



# Tuition Tax Credits: A Threat to Montana-Based Education Solutions

February 2021

Montanan's Constitution states that "the legislature shall provide a basic system of free quality public elementary and secondary schools." Our strong public school system provides opportunities for children across the state, allows flexibilities for locally elected school boards to adapt curriculum to the needs of the communities, and helps create a well-educated workforce.

Tuition tax credits do not enhance our public education system. Instead, they divert funding from public schools, are expensive, and ultimately harm students and communities. In Montana, tuition tax credits reduce the Legislature's ability to find state-based solutions for improving our education system and make it more difficult for our public schools to provide top-notch education to the wider community.

## Montana Public Schools Are Working

Montana's public schools are competitive nationally. Montana scores in the top half of states for mathematics, reading, and science.<sup>1</sup> A large majority of Montana students graduate, with a graduation rate of 86.6 percent.<sup>2</sup> Montana spends \$932 less per student than the national average.<sup>3</sup> This reflects an efficient and quality public education system.

Studies show that public schools provide equal or better educational outcomes to private schools.<sup>4</sup> In fact, looking at mathematic performance, public school students outperform private school students when adjusting for demographics.<sup>5</sup>

Montana voters support the state's public school system and are confident in its ability to educate their children. A recent survey by the Montana Public Education Center revealed that the majority of voters suggested that state spending should be prioritized to fund K-12 public education.<sup>6</sup> With high scores in math, reading, and science, Montana public schools outperform the majority of public schools in the country, and Montanans are confident in the education public schools provide their children.<sup>7</sup> In fact, 92 percent of Montana families choose to send their children to public schools.<sup>8</sup> Redirecting state funding from public schools to private schools will only hurt Montana's ability to provide and improve our quality public education system.

## Key Findings

- Tuition tax credits divert state funding from public schools to private schools.
- The American Legislative Exchange Council (ALEC) drafts school privatization bills without considering Montana's needs.
- Most recipients of these tax credit programs already attend private schools. These programs do not tend to help families living on lower incomes access private schools.
- Despite claims, states do not save money by implementing tax credits. 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 those who receive tax credits for private schools.
- Montana public schools outperform the majority of public schools in the nation.

Montana's public schools are innovative and adaptive. Montana offers many options to personalize children's educational opportunities based on their needs and interests, including curriculum and career paths, advanced placement, and distance learning courses. Advanced Placement (AP) courses have increased significantly in the last few decades, with the number of students participating in AP programs increasing by 232 percent since 2000.<sup>9</sup> Privatizing education only draws funding away from a successful public education system.

