

## OPPOSE TUITION TAX CREDITS

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### Tuition Tax Credits Are a Backdoor Voucher Scheme

- Tuition tax credit schemes are ones in which individuals or corporations receive a tax credit in exchange for giving money to an intermediary organization, often called a scholarship granting organization (SGO). The SGO receives the donations and then writes a check to be used for tuition at a private school. In short, rather than collecting taxes and then giving a portion to a private school, like a voucher, the government forgoes those tax dollars and redirects them to private schools.
- Although proponents maintain that tax credit schemes do not involve public money, tax credits constitute public funding: when the government grants a tax benefit, it forgoes income. This is particularly obvious under programs that provide taxpayers a dollar-for-dollar tax credit. A dollar-for-dollar credit operates less like a tax incentive and more like a direct transfer of taxpayer funds away from the public education fund and into private hands.
- And, tax credits do not reduce education costs for the state. For example, in Alabama, the state had to “put aside \$40 million in its budget to absorb the anticipated loss from the tax credits.”<sup>1</sup>
- A total of \$1 billion is diverted to private schools each year through state tax credit programs.<sup>2</sup>

### Tuition Tax Credits Benefit the Wealthy

- State tuition tax credit programs have proven to be profitable for wealthy taxpayers. Recent research has shown that some donors to SGOs are turning a profit by claiming state tax credits and federal tax deductions on the same “donation,” thereby making a mockery of the concept of charitable giving.<sup>3</sup>
- Federal tuition tax credit programs could create an even more egregious tax scheme by allowing wealthy donors to claim state tax credits and federal tax credits on the same donation. If left uncorrected, this arrangement could allow donors in states with tax credits to double their money by claiming a dollar in state credit and a dollar in federal credit for each dollar of donation they make. The result would be a risk-free, 100% profit for every donor with a savvy tax accountant.
- Federal tax credit schemes that would create a dollar-for-dollar credit undercut traditional charitable giving priorities by privileging SGOs above traditional charities. When taxpayers donate to most tax exempt charities, such as homeless shelters and veterans' support organizations, they receive a federal tax deduction that could be worth between 10 and 40 cents on each dollar donated, depending on the donor’s tax bracket. In effect, this bill provides SGOs with a tax advantage that is 2-3 times more generous than what is afforded to other charities.

### Like Vouchers, Tuition Tax Credits Will Not Improve Academic Achievement

- There is no evidence that backdoor voucher programs improve education. Indeed, under most tax credit programs, private schools are not required to be accredited, they can forego state testing requirements, and they are not required to report information about their voucher students. For example, in Pennsylvania, private schools that enroll students under a state tax-credit voucher program are not required to provide information on student achievement, testing, or voucher recipient demographics, and state agencies are not allowed to request information on student achievement.<sup>4</sup>

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<sup>1</sup> Elaine S. Povich, [Tax Dollars for Private School Tuition Gain in States](#), Pew Charitable Trusts (Aug. 6, 2013) (citing the Alabama Legislative Fiscal Office).

<sup>2</sup> Carl Davis, [State Tax Subsidies for Private K-12 Education](#), Institute on Taxation & Educ. Policy (Oct. 2016) (Data is current as of October 2016).

<sup>3</sup> Carl Davis, [State Tax Subsidies for Private K-12 Education](#), Institute on Taxation & Educ. Policy (Oct. 2016).

<sup>4</sup> Stephen Herzenberg, [No Accountability: Pennsylvania's Track Record Using Tax Credits to Pay for Private and Religious School Tuition](#), Keystone Research Ctr. (Apr. 7, 2011).

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- Even in well-studied voucher programs, proof of academic achievement is lacking. According to multiple studies of school voucher programs in the District of Columbia,<sup>5</sup> Milwaukee,<sup>6</sup> and Cleveland,<sup>7</sup> students offered vouchers do not perform better in reading and math than students in public schools. Recent studies of both the Louisiana<sup>8</sup> and Ohio<sup>9</sup> voucher programs revealed that students who used vouchers actually performed worse on standardized tests than their peers who are not in the voucher programs.

