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Helping Parents Pay for Education

Examining Education Tax Credits and Deductions

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Recommendation

Create a tax credit scholarship program for:

- private school tuition,
- transportation expenses to alternate public schools, or
- homeschool curriculum.

Businesses can claim a credit against the franchise tax for donations to a scholarship organization.

Executive Summary

Helping parents afford the education option of their choice (public, private, or homeschool) has been a hotly debated issue in Texas over the last two decades. This is particularly true of vouchers, which would allow state funding to follow the student to the public or private school of their parents' choice. Ultimately, Texas lawmakers have not passed vouchers. So while Texans have choices within the public school system through magnet schools, charter schools, and open-enrollment policies, other educational choices such as homeschooling or private school are not financially feasible for many Texans who must essentially pay twice for education by funding public schools with their tax dollars while paying for their own child's education.

Competition in education through school choice benefits students, teachers, parents, and taxpayers. School choice has been proven to raise test scores and graduation rates for students in public and private school, improve parental satisfaction with their child's school, increase teacher job satisfaction, and save taxpayers money through a more cost-effective school system.[1]

Texas policymakers should enact another option that empowers students and parents to attend the school of their choice—an education tax credit scholarship program. This would allow corporations to subtract a certain amount from their taxes for education-related purchases or donations to scholarship programs. There are typically two types of education tax credits: 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. The Foundation recommends the adoption of donation tax credits.

Education tax credits and tax deductions have several advantages. Tax credits save the state and taxpayers money, have a broad base of support that appears to be growing, and are less vulnerable to attacks in court as they have never been declared unconstitutional at a state or federal level despite several court challenges.

Tax credit programs lead to cost savings. States like Florida that have already enacted tax credit legislation have experienced immense educational savings at the state and local levels. Florida saved $38.9 million in one year alone. With its current program expansion, Florida is expected to save an additional $5.7 million per year. A study conducted by the Cato Institute suggests that if Texas were to enact a tax credit program, the state could save as much as $508 million after the first year. This could add up to $15.9 billion in only 10 years.[2]

States realize savings because private school tuition generally amounts to about half of the cost of educating a student in the public school system. Therefore, every time a child leaves the public school system to attend a private school with a scholarship funded through a tax credit program, 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.

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Tax credit programs have been challenged multiple times but have never been ruled unconstitutional in any state or federal court case. Instead, court rulings on this issue in Minnesota, Illinois, and Arizona have strengthened the argument in favor of tax credit programs and have encouraged other states to adopt similar programs. In every case so far, the courts upheld the programs' constitutionality, and the programs have consequently thrived.

Ten states have a total of 14 education tax credit or deduction programs. These programs provided approximately 115,642 students with an education scholarship last year and helped an additional 641,843 students by reducing their educational costs.[3] Texas should follow in the footsteps of these states and pass an education tax credit or deduction program. Tax credit supporter Robert Enlow, President and CEO of the Foundation for Educational Choice, explains that tax credit programs save states money and that with such programs, "Everyone wins. The state wins, taxpayers win, K-12 education wins, and most importantly parents and children win."[4]

Definitions of Tax Credits/Deductions

An education tax credit allows individuals or corporations to subtract a certain amount from their taxes if they have made education-related purchases or have made donations to scholarship programs. There are typically two types of education tax credits:

1. Personal-use tax credits, which reimburse parents for educational expenses spent on their children, and
2. Donation tax credits, which give a tax credit to individuals or corporations who donate to an education scholarship fund.

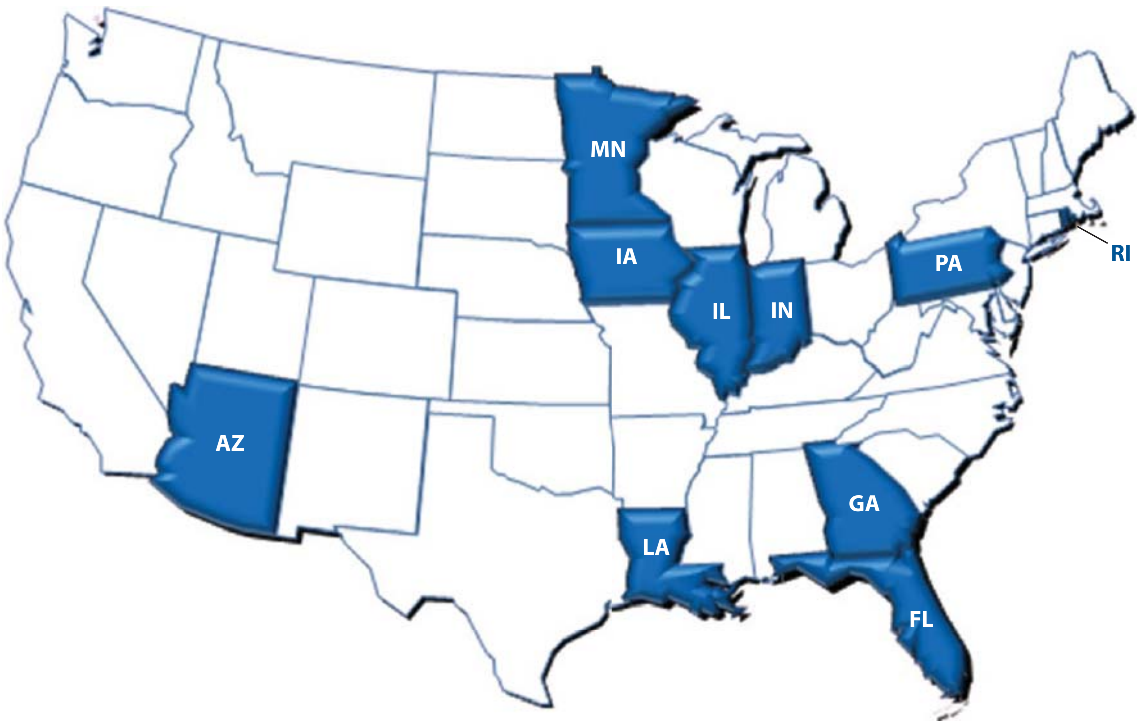
A personal-use tax credit allows individuals to reduce the amount they owe in taxes if they have education-related expenses, like private school tuition, books, and lab fees, for their own children. For example, in Iowa, a family might spend $1,000 on educational expenses. Their tax bill could be reduced by $250 (25 percent of the educational expenditures—the maximum tax credit allowable in Iowa) as long as they owe at least $250 in taxes. In all states that currently have such programs, the education tax credits are non-refundable, so they cannot exceed the amount that a family owes in taxes.

Tax credit scholarship programs allow individuals and/or corporations to make donations to scholarship coordinating organizations, which are 501(c)(3) non-profit organizations. The individuals and corporations can then deduct a pre-determined amount from the taxes they owe, and the scholarship coordinating organizations can award scholarships to eligible students for expenses such as private school tuition and transportation. Depending on the program, the tax credit might be matched dollar-for-dollar for the full amount of the tax liability, or the individuals/corporations might be able to subtract the tax credit up to a certain percentage of the taxes they owe. For example, Arizona allows a dollar-for-dollar tax credit of $500 for individual taxpayers and $1,000 for married couples filing jointly. Single individuals could donate $500 to a scholarship coordinating organization and have their tax burden reduced by the same $500. Florida, on the other hand, allows corporations to claim a dollar-for-dollar tax credit for up to 75 percent of their tax liability.

Some states have an education tax deduction instead of an education tax credit. It is important to understand the difference between a tax credit and a tax deduction. A tax credit reduces the amount of tax owed while a tax deduction reduces the amount of taxable income. The amount by which a tax credit reduces an individual's tax bill is the same for every individual regardless of their income, while the amount by which a tax deduction reduces one's tax bill is determined *by* their level of income.

A personal tax deduction allows individuals to reduce their tax bill by decreasing their taxable income. An education tax deduction could be based on educational expenses, such as the cost of private school tuition and books, and deducted from one's total gross taxable income. Louisiana has enacted the most recent personal tax deduction program. If Louisiana residents spend $10,000 on educational expenses for their children, they can claim 50 percent, or $5,000, in tax deductions. Louisiana law allows up to a $5,000 tax deduction per child in the family. A family with a total gross income of $50,000 and one child could reduce their gross income by $5,000. Their tax liability would be calculated based on an income of $45,000 instead of $50,000, which would lower their tax bill.

