special needs.

These are just some groups, but there are hundreds of others providing innovative K-12 public education that prepare public school children in the State for the future.

Interplay of EITC with the One Big Beautiful Bill Act (the "OBBBA")

The OBBBA will make a lasting impact on charitable giving in many ways. The most significant change involves the federal education choice tax credit which mirrors the EITC program in many respects.

Before turning to the federal education tax credit, I would like to briefly address several other changes in the new law that we believe will discourage charitable giving. These changes will disproportionately impact high-net-worth donors, who historically account for a disproportionate share of charitable giving.

The OBBBA makes the following changes affecting the deductibility of charitable donations:

- It introduces an above-the-line charitable deduction of \$1,000 for single filers and \$2,000 for joint filers, available only to taxpayers who do not itemize. While helpful at the margin, this provision primarily benefits smaller donors and does not incentivize large-scale giving.
- It increases the standard deduction (e.g., \$15,750 for single filers and \$31,500 for joint filers, indexed for inflation), reducing the number of taxpayers who itemize and resulting in less charitable contribution deductions.
- It raises the SALT deduction cap from \$10,000 to \$40,000 (indexed for inflation), with the enhanced cap phasing down for taxpayers with modified adjusted gross income ("AGI") above \$500,000 and fully reverting back to \$10,000 at modified AGI above \$600,000.



- It imposes a new 0.5% floor on itemized charitable contribution deductions, meaning taxpayers may only deduct charitable contributions to the extent those deductions exceed 0.5% of AGI.
- It limits the tax benefit of all itemized deductions to 35%, meaning that taxpayers in the top 37% bracket (i.e., joint filers whose taxable income exceeds \$768,700 in 2026) receive a reduced marginal benefit for charitable contributions.
- It keeps the 60% of AGI limitation for cash contributions to public charities (with excess contributions carried forward). This amendment does not offset the impact of the new limitations described above.
- It introduces a 1% floor on charitable corporate contributions, requiring corporations to contribute more than 1% of taxable income before receiving a federal deduction.

Together, these provisions significantly reduce the after-tax benefit of charitable giving for high-income taxpayers and widely held corporations. As a result, the overall effect is likely to be a net disincentive to charitable giving. More significantly, we believe that the 1% corporate giving floor will be very detrimental. According to the Indiana University Lilly Family School of Philanthropy at IU Indianapolis, corporate giving averages about 1.1% of taxable income.⁷ Beginning in 2027, corporations will receive little economic benefit from charitable contributions, as most charitable contributions will no longer be deductible without additional strategies, such as bunched giving through a Donor Advised Fund.

The OBBBA education credit

Although the impact on charitable giving is likely to be negative, the OBBBA education credit will substantially increase the amount of money donated for K-12 scholarships. Under the program, donors can direct gifts to “scholarship granting organizations” (which are similar to the EITC’s SOs) and receive a dollar-for-dollar credit of up to \$1,700. We are waiting for the IRS to issue guidance to determine if the credit will be doubled for joint filers.

⁷ Charitable giving grew to \$593B in 2024, propelled by a strengthening US economy and a booming stock market



States must affirmatively opt into the OBBBA Education Credit program before eligible schools within those states may receive this funding. Pennsylvania has not opted yet to participate. Opting in may result in an additional \$91 million in federal funds being directed to Pennsylvania schools.⁸ If Pennsylvania were to opt in, the program could potentially work well with EITC. Any amount claimed under this federal credit cannot also be counted toward a taxpayer's charitable deduction and is reduced by the amount of any state credits claimed.

A donor who gives \$17,000 presently receives a state income tax credit equal to 90% of the value of their gift and an itemized charitable contribution deduction equal to 10% of the value of their gift. Put another way, the cost to this donor to make a gift is roughly \$1,105 to donate \$17,000. Under the federal program, donors would instead receive a 10% federal credit in lieu of a federal deduction. So, the \$17,000 gift would cost the donors nothing. (The donor would need to make a two-year pledge to receive this benefit.)

We believe that over the long run, opting into the program could yield additional scholarships without expanding the State's fiscal obligations. Donors right now elect to obtain a 90% state tax credit by contracting with the State for two years. Donors who participate for one year receive a 75% state tax credit. A donor could make a one-year pledge, gift \$6,800 and receive the same "no cost" benefit with no further commitment. If that's the case, then donors may opt to participate in the 75% EITC program, which will result in larger amounts of money being funneled to education without an increase in State funding.

