

Virginia Department of Education

Education Improvement Scholarships Tax Credits Program (EISTCP)

Instructional Presentation

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Program Overview

Tax Credit Program - Overview

- ❖ The Education Improvement Scholarships Tax Credits Program, administered by VDOE, allows individuals or business firms to receive state tax credits – equal to 65% of the monetary or marketable securities donation – for eligible contributions made to approved scholarship foundations that provide qualified education expenses scholarships to low-income persons or eligible students with a disability attending a private school in Virginia.
- ❖ “Qualified education expenses” means school-related tuition and instructional fees and materials, including textbooks, workbooks, and supplies used solely for school-related work.
- ❖ Under the law, tax credits are awarded on a first come, first served basis.
- ❖ Any unused amounts of the tax credits may be carried over by the donor for up to *five succeeding taxable years*.

Tax Credit Program – Overview (Cont'd)

- ❖ Under the law, tax credits are awarded on a *first come, first served* basis.
- ❖ Minimum and Maximum donation amounts eligible for tax credits:
 - **Individual** – *Minimum* donation amount is \$500 in a taxable year; *Maximum* amount of donations in a taxable year is \$125,000.
 - **Businesses** – there are no minimum and maximum donation limitations.
- ❖ Any unused amounts of the tax credits may be carried over by the donor for up to *five succeeding taxable years*.

Tax Credit Process

Preauthorization Request

- ❖ Under the law, a donor must be preauthorized (i.e., VDOE approved request) for a specific amount of tax credits in order to make a qualified donation. Below is the Preauthorization process:
 - The donor requests a specific amount of tax credits using a **Preauthorization Request Form**.
 - The Preauthorization Request Form may be mailed to DOE, or the scholarship foundation may submit the form using the secure web-based system (the “Education Improvement Scholarships Tax Credits Program (EISTC)” system, also referred to as the “EISTCP system”).
 - If the Preauthorization Request is mailed by the donor, DOE will enter the information into the EISTCP system.
 - If the scholarship foundation submits the Preauthorization Request on behalf of the donor, it must enter the information into the EISTCP system and DOE will review the request submitted by the foundation for accuracy.
 - DOE ensures there are enough tax credits under the \$25 million cap to approve the donor’s request.

Preauthorization Request (Cont'd)

- ❖ Upon approval, DOE mails the signed Preauthorization Request Form along with a Preauthorization Notice, which includes a unique six-letter number, to the donor.
 - The signed Preauthorization Request Form is *only* for the donor's records, and it provides the date and time the credits were preauthorized.
- ❖ The Preauthorization Request Form, signed by DOE, does not need to be provided to the foundation by the donor, **only the Preauthorization Notice (See next slide) needs to be submitted to DOE.**

Preauthorization Notice

- ❖ Under the law, a donor must send DOE's preauthorization notice, along with the monetary or marketable securities donation, to an approved scholarship foundation.
- After approving the tax credit for the donor, DOE will mail a **Preauthorization Notice (the "Notice")**, with a unique six-letter code, to the donor only.
 - The Notice is *only* mailed to the donor for confidentially purposes, and because it is the donor that is requesting to be preapproved for a specific amount of tax credits (not the foundation).

Preauthorization Notice (Cont'd)

- ❖ The donor has **180 days from the date of the Notice** to make a qualified monetary or marketable securities donation to an approved scholarship foundation and submit the Notice to the scholarship foundation(s).
- Donations made prior to the date of the Notice are not eligible for the tax credit.

Qualified Donations

- ❖ Individual and business donors may earn a tax credit for monetary or marketable securities donations.
 - **Types of monetary donations**: cash, check, credit card, payroll deduction and electronic funds transfer.
 - **Types of marketable securities donations**: stocks and mutual funds.
- ❖ The minimum donation value for individuals is \$500 in a taxable year, and the maximum donation value is \$125,000 in taxable year.
- ❖ There are no minimum or maximum donation values for businesses.

