



## Tax Credit Scholarships: A Threat to Montana-Based Education Solutions

January 2013

Tax credit scholarships are not a viable option for Montana. When these programs have been implemented in other states, they have failed to improve access to high-quality education or save the state money. Instead, tax credit scholarships divert funding away from public schools, jeopardizing the state's ability to encourage further improvements and innovation within the public school system. Montana's strong public school system provides opportunities for children of all backgrounds, helping to create a well-trained workforce and prosperous state. In Montana, tax credit scholarships would also reduce the state's ability to find state-based solutions for improving our education system, jeopardizing the benefits our public schools provide to the wider community. Tax credit scholarships are not a good choice for our families, students, or communities.

### What are Tax Credit Scholarships?

"School choice" has become a trendy idea in the debates around public school systems. Proponents of school choice argue that each family should be able to select the school their children will attend, whether public or private, and use public funds to cover the costs. To make this process possible, proponents often support school voucher programs, which enable parents to use public funds to pay for private schooling. However, school vouchers frequently raise legal challenges, so school choice advocates have started to propose tax credit scholarships as an alternative. Tax credit scholarships allow taxpayers to receive a credit on their state taxes for donations made to private school scholarship organizations. Tax credit donations are not made directly to schools but to

### Key Findings

- Tax credit scholarships divert state funding from public to private schools.
- School privatization bills are drafted by the American Legislative Exchange Council (ALEC), an organization that tries to pass these laws in every state without considering whether they work for Montana.
- Most recipients of these scholarships already attend private schools. These programs do not tend to help low-income students access private schools.
- Despite proponents' claims, states do not save money by implementing tax credit scholarships. In fact, these programs can cost the state money because a school's fixed costs are not reduced when a student leaves the public school system.
- There is no proven academic benefit to students who receive tax credit scholarships.
- Because Montana is a rural state, many students would not be able to access private schools and utilize tax credit scholarships.
- Tax credit scholarships are unfair tax policy as they place greater value on donations to private schools than other charitable donations.

student scholarship organizations, which then grant scholarships to students. Unlike a deduction, which reduces the amount of taxable income, a tax credit reduces the amount of taxes owed.

Eleven states currently operate tax credit scholarship programs.<sup>1</sup> While the structure of these programs vary slightly from state to state, many similarities exist. In four states, the tax credit is equal to 100% of the contribution, while the remaining states offer credits averaging two-thirds of the contribution.<sup>2</sup> In addition, several states also allow corporations and businesses to receive tax credits for their donations to student scholarship organizations. Some states place caps on the total amount of credits from businesses, offering them on a first come, first serve basis.<sup>3</sup> Most states place income limits on who can receive tax credit scholarships, some up to 300% of the federal poverty level.<sup>4</sup>

## ALEC Drives Tax Credit Scholarship Legislation

One of the driving forces behind school privatization legislation is the American Legislative Exchange Council, or ALEC. Part of ALEC's "limited government" agenda, includes the privatization of public education through tax credit scholarship programs, school vouchers, and charter schools.<sup>5</sup> ALEC has drafted sample school privatization legislation, including bills on tax credit scholarships, for state legislators across the country to present as solutions for their state.<sup>6</sup> ALEC's tax credit scholarship legislation does not address Montana-specific challenges or opportunities.

## Montana Public Schools Are Working

Supporters of tax credit scholarships suggest these programs can help address a failing public school system and provide opportunities for low-income students. However, Montana public schools are already strong and provide a quality education to students from all socioeconomic backgrounds. In 2012, Montana ranked 6<sup>th</sup> in the country for K-12 student achievement.<sup>7</sup> In the

---

<sup>1</sup> Arizona, Florida, Georgia, Indiana, Iowa, Louisiana, New Hampshire, Oklahoma, Pennsylvania, Rhode Island, and Virginia. National Conference of State Legislatures, "Tuition Tax Credits," <http://www.ncsl.org/issues-research/educ/school-choice-scholarship-tax-credits.aspx>, 2012.

<sup>2</sup> National Conference of State Legislatures, "Tuition Tax Credits," <http://www.ncsl.org/issues-research/educ/school-choice-scholarship-tax-credits.aspx>, 2012.

<sup>3</sup> National Conference of State Legislatures, "Tuition Tax Credits," <http://www.ncsl.org/issues-research/educ/school-choice-scholarship-tax-credits.aspx>, 2012.

