

## Vouchers, Scholarship Tax Credits, and Individual Tax Credits and Deductions

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Parental choice of schools is one of today's more controversial education issues. The term "choice" encompasses a range of options and arguably the most contentious of them allow for the use of public money to attend private and parochial schools, usually through a voucher, scholarship tax credit, or individual tax credit and deduction. For supporters, these options provide greater educational opportunities for students and, by introducing competition into the system, ultimately lead to the improvement of public schools. For opponents, however, these options are seen as violating the separation of church and state established in the First Amendment and siphoning money away from the public education system, thereby threatening the very existence of public education.

Whatever one's position on vouchers, scholarship tax credits, and individual tax credits and deductions, it is clear these options continue to gain traction in statehouses across the country and are a highly contentious issue between political parties at the state and federal level. In 2011 alone, 42 states<sup>1</sup> introduced legislation to expand school voucher or tax-credit programs, seven new private school choice programs were launched, and 11 existing programs were expanded<sup>2</sup>. This analysis provides a national picture with a summary of the existing voucher, scholarship tax credit, and individual tax credit and deduction policies in the states, presents opposing viewpoints about them, briefly summarizes the existing research concerning these policies, and offers key policy questions for state leaders to consider.

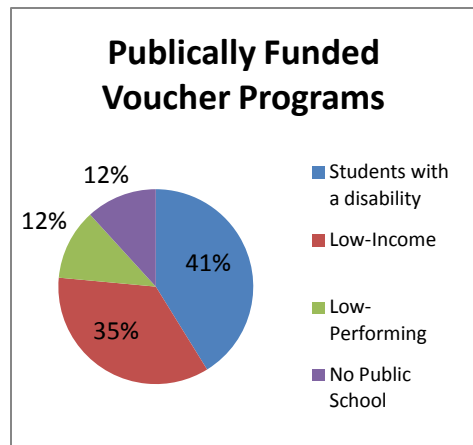
### Definitions

- **Publicly funded voucher** – payment the government makes to a parent, or an institution on a parent's behalf, to be used for a child's education expenses.
- **Scholarship tax credit** – reductions to a corporation or individual's tax liability for donations to a Scholarship Granting Organization that distributes scholarships to eligible students.
- **Individual tax credit** – provides direct reductions to an individual's tax liability based on personal educational expenses incurred for household dependents. For example, Jack owes \$1,000 in income taxes. He is eligible, however, for a given state's \$500 tax credit. He subtracts the \$500 tax credit from the \$1,000 tax liability and now owes \$500 in income taxes.
- **Individual tax deduction** – reduction in taxable income made prior to the calculation of tax liability based on personal educational expenses incurred for household dependents. For instance, Jill has a taxable income of \$100,000. She, however, is eligible for a given state's \$1,500 tax deduction. She subtracts the \$1,500 from her income of \$100,000, and now has \$98,500 in taxable income.
- **Education savings account** – a private savings account managed by a parent who receives a deposit from the government, to be used for a child's education expenses.

## Overview

**Vouchers** – 11 states and D.C. offer a total of 16 publicly funded voucher programs to eligible students.

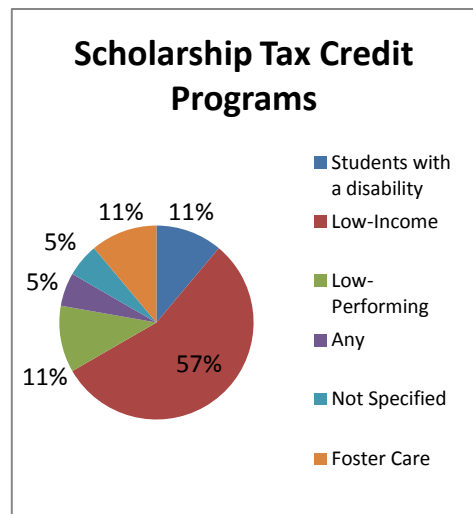
- Six states/seven programs offer vouchers to students with a disability.
- Five states/six programs offer vouchers to low-income students.
- Two states offer vouchers to students from low-performing schools.
- Two states offer vouchers to students residing in a school district that does not have a public school.



**Education Savings Account** – one state offers an education savings account.

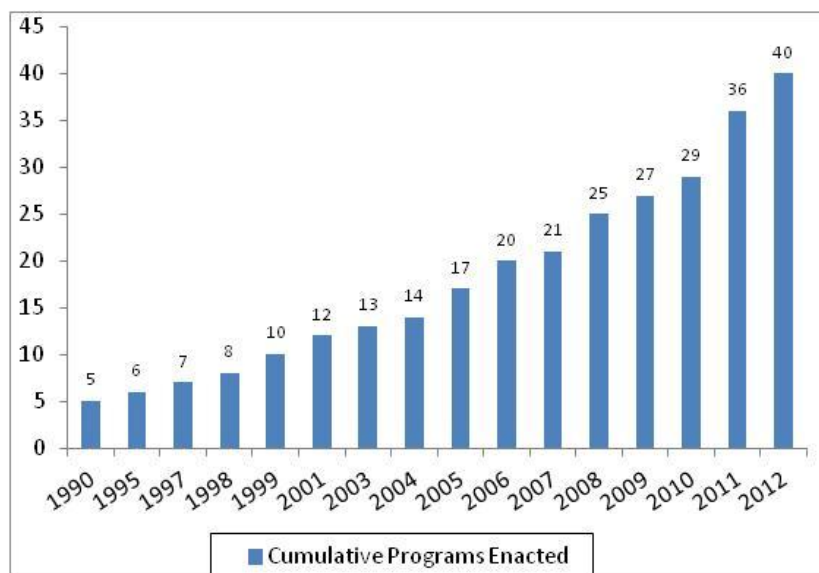
**Scholarship Tax Credits** – 11 states offer a total of 14 tax credits to individuals and/or corporations.