Multiple Donations

- ❖ A donor can consolidate donations of less than \$500, such as payroll deductions or separate checks, and report the donation using one Notice.
- Once a donation that equals or exceeds \$500 is received, the foundation must submit the Notice, signed by the donor and the foundation, as well as the supporting documentation, to DOE within 40 days from the date that the payments equals or exceeds \$500, or the date the most recent payment was mailed, whichever was later.
- Separate donations of \$500, but not more than \$125,000 for individuals, on separate donation dates, must be submitted to DOE using separate Notices.

Donation Dates

- ❖ The Department relies on the donation date indicated under Part I of the Notice, unless the supporting documentation provides a donation date that is earlier or later.
- ❖ The **donation dates for monetary donations** are as follows:
 - **Cash** – the date the money was hand delivered to the scholarship foundation.
 - **Check** – the date entered under Part I of the Notice by the donor or date of check if later.
 - **Payroll** – final payroll deduction included in the total donation amount of \$500 or more in the same tax year.
 - **Credit Card** – date of the transaction (*not* the date that the payment was posted).
 - **Electronic Funds transfer** – date the funds were transferred from the donor’s account to the foundation’s account.
- ❖ The **donation dates for marketable securities donations** are as follows:
 - **Stocks and Mutual funds** – date the stocks/mutual funds were transferred from the donor’s account to the foundation’s account.

Donation Values

- ❖ Below are how monetary and marketable securities donations are valued. *The scholarship foundation is required to deduct any goods and services received in exchange for the donation (e.g., food and eating utensils in exchange for sponsoring a table at an event.)*
 - **Monetary:**
 - **Cash** – amount of money donated.
 - **Check** – amount written on the check.
 - **Credit Card** – amount of the transaction, which can include any transaction fees.
 - **Payroll** – total amount of payments deducted from the donor's payroll that equals or exceeds \$500.
 - **Electronic funds transfer** – amount transferred from donor's bank account to the foundation.
 - **Marketable securities:**
 - **Stocks** – Average of the High and low price, or mean price, on the date of transfer multiplied by the number of shares.
 - **Mutual funds** – net asset value (NAV) multiplied by the number of shares.

Notice and Supporting Documentation (40-Day Rule)

- ❖ Within *40 days from the date of the donation*, the scholarship foundation **must** submit the Notice, with Parts I and II completed by the donor and the foundation, along with documentation supporting the donation, using the EISTCP system.
- If the foundation is unable to submit the proper documentation in the EISTCP system, it must email todd.gathje@doe.virginia.gov the name of donor, preauthorization number, donation amount, donation date and a brief explanation, so that the EISTCP system can be adjusted based on the evidence you attempted upload.

Supporting Documentation

- ❖ Below is a list of necessary supporting documentation:
 - **Cash** – receipt that shows the donor’s name, value of donation, date of donation, and the name of the neighborhood organization, and is signed by the foundation.
 - **Check** – photo copy of the check.
 - **Credit Card** - copy of a receipt or statement that shows date of donation, amount, name of donor and name of neighborhood organization.
 - **Payroll** - copy of the payroll account that shows the amount donated, date of donation, donor’s name, and name of neighborhood organization.
 - **Electronic funds transfer** – copy of the check or statement that shows the date of donation, amount, name of donor and name of neighborhood organization.
 - **Marketable securities** – (i) copy of the letter from the donor’s or foundation’s brokerage firm that shows the name of the organization, donation, number of units (or shares), and the high/low/mean price or net asset value for mutual funds; and (ii) a statement or documentation demonstrating that the securities were converted into cash within 21 days from the date of transfer.

Notice and the 21-Day and 40-Day Rule for Marketable Securities

- ❖ The law requires a scholarship foundation is to convert marketable securities into cash within 21 days form the date of donation, and submit the completed Notice, along with documentation supporting the donation, to DOE within 40 days from the date of the donation.
 - If the foundation has not received the documentation showing that the securities were converted into cash within 21 days from the date of transfer, but has received the completed Notice and the documentation supporting the value of the marketable securities donation, then the foundation must submit the Notice and the supporting documentation it does have within the 40 day time period, via the online EISTCP system. DOE will “Return” the donation entered in the EISTCP system and the documentation showing that the securities were converted into cash within 21 days from the date of transfer can be submitted as soon as it becomes available (which may be after the 40 days).
 - If the foundation has received no documentation supporting the value of the marketable securities donation and showing that they were converted into cash, then the foundation must, at a minimum, submit the completed Notice within the 40 day time period, via the online EISTCP system. DOE will “Return” the donation entered in the EISTCP system so that the supporting documentation can be uploaded as soon as it becomes available (which may be after the 40 days).
- ❖ DOE will not issue any tax credits to a donor until *all* documentation has been received by the Department.