The federal statute as written narrowly tailors the use of funds in the program to "tuition, fees, tutoring, special education services, supplies, and other educational materials," which are the same expenses permitted to be paid from a Coverdell account.⁹ However, joint guidance issued by the U.S. Department of Education and Treasury suggests that these categories may be interpreted more

⁸ The Joint Committee of Taxation estimates that the program will cost the U.S. Treasury \$2.6 billion.

Joint Committee on Taxation (JCT), *Estimated Revenue Effects Relative To The Present Law Baseline Of The Tax Provisions In "Title VII – Finance" Of The Substitute Legislation As Passed By The Senate To Provide For Reconciliation Of The Fiscal Year 2025 Budget*, JCX-35-25, July 1, 2025, <https://www.jct.gov/publications/2025/jcx-35-25/>. The IRS's Statistics of Income show that Pennsylvania residents earn about 3.5% to 4% of all income.

⁹ See P.L. 119-21, Section 70411 (citing 26 U.S.C. § 530(b)(3)).



broadly, encompassing a range of uses more consistent with both the SO and EIO programs, such as after school enrichment programming.¹⁰

There are several differences that will need to be addressed in the two programs:

Student eligibility. The Pennsylvania program computes income based on a figure from 2001 which I understand to be 500% of the federal poverty level. That number has been adjusted for inflation to \$116,055 plus \$20,428 for each dependent in 2026. In contrast, the federal program grants tuition benefits to students whose household income is 300% of the Area Median Family Income. In Philadelphia and Montgomery counties, that figure is \$358,200 for a family of four – nearly double the State’s EITC eligibility threshold. (In many non-metropolitan areas, the figure is \$251,100.) The federal and State limits need to be harmonized.

Differing definitions of Scholarship Organization. The federal program defines scholarship organizations more narrowly than DCED’s interpretation of the EITC statute.

Individual versus Entity participation. The EITC program permits contributions from both businesses and individuals. The State allows individuals to participate by pooling contributions through SPEs, which issue Schedule K-1s to allocate the tax credit to individual donors. In contrast, the federal program provides tax credits only to individuals, not businesses. Additional IRS guidance will be necessary to clarify whether credits passed through from SPEs to individual taxpayers are eligible for the federal credit, allowing those individuals to benefit from both programs where applicable.

EITC funding as a workaround for the federal SALT deduction limitation

In 2019, the IRS stated that a federal charitable deduction must be reduced by the value of the state tax credit received. This provision meant that in the context of EITC giving if an individual donated to an SO or EIO and obtained a 90% state tax credit, they would only be entitled to a charitable deduction of 10%.

In 2020, the IRS promulgated 26 C.F.R. § 1.162-15, which is a regulation pertaining to business gifts made to charities. The IRS explained that when a business donates to a charity, the business

¹⁰ Fact Sheet: President Trump Delivers Affordable School Choice Options Through Education Freedom Tax Credit



may treat the payment as “ordinary and necessary” and deduct the payment as a business expense if there is a reasonable expectation of a financial return commensurate with the amount of the gift.

In the case of high income pass-through entity owners, this regulation serves as a workaround for the SALT deduction cap and can reduce the owner’s overall tax liability. The high-net-worth donor would be capped at deducting \$10,000 in SALT payments. Nearly all of these individuals own their home and exceed the SALT cap by virtue of their property tax payment and/or municipal earned income tax payment. By making an EITC gift, the business owner converts a non-deductible Pennsylvania income tax payment to a *fully* deductible business expense:

\$100,000 Donation

EITC Gift (§ 162 Business Expense)

| Item | Amount |
|--|-----------------|
| Payment | (\$100,000) |
| PA State Tax Credit | \$90,000 |
| Federal Tax Deduction (§ 162 Business Expense) | \$37,000 |
| Net Out-of-Pocket Gain / (Cost) | \$27,000 |

The IRS regulation states that a business may claim this deduction even if its owners are receiving an offsetting state tax credit.¹¹ EITC contributions, when structured in accordance with 26 C.F.R. § 1.162-15, function similarly to state pass-through entity tax (“PTET”) regimes, as recognized in IRS Notice 2020-75, such as the New York Pass-Through Entity Tax.¹² In each case, a payment made at the entity level, whether characterized as a PTET payment or a charitable contribution with a business purpose, is treated as an ordinary and necessary business expense under Internal Revenue Code Section 162, thereby generating a full federal deduction while providing the owner with a corresponding state tax credit. However, unlike PTET payments, EITC contributions are purpose-driven, directing capital to nonprofit organizations that fund scholarships and educational improvement initiatives. As a result, the same tax-efficient structure not only addresses federal

¹¹ See Example 2 to 26 C.F.R. § 1.162-15.