- Ten states/11 programs offer vouchers via tax credits to low-income students.
- Two states offer vouchers via tax credits to special education students.
- Two states offer vouchers to students from low-performing schools.
- Two states offer vouchers to students in foster care
- One state offers vouchers to all residents.
- One state does not specify eligibility.



**Individual Tax Credits/Deductions** – Six states offer a total of nine individual tax credits and deductions.

## Voucher, Scholarship Tax Credit, and Individual Tax Credit and Deduction



## Publicly Funded Vouchers

The following table provides information on the 16 publicly-funded voucher programs currently available to students in 11 states and Washington, D.C. Every voucher is targeted at either students with a disability, low-income students, students attending a low-performing school/district, or two or more of these eligibility requirements. There are also town tuitioning programs in Maine and Vermont that offer scholarships to students who live in towns that do not have a public school.

**Enrollment Cap:** A total of four states currently have an annual enrollment cap set. Many of the policy changes to programs in 2011 expanded or eliminated enrollment caps, such as the Ohio Educational Choice Scholarship Program and the Milwaukee Parental Choice Program.

**Scholarship Cap:** Every program includes a scholarship cap which limits the amount of funding granted to a student. Most states require that scholarships are the lesser of state per pupil expenditure allocation, private school tuition, and a set dollar amount. Some states provide a smaller proportion of the total available funding to student's whose household family income is above a specified level.

**Testing Requirements:** Central to the school voucher debate is whether private schools are being held accountable for student results. In order to increase accountability to the public, six states and nine programs require private schools to administer statewide assessments to all students enrolled in private schools receiving voucher funds. One state requires a nationally norm-referenced test to be administered to scholarship students, and two states permit parents to request that their child be included in statewide testing.

PUBLICLY FUNDED VOUCHER PROGRAMS								
STATE	TITLE	STUDENT ELIGIBILITY			ENROLLMENT CAP	SCHOLARSHIP CAP	TESTING REQUIREMENTS	OTHER
		Low-Income	Special Education	Low-Performing School/District				
<b>D.C.</b> [D.C. CODE ANN. § 38-1853]	DC Opportunity Scholarship Program	Household income cannot exceed 185% of the poverty level as defined by the Office of Management and Budget <sup>1</sup>			N/A	2011-12 school year – Grades K-8: \$8,000 Grades 9-12:\$12,000  *Rates adjusted for inflation each year thereafter	School required to administer a nationally norm-referenced test	
<b>Florida</b> [FLA. STAT. ch. 1002.39]	The John M. McKay Scholarships for Students with Disabilities Program		Individual Education Plan (IEP) or a 504 Accommodation Plan		N/A	Cost of educating the student in originating district, or tuition of private school, whichever is less	Parental request	

<sup>1</sup> For students who held a scholarship the previous year (returning students), household income cannot exceed 300% of the poverty level. In addition, priority is given to students from a school identified for improvement, corrective action, or restructuring.

PUBLICLY FUNDED VOUCHER PROGRAMS								
STATE	TITLE	STUDENT ELIGIBILITY			ENROLLMENT CAP	SCHOLARSHIP CAP	TESTING REQUIREMENTS	OTHER
		Low-Income	Special Education	Low-Performing School/District				
<b>Georgia</b> [GA. CODE. ANN. § 20-2-2110]	Georgia Special Needs Scholarship Program		Individual Education Plan (IEP)		N/A	Cost of educating the student in originating district, or tuition of private school, whichever is less	Parental request  However, school is required to administer pre- and post assessments	
<b>Indiana</b> [IND. CODE ANN. § 20-51-4; S.B. 296 (2012)]	Choice Scholarship Program	Household annual income must not exceed 200% of the amount required to qualify for F/R lunch			July 2012—June 2013: 15,000 scholarships  No cap indicated thereafter	The lesser of: 1. Private school tuition; 2. An amount equal to: a. 90% of the state tuition for F/R lunch students b. 50% of the state tuition for household annual income of not more than 150% of amount required to qualify for F/R lunch 3. \$4,500 for grades 1–8	School required to administer Indiana Statewide Testing for Educational Progress (ISTEP)	
<b>Louisiana</b> [LA. REV. STAT. ANN. § 17:4011; H.B. 976 (2012)]	Student Scholarships for Educational Excellence Program	Household annual income cannot exceed 250% of the federal poverty guidelines		Must have been enrolled in or be entering kindergarten in a public school that was labeled “C,” “D” or “F” for the most recent year <sup>2</sup>	N/A	Amount must be equivalent to the amount allocated per pupil to the local school system, considering all student characteristics.	School required to administer all examinations required pursuant to the school and district accountability system	Public schools rated “A” or “B” may participate
<b>Louisiana</b> [LA. REV. STAT. ANN. § 17:4031/ HB 911 (2012)]	The School Choice Program for Certain Students with Exceptionalities		Individual Education Plan (IEP), excluding those deemed gifted or talented		N/A	Amount must be equivalent to 50% of the per pupil allocation of state funds but not exceed the amount of tuition of private school	N/A	

<sup>2</sup> Priority given to those students attending a public school that received a letter grade of “D” or “F.”