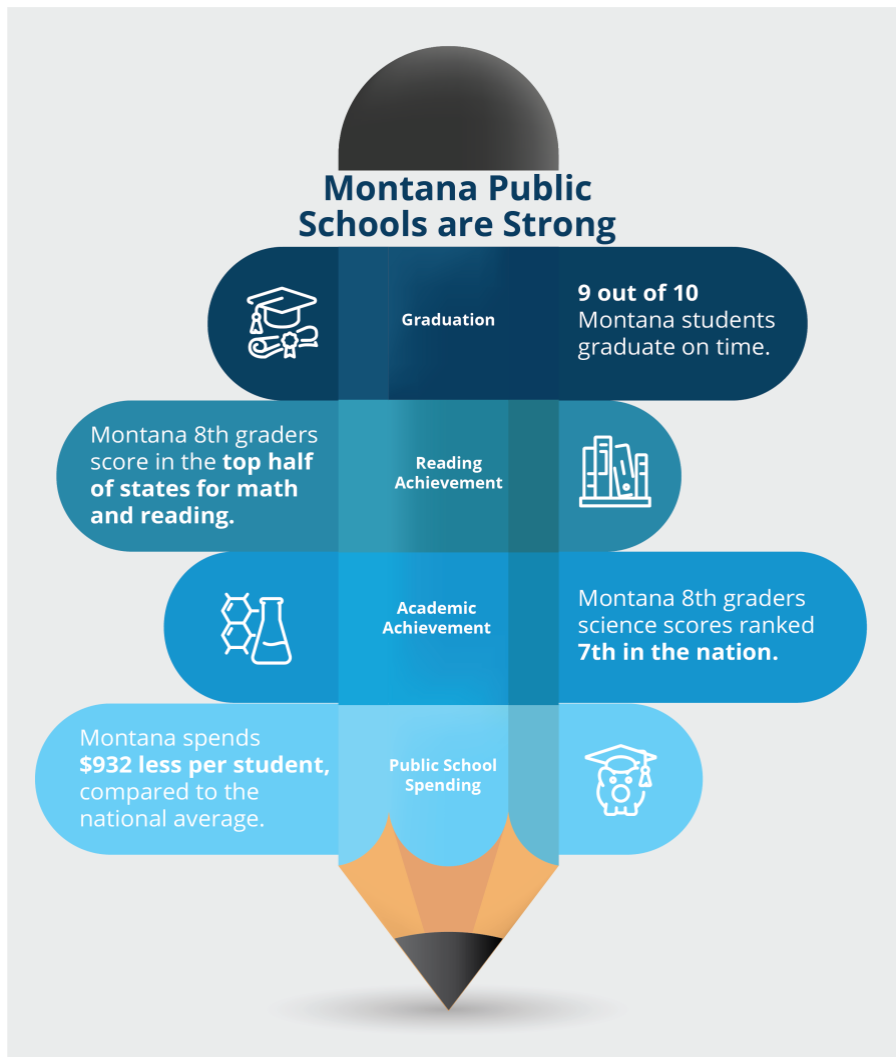
## ALEC Attack on Private Education

In 2015, the Montana Legislature passed the qualified education tax credit for contributions to student scholarship organizations.<sup>10</sup> This tax credit, although small, is the first of its kind in Montana, allowing public dollars to be diverted to private education. The credit allows taxpayers to avoid up to \$150 in taxes on their contributions to private schools. In the first two full years of implementation, this tax credit cost the state about \$30,000 a year, and that amount is likely to increase over time.<sup>11,12</sup>

Montana is not alone in school privatization legislation, and these proposals are not coming from local or even state needs. They begin with a national organization working to pass conservative policies in states across the nation, the American Legislative Exchange Council (ALEC). ALEC is a driving force behind school privatization legislation, and many bills based on ALEC models are proposed in Montana.<sup>13</sup> Part of ALEC's "limited government" agenda includes the privatization of public education through tax credit scholarship programs, school vouchers, and charter schools.<sup>14</sup> ALEC has model legislation related to school choice topics, which does not factor in Montana's strong public education system or address Montana-specific challenges and opportunities.<sup>15</sup>

The following types of privatization legislation are being pushed in states across the nation:

- Tuition Tax Credits – Taxpayers receive a credit on state taxes for education expenses;
- Tax Credit Scholarships – Taxpayers receive a credit on their state taxes for donations made to private school scholarship organizations; and



- Voucher Programs – Parents use public funds to pay for private schooling. Since school vouchers often raise legal challenges, advocates have begun proposing tuition tax credits and tax credit scholarships as alternatives.

## HB 279 Would Hurt Montana

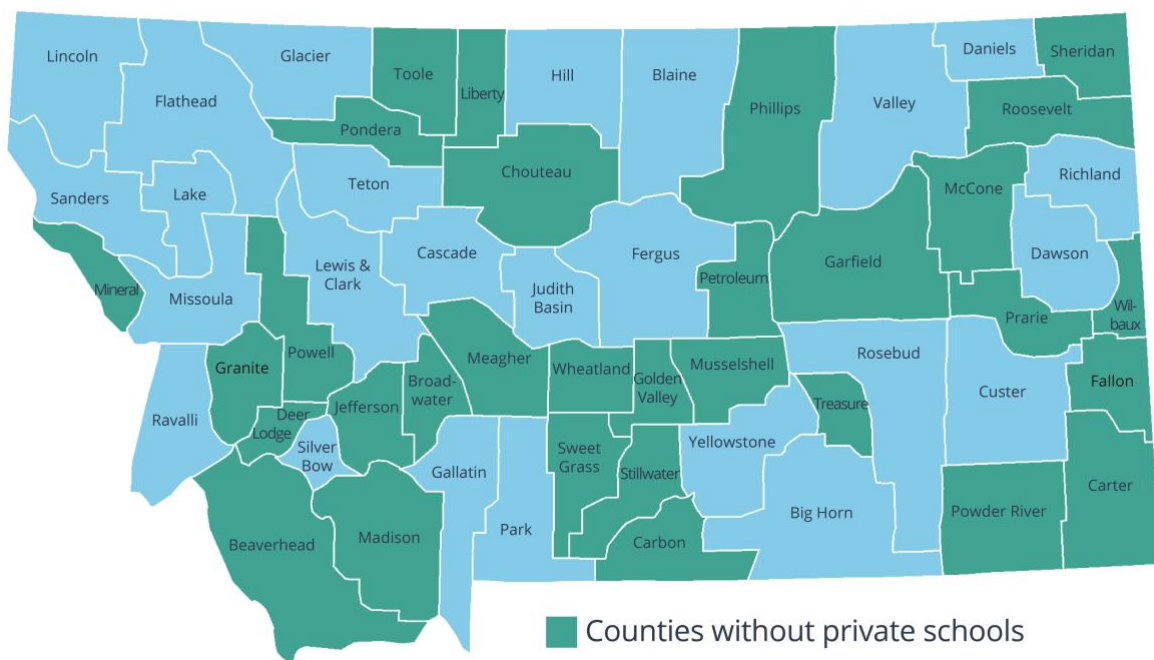
The 2021 Montana Legislature is beginning to see proposals to promote school privatization. [House Bill 279](#) proposes to increase the qualified education tax credit, passed by the 2015 Montana Legislature, to \$200,000 per taxpayer or corporation from its current limit of \$150. This bill allows a tax credit for 100 percent of the contribution to the scholarship organization. When 100 percent of the contribution is allowed as a credit like in Montana’s qualified education tax credit, combined with federal tax deductions, some taxpayers actually turn a profit by making a contribution to a scholarship fund.<sup>16</sup>