¹² IRS Notice 2020-75 (2020), confirming that state and local taxes imposed on and paid by a partnership or S corporation are deductible at the entity level for federal income tax purposes.



deductibility but also channels private capital into education, strengthening workforce development and supporting long-term economic growth within the State.

We believe that the EITC program, particularly the EIO component, not only provides a meaningful federal tax benefit through the IRS-approved SALT deduction framework but also serves a legitimate and compelling business purpose for participating companies. The deduction is especially well-aligned with EIO contributions, as these organizations offer greater opportunities for visibility, strategic engagement, and measurable business benefits. As a result, contributions made through this structure are not purely philanthropic; they enable businesses to enhance their brand, strengthen community ties, and support workforce development within the State.

Through EIO participation, businesses are able to align their contributions with educational initiatives that directly impact the communities in which they operate. This fosters goodwill, reinforces brand presence, and positions companies as active stakeholders in local economic and educational advancement. In many cases, these contributions are paired with sponsorship recognition, community engagement opportunities, and strategic partnerships that allow businesses to showcase their commitment to the region while building relationships with future employees, customers, and partners.

Considering the new 1% floor on charitable deductions for widely held corporations, these types of contributions take on added importance. EITC contributions – particularly through EIOs – retain their favorable federal tax treatment while simultaneously advancing business objectives.

The Legislature should consider the federal tax impact dynamic when evaluating this program in future budgets, as it directly supports both community development and business expansion across Pennsylvania.

Conclusion

Pennsylvania's EITC program delivers real, measurable results. We are proud to play a role in its success. By effectively leveraging private capital through structures like SPEs, the program expands educational opportunities for both public and nonpublic students while maintaining a low administrative burden on the State. At a time when federal tax changes will discourage traditional charitable giving, EITC, particularly through EIO participation, remains a uniquely effective tool that aligns tax efficiency with meaningful community impact. It continues to make a significant difference in the lives of K-12 students across the State. We strongly support its continuation and thoughtful expansion.



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Thank you again for the opportunity to allow me to address the Education Committee on this topic.

Sincerely,

Jed Silversmith

Jed Silversmith

Enclosure (1)

101 Greenwood Avenue, Suite 380
Jenkintown, PA 19046
(215) 253-8511

**Friends Of Education
Scholarship Organization - Award Tracking Template**

School Name: [Redacted]

Tax ID Number: [Redacted]

Preparer: [Redacted]

Signature: [Redacted]

Director of US Enrollment
and Director of Financial
Aid
Date 16-Mar-25

| Student Name | Parent Name | Address | City | State | Zip | County | School District | Grade | Household Size (total number of adults/dependents in household) | Number of Dependents | Federal AGI (income) | ETC Qualifie d | Tuition | Award | School Year | Enrolled |
|--------------|-------------|------------|--------------|-------|-------|--------------|-----------------|-------|--|-------------------------|----------------------------|----------------------|----------|-----------|-------------|----------|
| [Redacted] | [Redacted] | [Redacted] | Pittsburgh | PA | 15213 | Allegheny | Pittsburgh | 2 | 2 | 1 | \$76,319 | Yes | \$38,775 | \$10,000 | 25-26 | Yes |
| [Redacted] | [Redacted] | [Redacted] | Pittsburgh | PA | 15221 | Allegheny | Pittsburgh | 6 | 5 | 3 | \$35,263 | Yes | \$33,450 | \$10,000 | 25-26 | Yes |
| [Redacted] | [Redacted] | [Redacted] | Pittsburgh | PA | 15219 | Allegheny | Pittsburgh | 6 | 2 | 1 | \$43,332 | Yes | \$33,450 | \$10,000 | 25-26 | Yes |
| [Redacted] | [Redacted] | [Redacted] | Turtle Creek | PA | 15145 | Allegheny | Woodland Hills | 7 | 2 | 1 | \$51,859 | Yes | \$33,450 | \$10,000 | 25-26 | Yes |
| [Redacted] | [Redacted] | [Redacted] | Monroeville | PA | 15146 | Allegheny | Gateway | 9 | 3 | 2 | \$41,831 | Yes | \$38,600 | \$10,000 | 25-26 | Yes |
| [Redacted] | [Redacted] | [Redacted] | IRWIN | PA | 15642 | Westmoreland | Pean Trumbert | 9 | 5 | 3 | \$72,001 | Yes | \$38,600 | \$12,500 | 25-26 | Yes |
| [Redacted] | [Redacted] | [Redacted] | Pittsburgh | PA | 15236 | Allegheny | Pittsburgh | 9 | 3 | 2 | \$40,686 | Yes | \$38,600 | \$12,500 | 25-26 | Yes |
| [Redacted] | [Redacted] | [Redacted] | Pittsburgh | PA | 15226 | Allegheny | Pittsburgh | 9 | 3 | 2 | \$48,179 | Yes | \$38,600 | \$12,500 | 25-26 | Yes |
| [Redacted] | [Redacted] | [Redacted] | Pittsburgh | PA | 15216 | Allegheny | Pittsburgh | 10 | 4 | 3 | \$64,677 | Yes | \$38,600 | \$12,500 | 25-26 | Yes |
| [Redacted] | [Redacted] | [Redacted] | Pittsburgh | PA | 15217 | Allegheny | Pittsburgh | 11 | 4 | 3 | \$63,854 | Yes | \$38,600 | \$12,500 | 25-26 | Yes |
| [Redacted] | [Redacted] | [Redacted] | Verona | PA | 15147 | Allegheny | Riversview | 12 | 3 | 1 | \$53,810 | Yes | \$38,600 | \$12,525 | 25-26 | Yes |
| | | | | | | | | | | | | | | \$125,025 | | |