PUBLICLY FUNDED VOUCHER PROGRAMS								
STATE	TITLE	STUDENT ELIGIBILITY			ENROLLMENT CAP	SCHOLARSHIP CAP	TESTING REQUIREMENTS	OTHER
		Low-Income	Special Education	Low-Performing School/District				
<b>Ohio</b> [OHIO REV. CODE ANN. § 3310.02]	Educational Choice Scholarship Pilot Program			Must have been enrolled in a school declared in a state of academic emergency or academic watch on at least two of three most recent ratings, received a score on the performance index in the lowest 10%, or the district was not declared to be excellent or effective in the most recent rating <sup>3</sup>	60,000 students	The lesser of: 1. Private school tuition; 2. An amount equal to a. Grades K-8 - \$4,250 b. Grades 9-12 - \$5,000	School required to administer all statewide assessments	
<b>Ohio</b> [OHIO REV. CODE ANN. § 3313.974]	Pilot Project Scholarship Program – (Cleveland)	Priority granted to household annual income less than 200% of the poverty level			N/A	The lesser of: 1. Private school tuition; 2. An amount equal to a. Grades K-8 - \$4,250 b. Grades 9-12 - \$5,000 Family income at or above 200% of the poverty level qualify for 75% of scholarship amount  Family income below 200% of the poverty level qualify for 90% of the scholarship amount.	School required to administer all statewide assessments	Adjacent school districts may participate
<b>Ohio</b> [OHIO REV. CODE ANN. § 3310.52]	Jon Peterson Special Needs Scholarship Program		Individual Education Plan (IEP)		Scholarships awarded annually cannot exceed 5% of the total number of students with a disability residing in the state	The lesser of: 1. Private school tuition 2. Base per student state aid plus weights based on disability 3. \$20,000	School required to administer all statewide assessments, unless the student is excused under federal law or the student's IEP	Alternative public provider may participate

<sup>3</sup> Priority granted to students with a household annual income of less than 200% of the poverty level.

PUBLICLY FUNDED VOUCHER PROGRAMS								
STATE	TITLE	STUDENT ELIGIBILITY			ENROLLMENT CAP	SCHOLARSHIP CAP	TESTING REQUIREMENTS	OTHER
		Low-Income	Special Education	Low-Performing School/District				
<b>Ohio</b> [OHIO REV. CODE ANN. § 3310.41]	Autism Scholarship Program		Identified as autistic and have Individual Education Plan (IEP)		N/A	\$20,000 or private school tuition, whichever is less	N/A	
<b>Oklahoma</b> [OKLA. STAT. tit. 13 §101.1]	Lindsey Nicole Henry Scholarships for Students with Disabilities Program		Individual Education Plan (IEP)		N/A	Total state aid multiplied by the grade and disability weights or private school tuition, whichever is less, (minus up to 2.5% retained for administrative services)	N/A	
<b>Utah</b> [UTAH CODE ANN. § 53A-1a-701]	Carson Smith Scholarships for Students with Special Needs Act		Individual Education Plan (IEP) or an assessment team is able to determine that the student has a disability		N/A	The lesser of: 1. a. For students averaging 3+ hours per day in special education – weighted per pupil unit multiplied by 2.5 b. For students averaging less than 3 hours per day in special education – weighted per pupil unit multiplied by 1.5 c. For students enrolled in a half-day kindergarten – the amount specified in 1. a or b multiplied by .55. 2. Private school tuition	Required to administer annual assessment	
<b>Wisconsin</b> [WIS. STAT. § 119.23]	Milwaukee Parental Choice Program	Household income cannot exceed an amount equal to 300% of the poverty level			N/A	\$6,442 or private school tuition, whichever is less	School required to administer all statewide assessments, including a 3rd-grade reading test	

PUBLICLY FUNDED VOUCHER PROGRAMS								
STATE	TITLE	STUDENT ELIGIBILITY			ENROLLMENT CAP	SCHOLARSHIP CAP	TESTING REQUIREMENTS	OTHER
		Low-Income	Special Education	Low-Performing School/District				
<b>Wisconsin</b> [WIS. STAT. § 118.6]	Parental Private School Choice Program (Racine)	Household income cannot exceed an amount equal to 300% of the poverty level			2012-13 – 500 students  Cap eliminated thereafter	\$6,442 or private school tuition, whichever is less  *Private school can charge some tuition to students in grades 9-12 with a household income that exceeds an amount equal to 220% of the poverty level	School required to administer all statewide assessments, including a 3rd-grade reading test	

PUBLICLY FUNDED VOUCHER PROGRAMS – TOWN TUITIONING						
STATE	TITLE	STUDENT ELIGIBILITY	ENROLLMENT CAP	SCHOLARSHIP CAP	TESTING REQUIREMENTS	OTHER
<b>Maine</b> [ME. REV. STAT. ANN. tit. 20-A § 5203]	Town Tuitioning	Identified sending town that does not have a public school	N/A	Elementary public schools – receiving school's per student cost  Elementary private schools – average statewide per student cost in all public elementary schools  Public high schools – receiving school's per student cost or average statewide per student cost, whichever is less  Private high school – average state per student cost plus an insured value factor	Any school that enrolls 60% or more publicly funded students must administer statewide assessments	Public schools within and outside of state may participate as well
<b>Vermont</b> [VT. STAT. ANN. tit. 21 § 16-821]	Town Tuitioning	Identified sending town that does not have a public school	N/A	Whichever is less: 1. The statewide average per pupil amount 2. The average per-pupil amount the district pays for its other resident elementary pupils enrolled in a private school 3. Private school tuition	N/A	

## Education Savings Account

Arizona is the only state that offers an education savings account to students. While Arizona's school voucher program was found unconstitutional in 2009 for disbursing public funds to private and religious schools, the education savings account, while still facing legal challenges in court, has thus far been considered constitutional because the use of public funds can take place within or outside of the public sector. Every parent granted an education savings account is required to provide written agreement that he/she *does not* intend to enroll the child in a public school, but *will* ensure that that child receives an education.