<sup>4</sup> National Conference of State Legislatures, "Tuition Tax Credits," <http://www.ncsl.org/issues-research/educ/school-choice-scholarship-tax-credits.aspx>, 2012.

<sup>5</sup> Julie Underwood and Julie F. Mead, "A Smart ALEC Threatens Public Education," Phi Delta Kappan, [http://www.edweek.org/ew/articles/2012/03/01/kappan\\_underwood.html](http://www.edweek.org/ew/articles/2012/03/01/kappan_underwood.html), February 2012.

<sup>6</sup> Institute for Justice and American Legislative Exchange Council. "School Choice and State Constitutions: A Guide to Designing School Choice Programs Reference Guide," [http://www.ij.org/images/pdf\\_folder/school\\_choice/50staterereport/50stateSCreport.pdf](http://www.ij.org/images/pdf_folder/school_choice/50staterereport/50stateSCreport.pdf), April 2007.

<sup>7</sup> This measures achievement on the NAEP math and reading tests, poverty gaps between wealthy schools and lower income schools, high school graduation rates, and advanced placement courses. Education Week. "State Report Cards," <http://www.edweek.org/ew/qc/2012/16src.h31.html?intc=EW-QC12-CTR>, 2012.

previous year, Montana National Assessment of Educational Progress (NAEP) science scores ranked higher than 43 states.<sup>8</sup>

Montana also has a considerably higher high school graduation rate than the rest of the country. Eighty-two percent of high school students in the state graduate on time with a regular diploma, which is 6.5% higher than the national average.<sup>9</sup> This figure currently places Montana 11<sup>th</sup> in the country for high school graduation rates.<sup>10</sup> In Montana, these high rates of academic success do not come at a high cost to the state. Montana spends slightly less per student than the national average,<sup>11</sup> an example of an efficient and productive public education system.

Still, there are schools and students in Montana that face more significant educational challenges. Putting these students in private schools is not necessarily the answer to address needs and performance. Social and economic factors- such as deep, isolated, and multigenerational poverty- have greater influences on student performance than the school itself.<sup>12</sup> Simply moving students to new schools would not address these underlying socioeconomic issues.

Furthermore, the state of Montana has already begun to address many of the barriers to student success. For example, the Office of Public Instruction has implemented a program called “Schools of Promise,” designed to address challenged schools by improving teacher performance, connecting schools and communities, and increasing support for students.<sup>13</sup> This focus on the community not only offers a culturally appropriate way of addressing struggling schools, but recognizes the structural problems that are the true cause of underperformance. Unlike ALEC’s tax credit scholarship legislation, Schools of Promise is a Montana-based solution to addressing the needs of underperforming schools in this state.

## Tax Credits Hurt Public Schools

The principle behind tax credit scholarships rests on the idea that families save the state money by attending private schools rather than public ones. Theoretically, if a student leaves public school to attend private school, the state saves money. The student could utilize that money, enabling more students to choose private education over public. However, this premise is flawed. In actuality, tax credit scholarships do not save states money, and they typically fail to provide

---

<sup>8</sup>These scores were for the eighth grade NAEP. Montana did not score lower than any states. Eight other states and jurisdictions scored equivalently. National Center for Education Statistics. “The Nation’s Report Card: Science 2011 State Snapshot Report,” <http://nces.ed.gov/nationsreportcard/pdf/stt2011/2012467MT8.pdf>, 2011.

<sup>9</sup> National Center for Education Statistics. “Indicator 32: Public High School Graduation Rates,” [http://nces.ed.gov/programs/coe/pdf/coe\\_scr.pdf](http://nces.ed.gov/programs/coe/pdf/coe_scr.pdf), 2012.

<sup>10</sup> National Center for Education Statistics. “Indicator 32: Public High School Graduation Rates,” [http://nces.ed.gov/programs/coe/pdf/coe\\_scr.pdf](http://nces.ed.gov/programs/coe/pdf/coe_scr.pdf), 2012.

<sup>11</sup> National Center for Education Statistics. “Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2008–09 (Fiscal Year 2009),” [http://nces.ed.gov/pubs2011/expenditures/tables/table\\_03.asp?referrer=report](http://nces.ed.gov/pubs2011/expenditures/tables/table_03.asp?referrer=report), 2009.