IMANI CHRISTIAN ACADEMY

2150 East Hills Drive, Pittsburgh Pa, 15221
(412) 731-7982 | Fax: (412) 731-7343

Testimony
to the

Pennsylvania House Education Committee
Hearing on Educational Tax Credit Program

Submitted by

Paulo Nzambi, J.D. CEO and Head of School
Imani Christian Academy

on

April 14, 2026

The Importance of the Educational Tax Credit in Pennsylvania Education

Chairman Schweyer, Chairman Cutler, members of the Committee thank you for inviting me to testify before the Pennsylvania House Education Committee regarding the importance of The Educational Tax Credit Programs of EITC, OSTC and EDS. My name is Paulo Nzambi, and I am the CEO and Head of School of Imani Christian Academy, a private, Pre-K to 12 grade school, located in the East Hills of Pittsburgh that is situated adjacent to two subsidized housing developments.

Imani's mission is to embrace all children, especially the underserved, transforming them academically, socially, physically, and spiritually to pursue lives of purpose and contribution. Each year Imani has approximately 150 to 170 students who hail from neighborhoods that have historically experienced intransigent poverty and transgenerational underinvestment. These include the Pittsburgh neighborhoods of East Hills and Homewood and the municipalities of Wilkensburg, Penn Hills and Woodland Hills. According to the most recent census, the median household income in the East Hills of Pittsburgh is \$25,000 per year, and the unemployment rate is approximately twice the rate of the City of Pittsburgh. Many of our students come from single parent households. Additionally, based upon our student demographics, all students are eligible for free lunches.

As a purpose driven school, we prepare our students to succeed in the next chapter of their lives. For some, that will be in college or university and for others that might mean the trades, military service or the workforce. Year on year, we have graduated **one hundred percent** of our senior class on time. One hundred percent of our seniors are also accepted to college. And, for the last two years, one hundred percent of the class has enrolled in college or university.

This educational opportunity is made possible because Imani is eligible to receive tax credits through the EITC, OSTC and EDS programs. Tuition at Imani is \$18,000 per year, but our families pay \$1,650 for the first child and \$400 for each additional child. The tax credits provide scholarships that help to address a portion of the delta between the parent contribution and the actual cost of tuition. What remains is addressed through Imani's fundraising efforts. These credits make it possible for families of modest means to access a holistic education that they would otherwise not be able to afford.

Importantly, these resources provide our parents with the right to choose the educational destiny of their children. I am reminded of a promising young man currently in high school who has attended Imani since elementary school. He happens to live in the subsidized housing adjacent to the school with his grandmother. His grandmother chose to send him to Imani because unfortunately many of the schools he might have attended were identified as low performing. In addition, neither she nor he felt that the options accessible to him provided a safe environment. This is an experience that is shared by many of our families and students. The tax credit programs free them to select their school of choice. It liberates them from being forced to sacrifice safety and accept underperformance simply because they live in a specific zip code. Imani appreciates the opportunity to provide them with the freedom to exercise their educational choice. We also appreciate the meaningful avenue out of poverty that these tax credits create for our students.