EDUCATION SAVINGS ACCOUNT						
STATE	TITLE	STUDENT ELIGIBILITY	SCHOLARSHIP CAP	ENROLLMENT CAP	DURATION	PERMITTED EXPENSES
<b>Arizona</b> [ARIZ. REV. STAT. § 15-2401]	Arizona Empowerment Scholarship	Either: 1. Identified as having a disability 2. Attending a school assigned a letter grade of D or F 3. Previous recipient of a scholarship issued pursuant to § 15-891 or this section. 4. A child of a guardian who is on active duty in the military 5. A ward of the juvenile court	90% of per student funding	N/A	Account closed following: 1. Graduation from a postsecondary institution or 2. After any period of four consecutive years after high school graduation	Nongovernmental school tuition, including postsecondary, therapy, tutoring, extracurricular services, textbooks, and curriculum



## Scholarship Tax Credits

The following table provides information on the 14 scholarship tax-credit programs currently available to students in 11 states. Unlike voucher programs, where public funding goes directly to parents for private school tuition, these scholarships are funded via donations made by taxpayers in exchange for a tax credit. The donations are made to a nonprofit entity called a scholarship granting organization that is required to allocate between 80-95% of its revenues to scholarship recipients.

**Student eligibility:** The most common student eligibility requirement is low household income, although some states also include and/or prioritize students from low performing schools, or those in foster care placement. Georgia is the only state that opens eligibility to all state residents.

**Scholarship cap:** Every program includes a scholarship cap which limits the amount of funding granted to a student. Most states require that scholarships are the lesser of state per pupil expenditure allocation (or a proportion thereof), private school tuition, or a set dollar amount. Some states provide a smaller proportion of the total available funding to students whose household family income is above a specified level.

**Taxpayer limit:** For taxpayers, almost all states set a cap on the total contribution permitted annually.

**Statewide cap:** The large majority of programs set a statewide cap on the dollar amount of tax credits permitted per year; however these vary significantly with the lowest being \$1 million annually and the highest capped at \$229 million. Two programs do not set a cap.

**Testing requirements:** Two states require the administration of statewide assessments, one state permits parents to elect for their child to take the statewide test, and two require the state to administer a nationally norm-referenced test.

SCHOLARSHIP TAX CREDITS							
STATE	TITLE	STUDENT ELIGIBILITY	SCHOLARSHIP GRANTING ORGANIZATION REQUIREMENT	SCHOLARSHIP CAP	CREDIT LIMIT		TESTING REQUIREMENT
					Taxpayer Limit	Statewide Cap	
<b>Arizona</b> [ARIZ. REV. STAT. § 43-1089; 43-1602]	Individual School Tuition Organization Tax Credit	N/A	Allocate at least 90% of revenues to scholarships	N/A	\$500 – individual \$1000 – couple	N/A	N/A
<b>Arizona</b> [ARIZ. REV. STAT. § 43-1183; 43-1504]	Corporate School Tuition Organization Tax Credit	Family income must not exceed 185% of the amount required to qualify for F/R lunch	Allocate at least 90% of revenues to scholarships	FY2012 – \$4,800 for K-8 students and \$6,100 for 9-12  The limitation amount is increased by \$100 every year	No limit, but amount must be preapproved by department of revenue	\$10 million - 2006  20% increase each year beginning 2007-08	N/A

## SCHOLARSHIP TAX CREDITS

STATE	TITLE	STUDENT ELIGIBILITY	SCHOLARSHIP GRANTING ORGANIZATION REQUIREMENT	SCHOLARSHIP CAP	CREDIT LIMIT		TESTING REQUIREMENT
					Taxpayer Limit	Statewide Cap	
<b>Arizona</b> [ARIZ. REV. STAT. § 43-1184; 43-1505]	Corporate Scholarship Tax Credit Program for Disabled Children and Foster Children (Lexie's Law)	Student with a disability <i>or</i> Student placed in foster care	Allocate at least 90% of revenues to scholarships	90% of the amount of state aid allocated to originating district or tuition of private school, whichever is less	No limit, but amount must be preapproved by department of revenue	\$5 million	N/A
<b>Florida</b> [FLA. STAT. ch. § 220.187; 1002.395]	Corporate Tax Credit Scholarship Program	Qualify for F/R lunch and entering school in grade K-5 <sup>4</sup> <i>or</i> Placed in foster care	N/A	2012-13 – \$4,335. Adjusted annually  Annual limit reduced by 25% if household income is equal to or greater than 200%, but less than 215% of the federal poverty level  Annual limit reduced by 50% if household income level is equal to or greater than 215% but equal to or less than 230% of the federal poverty level	N/A	2012-13 – \$229 million  Starting 2013-14 – increase by 25% in any year which the annual tax credit amount for the prior state fiscal year is equal to or greater than 90% of the tax credit cap	Parent request  Required to either administer a nationally norm-referenced test identified by the Department of Education or the statewide assessment to students in grades 3-10
<b>Georgia</b> [GA. CODE. ANN. § 48-7-29.16; 20-20A]	Georgia Private School Tax Credit	Georgia resident	Allocate at least 90% of revenues to scholarships	N/A	Single individual – \$1,000  Married couple – \$2,500  A corporation or other entity – 75% of the corporation's income tax liability	\$50 million per tax year, adjusted for inflation annually until January 1, 2018	N/A

<sup>4</sup> For students who held scholarship the previous year (returning students) – household income level no more than 230% of the federal poverty level