<sup>12</sup> Center on Education Policy. “Are Private High Schools Better Academically Than Public High Schools?” <http://www.edline.com/uploads/pdf/PrivateSchoolsReport.pdf>, October 2007.

<sup>13</sup> Office of Public Instruction, “Montana Schools of Promise Fact Sheet,” <http://opi.mt.gov/PDF/Promise/12Fact-Sheet.pdf>, 2012.

greater opportunities and access to education for students who could not otherwise attend private schools.

From a fiscal perspective, tax credit scholarships have no associated cost savings to the state. Typically, the primary users of these scholarships are students who would have or are already enrolled in private schools without the scholarship. Thus, money is redirected from the public school system to fund the tuition of students who were not previously accounted for in public school funding.<sup>14</sup> Even when students do make the switch from public to private schools, the state can still lose money. Arizona, which enacted a tax credit scholarship program in the late 1990s, lost an estimated \$4,000 for every student who switched from public to private school and used a tax credit scholarship.<sup>15</sup> Additionally, Arizona saw a \$74.3 million loss in state revenue in the first three years the tax credit scholarship program was in operation.<sup>16</sup> Because the Arizona program did not cause a significant number of students to leave public schools, the state saved no money, and instead footed tuition bills for families who could already afford private school.<sup>17</sup>

States do not save money when students transfer to private schools because public schools are unable to reduce costs at the same rate. Schools have two types of costs – variable costs, such as books and school lunches, which change depending on the number of students, and fixed costs, like building maintenance, utilities, and transportation costs, which do not change. When students leave a public school to attend other schools, the school’s variable costs decrease, but their fixed costs do not. It would take a significant migration of students away from public schools to decrease overall operating costs. But because the barriers to attending private schools are greater than tuition costs alone, tax credit scholarships have not created a significant change in public school attendance.<sup>18,19</sup> In short, tax credit scholarships drain public school funds without significantly reducing operating costs.

## **Tax Credit Scholarships: Many Montanans Wouldn’t Benefit**

Supporters of school privatization argue that all parents have the right to choose the type of education their children receive.<sup>20</sup> Tax credit scholarships, however, do not address many of the factors that actually determine what type of school students attend.

For example, tax credit scholarships are not a viable option in a state with a large rural population like Montana. Thirty-four of Montana’s fifty six counties do not have private schooling options, and

---

<sup>14</sup> National Education Association, “Subsidizing Private Education—At Taxpayer Expense,” [http://www.nea.org/assets/docs/HE/mf\\_PB15\\_TaxCredits.pdf](http://www.nea.org/assets/docs/HE/mf_PB15_TaxCredits.pdf), 2008.

<sup>15</sup> Glen Y. Wilson, “The Equity Impact of Arizona’s Education Tax Credit Program: A Review of the First Three Years,” <http://epsf.asu.edu/epru/documents/EPRU%202002-110/epru-0203-110.htm>, 2002.

<sup>16</sup> Glen Y. Wilson, “The Equity Impact of Arizona’s Education Tax Credit Program: A Review of the First Three Years,” <http://epsf.asu.edu/epru/documents/EPRU%202002-110/epru-0203-110.htm>, 2002.

<sup>17</sup> Utah Foundation, “School Choice: Experiences with Vouchers and Tuition Tax Credits in Other States,” <http://www.utahfoundation.org/img/pdfs/rr655.pdf>, January 2003.

<sup>18</sup> Glen Y. Wilson, “The Equity Impact of Arizona’s Education Tax Credit Program: A Review of the First Three Years,” <http://epsf.asu.edu/epru/documents/EPRU%202002-110/epru-0203-110.htm>, 2002.

<sup>19</sup> Southern Education Foundation, “A Failed Experiment: Georgia’s Tax Credit Scholarships for Private Schools,” 2011.

<sup>20</sup> Center on Education Policy, “Keeping Informed about School Vouchers: A Review of Major Developments and Research,” July 2011.

over two-thirds of the ninety-nine private schools in the state are located in just seven counties.<sup>21</sup> Because of this distribution of private schools, not all of Montana students would be able to equally access tax credit scholarships.