Figure 1: States with Education Tax Credits/Deductions



Source: Alliance for School Choice, *School Choice Yearbook 2009-10*; and Foundation for Educational Choice, *The ABCs of School Choice: 2009-10 Edition*.

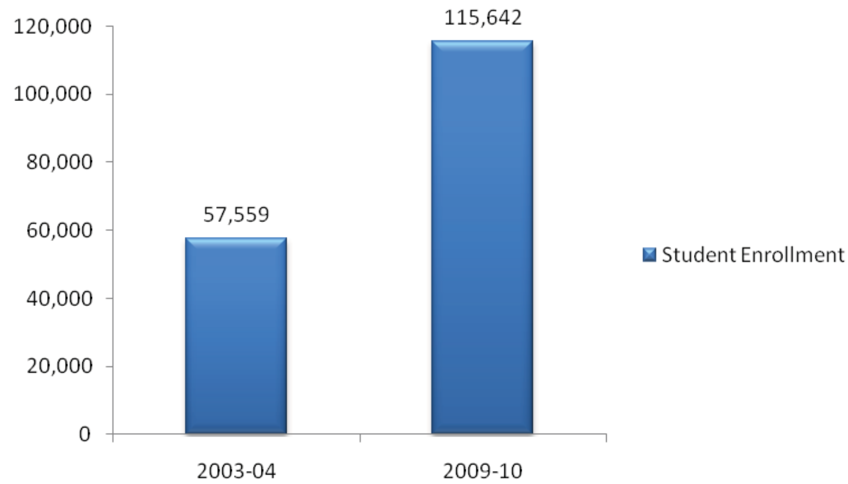
States with Education Tax Credits/Deductions

Education tax deductions have existed in the United States since Minnesota established the first program in 1955. Iowa began the first education tax credit program in 1987. The U.S. has experienced an impressive growth in the number of tax credit and deduction programs over the last decade as more parents seek ways to pay for different educational options for their children. Personal tax credit programs exist in Minnesota, Iowa, and Illinois. Minnesota also has a tax deduction program, as does Louisiana. Four states (Arizona, Georgia, Indiana, and Iowa) have individual tax credit scholarship programs, while five states (Arizona, Florida, Georgia, Pennsylvania, and Rhode Island) have corporate tax credit scholarship programs. Most tax credit scholarship programs have historically served mainly low- and moderate-income students, but Arizona's most recent program—a combined individual and corporate tax credit scholarship program—was created specifically to provide scholarships for students with disabilities and children in foster care, after voucher programs that served the same groups of students were ruled unconstitutional under Arizona state law. In all, 10 states have enacted a total of 14 education tax credit or deduction programs (see Figure 1).

> The U.S. has experienced an impressive growth in the number of tax credit and deduction programs over the last decade as more parents seek ways to pay for different educational options for their children.

Over the last six years, the number of students receiving a scholarship from an education tax credit program has increased 100.91 percent from 57,559 students in 2003-04 to 115,642 students in 2009-10[5] (see Figure 2 next page).

Figure 2: Students Receiving Education Tax Credit Scholarships Nationwide



Source: Alliance for School Choice, *School Choice Yearbook 2009-10*.

Constitutionality of Education Tax Credits & Deductions

While Texas does not currently have an education tax credit or deduction program, the U.S. Supreme Court has ruled that neither education tax credit nor deduction programs violate the Establishment Clause in the First Amendment of the U.S. Constitution.

Many individuals use the Establishment Clause to call for the separation of church and state.[6] However, the Institute for Justice* points out, "The federal Establishment Clause does not require programs to segregate state funds and use them only for non-religious elements of the education provided in religious schools, nor must the program permit students to 'opt-out' of religious classes or activities."[7] Some education tax credit programs have allowed religious private schools to itemize their charges so that tax credits or scholarships can be applied to the non-religious tuition and fees, but they should not have to do this according to the Institute for Justice's interpretation of the Establishment Clause.

At the state level, opponents of tax credit and deduction programs often cite the Blaine Amendments and "compelled support" clauses as arguments to support their case. A Blaine Amendment is an amendment to a state constitution that does not allow government money to go to religious educational institutions. Historically, Blaine Amendments were written to keep state money from being given to Catholic schools, but their meaning has been expanded to include religious private schools in general. Blaine Amendments are found in 37 state constitutions including Texas.

The "compelled support" clauses state that individuals cannot be forced to financially support an institution with which they do not agree. (In this case, taxpayers might claim that they are being compelled to support a religious institution against their will if some of their tax dollars were given to such an institution.)[8] Twenty-nine state constitutions including Texas have "compelled support" clauses.[9]

While these arguments have led to success in several court cases aimed at eliminating voucher programs, they have failed to undermine any tax credit or deduction program. The main reason for the success of these programs is that no public money is spent at religious schools. The tax credits and deductions actually allow parents to keep more of their own money to spend on the education of their children as they see fit. Furthermore, even if the funds were public, U.S. Supreme Court precedent indicates that programs providing general educational assistance are constitutional as long as religious and non-religious institutions receive the same treatment and parents are allowed to make the choice of where the money goes rather than it being dictated by the government.[10]

* The Institute for Justice is a libertarian public interest law firm. More information is available at www.ij.org.

Adam B. Schaeffer, an expert on education tax credit policies with the Cato Institute, emphasizes that courts consider tax credits to be private funds and not government money. This means that "tax credits are less likely to be challenged in court, less likely to be overturned by a court, less likely to come with burdensome regulations, and less likely to accumulate regulations over time." He cites Marc Egan, director of the Voucher Strategy Center for the National School Boards Association, as describing tax credits as "technically not government dollars" and "bullet-proof on constitutional issues."[11]

Common opponents of tax credit programs include the American Civil Liberties Union (ACLU) subsidiaries in the various states, school board associations, teachers' unions, and organizations such as the Arizona Center for Law in the Public Interest and People for the American Way.[12] Supporters of tax credit programs include the parents and students who benefit from them, and the Institute for Justice, which has defended the programs in several of the court cases.[13]

Texas' Constitutional Readiness for a Tax Credit Program

The Texas Constitution has Blaine Amendments, a "compelled support" clause, and a provision on education as listed below:

- **Compelled Support Clause:** "No man shall be compelled to attend, erect or support any place of worship, or to maintain any ministry against his consent." Texas Constitution, Article I, §6

- **Blaine Amendments:** "No money shall be appropriated, or drawn from the Treasury for the benefit of any sect, or religious society, theological or religious seminary; nor shall property belonging to the State be appropriated for any such purposes." Texas Constitution, Article I, §7; "The permanent school fund and the available school fund may not be appropriated to or used for the support of any sectarian school." Texas Constitution, Article VII, §5(c)

- **Education Article:** "A general diffusion of knowledge being essential to the preservation of the liberties and rights of the people, it shall be the duty of the Legislature of the State to establish and make suitable provision for the support and maintenance of an efficient system of public free schools." Texas Constitution, Article VII, §1

Given these provisions and state and federal court precedent, it appears that Texas can implement a tax credit program. The Heartland Institute conducted an April 2008 ranking of the 50 states and their school choice programs. The rankings were based on the states' voucher programs, charter schools, tax credit programs, and public school choice. Texas scored a dismal 17.4 percent, ranking 31st along with several other states and received a grade of F. Arizona and Florida, two of the leading states in school choice innovation, ranked at the top of the list with B's, showing that all states have room for improvement.[14]

The American Legislative Exchange Council (ALEC)* and the Institute for Justice also combined forces to examine all 50 states and recommend whether or not they could support new school choice programs. Based on the following case law, ALEC and the Institute for Justice found that Texas could support and sustain an education tax credit program. The few interpretations that Texas has of its Blaine Amendments and the "compelled support" clause do not forbid the state from assisting parents so that their children have more opportunities to attend either a public or private school. The only stipulation they make is that the funds for a program like a tax credit program cannot come from the Permanent School Fund or the Available School Fund. They must come from another source, such as individual or corporate taxpayers.[15]

Applicable Texas Case Law and Opinion[16]

Church v. Bullock, 109 S.W. 115 (Tex. 1908): The Texas Supreme Court ruled that a public school did not become "sectarian" simply because it allowed reading from passages in the King James Bible and recitation of the Lord's Prayer. It upheld these activities as critical to developing students' moral faculties.

