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THE PUBLIC EDUCATION TAX CREDIT

Expanding Educational Opportunity in Virginia

By Lindsey M. Burke

Virginia Institute for Public Policy

A Virginia Institute for Public Policy Report

Virginia Institute
for Public Policy

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CONTENTS

INTRODUCTION

Across the country, millions of children leave school ill-prepared to enter a competitive global economy. Nationally, graduation rates have stagnated, reading and math achievement has flat lined, and an achievement gap between low-income children and their more affluent peers persists, as does the gap between white and minority children.

Sadly, Virginia is no exception. Every year, thousands of schoolchildren throughout the Commonwealth lack access to educational options that meet their needs. For the countless children underserved by the public school system, the costs to their future prospects are substantial.

Like their counterparts in Washington, policymakers in Virginia have attempted to improve education by continually increasing spending. From 1994 to 2004, education spending per pupil in Virginia increased 28.6 percent, from $7,357 to $9,463 in constant 2006-07 dollars.[1] That trend has continued apace, with per pupil expenditures exceeding $10,700 according to the most recent data available. In fact, the average child in Virginia entering kindergarten today can expect to have over $136,000 spent by taxpayers on his or her education by the end of high school. However, ever-increasing per-pupil spending has yielded little in the way of academic improvement.

In fact, the average child in Virginia entering kindergarten today can expect to have over $136,000 spent by taxpayers on his or her education by the end of high school. However, ever-increasing per-pupil spending has yielded little in the way of academic improvement.

Yet it's no surprise that increases in school funding have not lead to commensurate gains in educational performance. The lack of correlation between spending and academic achievement is well-documented. University of Washington professor Paul Hill researched the lack of academic progress in public schools despite decades of increased education spending. Professor Hill concluded that:

> "…money is used so loosely in public education – in ways that few understand and that lack plausible connections to student learning – that no one can say how much money, if used optimally, would be enough. Accounting systems make it impossible to track how much is spent on a particular child or school, and hide the costs of programs and teacher contracts. Districts can't choose the most cost-effective programs because they lack evidence on costs and results."[2]

1 Dan Lips, Shanea Watkins, and John Fleming, "Does Spending More on Education Improve Academic Achievement?" The Heritage Foundation, *Backgrounder No. 2179,* September 8, 2008, at http://www.heritage.org/research/reports/2008/09/does-spending-more-on-education-improve-academic-achievement

2 Paul T. Hill and Marguerite Roza, "The End of School Finance As We Know It," Education Week, April 30, 2008, at http://www.crpe.org/cs/crpe/view/news/50, as found in Matthew Ladner, Ph.D., and Lindsey M. Burke, "Closing the Racial Achievement Gap: Learning From Florida's Reforms," The Heritage Foundation, Backgrounder No. 2468, October 10, 2010, at http://www.heritage.org/Research/Reports/2010/09/Closing-the-Racial-Achievement-Gap-Learning-from-Floridas-Reforms#_ftn4 (December 7, 2010)

While it is clear that spending has skyrocketed in recent decades in Virginia, it is unclear as to whether that money is being spent effectively. Instead of continuing the failed practices of the past four decades, lawmakers should empower parents with greater control over how education funding is spent in Virginia through policies that support parental school choice in education. Allowing parents to exercise greater control over education funding through school choice options would ensure funds are used in the most efficient manner possible, and would empower families to choose educational options that meet the unique learning needs of their children.

School choice options put parents in the driver's seat and give children access to educational options that prepare them for a productive future.

Allowing parents to exercise greater control over education funding through school choice options would ensure funds are used in the most efficient manner possible, and would empower families to choose educational options that meet the unique learning needs of their children.

Across the country, more and more states are implementing school choice options. During the 2012-13 school year, more than 210,000 students benefited from various school choice options across the country.[3] Nine states – Colorado, Florida, Georgia, Indiana, Louisiana,[4] Ohio, Oklahoma, Utah, Wisconsin – and the District of Columbia offer vouchers that allow children to attend a private school of their parents' choice. Eleven states – Arizona, Florida, Georgia, Indiana, Iowa, New Hampshire, North Carolina, Oklahoma, Pennsylvania, Rhode Island, and Virginia – offer education tax credits for donations to scholarship-granting organizations. In these states, businesses and/or individuals receive tax credits for donations to scholarship granting organizations, which provide vouchers to children to attend a private school of choice. Illinois, Indiana, Iowa, Louisiana, and Minnesota also provide tax deductions for education-related expenses.