Thank you for the opportunity to testify today. At this time, I would be pleased to respond to questions from members of the Committee.

Imani Christian Academy



Imani Location



Imani Neighborhood



Past



Present





TESTIMONY IN SUPPORT OF THE EDUCATIONAL IMPROVEMENT TAX CREDIT (EITC) PROGRAM PRESENTED TO THE HOUSE DEMOCRATIC EDUCATION COMMITTEE COMMONWEALTH OF PENNSYLVANIA — HARRISBURG

Dear Chairman and Members of the Committee:

Thank you for the opportunity to speak with you today. My name is Shannon Fugate and I'm here on behalf of The Baum School of Art in Allentown. We are a non-profit community visual arts school that has served the Lehigh Valley for one hundred years, and we are an Educational Improvement Organization (EIO). I would like to share with you how the Educational Improvement Tax Credit benefits the students we work with every day.

WHO WE ARE

The Baum School of Art serves over 4,000 students annually — from young children taking their first art class to adults returning to creative practice later in life. We offer classes in art, design, and fashion for students of all ages.

The Baum School of Art holds accreditation through the Accrediting Commission for Community and Precollegiate Arts Schools (ACCPAS). This accreditation affirms that the instruction and programming we provide meet the highest national standards for quality, rigor, and student outcomes.

This year, we are proud to be celebrating our centennial — one hundred years of serving our community. That kind of longevity doesn't happen by accident. It happens because generation after generation of Lehigh Valley families have trusted us with their creative education, and because we have worked continuously to earn that trust by staying responsive to what our community needs.

That responsiveness is reflected in our most recent chapter. We recently completed a significant building renovation and expansion, adding over 5,000 square feet of space and renovating the existing 25,000 square foot building in downtown Allentown. This project was a direct response to years of growing enrollment and waitlists that told us families wanted more than we could offer in our existing space. The renovation positions us to serve more students, offer a broader range of programming, and welcome community partners in ways we simply couldn't before. However, bricks and mortar are only a small part of the story. What the expansion really represents is capacity—the ability to keep evolving to meet the needs of a community that continues to change and grow alongside us.



THE STUDENTS WE SERVE

Allentown is a diverse, working-class city where close to one in three children lives in poverty. Many of the kids who come to our programs are navigating real hardship — economic stress at home, learning English as a second language, and searching for somewhere they feel like they belong.

Through our EITC approved outreach programs, as well as our after-school classes, summer camps, school partnerships, and financial aid — we reach over 1,000 young people each year who would not otherwise have access to arts education. Community outreach has been part of our mission since the school was founded, and since then, we have connected with tens of thousands of students across Allentown's most under-resourced neighborhoods.

What happens after that is often remarkable — students build skills, confidence, and resilience through art-making and positive mentorship. There is solid research behind this, too. Students who participate in arts education tend to show better academic performance, stronger problem-solving skills, and lower rates of chronic absenteeism. For kids in lower-income communities especially, access to the arts often opens the door to broader engagement in school.



WHY THIS MATTERS BEYOND OUR SCHOOL

Arts education is practical education. The skills students develop in a studio — attention, persistence, the ability to take feedback and revise, and clear visual communication — are exactly the skills employers across every industry say they need. We do not believe what we do is separate from workforce preparation. For many students, arts education builds foundational skills for future success.

The funding we receive through the Educational Improvement Tax Credit, as an EIO (Educational Improvement Organization) is one of the key components of growing outreach programming in our community. It incentivizes the business community's investment in arts education and allows them to support the development of creativity. It creates critical opportunities for partnership between the private and non-profit sectors.

There is also a broader civic dimension. Allentown has seen large reinvestment in its downtown in recent years, and cultural institutions are part of what makes a city worth inhabiting and attracting investment. The Baum School draws people into the



community, supports neighboring businesses, and contributes to the kind of environment that families and employers find desirable.

OUR REQUEST

We ask this Committee to continue supporting EITC — and where possible, to strengthen it. The families in our community are telling us clearly that the demand for what we offer is growing. This program helps us to meet that demand, particularly for the students who need us most. We are grateful for the partnership this important program represents, and we appreciate the opportunity to speak with you today. Thank you for your time.

Respectfully submitted,

Shannon Fugate

Shannon Fugate
Executive Director
The Baum School of Art
Allentown, Pennsylvania
www.baumschool.org