Op. Tex. Att'y Gen. No. H-66 (1973): "The Texas Attorney General concluded that providing public funds to parochial schools through tuition equalization grants under a religiously neutral program is not inherently unconstitutional under the

* ALEC is a non-profit, nonpartisan organization devoted to bringing legislators, private sector leaders, the general public, and members of the federal government together to promote Jeffersonian principles, like free markets and limited government, in policymaking; more information is available at www.alec.org.

Texas Constitution because although Texas' second Blaine Amendment (Article VII, Section 5) 'prohibits aid to sects[,]' 'not all denominational institutions are sectarian in the constitutional sense.'"

Tex. Att'y Gen. LA-105 (1975): The Texas Attorney General allowed the provision of state textbooks to private schools. He concluded that the distribution did not violate the Blaine Amendment (Article I, Section 7) because it gave only "minimal benefits to the sectarian activities of nonpublic schools."

Court Case History

A number of education tax credit and deduction programs have been confronted with charges that they are not constitutional. Suits have been brought against programs in Arizona, Illinois, and Minnesota. Nevertheless, these programs have withstood all of the charges laid out against them and have been upheld as constitutional in every case.

The following timeline tracks the court cases that have been brought against tax credit and deduction programs as well as their successful outcomes:

1983 The U.S. Supreme Court ruled in favor of Minnesota's income tax deduction program in *Mueller v. Allen*, finding that the program did not violate the Establishment Clause.[17]

1999 The Arizona Supreme Court upheld the Individual School Tuition Organization Tax Credit program saying that it did not violate either the state's Blaine Amendment or the federal Establishment Clause in *Kotterman v. Killian*. The Court found that this tax credit program complied with all three prongs established in *Lemon v. Kurtzman:* (1) the tax credits have a **secular purpose** to provide school choice in public, private, or religious schools; (2) the **primary effect** of the tax credits does not advance or inhibit religion; and (3) these tax credits allow government to avoid **excessive entanglement** with religion.[18]

2000 Illinois appellate courts upheld the constitutionality, under both the state and federal constitutions, of two separate suits (*Griffith v. Bower* and *Toney v. Bower*) that had been brought against Illinois' tax credit program for educational expenses. The Illinois Supreme Court refused to grant an appeal.[19]

2005 The U.S. District Court for Arizona upheld Arizona's Individual School Tuition Organization Tax Credit program as constitutional.[20]

2007 A suit brought against Arizona's Corporate School Tuition Organization Tax Credit program was dismissed by the Maricopa County Superior Court.[21]

2009 The Arizona Court of Appeals declared the Corporate School Tuition Organization Tax Credit program constitutional in *Green v. Garriot.*[22]

> Sixty-five percent of public school teachers said that they would support tax credits that could be applied to both private and public school expenses; only 17 percent opposed the initiative.

Growing Support for Tax Credit Programs

Recent surveys show that while individuals nationwide have a rather dire opinion of the public school system, they generally support tax credit programs, especially those that allow tax credits for both private and public school expenses.

In the 2008 *Education Next*/Harvard PEPG Survey of Public Opinion, when asked if they would support tax credits for educational expenses such as fees, supplies, computers, and tuition for low- and moderate-income parents whose children attend private schools, survey respondents demonstrated overwhelming support for the measure. Sixty-three percent of African-Americans supported the tax credits, while 54 percent of all respondents and Hispanics supported tax credits. Caucasians followed closely behind at 52 percent.[23]

Figure 3: National Support and Opposition for Tax Credits for Private School Expenses

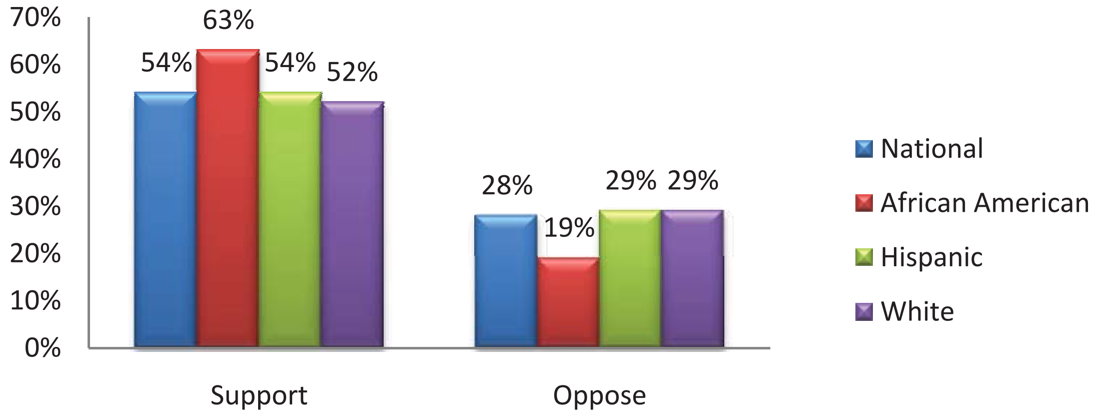
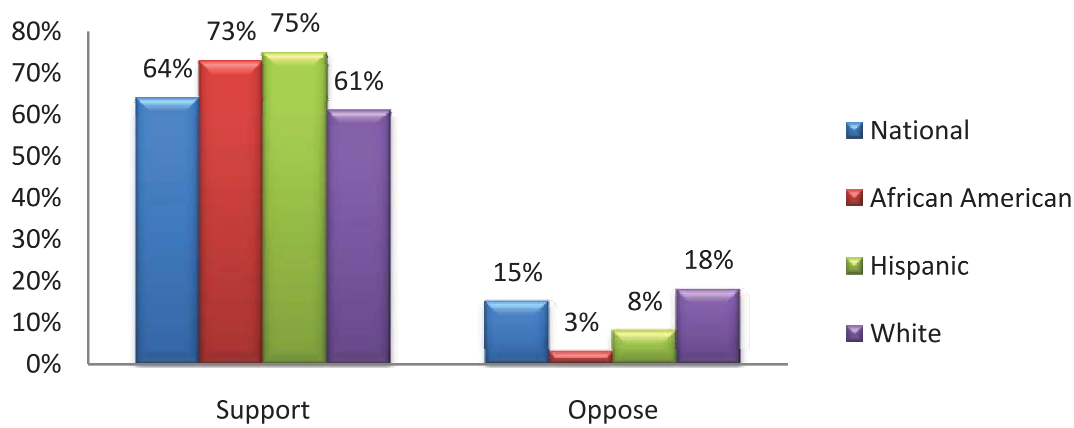


Figure 4: National Support and Opposition for Tax Credits for Private *and* Public School Expenses



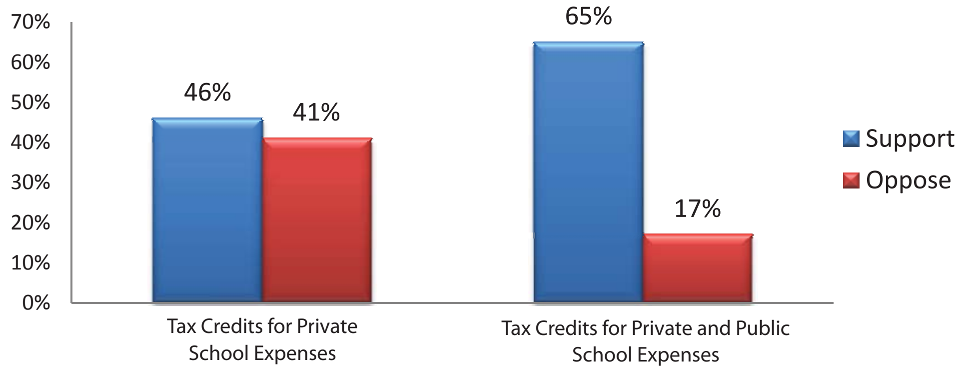
Source: *Education Next*, "The 2008 Education Next-PEPG Survey of Public Opinion," Vol. 8, No. 4 (2008).