In what is perhaps the most innovative approach to school choice, in 2011, the state of Arizona created Empowerment Scholarship Accounts – education savings accounts which give parents complete control over their child's share of education funding. Parents of special needs children who choose not to avail themselves of the public school system can have 90 percent of what the state would have spent on the child deposited into their ESA. Those funds can then be used to pay for private school tuition, online learning, books, special education services, and other education-related expenditures. Unused funds can even be "rolled over" year-to-year, and can be rolled into a 529 college savings account.

ESAs allow parents to completely customize their child's educational experience. In 2012 the program was expanded from its original eligibility pool to include any low-income child in an underperforming public school, any child of an active-duty military family, and any foster child.

3 Alliance for School Choice, http://www.allianceforschoolchoice.org/school-choice-facts

4 On May 7, 2013, the Louisiana Supreme Court ruled the funding structure of the state's voucher program was unconstitutional.

School Choice Options in the States

Vouchers	Tuition Tax Credits	Tax Deductions	Education Savings Accounts
Colorado	Arizona	Indiana	Arizona
Florida	Florida	Louisiana	
Georgia	Georgia	Minnesota	
Indiana	Illinois		
Louisiana*	Indiana		
Maine	Iowa		
Mississippi	Louisiana		
Ohio	New Hampshire		
Oklahoma	North Carolina		
Utah	Oklahoma		
Vermont	Pennsylvania		
Wisconsin	Rhode Island		
Washington, D.C.	Virginia		

**On May 7, 2013, the Louisiana Supreme Court ruled the funding structure of the state's voucher program was unconstitutional.*

The universe of educational options is expanding rapidly for children across the country. Options are proliferating so rapidly in fact, that *The Wall Street Journal* deemed 2011 "The Year of School Choice."

Nationwide, 21 states and the District of Columbia support private school choice options for children through vouchers, tax credits, tax deductions, and education savings accounts. Forty-six states allow families to exercise public school choice, and forty-one states and D.C., families also have access to public charter schools. And across America, millions of families home school their children, while millions more enroll in online schools. The universe of educational options is expanding rapidly for children across the country. Options are proliferating so rapidly in fact that *The Wall Street Journal* deemed 2011 "The Year of School Choice."[5] Families in Virginia should expect no less.

> If a nation expects to be ignorant and free, in a state of civilization,
> it expects what never was and never will be.
> *- Thomas Jefferson*

Education in Virginia – Ample Room for Improvement

While proficiency levels are slightly higher than the national average, the condition of education in Virginia has much room for improvement. According to the Institute for Education Sciences, 46 percent of Virginia fourth-graders are proficient in math; just 40 percent of 8th graders have achieved proficiency. Of particular concern is reading achievement in

5 "The Year of School Choice," *The Wall Street Journal,* June 5, 2011, at http://online.wsj.com/article/SB10001424052702304450604576420330972531442.html

the Commonwealth. Just 39 percent of fourth-graders and 36 percent of eighth-graders are proficient in reading.[6] In fact, since 1998, 8th grade reading scores have remained flat.

Achievement gaps between white and minority students and between low-income students and their more affluent peers are another cause for concern. Just 19 percent of black fourth graders in Virginia are proficient in reading, compared with 49 percent of their white peers. That achievement gap persists in later years, with 43 percent of white eighth graders achieving proficiency in reading, but just 16 percent of their black peers scoring proficient.

Throughout Virginia's 134 school districts, just 18 percent of low-income fourth graders and 15 percent of low-income eighth graders are proficient in reading.