### **Tuition Tax Credits Create Opportunities for Waste, Fraud, and Abuse**

- Tax credit programs are especially susceptible to accountability problems.<sup>10</sup> SGOs constitute an extra layer of bureaucracy – one which can shield donor and recipient information from state authorities. For example, the Society of Professional Journalists recently awarded Georgia’s tax credit program a “Black Hole Award”<sup>11</sup> for the program’s failure to require students to meet certain income eligibility requirements and for its failure to require SGOs to provide reports on donor information and on how the scholarship money is actually allocated.
- In some states, tax credit programs have generated substantial personal gain for those running the program, such as in Arizona, where SGOs are able to allocate 10% of the total donations simply for overhead.<sup>12</sup>

### **Students Who Accept Vouchers Lose Important Rights and Protections**

- Students attending private schools under these programs lose rights such as those in Title VI, Title IX, the Individuals with Disabilities Education Act, Title II of the Americans with Disabilities Act, and the Every Student Succeeds Act. They are also stripped of the First Amendment, due process, and other constitutional and statutory rights offered to them in public schools.

### **Tuition Tax Credits Do Not Improve Opportunities for Students from Low Income Families**

- Generally the families most likely to use a backdoor voucher are the ones who could already afford to send their kids to private schools, while the poorest students are left behind. A 2003 study of Arizona’s tax credit program found that it contributed to increased economic stratification in the school system because “the state’s wealthiest students [were] likely receiving the most of the tuition tax credit money.”<sup>13</sup>
- Moreover, this bill does not require students to be previously enrolled in public schools in order to receive the vouchers. Therefore, there is nothing to stop students who already attend private schools from receiving taxpayer-funded vouchers. The Georgia tuition tax program suffered the same flaw and, as a result, “the available evidence strongly suggests that relatively few low income students are receiving tax-funded scholarships to attend private schools.”<sup>14</sup>

### **Backdoor Vouchers Harm Religious Liberty**

- Voucher programs violate a central tenet of religious liberty because they use taxpayer money to fund religious education. They also threaten the autonomy of religious schools by opening them up to government audits, control, and interference.

<sup>5</sup>E.g., U.S. Dep’t of Educ., [Evaluation of the D.C. Scholarship Program: Final Report](#) (June 2010).

<sup>6</sup>E.g., John F. Witte, Patrick J. Wolf, et al., School Choice Demonstration Project, Univ. of Ark., [MPCP Longitudinal Educational Growth Study: Third Year Report](#) (Apr. 2010); Legislative Audit Bureau, [Test Score Data for Pupils in the Milwaukee Parental Choice Program](#) (Report 4 of 5) (Aug. 2011).

<sup>7</sup>E.g., Jonathan Plucker et al., Center for Evaluation & Education Policy, Univ. of Ind., [Evaluation of the Cleveland Scholarship and Tutoring Program, Technical Report 1998-2004](#) 166 (Feb. 2006); Jonathan Plucker, et al., Center for Evaluation & Education Policy, Univ. of Ind., [Evaluation of the Cleveland Scholarship and Tutoring Program, Summary Report 1998-2004](#) (Feb. 2006); [Evaluation of the Cleveland Scholarship and Tutoring Program, Executive Report 1998-2002](#) (Feb. 2006).

<sup>8</sup>Morgan Winsor, [Louisiana’s Controversial Voucher Program Harms Poor Students, Lowers Grades, New Study Finds](#), Int’l Bus. Times (Jan. 10, 2016).

<sup>9</sup>David Figlio & Krzysztof Karbownik, Fordham Institute, [Evaluation of Ohio’s EdChoice Scholarship Program: Selection, Competition, and Performance Effects](#) 32 (July 2016).

<sup>10</sup>Tax expenditure programs generally lack basic accountability problems because they are often “accounted for inaccurately in the budget . . . lack transparency . . . [and] often result in unnecessary complication and duplication.” C. Eugene Steuerle, [Summers on Social Tax Expenditures: Where He’s Wrong...or at Least Incomplete](#), Tax Notes (Dec.18, 2000).

<sup>11</sup>Society of Professional Journalists, [2012 SPI Black Hole Awards](#).

<sup>12</sup>Kevin Carey, [DeVos and Tax Credit Vouchers: Arizona Shows What Can Go Wrong](#), N.Y. Times (Mar. 2, 2017).

<sup>13</sup>Kevin G. Welner, [Education Tax Credits: No Net Benefit to Arizona’s Impoverished Students](#), Educ. Policy Studies Lab. (Feb. 2003).

<sup>14</sup>Southern Education Foundation, [A Failed Experiment: Georgia’s Tax Credit Scholarships for Private Schools](#) (June 2011).



The **National Coalition for Public Education** comprises more than 50 education, civic, civil rights, and religious organizations devoted to the support of public schools. Founded in 1978, NCPE opposes the funnelling of public money to private and religious schools through such mechanisms as tuition tax credits and vouchers.