When the same group of survey takers was questioned about its support for similar tax credits for low- and moderate-income parents whose students attend both private *and* public schools, support rates increased substantially by almost 10 percentage points or more. Hispanics were the biggest supporters at 75 percent, with African-Americans at 73 percent, the nation as a whole at 64 percent, and Caucasians at 61 percent.[24]

Even public school teachers showed general support for tax credit programs, especially when they could be used for private and public school expenses. While their support for tax credits for private school expenses *only* was almost evenly divided, it increased by an impressive rate when tax credits for public school expenses were included. Sixty-five percent of public school teachers said they would support tax credits that could be applied to both private *and* public school expenses; only 17 percent opposed the initiative.

As Adam Schaeffer with the Cato Institute explains, "one possible reason for the higher popularity of tax credits is that the majority of Americans are familiar with and well-disposed toward tax credits, a common policy vehicle."[25]

Figure 5: Public School Teachers' Support and Opposition Rates for Tax Credits for Private *and* Public School Expenses



Source: *Education Next*, "The 2008 Education Next-PEPG Survey of Public Opinion," Vol. 8, No. 4 (2008).

The homeschooling community has been hesitant to support certain forms of school choice, such as vouchers, because they fear that the funds will be accompanied by additional government regulations. Since education tax credits reimburse taxpayers for educational expenses and are not typically accompanied by additional government regulations, the Home School Legal Defense Association supports "tax credits that promote educational choice without threatening any regulation of homeschoolers … to eliminate the 'double' taxation of private and homeschool parents."[26]

In addition, the Jewish community has also expressed strong support for education tax credits. Many organizations, including the Union of Orthodox Jewish Congregations of America and Agudath Israel of America, advocate for education tax credits, education tax deductions, and scholarships. They support these ideas for two reasons: 1) To help their congregations pay for their children to attend Jewish day schools, and 2) To serve and help the most vulnerable children and families, the poor. Testimony by The Union of Orthodox Jewish Congregations of America supporting an education scholarship bill in New Jersey explains, "It is not enough that some families have access to excellent educational options. All families and children of every race, religion, and nationality must have equal access to the great promise of education. [This bill] helps ensure this can happen in a cost effective way."[27]

Bipartisan support for education tax credits has also increased in recent years. Although Republicans have a stronger track record of supporting school choice programs, in states where tax credit programs have been considered or enacted recently, the governor or one or both houses of the legislature were often controlled by the Democratic Party.[28]

> Bipartisan support for education tax credits has also increased in recent years. In states where tax credit programs have been considered or enacted recently, the governor or one or both houses of the legislature were often controlled by the Democratic Party.

Education tax credit bills have passed in Iowa, Pennsylvania, Rhode Island, and Indiana, where one if not both chambers are controlled by Democrats. In Florida, where Republicans control the governorship and both chambers of the state legislature, both political parties supported a $30 million expansion of the Corporate Tax Credit Scholarship Program, including "a majority of African-American legislators, all Hispanic legislators, and one-third of the entire Democratic caucus." Other states considering enacting education tax

Table 1: State Personal Tax Credits and Deductions

State	Program	Year Enacted	Families Served	Average Credit/ Deduction Amount	Tax Credit/ Deduction Cap	Tax Credit/ Deduction Specifics	Student Eligibility	State Tax
Illinois	Education Expense Credit	1999	183,500 (estimate)	$344	$500 per family	25% of eligible educational expenses after $250 spent	K-12 Public & Private School Students	Personal Income Tax
Iowa	Tax Credit for Educational Expenses	1987	191,600 (2006-07)	$79	$250 per family	25% of eligible educational expenses	Students Attending an Accredited Public or Private School	Personal Income Tax
Louisiana	School Tuition & Expense Tax Deduction	2008	N/A	N/A	$5,000 per child	50% of eligible educational expenses	K-12 Public, Private & Homeschool Students	Personal Income Tax
Minnesota	K-12 Education Deduction	1955	210,371 (2006-07)	$1,227	$1,625 (K-6); $2,500 (7-12)	100% of eligible educational expenses	K-12 Public, Private & Homeschool Students	Personal Income Tax
Minnesota	K-12 Education Tax Credit	1997	56,372 (2006-07)	$265	$1,000 per child	75% of eligible educational expenses excluding tuition	K-12 Public, Private & Homeschool Students	Personal Income Tax

Note: N/A indicates that the data is not available or is not applicable.
Source: Foundation for Educational Choice, *The ABCs of School Choice 2009-2010.*

credit legislation such as Maryland, New Jersey, and New Mexico, often had Democrats introduce and strongly support the proposals. Maryland's Democratic Senate approved a tax credit bill by a margin of almost 2-to-1.[29]

State Case Studies

Four states currently have a personal education tax credit or tax deduction program (Illinois, Iowa, Louisiana, and Minnesota). Minnesota was the first state to pass a personal education deduction program in 1955. The second personal education deduction program was created in 2008 in Louisiana. Iowa passed the first personal education tax credit in 1987, with Minnesota following in 1997 and Illinois in 1999.

In all of the states, the tax credit or deduction is against the personal income tax. While the programs vary by state, here are some common themes in the programs:

- All students attending public and private schools are eligible;
- Private school tuition, lab fees, and books are eligible educational expenses;
- Expenses of religious instruction are not eligible; and
- There is a cap on the total amount of the tax credit or deduction.

In some states, homeschooled students are also eligible and homeschool textbooks and curricula are allowable educational expenses.

It is important to understand the difference between a tax deduction and a tax credit. A tax deduction lowers a family's taxable income while a tax credit reduces a family's tax liability. A tax deduction is worth much less than a tax credit. The savings to families are small in both types of programs. The tax deduction program saves a family in Louisiana about $300. The tax credit programs save families, on average, between $79 and $344 a year in educational costs (see Table 1 for more information).

Table 2: State Tax Credit Scholarship Programs, 2009-10 School Year

State	Program	Year Enacted	Number of Scholarships	Average Scholarship Amount	Number of Participating Scholarship Organizations	Number of Participating Private Schools	Statewide Annual Tax Credit Cap	State Tax
Arizona	Individual School Tuition Organization Tax Credit	1997	28,933	$1,910	55	373	No cap	Personal Income Tax
Arizona	Corporate School Tuition Organization Tax Credit	2006	2,596	$2,533	19	176	$17.28 million (FY 2010)	Personal Income Tax
Arizona	Corporate Tax Credits for Special Needs & Foster Care Students	2009	472	$8,238* special needs $4,140* foster care	N/A	107	$5 million	Corporate Income Tax & Insurance Premium Tax
Florida	Tax Credit Scholarship Program	2001	26,987	$3,563	2	975	$118 million	Corporate Income Tax & Insurance Premium Tax
Georgia	Scholarship Tax Credit Program	2008	1,900	$6,867	11	400*	$50 million	Personal & Corporate Income Tax
Indiana**	Corporate & Individual Scholarship Tax Credit	2009	N/A	N/A	N/A	N/A	$2.5 million	Personal Income Tax, Financial Institutions Tax & Insurance Premium Tax
Iowa	Individual School Tuition Organization Tax Credit	2006	9,624	$1,184	11	156	$7.5 million	Personal & Corporate Income Tax
Pennsylvania	Educational Improvement Tax Credit	2001	44,839	$1,099	286*	N/A	$38 million	Corporate Income Tax
Rhode Island	Corporate Scholarship Tax Credit	2006	291	$5,945	3	25	$1 million	Corporate Income Tax

Source: Alliance for School Choice, *School Choice Yearbook 2009-10*; Foundation for Educational Choice, *ABC's of School Choice 2009-10;* and author's calculations from data provided by the Alliance for School Choice.
*Data from the Foundation for Educational Choice, *ABC's of School Choice 2009-10* is marked with an asterisk.
** Indiana will begin providing scholarships to students in 2010.

Seven states have a total of nine education tax credit scholarship programs (Arizona has three tax credit scholarship programs). The other states are Florida, Georgia, Indiana, Iowa, Pennsylvania, and Rhode Island. Arizona was the first state to pass a tax credit scholarship program in 1997.

