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TAX CREDITS FOR TEXAS SCHOOL SYSTEMS ALLOWS FOR HUGE SAVINGS

By Brooke Dollens Terry

Many parents wish they could send their children to a different school – public or private – but are stuck because they can't afford the additional expense. A state education tax credit could solve this problem, and Texas should join the growing number of states with such a program.

An education tax credit allows individuals or corporations to subtract education-related purchases or donations to scholarship programs from their taxes. These come in two forms: personal-use tax credits, which reimburse parents for educational expenses spent on their children; and donation tax credits, which give a tax credit to individuals or corporations who donate to an education scholarship fund.

Ten states — Arizona, Florida, Georgia, Indiana, Illinois, Iowa, Louisiana, Minnesota, Pennsylvania, and Rhode Island — have a total of 14 education tax credit or deduction programs. These programs provided about 115,000 students with an education scholarship and helped more than 600,000 others by reducing their educational costs last year, according to the Foundation for Educational Choice and the Alliance for School Choice. Minnesota created the first education tax deduction program in 1955 and Iowa began the first education tax credit program in 1987.

Texas should adopt an education tax credit so that parents are empowered to send their children to the school of their choice – whether public, private, or home school. Tax credits save the state and taxpayers money, have a broad base of support, and have survived multiple court challenges at both the state and federal levels.

States like Florida that have already enacted tax credit legislation have experienced considerable educational savings at the state and local levels. The Collins Center for Public Policy found that Florida has saved \$139.8 million since 2002 with the corporate income tax credit scholarship program (the state saves "the difference between the value of the \$3,500 scholarship and the value of the k-12 per pupil state and local revenue"). The Alliance for School Choice reports that Florida's program expansion should save the state an additional \$5.7 million per year.

A Baylor University economist examined the Arizona tax credit program and estimated that "at least 11,697 students attended private school solely because of the tax-credit scholarships," saving the state as much as \$186 million in 2008.

A Cato Institute study concluded that a Texas education tax credit program could save taxpayers as much as \$508 million after the first year and up to \$15.9 billion in 10 years if the program was phased in over four years. States realize savings because scholarships to attend private schools are typically half or less of the cost to educate a student in the public school system. Therefore, every time a child leaves the public school system to attend a private school through a tax-credit supported scholarship, the state experiences substantial savings because it no longer has to support that student in a public school. Furthermore, more money is made available for each child who remains in the public school system.

Tax credit programs have withstood numerous court challenges in states such as Arizona, Minnesota, and Illinois, and have never been declared unconstitutional by any state or federal court.

We recommend Texas create a tax credit scholarship program for public school students funded with donations from businesses. Businesses would make donations directly to any non-profit scholarship granting organizations they choose and receive a tax credit against the franchise tax. The scholarship granting organizations would in turn provide scholarships to public school students to help them afford tuition at a private school, pay for transportation costs to attend a different public school, or pay for home school curriculum. Texas school children, parents, taxpayers, and employers all win when Texas joins the growing movement for education tax credit scholarships.

Brooke Dollens Terry is a senior education policy analyst at the Texas Public Policy Foundation, a non-profit, free-market research institute based in Austin. The author would welcome your thoughts on this article.

Please send your comments to: bterry@texaspolicy.com

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