Tax Credit Certificate

- ❖ Under the law, DOE is required to issue a tax credit certificate to a donor for a qualified donation to an approved scholarship foundation within 30 days.
 - Once the foundation has submitted the completed Notice and supporting documentation to DOE within 40 days from the date of the donation via the EISTCP system, DOE will review the entry and supporting documentation to verify the following information:
 - Donor name
 - Donation date and amount
 - Check number (if donation was a check)
 - Correct mean, high/low or NAV values are used for marketable securities
 - Broker letter and documentation showing the securities were transferred and converted into cash.
 - DOE will also confirm that the documentation submitted does **not** specify that the donation be used for a particular school.
 - This policy prevents scholarship foundations from violating the requirement that a scholarship must be portable.

Tax Credit Certificate (Cont'd)

- ❖ If the donation information is correct, DOE will issue the donor a **Tax Credit Certificate** which is to be attached to the appropriate Virginia tax return.
- ❖ Scholarship foundations can obtain a copy of the Tax Credit Certificate, without the donor's FEIN or SSN, using the EISTCP system.

Disbursement of Tax Credit-Derived Funds

90 Percent Requirement

- ❖ Under the law, a scholarship foundation is required to disburse at least 90 percent of the tax credit-derived donations it receives between July 1 and June 30, by the immediately following June 30.
- ❖ The law also requires that a scholarship foundation must provide scholarships to students at **more than one private school**.
 - Example: A foundation receives a total of \$30,000 in donations between July 1, 2016 and June 30, 2017, for which EISTCP tax credits were issued. The foundation has until June 30, 2018 to disburse at least \$27,000 (90% * \$30,000) in the form of education expenses scholarships to eligible students attending more than one private school in Virginia.

90 Percent Requirement (Cont'd)

- ❖ Under the law, a scholarship foundation is required to disburse at least 90 percent of the tax credit-derived donations it receives between July 1 and June 30, by the immediately following June 30. Tax-credit-derived funds not used for such scholarships may only be used for administrative expenses related to the EISTC program.

- ❖ Expenses for administering the program may include, but are not limited to:
 - Salaries
 - Supplies
 - Computer software

90 Percent Requirement (Cont'd)

- ❖ Under the law, a scholarship foundation that fails to disburse at least 90 percent of any donated amount within the appropriate 24-month period ending on June 30, will be subject to the following penalties:
 - **First offense** - a civil penalty equal to 200 percent of the difference between 90 percent of the donated amount and the amount that was actually disbursed, remitted to DOE within 30 days after the end of the one-year period.
 - **Second offense within a five year period** - the scholarship foundation will be removed from the list of approved scholarship foundations, prohibited from requesting a preauthorized amount of tax credits on behalf of the donor, and prohibited from receiving and administering additional tax credit-derived funds for *two years*. After two years, the scholarship foundation may reapply to DOE to become an approved scholarship foundation and receive and administer tax credit-derived funds. If a scholarship foundation is authorized by DOE to be added to the list of approved scholarship foundations, the applicant scholarship foundation will not be considered to have any previous offenses.

Semester or Quarterly Installments

- ❖ Under the law, the scholarship foundation makes scholarship payments on behalf of the qualified student to the private school. In order to allow the scholarships to be portable, the scholarships are required to be disbursed by the scholarship foundation in semester or quarterly installments.