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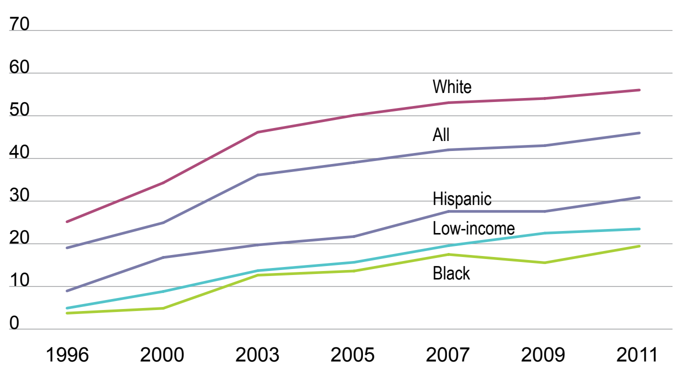
Achievement gaps become even more evident when considering that 10 points on the National Assessment of Educational Progress (NAEP) exam is roughly equivalent to a year's worth of learning.[7] In Virginia today, black and Hispanic fourth graders are approximately two years behind their white peers in reading, a gap which persists into eighth grade. Similarly, low-income fourth and eighth graders are some two years behind their more affluent peers in reading.

The achievement gap is even more pronounced in math proficiency. Low-income and minority children are between two and half and three years behind their white counterparts in fourth grade math; they are still more than two years behind by eighth grade.

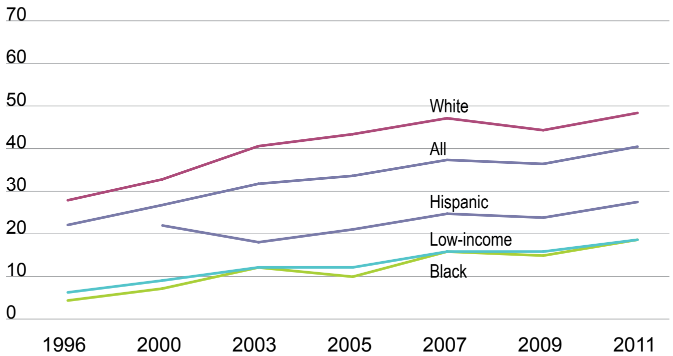
4th Grade Math Achievement: Percent Proficient



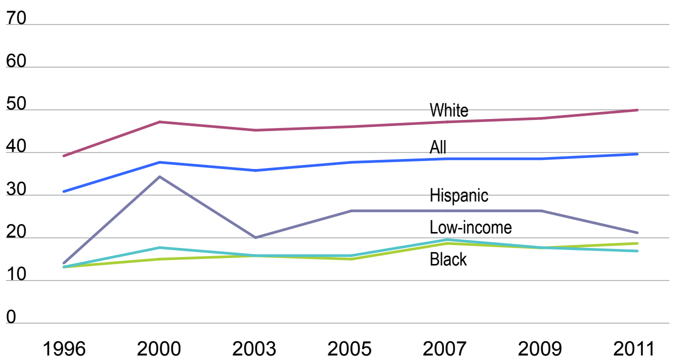
6 National Assessment of Educational Progress, Institute of Education Sciences, at http://nationsreportcard.gov/reading_2009/state_g4.asp?subtab_id=Tab_9&tab_id=tab1#tabsContainer

7 See: Vicki E. Murray and Matthew Ladner, "Florida's Lesson: School Choice Build's Success," San Francisco Chronicle, October 20, 2010, at http://www.sfgate.com/opinion/openforum/article/Florida-s-lesson-School-choice-builds-success-3249283.php

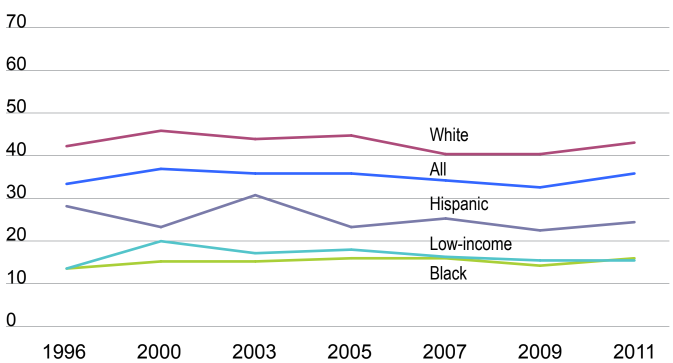
8th Grade Math Achievement: Percent Proficient