Furthermore, in states that have tax credit scholarship programs, the primary recipients are families whose children already attend private school. In Arizona, only 5% to 15% of students receiving scholarships were new enrollees in private schools.<sup>22</sup> The vast majority of beneficiaries did not previously attend public schools, resulting in the program failing to meet its stated goal of enabling low-income children to attend private schools.<sup>23</sup> Even in Georgia, which limited scholarships to students who had previously enrolled in public schools, the program did not significantly increase private school enrollment.<sup>24</sup> Instead of enabling new students to attend private school, tax credit scholarships largely redirect funds from public schools to families who can already afford private school. Although scholarships provide some assistance, there are costs associated with attending private school that tax credit scholarships do not cover, including books, uniforms, and transportation. These costs can be prohibitive to low-income families, even after receiving a scholarship.

## No Academic Benefit

Beyond issues of accessibility, tax credit scholarships also fail to provide an academic benefit to students. In a 2007 study, the Center on Education Policy found that students attending private high schools did not perform any better on achievement tests in reading, science, or math, and were no more likely to attend college than public school students, when familial background was taken into consideration.<sup>25</sup> This study suggests that factors outside the school environment are more influential in determining student performance than school status. Tax credit scholarships do not address these external factors, and thus do not benefit the students who need the most assistance to achieve success. Likewise, the Center on Education Policy has found that vouchers, the more controversial counterpart to tax credit scholarships, have no measureable impact on students' academic performance.<sup>26</sup>

In states that have tax credit scholarship programs, there tends to be very little oversight in the academic standards of the participating schools. Private school students are not required to meet the same educational standards as public school students under these programs. For example,

---

<sup>21</sup> The vast majority of schools are located in counties with metropolitan areas – Cascade, Lewis and Clark, Lincoln, Missoula, Yellowstone, Flathead, and Gallatin counties. National Center for Education Statistics, “Search for Private Schools,” <http://nces.ed.gov/surveys/pss/privateschoolsearch/index.asp>.

<sup>22</sup> Glen Y. Wilson, “The Equity Impact of Arizona’s Education Tax Credit Program: A Review of the First Three Years,” <http://epsl.asu.edu/epru/documents/EPRU%202002-110/epru-0203-110.htm>, 2002.

<sup>23</sup> Glen Y. Wilson, “The Equity Impact of Arizona’s Education Tax Credit Program: A Review of the First Three Years,” <http://epsl.asu.edu/epru/documents/EPRU%202002-110/epru-0203-110.htm>, 2002.

<sup>24</sup> Georgia’s legislation required *enrollment* in a public school rather than attendance, allowing families to enroll students in public school and then switch to private school, enabling them to receive the tax credit scholarship. Southern Education Foundation, “A Failed Experiment: Georgia’s Tax Credit Scholarships for Private Schools,” 2011.

<sup>25</sup> Center on Education Policy, “Are Private High Schools Better Academically Than Public High Schools?” <http://www.edline.com/uploads/pdf/PrivateSchoolsReport.pdf>, October 2007.

<sup>26</sup> Center on Education Policy, “Keeping Informed about School Vouchers: A Review of Major Developments and Research,” July 2011.

Georgia's tax credit scholarship program requires no accountability toward either the use of tax credit funds or student performance in recipient schools.<sup>27</sup>

## **Tax Credit Scholarships Unfairly Elevate Scholarships over Other Charitable Giving**

Tax credit scholarships function differently than other charitable tax contributions. Most charitable contributions are acknowledged through a tax deduction. Whereas tax deductions reduce the amount of income one pays tax on, tax credits directly reduce the amount of taxes owed. This policy means that donations to private schools are essentially worth more than any other charitable donation, such as cancer research, disaster relief, or hunger prevention. Placing a greater value on one type of charitable donation is unfair tax policy and places other deserving charitable organizations at a distinct disadvantage.

## **Conclusion**

In states that have implemented tax credit scholarships, these programs have not met their stated goals of saving the state money while allowing lower income students to afford a better education. In reality, tax credit scholarships divert public funds toward private institutions without improving access to high-quality education. For those families able to access the tax credit scholarships, there is no evidence to suggest that they would receive a better education. In short, tax credit scholarships would fail to increase educational opportunities for Montana students. Instead of privatizing our public school system, Montana should focus on measures that continue to improve the public schools that benefit all students in the state.

---

<sup>27</sup> Southern Education Foundation, "A Failed Experiment: Georgia's Tax Credit Scholarships for Private Schools," 2011.