## Rural Communities Left Out of Tax Benefit

Tax credits provide no realistic options for addressing the educational needs of rural students. More than half of Montana’s 56 counties do not have any private schools, and two-thirds of the private schools in Montana are located in the seven counties with the largest population centers in the state.<sup>17</sup>

Similarly, private school options simply do not exist for most American Indian and Alaska Native students. Access to private schools is a barrier for American Indian and Alaska Native (AIAN) students.<sup>18</sup> Across the country, 84 percent of school districts with AIAN enrollment of at least 25 percent have only public schools available. Within Montana, 94 percent of school districts with at least 25 percent of AIAN enrollment have no private school options.

## Tax Credits Not an Option for Rural and Reservation Communities



Although nonrefundable tax credits reduce an individual's income tax liability, they also leave out families with lower and moderate means. Nonrefundable credits are more beneficial to wealthier individuals and families, as families living on lower incomes may not be eligible to claim them. For example, a three-person household with \$100,000 in income would be able to claim the entirety of a \$1,000 non-refundable tax credit, while a single parent working full time at minimum wage would only be able to claim approximately one-tenth of the full tax credit.<sup>19</sup>

## Tax Credits Reward Wealthy Families and Hurt Public Schools

Tax credits for private education divert public funding from public schools, forcing the majority of Montana's schools to do more with less. Tax credits cost the state money, and if left to grow, risk forcing schools to survive on smaller budgets. Schools have two types of costs – variable costs, such as computers, which change based on the number of students, and fixed costs, like building maintenance and utilities, which do not change. When students transfer out of a public school, that school's variable costs *may* decrease, but their fixed costs do not. A school cannot eliminate a teaching position if one or two students switch schools. This has been an ongoing concern in rural Montana. As communities get smaller, so do class sizes. However, a grade with a handful of fewer students does not mean that the school heating and electric bill is less. There would need to be a significant migration of students away from public schools to decrease overall operating costs. In short, tax credits continue to pose additional hurdles for school districts and further drain public school funds of the funds they need to provide the best education to the students.

Furthermore, the data shows that the primary users of such tax credits are students who would have attended or already attend private schools, regardless of whether or not their parents received a tax credit. Thus, money is redirected from the public school system to fund the private school tuition that parents can already afford. For example, in Arizona, only 5 to 15 percent of students receiving tax credit scholarships were newly enrolled in private schools.<sup>20</sup> Even in Georgia, which limited scholarships to previously enrolled public school students, the money flowing through the scholarship funds benefitted the families who donated that money, as opposed to increasing private school enrollment of students struggling within the public school system. Even after Arizona enacted tax credit scholarships in the late 1990s, the state lost about \$4,000 for every student that used the scholarship to transfer. In the first three years of the program, Arizona saw a \$74.3 million loss in state revenue.<sup>21</sup> Since the program did not cause a large number of students to leave public schools, Arizona saved no money. Instead, the state footed the cost of tuition for those already able to afford private school.<sup>22</sup>

## Conclusion

States that implemented tax credit programs have not met their goals of saving money or increasing access to educational options for families living on lower incomes. In reality, tax credits divert public funds to private institutions without improving access to high-quality education and reduce the Legislature's ability to find state-based solutions for improving our education system. Montanans rely on our public education system to provide a quality education for all children. Instead of privatizing our public school system, Montana should focus on measures that continue to improve the public schools already benefiting students in the state.