4th Grade Reading Achievement: Percent Proficient

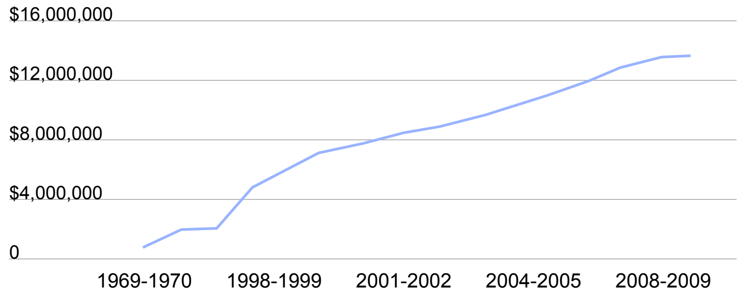


8th Grade Reading Achievement: Percent Proficient



Ever-increasing programs and spending have failed to improve academic achievement in the Commonwealth. From 1970 to 2009, total inflation-adjusted education spending in Virginia increased significantly, from $700 million to $13.5 billion. Of the $13.5 billion spent on education in Virginia in 2009 (the most recent data available), approximately 60 percent was spent on classroom instruction. The remaining 40 percent of education funding was spent on support services, food, administration, maintenance, and transportation.[8] While per-pupil spending averages $10,500 across the Commonwealth, some of the state's largest school districts – Fairfax and Loudon counties for example – spend in excess of $13,000 per child, per year.[9]

Expenditures for Virginia Public Elementary and Secondary Education: Selected Years, 1969-70 through 2008-09



In thousands of 2008 dollars

Ever-increasing programs and spending have failed to improve academic achievement in the Commonwealth. From 1970 to 2009, total inflation-adjusted education spending in Virginia increased significantly, from $700 million to $13.5 billion.

Policymakers should consider that *how* taxpayers' dollars are spent has more to do with ensuring students receive a quality education than the amount of money that is appropriated. Putting power in the hands of parents to use their education funding to find a school that best meets their child's needs will significantly increase educational opportunity, and could be a catalyst for widespread systemic improvement in Virginia's education system.

Universe of School Choice in the Commonwealth

Virginia has both "compelled support" and Blaine amendment clauses, as well as state Supreme Court precedent, prohibiting public money from funding education at private religious schools. Since 90 percent of private schools have a religious affiliation and would, as a result, be excluded from participating in a voucher option, a tax credit program, separate from any public funds, would not breach any of these existing provisions.[10]

Virginians are also largely supportive of school choice proposals. According to a survey of 2,200 low-income families throughout Norfolk, Richmond and Petersburg, 69 percent reported being in favor of a tax credit scholarship program.[11] A statewide survey of Virginia residents

8 Frank Johnson, Lei Zhou, Nanae Nakamoto, and Stephen Q. Cornman, "Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2008-09 (Fiscal Year 2009)," Institute for Education Sciences, National Center for Education Statistics, U.S. Department of Education, NCES 2011-329, June 2011, at http://nces.ed.gov/pubs2011/2011329.pdf

9 Stephen Q. Cornman and Amber M. Noel, "Revenues and Expenditures for Public Elementary and Secondary School Districts: School Year 2008-09 (Fiscal Year 2009)" Institute for Education Sciences, National Center for Education Statistics, U.S. Department of Education, NCES 2012-313, November 2011, at http://nces.ed.gov/pubs2012/2012313.pdf

10 Adam B. Schaeffer, Ph.D., "Public Education Tax Credits for Virginia: The Way Forward on School Choice," Virginia Institute for Public Policy, August 2009, at http://www.virginiainstitute.org/pdf/Ed-study-final-Aug-2009.pdf (December 5, 2010)

11 Evelyn B. Stacey, "Survey: VA Parents Support All Forms of School Choice," School Reform News, The Heartland

by the Friedman Foundation for Educational Choice found that overall, Democrats, Republicans, and Independents support the creation of a tuition tax credit program. Sixty-four percent of Democrats, 68 percent of Republicans, and 66 percent of Independents are in favor of scholarship tax credits in the Commonwealth. By a margin of 65 percent to 23 percent, Virginians favor the creation of a tax-credit scholarship program.[12]

The Friedman Foundation survey also found that "support is nearly equally strong across the state; favorability is at or above 60% for any one particular region, including Northern Virginia, Norfolk-Portsmouth-Newport News, Richmond-Petersburg, and Roanoke-Lynchburg."[13] Moreover, Virginia's families want more options; while 90 percent currently send their child to a public school, only 40 percent would choose to do so if they had other options.[14]

But while demand for school choice is high among Virginia families, progress has been limited over the years. Until 2012, the Commonwealth had no private school choice options and had just four charter schools – the most recent having opened over the summer of 2010 in Richmond. Last year, state policymakers enacted a very limited tuition tax credit option for Virginia families.