## SCHOLARSHIP TAX CREDITS

STATE	TITLE	STUDENT ELIGIBILITY	SCHOLARSHIP GRANTING ORGANIZATION REQUIREMENT	SCHOLARSHIP CAP	CREDIT LIMIT		TESTING REQUIREMENT
					Taxpayer Limit	Statewide Cap	
<b>Indiana</b> [IND. CODE ANN. § 6-3.1-30.5]	School Scholarship Tax Credit Program	Household annual income must not exceed 200% of the amount required to qualify for F/R lunch	N/A	The lesser of: 1. Private school tuition; 2. An amount equal to a. 90% of the state tuition for students who qualify for F/R lunch b. 50% of the state tuition for students from a household with an annual income of not more than 150% of the amount required to qualify for F/R lunch 3. \$4500 for grades 1-8	Credit is equal to 50% of the amount of the contribution made	\$5 million  July 2012 – June 2013 – Maximum 15,000 scholarships awarded	School required to administer Indiana Statewide Testing for Educational Progress (ISTEP)
<b>Iowa</b> [IA. CODE. § 422.11S]	School Tuition Organization Tax Credit	Household annual income must not exceed 300% of the federal poverty guidelines	Allocate at least 90% of revenues to scholarships	N/A	Credit is equal to 65% of the amount of the contribution made	\$8,750,000	N/A
<b>Louisiana</b> HB 969 (2012)	Tax Credit for Donations to School Tuition Organizations	Household annual income cannot exceed 250% of the federal poverty guidelines	Allocate at least 95% of revenues to scholarships	Grades K-8 – private school tuition or 80% of the state average per pupil funding, whichever is less  Grades 9-12 – private school tuition or 90% of the state average per pupil funding, whichever is less	N/A	N/A	Annually administer the state test associated with the school and district accountability system

## SCHOLARSHIP TAX CREDITS

STATE	TITLE	STUDENT ELIGIBILITY	SCHOLARSHIP GRANTING ORGANIZATION REQUIREMENT	SCHOLARSHIP CAP	CREDIT LIMIT		TESTING REQUIREMENT
					Taxpayer Limit	Statewide Cap	
<b>New Hampshire</b> [N.H. REV. STAT. ANN. § RS 77 G:1]	Corporate Education Tax Credit <sup>5</sup>	Household income less than or equal to 300% of the federal poverty guidelines  At least 40% of scholarships must go to students qualified for F/R lunch	Allocate at least 90% of revenues to scholarships	2013-14 – \$2,500, adjusted annually for inflation thereafter  Minimum value granted to a student receiving special education services must be 175% of the maximum average scholarship	Credit is equal to 65% of the amount of the contribution made	\$3,400,000 for the first program year and \$5,100,000 for the second program year	N/A
<b>Oklahoma</b> [OKLA. STAT. tit. 68 § 2357.206]	Oklahoma Equal Opportunity Education Scholarship Act	Household annual income amount less than or equal to 300% of the income standard used to qualify for F/R lunch <i>or</i> student's assigned public school identified for school improvement	Allocate at least 90% of revenues to scholarships	General education student – \$5,000, or 80% of the average per-pupil expenditure in the school district where the recipient student resides, whichever is greater  Special needs student (w/ IEP) – \$25,000	Single individual – \$1,000 A corporation or other entity – \$100,000  Credit is equal to 50% of the amount of the contribution made, but increases to 75% if commitment given to contribute same amount for two additional consecutive years	Single/married individuals – \$1,750,000 annually  Corporation or other entity – \$1,750,000 annually	N/A
<b>Pennsylvania</b> [PA. STAT. ANN. tit. 72 § 8701-F]	Educational Improvement Tax Credit	Household annual income of not more than \$60,000, plus income allowance of \$12,000 per child in household (additional support level factor included for students with disabilities)	Allocate at least 80% of revenues to scholarships  *Two orgs: 1. General scholarship organizations and 2. Pre-k scholarship organizations	Private school tuition	2012-13 – \$400,000 annually 2013-14 – \$750,000 annually General Scholarship org – Credit is equal to 75% of the amount of the contribution made, but increases to 90% if commitment given to contribute same amount for two additional consecutive years  Pre-K Scholarship org – Credit is equal to 100% of the first \$10,000 and up to 90% of the remaining amount contributed, up to a maximum credit of \$200,000 annually.	Total tax credits – \$44,666,667  Pre-K scholarship orgs – \$10 million	N/A

<sup>5</sup> Program implementation in 2013.

## SCHOLARSHIP TAX CREDITS

STATE	TITLE	STUDENT ELIGIBILITY	SCHOLARSHIP GRANTING ORGANIZATION REQUIREMENT	SCHOLARSHIP CAP	CREDIT LIMIT		TESTING REQUIREMENT
					Taxpayer Limit	Statewide Cap	
<b>Pennsylvania</b> [PA. STAT. ANN. tit. 72 § 8701-G.1]	Educational Opportunity Scholarship Tax Credit	Household annual income of not more than \$60,000, plus income allowance of \$12,000 per child (plus additional support level factor for students with disabilities) <sup>6</sup> <i>and</i> Attends a low achieving public school <sup>7</sup>	Allocate at least 80% of revenues to scholarships	\$8,500 – student without a disability  \$15,000 – with a disability	2012-13 – \$400,000 annually  2013-14 and each fiscal year thereafter – \$750,000 annually  Credit is equal to 75% of the amount of the contribution made, but increases to 90% if commitment given to contribute same amount for two additional consecutive years	\$50 million	N/A
<b>Rhode Island</b> [R.I. GEN. LAWS § 44-62-1]	Tax Credits for Contributions to Scholarship Organizations	Household annual income cannot exceed 250% of the federal poverty guidelines	Allocate at least 90% of revenues to scholarships	N/A	\$100,000 annually  Credit is equal to 75% of the amount of the contribution made, but increases to 90% if commitment given to contribute same amount for two additional consecutive years	\$1 million	N/A
<b>Virginia</b> [VA CODE ANN. § 58.1-439.26]	Education Improvement Scholarships Tax Credits.	Household annual income cannot exceed 300% of the current poverty guidelines <i>or</i> students with a disability	Allocate at least 90% of revenues to scholarships	the lesser of private school tuition or 100% of the per-pupil amount distributed to the local school division	Credit is equal to 65% of the amount of the contribution made  Individual/Couple – Minimum \$500/Maximum \$50,000 annually  Corporation – No limit	\$25 million	Must administer a national norm-referenced test