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<sup>1</sup> Using 8th grade math, reading, and science test scores. National Assessment of Educational Progress, "[The Nation's Report Card](#)," accessed Dec. 4, 2020.

<sup>2</sup> The Annie E. Casey Foundation, "[Four-Year High School Cohort Graduation Rate in Montana](#)," Kids Count Data Center, Dec. 10, 2020.

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- <sup>3</sup> U.S. Census Bureau, “2018 Public Elementary-Secondary Education Finance Data, Summary Table 8,” accessed on Dec. 4, 2020.
- <sup>4</sup> Strauss, V., “[No, Private Schools Aren’t Better at Educating Kids than Public Schools. Why this New Study Matters](#),” Wall Street Journal, July 26, 2018.
- <sup>5</sup> Lubienski, C., [The Public School Advantage: Why Public Schools Outperform Private Schools](#), The University of Chicago Press, 2014.
- <sup>6</sup> Montana Public Education, “[The Great Work of Montana’s Public Schools](#),” Oct. 2020.
- <sup>7</sup> Montana Public Education, “[The Great Work of Montana’s Public Schools](#),” Oct. 2020.
- <sup>8</sup> The Annie E. Casey Foundation, Kids Count Data Center, “[Total School Enrollment Grades K through 12 by Type in Montana](#)”, Dec. 4, 2020.
- <sup>9</sup> CollegeBoard, “[AP Program Participation and Performance Data 2019: Montana](#),” Dec. 14, 2020.
- <sup>10</sup> Montana Code Annotated, [15-30-3111](#).
- <sup>11</sup> Montana Department of Revenue, “[Biennial Report July 1, 2016 – June 30, 2018](#),” Dec. 2018.
- <sup>12</sup> In the first 5 years after Georgia implemented their tax credit scholarship program, the amount of credits claimed increased by more than 700 percent. Buschman, R. and Sjoquist, D., “[Georgia’s Tax Credit Scholarship Program](#),” Fiscal Research Center, Andrew Young School of Policy Studies, Nov. 2014. See also Children’s Action Alliance, “[Private School Tax Credits Divert Public Dollars for Private Benefit](#),” Jan. 2016.
- <sup>13</sup> Jackman, M., “[ALEC’s Influence over Lawmaking in State Legislatures](#),” Brookings Institution, Dec. 6, 2013.
- <sup>14</sup> American Legislative Exchange Council, “[Report Card on American Education](#),” Sept. 19, 2019.
- <sup>15</sup> American Legislative Exchange Council, “[Education and Workforce Development](#),” accessed on Dec. 4, 2020.
- <sup>16</sup> Institute on Taxation and Economic Policy, “[State Tax Subsidies for Private K-12 Education](#),” Oct. 12, 2016.
- <sup>17</sup> The vast majority of private schools are located in counties with metropolitan areas – Cascade, Flathead, Gallatin, Lewis and Clark, Missoula, Silver Bow, and Yellowstone. National Center for Education Statistics, [Search for Private Schools](#), Dec. 7, 2020. Montana Office of Public Instruction, “[2020-2021 Private School Equitable Share Amounts](#),” Dec. 15, 2020.
- <sup>18</sup> U.S. Government Accountability Office, “[Public School Choice: Limited Options for Many American Indian and Alaska Native Students](#),” Jan. 2019.
- <sup>19</sup> MBPC calculations using Montana Department of Revenue, “[Montana Individual Income Tax Brackets 2019](#),” Dec. 2019. MBPC calculations using Internal Revenue Service, “[Earned Income Tax Credit Income Limits and Maximum Amounts](#),” Oct. 2020.
- <sup>20</sup> Wilson, G., “[The Equity Impact of Arizona’s Education Tax Credit Program: A Review of the First Three Years](#),” Mar. 2002.
- <sup>21</sup> Wilson, G., “[The Equity Impact of Arizona’s Education Tax Credit Program: A Review of the First Three Years](#),” Mar. 2002.
- <sup>22</sup> Utah Foundation, “[School Choice: Experiences with Vouchers and Tuition Tax Credits in Other States](#),” Jan. 2003.