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The Education Improvement Scholarships Tax Credit was enacted in 2012 to allow businesses and individuals to receive tax credits for contributions to scholarship-granting organizations. Tax credits are awarded for 65 percent of a business or individual's contribution to an SGO, which in turn provides a voucher to a low-income child (from a family earning less than 300 percent of the federal poverty line) to attend a private school of choice. Special needs children also qualify for scholarships under the tax credit program.[15] The tax credit program is capped at $25 million annually (Florida's more robust tax credit program is capped at $140 million), and the tax credit is limited to $50,000 annually for individuals.[16]

Parents also have access to limited intra-district school choice: students assigned to Title I schools that are identified as being in need of improvement have the option to transfer to a higher-performing public school elsewhere in their district. Finally, the Commonwealth has a nascent online learning program.

Institute, March 1, 2009, at http://www.heartland.org/publications/school%20reform/article/24784/Survey_Va_Parents_Support_All_Forms_of_School_Choice.html (December 5, 2010).

12 Paul DiPerna, "Virginia's Opinion on K-12 Education and School Choice," The Friedman Foundation for Educational Choice, November 2009, at http://www.thomasjeffersoninst.org/files/3/Edandchoicepoll_nov2009.pdf (December 5, 2010).

13 *Ibid.*

14 *Ibid.*

15 Virginia – Education Improvement Scholarships Tax Credits, the Friedman Foundation for Educational Choice, at http://www.edchoice.org/School-Choice/Programs/Education-Improvement-Scholarships-Tax-Credits.aspx

16 *Ibid.*

During his inaugural address, Gov. Bob McDonnell lauded the potential for school choice to open the doors to a quality education for every child in Virginia, stating:

> "To compete in this global economy every young Virginian must have the opportunity of a world-class education from pre-school to college."
>
> "A child's future prospects should be as unlimited as his intelligence, integrity and work ethic can take him. No child in Virginia should have her future determined by her place of birth or zip code. ... Our Administration will demand excellence, reward performance, provide choices and celebrate achievement."[17]

In order to achieve that worthwhile goal, and to ensure that no Virginia child will "have her future determined by her place of birth or zip code," more educational options are needed. There is no reason Virginia cannot follow the lead of states such as Arizona, Indiana, Florida, and Louisiana in enacting robust school choice options for children. Failing to do so will relegate students to a monopoly public education system, limiting the potential of thousands of children and the prospects for the Commonwealth's economic prosperity in the decades to come.

Empirical Evidence in Support of School Choice

There is a growing body of empirical evidence demonstrating the efficacy of school choice. The existing school choice literature comprises a range of program evaluations, from vouchers and tuition tax credits to charter schools and online learning. On the whole, researchers find that school choice benefits students academically and emotionally, with particular positive impacts on graduation rates. School choice also improves parental satisfaction, as well as the academic performance of near-by public schools.

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D.C. Opportunity Scholarship Program. In 2003, President George W. Bush signed the D.C. Opportunity Scholarship Act (D.C. OSP) into law, creating a voucher program for thousands of low-income children in the nation's capitol. As part of the OSP's creation, Congress mandated that the U.S. Department of Education conduct annual evaluations of the program. The Department of Education released its fourth and final evaluation of the D.C. OSP in June, 2010. Dr. Patrick J. Wolf, the lead investigator for the report, used a random assignment design – the "gold standard" of research methodology – using a random lottery process to designate the control and treatment groups. The evaluation analyzed the impact of voucher use on students compared to the offer of a voucher and compared voucher recipients to students who were not awarded a voucher through the lottery process.

17 Gov. Robert McDonnell Inauguration Address, January 16, 2010, at http://www.mcdonnellinaugural.com/ (December 5, 2010).

The Department of Education's findings revealed that the control group (those students who applied for a voucher but did not receive one) had a 70 percent graduation rate. The voucher recipient group (those students who applied for and were awarded a voucher but did not necessarily use it) had an 82 percent graduation rate. Most notably, the third category of voucher users (those students who applied for, received and actually used a voucher to attend private school) had a 91 percent graduation rate.[18] Voucher use led to graduation rates 21 percentage points higher than graduation rates for those children who were not awarded a voucher. Moreover, graduation rates in D.C. Public Schools hover around 60 percent.