<sup>6</sup> Beginning 2013-2014 – Total household income requirements to increase to \$75,000/\$15,000.

<sup>7</sup> Priority given to applicants with a household income that does not exceed 185% of the federal poverty level; and who resides within specified districts. Specified district includes: (i) a first class school district; (ii) a school district with an average daily membership greater than 7,500 and that receives an advance of its basic education subsidy at any time; or (iii) a school district that receives an advance of its basic education subsidy at any time and is either subject to a declaration of financial distress or engaged in litigation against the commonwealth in which the school district seeks financial assistance from the commonwealth to allow the school district to continue to operate.

## Individual Tax Credits/Deductions

The following table provides information on the nine programs currently available in six states to taxpayers with dependents. The most significant difference with these programs is that taxpayers are responsible upfront for expenditures incurred and must wait until their tax return is processed to receive the benefit of an earned tax credit or deduction. Consequently, this option is inaccessible for some low-income families who do not have disposable income for education-related costs, or families whose income is so low that they are not required to file a tax return.

Permitted expenses vary slightly by state, but generally include tuition, textbooks, and curricula or other instructional materials. North Carolina is the only state that limits its tax credit to families that have a child with a disability.

INDIVIDUAL TAX CREDITS/DEDUCTIONS			
STATE	TITLE	TAX CREDIT	PURPOSE
<b>Indiana</b> [IND. CODE ANN. § 6-3-2-22]	Education Tax Deduction	Up to \$1,000	Tuition, fees, computer software, textbooks, workbooks, curricula, school supplies, other written materials
<b>Iowa</b> [IA. CODE. § 422.12]	Education Tax Credit	25% of first \$1,000 per dependent	Tuition, textbooks
<b>Iowa</b> [IA. CODE. § 422.12C]	Early Childhood Development Tax Credit	25% of first \$1,000 per dependent	For ages 3-5 – Preschool, books, instructional materials, lesson plans and curricula, other educational activities
<b>Illinois</b> [35 ILL COMP. STAT. 5/21]	Education Tax Credit	25% up to \$500 but no less than \$250	Tuition, book fees, lab fees
<b>Louisiana</b> [LA. REV. STAT. ANN. § 47:297.10]	Education Tax Deduction	Up to \$5,000 per dependent	School uniforms, instructional materials, supplies
<b>Louisiana</b> [LA. REV. STAT. ANN. § 47: 297.11]	Education Tax Deduction - Homeschooling	50%, up to \$5,000 per dependent	Textbooks and curricula
<b>Minnesota</b> [MINN. STAT. ANN § 290.0674]	Education Tax Credit	75%, up to \$1,000 per dependent for household incomes less than \$33,500  The maximum credit for families with one child is reduced by \$1 for each \$4 of household income over \$33,500. The maximum credit for families with two or more children is reduced by \$2 for each \$4 of household income over \$33,500.	Tuition and fees, instructional materials, personal computer hardware (<\$200), transportation
<b>Minnesota</b> [MINN. STAT. ANN § 290.01]	Education Tax Deduction	Grades K-6 – up to \$1,625  Grades 7-12 – up to \$2,500	Tuition, textbooks, transportation
<b>North Carolina</b> [N.C. GEN. STAT. § 105-151.33]	Education Expense Credit	100%, up to \$3,000 per semester	For students with a disability – tuition and special education and related services

## Legal Challenges

The controversy surrounding state vouchers, scholarship tax credits, and individual tax credits and deductions often centers around a debate on whether religiously-affiliated private schools are permitted under the U.S. and individual states' Constitution to receive public funding. The First Amendment's Establishment Clause of the U.S. Constitution states that "Congress shall make no law respecting an establishment of religion or prohibiting the free exercise thereof," which has been widely interpreted to mean that a clear separation should exist between church and state. Opponents of publicly funded voucher and tax credits claim that these programs are funneling public money into the hands of sectarian institutions, thereby graying the boundary the First Amendment serves to protect. They offer further that the Blaine Amendment, which is included in the constitution of 37 states, prohibits the use of state funds at sectarian schools. As a result, many private school choice programs have faced challenges of constitutional violation in court at the state and federal level. The rulings have tilted towards supporters, with the majority of programs surviving. However, many cases pass through one court only to be taken on by another by moving from local district, to state, to federal court.