The tax credit scholarship programs are against the personal income tax, the corporate income tax, the financial institutions tax, the insurance premium tax, or a combination of these taxes. While the programs vary by state, here are some commonalities:

- Students attending public school or entering pre-kindergarten, kindergarten or first grade are eligible;
- Income eligibility is tied to some percentage of the federal poverty level (185 percent-300 percent);

- Scholarship Granting Organizations can set additional eligibility requirements;
- Donors receive a dollar-for-dollar credit or 100 percent of donation;
- Donations may not be set aside for a particular student or school;
- Percentage of donations to Scholarship Granting Organizations that must be used for scholarships is 90 percent or higher; and
- There is a statewide cap on the amount of tax credits.

The savings to families in scholarship tax credit programs far exceeds savings by personal education tax credit and deduction programs. The average scholarship amount ranges from roughly $1,100 in Pennsylvania to more than $6,800 in Georgia. Student participation in education scholarship tax credit programs has increased 100.91 percent from 57,559 students in 2003-04 to 115,642 students in 2009-10. Pennsylvania, Arizona, and Florida have the largest number of families participating, with thousands of students receiving scholarships. Note: Indiana passed their scholarship tax credit program in 2009 with implementation starting January 1, 2010, so very little data on its program is available at this time (see Table 2 for more information).

More detailed state case studies are included in Appendix A and B of this paper. Cases are listed within each section in alphabetical order.

Cost Savings

Tax credit programs make fiscal sense for Texas. For example, Florida's non-partisan Office of Program Policy Analysis & Government Accountability was required to conduct a fiscal analysis of the Corporate Tax Credit Scholarship Program. It found that in Fiscal Year 2007-08, Florida saved "$1.49 in education spending for every dollar loss in corporate income tax revenue due to scholarship contributions."[30] This totaled $38.9 million for the entire year.[31] Another analysis by Dr. Susan Aud, a Johns Hopkins professor, estimates savings of $41.9 million between the 2002-03 school year and the 2005-06 school year.[32]

The reason for the savings is that it costs less for a student to attend a private school than it does for the state to support a student in public school. In fact, the average private school tuition is more or less half of what the public schools spend per student.[33] Therefore, every time a student leaves the public school system with a scholarship that is reimbursed in tax credits, the state is able to keep the additional funds that it would have spent on the student in the public schools.

Florida's program has been such a fiscal success that the report recommended the state legislature consider expanding the cap on the scholarship tax credit program in order to realize more savings. Florida followed this advice in 2008. Separate studies by Florida Tax Watch and the Collins Center for Public Policy reached an identical conclusion: the tax credit program saves the state money. The Collins Center for Public Policy found that the state 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").[34] The program's new expansion is expected to save Florida an additional $5.7 million in the first year alone.[35]

Arizona has also saved money with its school tuition organization individual tax credit program. Between the 1998-99 school year and the 2005-06 school year, the state has saved an estimated $18.2 million.[36] In 2007, the *Arizona Republic* estimated the state's personal and corporate tax credit program saved the state and Arizona taxpayers up to $8.3 million.[37]

An economist from Baylor University examined the Arizona tax credit program for 2008 and estimates that "at least 11,697 students attended private school solely because of the tax-credit scholarships" saving the state between $44 million and $186 million in 2008.[38] Arizona's corporate tax credits represented only one-third of one percent of the state tax revenue during the program's first year. The program was expected to save the state an estimated $57.2 million over five years—an average of $11.4 million annually[39] and equal to $5,000 per student who moved from a public school to a private school.[40]

Georgia and Pennsylvania are also expected to experience remarkable savings with their tax credit programs. The Foundation for Educational Choice has estimated that the

In 2007, the *Arizona Republic* estimated the state's personal and corporate tax credit program saved the state and Arizona taxpayers up to $8.3 million.

new individual and corporate tax credit program established in Georgia should save the state $5.9 million a year, while local school districts could save more than $94 million.[41] In Pennsylvania, it is estimated its Educational Improvement Tax Credit program saved taxpayers $531.6 million in the 2007-08 school year.[42]

Andrew Coulson of the Cato Institute set up a Fiscal Impact Calculator to estimate the savings that states would likely experience if they implemented a personal tax credit program and a tax credit scholarship program for individuals and corporations. He also allowed tax credits for individuals (such as family members) to directly contribute to a child's educational expenses without going through a scholarship coordinating organization. Coulson first looked at a program that could be phased-in over four years. This type of program would not allow individuals who already had their children in private schools to receive the full benefit of the tax credit initially but rather they would receive an increasingly greater tax credit over time. Under these conditions and according to Coulson's estimates, Texas could save $508 million during the first year of the tax credit program. These annual savings could add up to as much as $15.9 billion after only 10 years. Even if private school parents were allowed to realize the tax credit from day one, Coulson estimates that Texas would still save an average of $2.8 billion annually during the first five years of the program. He points out that not only is such a program expected to save the state money, but it also makes more money available to public school districts for each student who remains in public school.[43]

Benefits of Tax Credit Programs

- Parents are best equipped to make educational decisions for their children.[44]

- Parents become more involved in their children's education[45] and tax credit programs allow parents and students to find the learning environment that best fits each student's individual learning style.

- Tax credit programs that allow parents and students to choose between the traditional public school and a private school create competition between schools that leads to improved student performance. Public schools become accountable to parents, which encourages the public schools to raise their standards and improve student performance. Private schools must do the same. Otherwise, they may lose their students to more competitive schools.[46]

- Research shows that school choice programs in general lead to increased student achievement for the students who stay in the public schools.[47]

- Tax credits help to reduce the burden of double taxation experienced by parents of students in private school and homeschool settings since they pay taxes for public schools and then pay to educate their children outside of that system.[48]

- Many existing charitable organizations can easily become scholarship coordinating organizations. This greatly facilitates the implementation of tax credit programs and can benefit students in a timely manner.[49]

- Individuals and corporations are likely to become invested in and engaged with the tax credit programs and the educational programs they support because they are able to choose where to direct their funds. This engagement contributes to the sustainability and growth of such programs.[50]

Policy Recommendations

Create a tax credit scholarship program for:
- private school tuition,
- transportation expenses to alternate public schools, or
- homeschool curriculum.

Businesses can claim a credit against the franchise tax for donations to a scholarship organization.

Texas is ready to enact and implement a tax credit scholarship program. The various programs currently in use in 10 states provide Texas policymakers guidance on structuring the program. Based on our research, we recommend Texas create a tax credit scholarship program for families funded with corporate donations. Businesses could make donations directly to scholarship-granting organizations (SGOs) that would in turn provide scholarships to families, helping them afford private school tuition, homeschool curriculum costs, or transportation costs for children attending a different public school than the one to which they are assigned.

Businesses could claim a dollar-for-dollar tax credit against the franchise tax for up to 50 percent of their total tax liability.*

The state could cap the total amount of tax credits allowed against the franchise tax per year statewide to a certain amount. In the event the cap is reached, the cap would automatically increase by 10 percent. Businesses would donate directly to any non-profit SGO they choose.

The scholarship granting organizations should be non-profit organizations incorporated in Texas. Scholarship granting organizations should allocate at least 90 percent of donations to scholarships, leaving 10 percent or less for administrative purposes. These organizations shall not reserve donations for a specific student. To encourage a range of options and maximum flexibility, we recommend that the SGO have the ability to set eligibility requirements and determine scholarship amounts. To ensure financial transparency to the public, we recommend the scholarship granting organization submit financial reports and an audit to the Comptroller annually. In addition, we suggest both reports be posted on their website.

We recommend that public school students be eligible for a scholarship. Specifically, the students should be current residents of Texas, under the age of 21, and either have attended a public school the previous year or be entering kindergarten or first grade. The scholarships should assist parents with the cost of private school tuition and may not exceed the cost of a school's tuition. Scholarships up to $500 to assist with the cost of transportation should also be available to parents who want to transfer their child to an alternate public school, but cannot afford transportation. This may help parents who live in public school districts with open-enrollment policies or who want to use a Public Education Grant (PEG) to get their child out of a low-performing school but are unable to take advantage of the public school choice option due to transportation costs.

In addition, scholarships up to $500 to assist parents with the cost of homeschool curriculum and books should also be made available to parents.

All three of these options give parents assistance to pick the most appropriate educational setting for their child, whether public, private, or homeschool. ✯

For more information on education tax credits, please read "The Public Education Tax Credit" by Adam B. Schaeffer, Policy Analysis, Cato Institute (Dec. 2007) http://www.cato.org/pubs/pas/pa-605.pdf; and "The Fiscal Impact of a Large-Scale Education Tax Credit Program by Andrew J. Coulson, Policy Analysis, Cato Institute (July 2008) http://www.cato.org/pubs/pas/pa-618.pdf.