Researchers have also conducted qualitative evaluations of the D.C. Opportunity Scholarship Program. Dr. Thomas Stewart of the University of Arkansas analyzed parents' experiences with the D.C. OSP. Stewart found that the scholarship program greatly increased parents' satisfaction with their children's educational options. Moreover, "the vast majority of the families were moving from a marginal role as passive recipients of school assignments to active participants in the school selection process in very practical ways. … This realization suggested that most OSP parents were essentially moving from the margins to the center of their children's academic development." Notably, the report found that for parents in the program, "it is an opportunity to lift the next generation of their family out of poverty."[19]

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Florida's McKay Scholarship Program. Researchers Jay P. Greene, Ph.D. and Marcus A. Winters, Ph.D., analyzed the impact of vouchers for special needs students on surrounding public school systems. Their findings revealed that as an increasing number of surrounding public schools began participating in Florida's McKay Scholarship Program, that students with mild disabilities made statistically significant improvements in reading and math achievement. Notably, the researchers found that "students eligible for vouchers who remained in the public schools made greater academic improvements as their school choices increased."[20]

Researchers Cassandra M.D. Hart and David Figlio found similar outcomes with the Florida Tax Credit Scholarship Program. The researchers found that the "threat of competition alone" caused students in public schools that risked losing students to private schools as a result of the tax credit program improved their test scores. The report finds that "For every 1.1 miles closer to the nearest private school, public school math and reading performance increases by

18 Patrick Wolf, Babette Guttman, Michael Puma, Brian Kisida, Lou Rizzo, Nada Eissa, and Matthew Carr, "Evaluation of the D.C. Opportunity Scholarship Program: Final Report," NCEE 2010-4018, U.S. Department of Education, Institute for Education Sciences, June 2010, at http://ies.ed.gov/ncee/pubs/20104018/pdf/20104018.pdf (November 17, 2010)

19 Thomas Stewart, Ph.D., Patrick Wolf, Ph.D., Stephen Q. Cornman, ESQ., MPA, Kenann McKenzie-Thompson, M.Ed., and Jonathan Butcher, "Family Reflections on the District of Columbia Opportunity Scholarship Program," University of Arkansas, School Choice Demonstration Project, January 2009, at http://www.uaedreform.org/SCDP/DC_Research/2009_Final.pdf (November 17, 2010)

20 Jay P. Greene, Ph.D., and Marcus A. Winters, Ph.D., "The Effect of Special Education Vouchers on Public School Achievement: Evidence from Florida's McKay Scholarship Program," Manhattan Institute for Public Policy, Civic Report No. 52, April 2008, at http://www.manhattan-institute.org/html/cr_52.htm (November 17, 2010)

1.5 percent of a standard deviation in the first year following the announcement of the scholarship program…these results provide evidence that public schools responded to the increased threat of losing students to the private schools."[21]

Charter schools. In June 2010, the Department of Education released a report on the impact of charter schools on parents' school satisfaction. The report found that parents were more satisfied with their children's social and academic development than parents of whose children were not enrolled in charter schools. Furthermore, 85 percent of parents surveyed rated their child's charter school as excellent, compared with just 37 percent of parents whose children were not enrolled in charter schools.[22]

In September 2009, Stanford University economist Caroline M. Hoxby released findings from an evaluation of New York City's public charter schools. The report examined a majority of New York City's charter schools from the 2000-01 to 2007-08 school years, including 93 percent of the city's charter school students, and found that students who won a lottery to attend a charter school in New York outperformed their peers who did not win a charter school lottery. Hoxby found that "on average, a student who attended a charter school for all of grades kindergarten through eight would close about 86 percent of the 'Scarsdale-Harlem achievement gap' in math and 66 percent of the achievement gap in English."[23]

Online learning. In 2009, the U.S. Department of Education released a meta-analysis of the literature on the impact of online learning on student achievement. The meta-analysis of more than 1,000 studies of online learning revealed that "on average, students in online learning conditions performed modestly better than those receiving face-to-face instruction."[24] The researchers also found that students performed better through blended learning – a combination of face-to-face and online learning – than with face-to-face instruction alone. Of note, a study of the Florida Virtual School, the largest virtual school in the country, found that FLVS students outperformed their traditional school peers on Advanced Placement (AP) exams, scoring an average of 3.05 (out of 5.0) compared to 2.56 for Florida students on a whole.[25]