STATE	PROGRAM	COURT	RULING
<b>AZ</b>	Corporate School Tuition Organization Tax Credit	Local Superior Court (3/2007)	Constitutional
		Arizona Supreme Court (10/2009)	Refused to hear legal challenge
<b>AZ</b>	Individual School Tuition Organization Tax Credit	Arizona Supreme Court (1/1999)	Constitutional
		U.S. Supreme Court (4/2011)	Dismissed legal challenge
<b>AZ</b>	Special Education Voucher Program	Arizona Supreme Court (3/2009)	Unconstitutional
<b>CO</b>	Colorado School Voucher Program	State Trial Court (12/2003)	Unconstitutional
		Colorado Supreme Court (6/2004)	Unconstitutional
<b>CO</b>	Douglas County School Voucher Program	Local District Court (8/2011)	Unconstitutional
<b>FL</b>	Opportunity Scholarship Program	District Court of Appeals (11/2004)	Unconstitutional
		Florida Supreme Court (1/2006)	Unconstitutional

STATE	PROGRAM	COURT	RULING
<b>LA</b>	Student Scholarships for Educational Excellence Program	Louisiana Supreme Court (8/2012)	State permitted to launch program. Case still pending
<b>ME</b>	Town Tuitioning	Maine Supreme Court (1999)	Unconstitutional to include religious schools
		Maine Supreme Court (2006)	Unconstitutional to include religious schools
<b>MN</b>	Education Tax Credit/Deduction	U.S. Supreme Court (1983)	Constitutional
<b>OH</b>	Pilot Project Scholarship Program - (Cleveland)	Ohio Supreme Court (5/1999)	Constitutional
		U.S. District Court (12/2000)	Unconstitutional
		U.S. Supreme Court (6/2002)	Constitutional
<b>OK</b>	Lindsey Nicole Henry Scholarships for Students with Disabilities Program	Local District Court (3/2012)	Unconstitutional , but law remains intact until appeals process
		Oklahoma Supreme Court (6/2012)	Pending
<b>Puerto Rico</b>	Pilot Voucher Program	Puerto Rico Supreme Court (1994)	Unconstitutional

STATE	PROGRAM	COURT	RULING
<b>IL</b>	Education Tax Credit	Local Circuit Court (12/1999 & 4/2000)	Constitutional
		Local District Court (12/2001 & 4/2001)	Constitutional
		Illinois Supreme Court (6/2001 & 7/2001)	Constitutional
<b>IN</b>	Education Tax Credit	Local Circuit Court (12/1999)	Constitutional
<b>IA</b>	Individual Tax Deduction	Federal District Court (1992)	Constitutional

STATE	PROGRAM	COURT	RULING
<b>VT</b>	Town Tuitioning	Vermont Supreme Court (1994)	Constitutional to include religious schools
		Vermont Supreme Court (1999)	Unconstitutional to include religious schools
<b>WI</b>	Milwaukee Parental Choice Program	Wisconsin Supreme Court (6/1998)	Constitutional
		U.S Department of Justice	Pending

## Viewpoints

State vouchers, scholarship tax credits, and individual tax credits and deductions are arguably some of the most contentious issues in education policy in the United States. Positions are often grounded in ideological viewpoints surrounding market-based versus government-regulated reforms, accountability, use of public money, religion, race and class. Significantly more so than other issues, these perspectives generally run along party lines, which serve to further magnify the debate. It is important to note, however, that support for these programs has received more bipartisan support within the past few years than ever before. Support tends to be stronger when the programs are narrowly defined, and student eligibility is limited to high-needs groups such as students with disabilities or those with household incomes close to the poverty line.

Proponents claim programs:	Opponents claim programs:
Empower parents with the personal choice of where their child receives an education	Funnel public dollars away from public school, often leaving low-income and special education students behind in under-funded schools
Enable more families to take advantage of a wide range of education opportunities, especially through policies targeted to students with learning disabilities, students in low-performing schools, or from low-income families	Divert public dollars from publicly accountable schools to self-regulated private and parochial schools that offer limited transparency and are not required to meet state accountability standards
Encourage free-market competition among public, private, and parochial schools, leading to an increase in quality across the board	Lower the quality of public education by increasing the segregation of the public, private and parochial schools along socioeconomic lines
Increase the demand, as well as the revenues, for private and parochial schools, allowing financially struggling schools to remain open and leading to the establishment of new schools	Force the state to inappropriately endorse one religion over another and unduly cross the tenuous lines separating church and state within the federal and state constitutions
In the case of tax credits and tax deductions, lower taxes for parents of school-age children, letting them keep more of their own money to spend as they see fit	In the case of tax credits and tax deductions that require families to pay the private or parochial school tuition before they are reimbursed (via the tax credit and/or tax deduction) on their next tax return, help wealthy families more than low-income families



## Program Effects on Students Achievement

There is little information available about the effects of individual tax credits and tax deductions. A number of studies, however, have examined the effects of vouchers on an array of student outcomes. Unfortunately, the results are often conflicting thereby further magnifying the debate surrounding their costs and benefits to students' achievement and the system of public education. Examples follow:

**Positive** – In the University of Arkansas's evaluation of the Milwaukee Parental Choice Program (MPCP), researchers found that students participating in the program were more successful in math and similarly successful in reading as their public school counterparts, and were 4-7% more likely to graduate from high school and enroll in and persist in a four-year college. Further findings indicate that student achievement in public schools has increased since the voucher program took effect.<sup>3</sup>

**Negative** – Carnoy et al studied the effects of competition brought about by MPCP on the student achievement in Milwaukee Public Schools (MPS) and found no indication that the availability of school choice improved student achievement in the public school system.<sup>4</sup>

**Positive** – Peterson et al evaluated the Cleveland Scholarship Program two years after implementation and found statistically significant gains in reading and math scores among scholarship students.<sup>5</sup>

**Negative** – The Cowen Institute found that in the 2010-11 school year, Louisiana students participating in the Scholarships for Educational Excellence Pilot Program scored lower in almost every grade and subject than students in neighboring failing public schools.<sup>6</sup>

**Positive/Negative** – In the Institute of Education Statistics' evaluations of the DC Opportunity Scholarship Program (OSP) after three years of implementation, researchers found a statistically significant impact on reading achievement, but found that students coming from schools *not* designated as "in need of improvement" did significantly better than those students coming from low-performing schools.<sup>7</sup>