For examples of model legislation on education tax credits supported by the American Legislative Exchange Council, the Alliance for School Choice, and the Foundation for Educational Excellence, please visit http://www.allianceforschoolchoice.org/PolicyMaker/.

* Florida and Georgia both allow businesses to claim tax credits up to 75 percent of their total tax liability.

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Appendix A: States with Personal Tax Credits and Deductions

Illinois

Program	Year Enacted	Families Served	Average Credit Amount	Tax Credit Cap	Tax Credit Specifics	Student Eligibility	State Tax
Education Expense Credit	1999	183,500 (estimate)	$344	$500 per family	25% of eligible educational expenses after $250 spent	K-12 public & private school students	Personal Income Tax

Education Expense Credit

Important Dates

Enacted 1999/Implemented 2000

Program Specifications

Illinois' tax credit covers educational expenses, including tuition, books, and lab or activity fees, for students in public and private school. Residents can claim a tax credit of 25 percent of educational expenditures after the first $250 spent, up to a total of $500 in tax credits per family. This means that a family must spend $2,250 in educational expenses to benefit from the full tax credit. The tax credit is non-refundable, so the family must also have a tax liability of at least $500.

Student Eligibility

Students must be Illinois residents and must be enrolled full-time in kindergarten through 12th grade. The students must be under the age of 21.

Participating School Regulations

Schools may not discriminate and must adhere to attendance requirements.

Tax Credit Claimed Against

Personal Income Tax

Governing Statutes

Chapter 35 Section 201(m) of the Illinois Compiled Statutes

Iowa

Program	Year Enacted	Families Served	Average Credit Amount	Tax Credit Cap	Tax Credit Specifics	Student Eligibility	State Tax
Tax Credit for Educational Expenses	1987	191,600 (2006-07)	$79	$250 per family	25% of eligible educational expenses	Students attending an accredited public or private school	Personal Income Tax

Tax Credit for Educational Expenses

Important Dates Enacted 1987/Expanded 1996 and 1998

Program Specifications Allowable educational expenses include: private school tuition, books, and lab or activity fees, up to a total of $250. Since the tax credit is only worth 25 percent of the expenditures, families must spend $1,000 to receive the full credit. As the tax credit is non-refundable, the families must also have a tax liability of at least $250.

Student Eligibility Students attending accredited public and private schools are eligible for the tax credit.

Participating School Regulations The schools must be accredited, non-profit and adhere to civil rights laws. The tax credit cannot be applied to expenditures for religious instruction. Schools are allowed to itemize the expenses so that parents can claim non-religious expenses.

Tax Credit Claimed Against Personal Income Tax

Governing Statutes Iowa Code, Section 422.12

Louisiana

Program	Year Enacted	Tax Deduction Cap	Tax Deduction Specifics	Student Eligibility	State Tax
School Tuition & Expense Tax Deduction	2008	$5,000 per student	50% of eligible educational expenses	K-12 public, private & homeschool students	Personal Income Tax

School Expense Deduction

Important Dates
Enacted March 2008/Implemented 2009

Program Specifications
This tax deduction is worth 50 percent of a family's educational expenditures up to a total of $5,000 per child. It can be applied toward educational expenditures, including private and parochial school tuition and fees, tuition and fees at university-run "lab schools," and required uniforms, textbooks, curricular materials, and school supplies. Eligible expenses for public school students include uniforms and supplies. Eligible homeschool educational expenses include textbooks and curricula necessary for homeschooling. The amount of the deduction cannot exceed the total taxable income of the individual.

Student Eligibility
All K-12 students in Louisiana are eligible to participate. Parents must claim the student as a dependent on their state income tax return.

Participating School Regulations
These schools must adhere to existing laws and regulations governing Louisiana schools.

Tax Credit Claimed Against
Personal Income Tax

Governing Statutes
Louisiana Revised Statutes 47:293(9) (a) (xiv), (xv), and (xvi); and 297.10 through 297.12

Minnesota

Program	Year Enacted	Families Served	Average Credit/ Deduction Amount	Tax Credit/ Deduction Cap	Tax Credit/ Deduction Specifics	Student Eligibility	State Tax
K-12 Education Deduction	1955	210,371 (2006-07)	$1,227	$1,625 (K-6); $2,500 (7-12)	100% of eligible educational expenses	K-12 public, private & homeschool students	Personal Income Tax
K-12 Education Tax Credit	1997	56,372 (2006-07)	$265	$1,000 per child	75% of eligible educational expenses excluding tuition	K-12 public, private & homeschool students	Personal Income Tax

K-12 Education Expense Deduction and K-12 Education Tax Credit

Important Dates

Implemented 1955 (Deductions) and 1997 (Credits)

Program Specifications

A tax deduction lowers a family's taxable income and a tax credit reduces a family's tax liability. The tax deduction is worth 100 percent of educational expenses up to $1,625 for each child in grades K-6 and $2,500 for each child in grades 7-12. Eligible education expenses for the tax deduction include: books, tutors, academic after-school programs and camps, music lessons, purchase or rental of musical instruments for a school music class, instructor fees for drivers education, tuition for full-day kindergarten, K-12 private school tuition, tuition for college or summer school courses that satisfy high school graduation requirements, some transportation costs, and up to $200 for personal computer hardware and educational software.

The tax credit covers 75 percent of educational expenses excluding tuition. Eligible education expenses for the tax credit include all of the above mentioned expenses except private school tuition and tuition for college or summer school courses that satisfy high school graduation requirements. Travel expenses and school uniforms are not allowable educational expenses.

Student Eligibility

Parents of K-12 students are eligible to receive the deduction for allowable education expenses. There is no income limit to qualify for the K-12 education deduction. Students must have attended a school located in the five-state area — Minnesota, Iowa, North Dakota, South Dakota, or Wisconsin. Similarly, parents are eligible to receive the tax credit for allowable k-12 education expenses and if their annual income is below $37,500 and they have or two qualifying children. The income limit increases by $2,000 for each additional child. Part-year residents and nonresidents may also be eligible for both the deduction and credit. Parents must file their taxes and have documentation of eligible expenses.

Participating School Regulations

Neither the tax credit nor the tax deduction can be used for religious instruction expenses. Expenses may be itemized by the schools separating religious instruction from other expenses so parents can claim the tax credit or deduction for non-religious expenses.

Tax Credit Claimed Against

Personal Income Tax

Governing Statutes

Minnesota Statutes, Section 290.0674

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Appendix B: States with Tax Credit Scholarship Programs

Arizona

Program	Year Enacted	Number of Scholarships	Average Scholarship Amount	Number of Participating Scholarship Organizations	Number of Participating Private Schools	Statewide Annual Tax Credit Cap	% of Donations Must Be Used for Scholarships	State Tax
Individual School Tuition Organization Tax Credit	1997	28,933	$1,910	55	373	No cap	90%	Personal Income Tax
Corporate School Tuition Organization Tax Credit	2006	2,596	$2,533	15	176	$17.28 million (FY 2010)	90%	Personal Income Tax
Corporate Tax Credits for Special Needs & Foster Care Students "Lexie's Law"	2009	472	$8,238 for special needs students $4,140 for foster care students	N/A	107	$5 million	90%	Corporate Income Tax & Insurance Premium Tax

Individual School Tuition Organization Tax Credit

Important Dates Enacted 1997/Implemented 1998/Expanded 2005

Program Specifications Individual taxpayers can receive a dollar-for-dollar credit of up to $500; married couples filing jointly may receive up to $1,000 in a tax credit. Taxpayers can claim up to $200 for contributions to public schools for "extracurricular activities or character education programs."

Tax Credit Value 100 percent of donation

Student Eligibility Each STO is free to set its own eligibility requirements; however, most STOs distribute scholarships based only on financial need. Student scholarship amounts usually vary depending on need. Private school students are eligible.

Scholarship Coordinating Organizations School Tuition Organizations (STOs)

STO Regulations STOs must reserve a minimum of 90 percent of their revenue for scholarships. STOs may not set aside a contribution with the intent of awarding it to a donor's child, and cannot limit scholarship awards to a single school. STOs are required to file fiscal reports with the Department of Revenue. Registered STOs may collect contributions for both the Individual and Corporate School Tuition Organization Tax Credit programs. There is no cap on the scholarship amount.