21 Cassandra M.D. Hart and David Figlio, "Does Competition Improve Public Schools," Education Next, Winter 2011, Vol. 11 No. 1, at http://educationnext.org/does-competition-improve-public-schools/ (November 17, 2010)

22 Philip Gleason, Melissa Clark, Christina Clark Tuttle, and Emily Dwoyer, "The Evaluation of Charter School Impacts: Final Report," NCEE 2010-4029, U.S. Department of Education, Institute for Education Sciences, June 2010, at http://ies.ed.gov/ncee/pubs/20104029/pdf/20104029.pdf (November 17, 2010)

23 Caroline M. Hoxby, Sonali Murarka, and Jenny Kang, "How NYC's Charter Schools Affect Achievement," The New York City Charter Schools Evaluation Project, September 2009, at http://www.nber.org/~schools/charterschoolseval/how_NYC_charter_schools_affect_achievement_sept2009.pdf (November 17, 2010)

24 Barbara Means, Yukie Toyama, Robert Murphy, Marianne Bakia, and Karla Jones, "Evaluation of Evidence-Based Practices in Online Learning: A Meta-Analysis and Review of Online Learning Studies," U.S. Department of Education, Office of Planning, Evaluation, and Policy Development, 2009, revised September 2010, at http://www2.ed.gov/rschstat/eval/tech/evidence-based-practices/finalreport.pdf (November 17, 2010)

25 "Final Report: A Comprehensive Assessment of the Florida Virtual School," Florida Tax Watch Center for Educational Performance and Accountability, at http://www.floridataxwatch.org/resources/pdf/110507FinalReportFLVS.pdf (November 17, 2010)

Summary of the findings on school vouchers. In 2011, researcher Greg Forster conducted an evaluation of all of the empirical studies completed to date on the efficacy of school choice. Forster found that of the ten studies that have used random assignment to evaluate voucher programs, nine found a positive impact on student learning outcomes.[26] Forster also notes that 18 out of 19 evaluations of the impact of school choice on public schools found that voucher programs improved outcomes in public schools.

The one evaluation that did not find a positive impact from vouchers was the D.C. Opportunity Scholarship Program. This is likely due to the fact that Congress "shielded" the public school system from the competitive pressure of vouchers by appropriating *additional* funding to the public system when the OSP was created. Thus, public schools in D.C. may lose students to private schools as a result of the voucher program, but do not lose the funds they would typically lose in a traditional school choice system. (As noted above, however, D.C. voucher students did experience statistically significant gains in graduation rates as a result of voucher use.)

As Forster concludes, "the benefits of competition in education are clearly established by the evidence. The only remaining question is whether the evidence will be permitted to shape public debate on the question of vouchers."[27]

While these are just a few of the evaluations that have been conducted on various school choice programs, the growing body of literature suggests that choice provides numerous educational benefits. Elevated graduation rates, parental satisfaction, and healthy competitive pressure on surrounding public schools are part of a school choice tide that lifts all boats.

Elevated graduation rates, parental satisfaction, and healthy competitive pressure on surrounding public schools are part of a school choice tide that lifts all boats.

A PUBLIC EDUCATION TAX CREDIT PROGRAM FOR VIRGINIA

Program Design

Tax credit programs can be designed to maximize educational opportunities for children and reduce costs to taxpayers. The following describes how a universal tuition tax credit program – The Public Education Tax Credit – could be designed for Virginia.

The Public Education Tax Credit includes *two components*: personal-use tax credits and donation tax credits. For this reason, all Virginia families will benefit from enhanced access to quality educational options. Middle- and upper-income families, as well as businesses, would re-

26 Greg Forster, "A Win-Win Solution: The Empirical Evidence on School Vouchers," The Friedman Foundation for Educational Choice, March 2011, at http://www.edchoice.org/CMSModules/EdChoice/FileLibrary/656/A-Win-Win-Solution---The-Empirical-Evidence-on-School-Vouchers.pdf

27 *Ibid.*

ceive tax credits for the cost of education-related expenses or donations to scholarship-granting organizations (SGOs). Parents can receive tax credits for tuition costs at private schools and homeschooling families can receive tax credits for the cost of education-related expenses. Lower-income families, who do not earn enough to receive tax credits, enjoy access to scholarships to attend a private school of their choice.