**Positive/Negative** – Using data from 1998-2004, the Center for Evaluation and Education Policy evaluated the effectiveness of the Cleveland Scholarship Program and found that scholarship students significantly outperformed their public school counterparts in 6th-grade language arts, science, and social studies. However, no statistically significant difference was found when looking at overall performance.<sup>8</sup>

## Key Policy Questions for State Leaders

In debating vouchers, scholarship tax credits and tax credit and deduction programs, state leaders may want to consider the following policy questions:

- Who will receive the voucher, scholarship tax credit, or tax credit/deduction? Is the program serving the students it is intended to serve?
- Will every student, regardless of income level, learning ability, and current school setting receive the same benefit?
- Will there be a scholarship cap and, if so, how will it be set?
- If there are more applicants than open seats, will the state require participating schools to use a lottery to determine student admission? Will private and parochial schools be allowed to deny admission to a student for certain reasons, such as discipline problems?

- How will equity issues, such as racial balance and special education, be addressed in voucher, tax credit or tax deduction program?
- How will receiving schools be held accountable for student performance?
- How will low-performing private schools that receive scholarship students be penalized?
- How does the program affect the relationship between church and state?
- Who will administer the program? Who will evaluate the program? Where will the funds originate from for the administration and evaluation of the program?
- How will competition affect public schools?

## Conclusion

When the U.S. Supreme Court ruled in favor of the voucher program in Cleveland, Ohio in June 2002, it cleared away a federal constitutional cloud that had hovered over voucher debates for a long time. While uncertainties remain about whether voucher, scholarship tax credit, and individual tax credit and deduction programs will pass muster with some state constitutions, the debate over these programs in state capitals is growing at a remarkable speed, is ever-changing, and warrants our full attention.

Still, significant questions about these programs remain unanswered. As an increasing number of states and districts move forward with implementation of the programs, many hope that clear and consistent answers emerge around the following questions: Under what circumstances are these programs constitutional? Do these programs increase the number of educational opportunities available to children? Do these programs improve student achievement both within and outside of the program? How are public schools affected by these programs?

Notwithstanding the current absence of clarity on the effects of vouchers, scholarship tax credits and tax credits and deductions, the heated debate around these options is forcing states and communities to reexamine how to fulfill the American dream of ensuring that *every* child, regardless of race, class, or ability, receives a high-quality, equitable education.

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***Equipping Education Leaders, Advancing Ideas***

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<sup>1</sup> American Federation for Children, *The Year of School Choice: 42 States Consider School Vouchers, Scholarship Tax Credits in 2011* (Washington, DC: American Federation for Children, June 16, 2011) <http://www.federationforchildren.org/articles/373>.

<sup>2</sup> Patrick J. Wolf, "The Comprehensive Longitudinal Evaluation of the Milwaukee Parental Choice Program: Summary of Final Reports," *SCDP Milwaukee Evaluation Report, no. 36 (Feb2012):1-24*, [http://www.uaedreform.org/SCDP/Milwaukee\\_Eval/Report\\_36.pdf](http://www.uaedreform.org/SCDP/Milwaukee_Eval/Report_36.pdf), (accessed September 23, 2012).

<sup>3</sup> Patrick J. Wolf, "The Comprehensive Longitudinal Evaluation of the Milwaukee Parental Choice Program: Summary of Final Reports," *SCDP Milwaukee Evaluation Report, no. 36 (Feb2012):1-24*, [http://www.uaedreform.org/SCDP/Milwaukee\\_Eval/Report\\_36.pdf](http://www.uaedreform.org/SCDP/Milwaukee_Eval/Report_36.pdf), (accessed September 23, 2012).

<sup>4</sup> M. Carnoy, F. Adamson, A. Chudgar, T.F. Luschei, and J.F. Witte, *Vouchers and Public School Performance* (Washington, DC: Economic Policy Institute, October 2007) [http://www.epi.org/publication/book\\_vouchers/](http://www.epi.org/publication/book_vouchers/).

<sup>5</sup> P. Peterson, W. Howell, and J. Greene, *An Evaluation of the Cleveland Voucher Program After Two Years* (Cambridge, MA: Program on Education Policy and Governance, June 1999) <http://www.hks.harvard.edu/pepg/PDF/Papers/clev2ex.pdf>.

<sup>6</sup> Cowen Institute, *Private Schools and Choice: The Student Scholarships for Education Excellence Pilot Program in Orleans Parish* (New Orleans, LA: Cowen Institute for Public Education Initiatives, April 2012) <http://www.coweninstitute.com/wp-content/uploads/2012/04/Private-Schools-and-Choice-April-20121.pdf>.

<sup>7</sup> P. Wolf, B. Gutmann, M. Puma, B. Kisida, L. Rizzo, N. Eissa, M. Carr, and M. Silverberg, *Evaluation of the Impact of the DC Opportunity Scholarship Program: Final Report* (Washington, DC: National Center for Education Evaluation and Regional Assistance, June 2010) <http://ies.ed.gov/ncee/pubs/20104018/pdf/20104018.pdf>.

<sup>8</sup> J. Plucker, P. Muller, J. Hansen, R. Ravert, and M. Makel, *Evaluation of the Cleveland Scholarship and Tutoring Program Technical Report 1998-2004* (Bloomington, IN: Center for Evaluation and Education Policy, February 2009) [http://ceep.indiana.edu/projects/PDF/200602\\_Clev\\_Tech\\_Final.pdf](http://ceep.indiana.edu/projects/PDF/200602_Clev_Tech_Final.pdf).