Participating School Regulations Schools may not discriminate on the basis of race, color, handicap, familial status, or national origin and must comply with state private school regulations such as health and safety requirements.

Tax Credit Claimed Against Personal Income Tax

Governing Statutes Title 43-1089 and 43-1089.01 of the Arizona statutes

Corporate School Tuition Organization Tax Credit

Important Dates Enacted & Implemented 2006

Program Specifications Corporations can claim a dollar-for-dollar tax credit up to the amount of their contribution. The legislation put a cap on the scholarship awards of $4,400 for grades K-8 and $5,700 for grades 9-12. The cap automatically increases by $100 per year. The program was originally limited to a total of $10 million in tax credits per year, but the cap has subsequently increased to $14.4 million. The cap for fiscal year 2010 is $17.28 million and increases 20 percent per year. Corporations may contribute more than this amount each year but can only receive $5 million in tax credits annually.

Tax Credit Value	100 percent of donation
Student Eligibility	Students who receive scholarships must have family incomes at or below 185 percent of the federal poverty level (same as the eligibility level for free and reduced price lunch). Students may not be current students at a private school, they need to have attended a public school the previous year or be entering kindergarten. STOs may set additional eligibility requirements such as geographic areas, and most award scholarships based on financial need.
Scholarship Coordinating Organizations	School Tuition Organizations (STOs)
STO Regulations	At least 90 percent of the STOs' revenue must be allocated to fund private-school scholarships. STOs must submit fiscal reports to the Department of Revenue including an audit of financial statements by a certified public accountant. STOs cannot limit scholarship awards to a single school. Registered STOs may collect contributions for both the Individual and Corporate School Tuition Organization Tax Credit programs.
Participating School Regulations	Participating schools may not discriminate on the basis of race, color, handicap, familial status, or national origin and must meet health and safety requirements. In addition, teachers must be fingerprinted and the schools must administer and make public the aggregate results of a nationally, norm-referenced achievement test.
Tax Credit Claimed Against	Corporate Income Tax
Governing Statutes	Title 43-1183 of the Arizona statutes

Corporate Tax Credit and Insurance Tax Credit for Students with Special Needs or in Foster Care (Lexie's Law)

Important Dates	Enacted 2009/Effective July 1, 2009
Program Specifications	Corporations can claim a dollar-for-dollar tax credit up to the amount of their contribution. The Arizona Department of Revenue must review and pre-approve the corporate donations on a first-come, first-serve basis. The total donations received may not exceed $5 million a year. These corporate tax credits can be carried forward for five years if the amount of the donation is greater than the corporation's tax liability in the current year. Corporations may not claim tax credits under both the Corporate School Tuition Organization Tax Credit and Lexie's Law. Donations cannot be set aside for particular students as recipients.
Tax Credit Value	100 percent of donation
Student Eligibility	Students who attended a public school the previous year and are identified as special needs by their Individualized Education Plan or IEP are eligible. Any student in foster care is eligible to receive a scholarship whether they attend a public or private school.
Scholarship Coordinating Organizations	School Tuition Organizations (STOs)
Coordinating Org. Regulations	The amount of the special needs scholarship varies with the severity of the student's disability. The maximum amount a special needs student may receive is equal to the funding their public school would have received from the state or "base support level." The scholarship amount for students with special needs or students in foster care shall not exceed the cost of tuition and fees to the private school they have been accepted. The average scholarship amount in 2008 for students with special needs was $8,238. The maximum scholarship amount for students in foster care is $5,000. The average scholarship amount in 2008 for foster care students was $4,140.
Participating School Regulations	Private schools must be located in Arizona and not discriminate on the basis of race, color, handicap, familial status, or national origin. Schools must allow scholarship students to take state tests if parents request it.
Tax Credit Claimed Against	Corporate Income Tax & Insurance Premium Tax
Governing Statutes	Title 20-224.06 and 43-1184 of the Arizona statutes

Florida

Program	Year Enacted	Number of Scholarships	Average Scholarship Amt.	Number of Participating Scholarship Organizations	Number of Participating Private Schools	Statewide Annual Tax Credit Cap	% of Donations Must Be Used for Scholarships	State Tax
Tax Credit Scholarship Program	2001	26,987	$3,563	2	975	$118 million	97%	Corporate Income Tax & Insurance Premium Tax

Tax Credit Scholarship Program (or Step Up for Students)

Important Dates

Enacted 2001/Implemented 2002/Expanded 2009

Program Specifications

Scholarships up to $3,950 are awarded to low-income students and foster children; the scholarships may not exceed the cost of the private school. A minimum of 75 percent of the scholarship must be allocated for tuition alone, while the remaining 25 percent may be used for textbooks or transportation. Students may also receive transportation scholarships of up to $500 to attend an alternate public school. Corporations receive a dollar-for-dollar tax credit for donations of up to 75 percent of their tax liability. The program was previously capped at a total of $88 million, but was recently increased by $30 million to a total of $118 million. In June of 2009, Florida expanded the type of corporations that may donate to its tax credit scholarship program to include insurance companies. Beginning July 1, insurance companies can donate up to 75 percent of their insurance premium tax liability and receive a dollar-for-dollar tax credit.

Tax Credit Value

100 percent of donation

Student Eligibility

Students who receive scholarships must have family incomes at or below 185 percent of the federal poverty level (or free and reduced price lunch eligibility). Students may not be current students at a private school, they need to have attended a public school the previous year or be entering kindergarten or first grade. If a student's family income increases, the student may stay in the program until their family income reaches 200 percent of the federal poverty level. Students who participated in Florida's former A+ Opportunity Scholarships program are also eligible.

Name of Scholarship Coordinating Organization

Scholarship Funding Organizations (SFOs)

Scholarship Coordinating Org. Regulations

SFOs must be non-profit organizations incorporated in Florida. They must allocate 97 percent of donations received to scholarships, and get an audit annually by an outside accountant. SFOs may not use a donor's contribution to provide a scholarship for a donor's child.

Participating School Regulations

Participating private schools must turn in a notarized questionnaire on various issues including the number of teachers in the school and food safety inspections. They are also required to administer a norm-referenced on the state public school assessment test to scholarship students. Teachers must have bachelor's degrees, three years of teaching experience or special expertise. Schools that have been open less than three years need a surety bond or letter of credit to cover the value of scholarships for one quarter. Participating private schools must accept scholarship students, but if they have more applicants than open seats they do not have to admit students at random.

Tax Credit Claimed Against

Corporate Income Tax & Insurance Premium Tax

Governing Statutes

2001 Florida Statutes, Title XIV, Chapter 220.187

Georgia

Program	Year Enacted	Number of Scholarships	Average Scholarship Amt.	Number of Participating Scholarship Organizations	Number of Participating Private Schools	Statewide Annual Tax Credit Cap	% of Donations Must Be Used for Scholarships	State Tax
Scholarship Tax Credit Program	2008	1,900	$6,867	11	400	$50 million	90%	Personal & Corporate Income Tax

Scholarship Tax Credit Program

Important Dates

Enacted 2008, Implemented 2009-10

Program Specifications

Individual taxpayers may claim a dollar-for-dollar tax credit of up to $1,000, while married couples filing jointly can claim up to $2,500. Corporate donors can receive a dollar-for-dollar tax credit of up to 75 percent of the taxes they owe. The program has a cap of $50 million in annual tax credits.

Tax Credit Value

100 percent of donation

Student Eligibility

All public school students in Georgia are eligible to participate in the program or students entering pre-kindergarten or kindergarten. SSOs may stipulate additional eligibility requirements.

Name of Scholarship Coordinating Organization

Student Scholarship Organizations (SSOs)

Coordinating Org. Regulations

SSOs must reserve 90 percent of the donations they receive for scholarships. They may carry over as much as 25 percent of their revenue to the following year. SSOs can determine the amount of each scholarship, but they may not reserve donations for particular students. Also, SSOs cannot limit scholarship awards to a single school. SSOs must file audits and fiscal reports with the Department of Revenue and have annual audits by certified public accountants.