- ❖ **Semester Installment Examples (Without Per Pupil SOQ Amounts):**
 - **Example 1:** A foundation receives a \$5,000 tax credit-derived donation on July 1, 2016, and does not use any of those funds to administer the program. For the upcoming 2016-2017 school year, the foundation plans to make a \$2,500 semester scholarship payment on August 1, 2016 and make another \$2,500 semester scholarship payment on January 1, 2017. If the student decides to transfer to another eligible private school in Virginia for the second semester of the 2016-2017 school year, then the remaining \$2,500 would be paid to the new school.

Semester or Quarterly Installments (Cont'd)

- **Example 2:** A foundation receives a \$5,000 tax credit-derived donation on July 1, 2016, and does not use any of those funds to administer the program. For the upcoming 2016-2017 school year, the foundation plans to make a \$2,500 semester scholarship payment on January 1, 2017. From the same funds, the foundation plans to make another \$1,250 semester scholarship payment on August 1, 2017 for the 2017-2018 school year. If the student decides to transfer to another eligible private school in Virginia for the 2017-2018 school year, then the remaining \$2,500 would be paid to the new school.

❖ **Quarterly Installment Examples (Without Per Pupil SOQ Amounts):**

- **Example 3:** A foundation receives a \$5,000 tax credit-derived donation on July 1, 2016, and does not use any of those funds to administer the program. For the upcoming 2016-2017 school year, the foundation plans to make four payments of \$1,250 on August 1, 2016, October 1, 2016, January 1, 2017 and April 1, 2017. If the student decides to transfer to another eligible private school in Virginia for the second semester of the 2016-2017 school year, the scholarship foundation would pay the final two quarterly installments (January 1, 2017 and April 1, 2017) to the new school.

Semester or Quarterly Installments (Cont'd)

- Example 4: A foundation receives a \$5,000 tax credit-derived donation on July 1, 2016, and does not use any of those funds to administer the program. For the upcoming 2016-2017 school year, the foundation plans to make four payments of \$1,250 on August 1, 2016, October 1, 2016, January 1, 2017 and April 1, 2017. If the student decides to transfer to another eligible private school in Virginia for the final quarter of the school year, then the remaining \$1,250 would be paid to the new school.

Semester or Quarterly Installments (Cont'd)

- ❖ In the event that a student enrolled in a private school leaves to enroll in a public school, any unpaid quarterly or semester payments must be used by the scholarship foundation to provide a scholarship to another eligible student attending an eligible private school.

Scholarship Limits

Scholarship Limits – SOQ Amounts

- ❖ Under the law, the aggregate amount of scholarships provided to each eligible student for any single school year by all eligible scholarship foundations from eligible donations **may not exceed the lesser of:**
 - (i) the actual qualified educational expenses of the student, or
 - (ii) 100 percent of the per pupil amount distributed to the school division (in which the student resides) as the state's share of the Standards of Quality (SOQ) costs.
- ❖ “School year” means the period of time between the opening day of school in the fall and the closing day of school for that school term that is at minimum 180 teaching days or 990 teaching hours. See “regular school year” at <http://www.doe.virginia.gov/glossaries/glossary.pdf>).
- ❖ “Qualified education expenses” means school-related tuition and instructional fees and materials, including textbooks, workbooks, and supplies used solely for school-related work.

Scholarship Limits – SOQ Amounts

- ❖ DOE posts the SOQ amounts for each school division on the website:

http://www.doe.virginia.gov/school_finance/scholarships_tax_credits/index.shtml

- ❖ The SOQ amounts for each school division are calculated after the General Assembly passes the budget, and are usually not available until the late spring or early summer prior to the start of the school year.

Scholarship Limits (Cont'd)

- ❖ Below are examples of how the foundation is to award scholarships without exceeding the cost to educate a student at the private school or the SOQ amount, whichever is less.
 - **Example 1:** The educational expenses for the school year to educate a student at Private School A total \$15,000. The SOQ cost for the school district in which the student resides is \$5,000. The maximum scholarship amount that can be awarded to the student at Private School A in quarterly or semester payments cannot exceed \$5,000.
 - **Example 2:** The educational expenses for the school year to educate a student at Private School B total \$4,500. The SOQ cost for the school district in which the student resides is \$5,000. The maximum scholarship amount that can be awarded to the student at Private School B in quarterly or semester payments cannot exceed \$4,500.

