

QUESTIONS AND ANSWERS ABOUT EDUCATION TAX CREDITS

What states have some form of education tax credit?

There are currently six states that have implemented an education tax credit – Arizona, Florida, Illinois, Iowa, Minnesota and Pennsylvania. Tax credit proposals have been introduced in an additional 31 states.

What types of tax credits have these states implemented?

Some states allow tax benefits for educational expenses, such as tutoring, books or tuition (Minnesota, Iowa, Illinois). Other states allow individual and/or corporate tax credits for donations to organizations that provide scholarships to assist children in attending the school of their choice (Florida, Arizona, Pennsylvania). These organizations are called student tuition organizations or STOs.

How do STOs work?

STOs are non-profit organizations that raise funds to provide scholarships to assist children in attending the school of their choice. These scholarships generally are targeted to low-income children and average around \$1000. Children apply for the scholarships, which are usually awarded on a first-come, first-served basis. STOs exist in 38 states and the District of Columbia. Across the country, there are hundreds of thousands of children on waiting lists to receive scholarships from STOs.

How successful have tax credits been in the states?

While most states have relatively new programs, initial data is very encouraging. In 2000, the Arizona tax credit, which allows a tax credit for donations to STOs or to public schools, raised **\$15.8 million for STOs and \$17.5 million for public schools**. This represented a more than 200 percent increase in donations since 1998, the first year of the credit. A similar corporate tax credit in Pennsylvania raised \$14 million in donations in just a few months.

What is the difference between a tax credit and a deduction?

A tax credit reduces your taxes due dollar for dollar, versus a deduction that is subtracted from gross income. In other words, a deduction has much less impact on taxes owed to the government because it is taken before an individual calculates his or her taxes due.

Why should the federal government enact an education tax credit?

H.R. 1, which reauthorizes federal K-12 education programs and was signed into law earlier this year, gives parents the information they need in order to know how their

child's school is performing, but not the tools to act on that information. Education tax credits give parents the opportunity use what they know to make choices about their child's education, ultimately giving them the chance to move their child to better school.

How are education tax credits different than vouchers?

Vouchers give money to students directly from funds appropriated by the government, much like Pell Grants for higher education. Tax credits give individuals a financial benefit for money they spend on educational expenses. For this reason, tax credits are a more constitutionally sound option to increase educational opportunities for parents and their children. Both the state and U.S. Supreme Courts have upheld the tax credit plan in Arizona.

Vouchers also require a great deal of government involvement, determining who would qualify and how recipients would apply. Tax credits put money into education by allowing individuals to make their own decisions, with very little government involvement.

Finally, vouchers are used to pay tuition at a private or parochial school. Tax credits, on the other hand, can be used for books, computers, tutoring or tuition – benefiting public and private school students alike.

How can tax credits benefit public schools?

The Arizona tax credit resulted in **\$17.5 million** in funding for public schools in 2000-, more than the amount donated to STOs. Clearly, if given the opportunity, individuals and corporations are ready and willing to contribute to their local schools. This is especially important now that schools may need look to new sources of funding as state budgets are being restrained.

Evidence has also shown that implementing education tax credits has no negative impact on public school funding. In Arizona, total expenditures for public elementary and secondary education increased from \$3.5 billion in 96-97 to more than \$4 billion in 99-00 (National Center for Education Statistics, U.S. Department of Education).

Who supports education tax credits?

Polls have shown strong support for education tax credits among liberals, moderates, conservatives, low-income individuals and African-Americans (poll conducted by McLaughlin and Associates, May 2001). A June 2001 McLaughlin poll found **that two-thirds of Americans agree that education tax credits provide parents with greater opportunities for choice in their child's education.** In addition, tax credit legislation has passed in states with bipartisan support.

Does President Bush support education tax credits?

Yes. In his FY 2003 budget, President Bush proposed a tax credit for children in public schools that fail to make adequate yearly progress (as defined by the state under the terms of H.R. 1) of 50 percent of educational expenses (such as tuition, tutoring, books and transportation to another school), up to a credit of \$2500. While due to budget constraints, this is a more limited tax credit than some Members of Congress may be proposing, the Administration is clearly committed to increasing educational opportunities for all students.