Participating School Regulations

Schools are required to adhere to anti-discrimination laws and all state private school regulations including health and safety requirements. In addition, the school must be accredited or be in the process of becoming accredited.

Tax Credit Claimed Against

Personal and Corporate Income Tax

Governing Statutes

Georgia Code, 20-2A and 48-7-29.13

Indiana

Program	Year Enacted	Number of Scholarships	Average Scholarship Amt.	Number of Participating Scholarship Organizations	Number of Participating Private Schools	Statewide Annual Tax Credit Cap**	% of Donations Must Be Used for Scholarships	State Tax
Corporate & Individual Scholarship Tax Credit	2009	N/A	N/A	N/A	N/A	$2.5 million	90%	Personal Income Tax, Financial Institution Tax, & Insurance Premium Tax

Source: Indiana Legislative Services Agency, "House Bill 1001," Special Session (2009)

Corporate & Individual Scholarship Tax Credit

Important Dates

Enacted 2009/Implemented January 1, 2010

Program Specifications

Individual taxpayers and corporations can receive a tax credit equal to 50 percent of their contributions to a Scholarship Granting Organization in the taxable year the donation was made. The program has a cap of $2.5 million in tax credits can be claimed each state fiscal year and credits do not carry over to the next year.

Tax Credit Value

50 percent of donation

Student Eligibility

A student's family income must be at or below 200 percent of the federal poverty level to be eligible (or free and reduced price lunch eligibility). Students need to be between age five and 22, be residents of Indiana, and have either attended a public school last year or are entering kindergarten. Students who have received scholarships under this program in the past will continue to be eligible.

Name of Scholarship Coordinating Organization

Scholarship Granting Organizations (SGOs)

Coordinating Org. Regulations

SGOs must be non-profit organizations that reserve at least 90 percent of their donations to scholarships and 100 percent of income earned on contributions to scholarships. SGOs can determine the amount of each scholarship. SGOs need to be transparent with their finances to the public, have an annual financial audit, prepared an annual report and demonstrate financial viability to the Department of Revenue. In addition, SGO's must conduct criminal background checks on all its employees and board members.

Participating School Regulations

Schools must be accredited by a regional, state or national agency and administer a national norm-referenced test or the Indiana Statewide Testing for Educational Progress-Plus (ISTEP+).

Tax Credit Claimed Against

Personal Income Tax, Financial Institutions Tax, and Insurance Premiums Tax

Governing Statutes

Indiana Code 6-3.I-30.5 and 20-51-3

Iowa

Program	Year Enacted	Number of Scholarships	Average Scholarship Amt.	Number of Participating Scholarship Organizations	Number of Participating Private Schools	Statewide Annual Tax Credit Cap	% of Donations Required Used for Scholarships	State Tax
Individual School Tuition Organization Tax Credit	2006	9,624	$1,184	11	156	$7.5 million	90%	Personal & Corporate Income Tax

Individual School Tuition Organization Tax Credit

Important Dates Enacted 2006/Expanded 2009

Program Specifications Iowa residents and companies can claim a tax credit worth 65 percent of their donation. Statewide, a maximum of $7.5 million in tax credits is available. In 2009, the program was expanded to include corporate donations. Corporate donations may equal 25 percent of the $7.5 million available in tax credits.

Tax Credit Value 65 percent of donation

Student Eligibility All pk-12 students attending a public or private school in Iowa whose family income is at or below 300 percent of the federal poverty level.

Name of Scholarship Coordinating Organization School Tuition Organizations (STOs)

Coordinating Org. Regulations STOs must reserve 90 percent of contributions and income made from contributions for scholarship awards and may not limit scholarships to a single school. They must also be governed by a seven-member board of directors, file annual reports, and be reviewed annually by a public accounting firm. STOs can determine the value of the scholarships they distribute and may not reserve donations for particular students. Each STO is given a share of the statewide cap in tax credits; an STO's share is determined by the number of students who attend the schools they serve.

Participating School Regulations Schools may only receive scholarships from one STO. They must also be accredited by the state and follow federal and state civil rights laws and state health and safety requirements.

Tax Credit Claimed Against Personal & Corporate Income Tax

Governing Statutes Section 422.11M of the Iowa Code

Pennsylvania

Program	Year Enacted	Number of Scholarships	Average Scholarship Amt.	Number of Participating Scholarship Organizations	Statewide Annual Tax Credit Cap	% of Donations Must Be Used for Scholarships	State Tax
Educational Improvement Tax Credit	2001	44,839	$1,099	286	$38 million	80%	Corporate Income Tax

Educational Improvement Tax Credit (EITC)

Important Dates

Enacted & Implemented 2001/Expanded 2003

Program Specifications

Corporations may claim a tax credit equal to 75 percent of their contribution to a Scholarship Organizations (SOs) or Educational Improvement Organizations (EIOs). If a company commits to donate two years in a row, they may claim a tax credit equal to 90 percent of their contribution. Either way, a business may not receive a tax credit greater than $300,000 per year. Tax credits are given to companies on a first-come, first-served basis until the cap is reached. The state cap was originally set at $30 million per year with two-thirds allocated to scholarship organizations and one-third to educational improvement organizations. Lawmakers have raised the cap several times and in 2009 the cap was $53.6 million. While previously excluded, subchapter S corporations can now participate in this program. The SOs and EIOs are free to determine the value of the scholarships that they award.

Tax Credit Value

75 percent of one-year donation; 90 percent of two-year donation

Student Eligibility

A student's family income must be below $60,000 plus an additional $12,000 per child to be eligible. Family income excludes disability payments, workers compensation, retirement pensions, public assistance, or unemployment compensation. SOs can add other eligibility requirements. Private school students are eligible.

Name of Scholarship Coordinating Organization

Scholarship Organizations (SOs) give scholarships to eligible students to attend private schools; Educational Improvement Organizations (EIOs) support innovative programs in public schools.

Coordinating Org. Regulations

SOs and Educational Improvement Organizations need to be non-profits incorporated in Pennsylvania. At least 80 percent of contributions to SOs should go to scholarships. SOs must also file annual reports and cannot limit scholarship awards to a single school. Scholarships cannot exceed the cost of private school tuition and fees.

Participating School Regulations

Schools must adhere to the compulsory-attendance and anti-discrimination laws in Pennsylvania. In addition, the schools must meet health and safety codes and have all teachers and employees working with children have a background check.

Tax Credit Claimed Against

Corporate Income Tax

Governing Statutes

Pennsylvania Public School Code Act 4 and Act 2003-48, which expanded the program to include prekindergarten.

Rhode Island

Program	Year Enacted	Number of Scholarships	Average Scholarship Amt.	Number of Participating Scholarship Organizations	Number of Participating Private Schools	Statewide Annual Tax Credit Cap	% of Donations Must Be Used for Scholarships	State Tax
Corporate Scholarship Tax Credit	2006	291	$5,945	3	25	$1 million	90%	Corporate Income Tax

Corporate Scholarship Tax Credit

Important Dates

Enacted 2006/Implemented 2007

Program Specifications

Corporations may receive a tax credit worth 75 percent of their contribution. If a company commits to contributing for two consecutive years and their second contribution is equal to 80 percent of their prior year's donation, they can receive a tax credit worth 90 percent of their contribution. Corporations may not receive more than $100,000 annually in tax credits and may not carry extra tax credits over from one year to the next. There is a statewide cap on the program of $1 million. The SOs may determine the value of their scholarship awards.

Tax Credit Value

75 percent of one-year donation; 90 percent of two-year donation

Student Eligibility

A student's family income must be at or below 250 percent of the poverty level to be eligible.

Name of Scholarship Coordinating Organization

Scholarship Organization (SOs) are non-profit organizations that fund private school scholarships.

Coordinating Org. Regulations

SOs must reserve 90 percent of contributions for scholarship awards and may not limit scholarships to a single school. Donations may not be set aside for particular schools or students and must be verified by a CPA. In addition, SOs must annually report the number of scholarships that they awarded to each school, the dollar range of the scholarships, the ZIP codes of participating students, and an explanation of the criteria the SOs used to award scholarships. There is no cap on the scholarships.

Participating School Regulations

Schools must adhere to anti-discrimination laws and meet health and safety requirements. Teachers must undergo background checks and have a bachelor's degree.

Governing Statutes

Title 44-62 of the Rhode Island General Laws

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