Scholarship Limits (Cont'd)

- ❖ Below is an example of how a foundation is to award a scholarship without exceeding the cost to educate a student at the private school or the SOQ amount, whichever is less, when the student that enrolls in a private school after the school year begins.
 - **Example 3.** An eligible student enrolls in Private School C in November for the school year that begins in August. The educational expenses for the school year to educate a student at Private School C total \$12,000 (\$6,000 per semester or \$3,000 per quarter). The SOQ cost for the school district in which the student resides is \$4,000. The maximum scholarship amount for the school year that can be paid to Private School C on behalf of the student is \$4,000 since the SOQ amount would be less than the semester expenses for the school year. Under this scenario, \$3,000 may be paid for the first semester and the remaining \$1,000 may be paid for the second semester. If the student decides to transfer to another eligible private school in Virginia, then the remaining \$1,000 would be paid to the new school.

Scholarship Limits (Cont'd)

- ❖ Below is an example of how a foundation is to award a scholarship without exceeding the cost to educate a student at the private school or the SOQ amount, whichever is less, when the student that enrolls in a private school for the fourth quarter.
 - **Example 4:** An eligible student enrolls in Private School C in April for the school year that began in August. The educational expenses for the school year to educate a student at Private School C total \$12,000 (\$6,000 per semester or \$3,000 per quarter). The SOQ cost for the school district in which the student resides is \$4,000. The maximum scholarship amount that could be awarded to the student would be \$3,000, which is equal to the expenses to attend Private School C for the last quarter of the school year or the SOQ amount for the school district in which the student resides, whichever is less.

Student Eligibility

Qualified Student

- ❖ In order to qualify, a "Student" must be a resident of Virginia and one of the following:
 - (i) in the current school year has enrolled and attended a public school in Virginia for at least one-half of the year,
 - (ii) for the school year that immediately preceded receipt of a scholarship was enrolled and attended a public school in Virginia for at least one-half of the year,
 - (iii) is a prior recipient of a scholarship foundation scholarship,
 - (iv) is eligible to enter kindergarten or first grade, or
 - (v) for the school year that immediately preceded receipt of a scholarship was domiciled in a state other than Virginia and did not attend a nonpublic school in Virginia for more than one-half of the school year.

- ❖ A “resident of Virginia” means that the student meets the requirements of Section 22.1-3 of the *Code of Virginia*, for admission to a Virginia public school.

Qualified Student (Cont'd)

- ❖ An eligible student must also satisfy certain income thresholds. Family household income must not be in excess of:
 - **300 percent** of the current poverty guidelines, or
 - **400 percent** of federal poverty guidelines if the student is an eligible student with a disability.
 - "Eligible student with a disability" means a student for whom an individualized educational program has been written and finalized in accordance with the federal Individuals with Disabilities Education Act (IDEA), regulations promulgated pursuant to IDEA, and regulations of the Board of Education.

Private School Eligibility

Participation Requirements

- ❖ Under the law, private schools selected by eligible students to which tax credit-derived funds may be paid must meet the following requirements:
 - (i) comply with the Commonwealth's and locality's health and safety laws and codes;
 - (ii) hold a valid occupancy permit as required by the locality;
 - (iii) comply with Title VI of the Civil Rights Act of 1964, as amended; and
 - (iv) comply with nonpublic school accreditation requirements as set forth in Section 22.1-19 of the Code of Virginia, and administered by the Virginia Council for Private Education (VCPE) *or* are nonpublic schools that maintain an assessment system that annually measures scholarship students' progress in reading and math using a national norm-referenced achievement test including, but not limited to, the Stanford Achievement Test, California Achievement Test, and Iowa Test of Basic Skills. Any other achievements tests used for this purpose must have been developed using a norm group that is representative of the United States.

Participation Requirements (Cont'd)

- ❖ Scholarship foundations should ensure that eligible schools meet items (i) through (iv) in the preceding slide by obtaining an assurance statement signed by the Head of School in which the Head of School attests that the eligible school meets these requirements, *and* by obtaining the appropriate documentation in support of items (i), (ii) and (iv).
 - The assurance statement and supporting documentation **must** be kept on file by the scholarship foundation.

Testing Requirement

- ❖ If the private school is not accredited by VCPE, or one of its accrediting agencies, then the private school must annually administer a norm-referenced achievement test to all kindergarten through 12th grade students that have received tax credit-derived scholarships, regardless if the school does not normally administer a norm-referenced test to a particular grade level.
 - *If a private school fails to comply with this requirement, then it cannot participate in the EISTC Program.*
- ❖ The accreditation by VCPE only exempts the school from the annual testing requirement – the private school will still be required to submit test scores to DOE for those students that receive scholarships from tax credit derived donations when such tests are administered.

Reporting Requirements

September 30 Report for Scholarship Foundations

- ❖ By September 30 of each year, on a reporting template provided by DOE, all scholarship foundations must provide the following information to DOE and certify its completeness and accuracy:
 - (i) the total number and value of contributions received by the foundation during the 12-month period ending on June 30 of the prior calendar year for which tax credits were issued;
 - (ii) the dates when such contributions were received; and
 - (iii) the total number and dollar amount of qualified educational expenses scholarships awarded from tax-credit-derived donations and disbursed by the scholarship foundation during the 24-month period ending on June 30 of the current calendar year.
- ❖ In July, DOE will provide a report template, with instructions on how the report is to be completed, to all participating scholarship foundations. The Guidelines for the Education Improvement Scholarships Tax Credits Program outlines the specific information that must be included in the report.

September 30 Report for Scholarship Foundations (Cont'd)

- ❖ Under the law, any scholarship foundation **that fails to provide this certified report to DOE by September 30 each year**, will be subject to the following penalties:
 - **First offense** - a \$1,000 civil penalty. The civil penalty must be remitted to the Department by November 1 of the same year.
 - **Second offense within a five-year period** - the scholarship foundation will be removed the list of approved scholarship foundations and will not be permitted to request preauthorization for additional tax credits, nor will it be permitted to receive and administer additional tax credit-derived funds. After *two years*, the scholarship foundation may reapply to the Department to become an approved scholarship foundation and receive and administer tax credit-derived funds. If a scholarship foundation is authorized by the Department to be added to the list of approved scholarship foundations, the applicant scholarship foundation will not be considered to have any previous offenses.

December 1 Report for Schools

- ❖ The annual student achievement report is to be provided to DOE by December 1 of each year, following the first year of testing of an eligible student receiving a tax credit-derived scholarship while enrolled in an eligible school. The report must include the following information from the immediately preceding school year:
 - **Demographic information**: grade level, gender, race/ethnicity, school division in which the student resides, family income level, and number persons in the students family/household;
 - **Program information**: number of years each eligible student has been tested, the number of years the student has been in the EISTC Program, name of the scholarship foundation awarding the scholarship;
 - **Student achievement test information**: name of the norm-referenced achievement test that was administered, achievement test results and associated learning gains for reading and math, including the national percentile ranking for the eligible student's test scores, whether the school is accredited by the VCPE; and
 - **Graduation information**: graduation rates (if applicable) of its eligible students participating in the scholarship program in a manner consistent with nationally recognized standards.

Audit, Review or Compilation

- ❖ Under the law, a scholarship foundation is required to conduct an annual audit, review, or compilation, as determined by the foundation's amount of total revenues for the most recent fiscal year.
 - Foundations **with total revenues in excess of \$100,000** shall have an **audit or review** performed by an independent certified public accountant of the foundation's donations received in each year for which tax credits were issued.
 - Foundations **with total revenues of \$100,000 or less** shall have a **compilation, audit or review** performed by an independent certified public account of the foundation's donations received in each year for which tax credits were issued.
- ❖ The audit, review, or compilation **must** be made available to the Department **within nine months after the end of the foundation's fiscal year** and to the public upon request.

DOE Contacts

DOE Contacts

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