Donation Scholarship Tax Credit Program

The donation scholarship tax credit enables businesses and individuals to receive a dollar-for-dollar tax credit - up to 100 percent of total state income tax liability – for tuition paid for a child to attend private school or for donations to scholarship granting organizations (SGOs), which in turn provide scholarships to low- and middle-income families to attend a private school of their choice.

Instead of sending money to Richmond to be used for general revenue purposes, the donation scholarship tax credit enables businesses and individuals to receive a dollar-for-dollar tax credit - up to 100 percent of total state income tax liability – for tuition paid for a child to attend private school or for donations to scholarship granting organizations (SGOs), which in turn provide scholarships to low- and middle-income families to attend a private school of their choice. There is no cap on how much an individual or corporation may donate.

Through the donation tax credit program, individuals and corporations can claim a dollar-for-dollar tax credit for tuition paid for a child at a private school or for donations made to scholarship-granting organizations against state income tax liability. The tax credit is available only to those individuals and corporations who pay taxes and is non-refundable, meaning that the credit will not be offered as a refund for those taxpayers for whom the credit exceeds their tax obligations. Any unused credits may be carried forward for three consecutive years.

Scholarships worth up to 75 percent of Virginia's per-pupil expenditures will be available to children entering kindergarten or children transferring to a private school who were enrolled in a Virginia public school or Virginia public charter school during the previous school year. During the 2008-2009 school year, per-pupil expenditures in Virginia's public schools reached $10,754.[28] Since scholarships are capped at 75 percent of Virginia per-pupil expenditures, the maximum scholarship for the 2008-2009 school year would have been $8,065.50.

The scholarships will be available to children from families whose income is below 150 percent of the federal reduced-price lunch income limit. Virginia families will still be eligible to receive a scholarship if their income increases to 200 percent of the federal reduced-price lunch program while enrolled in the program.

28 National Assessment of Educational Progress, Institute for Education Sciences, U.S. Department of Education, at http://nces.ed.gov/nationsreportcard/states/ (October 19, 2010)

Federal Reduced-Lunch Program Guidelines – 2010-11 School Year[29]

Household Size	150 Percent of Reduced-Price Lunch Eligibility	200 Percent of Reduced-Price Lunch Eligibility
1	$30,054	$40,072
2	$40,432	$53,910
3	$50,811	$67,748
4	$61,189	$81,586
5	$71,568	$95,424
6	$81,946	$109,262
7	$92,325	$123,100
8	$102,703	$136,938

The donation tax credit will be phased-in over a period of 5 years. During the inaugural year of the donation tax credit program, all participating students must have been enrolled in a Virginia public school, be entering kindergarten, or have moved to Virginia from out of state the preceding school year in order to qualify for a scholarship. The percentage of students permitted to receive scholarships that are not enrolled in public school will increase during the years in which the program cap is increasing. Once the program cap has doubled from the first year of operation, 90 percent of students must have attended a Virginia public school, be entering kindergarten, or moved to Virginia from out of state the preceding school year. Once the program cap has tripled from its original amount, the percentage of students required to have been enrolled in the public school system will drop to 80.

In the first year that the program cap is three and a half times the original cap size, 70 percent of participating students must have been enrolled in a Virginia public school the preceding year. Finally, once the program cap has quadrupled from its size in the first year, just 60 percent of students using a scholarship for the first time will be required to have been enrolled in a Virginia public school, be entering kindergarten, or have moved to Virginia from out of state in order to enroll in the program.

There are several reasons for phasing-in the donation tax credit program. The phase-in will reduce the strain on the private school sector, allowing ample time for new private schools to come into existence as demand increases. Moreover, phasing-in the donation tax credit program will allow time for an adequate number of scholarship-granting organizations to be created.

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Any Virginia child who receives a scholarship through the donation scholarship tax credit program will be eligible to receive a scholarship every subsequent school year, funding permitted. If a child does not participate in the scholarship program during a particular year after having received a scholarship, that child will have to reapply for a scholarship through the donation scholarship tax credit program.

29 For reduced-price lunch eligibility guidelines, see: Federal Register Vol. 74, No. 58, March 27, 2009, at http://www.fns.usda.gov/cnd/governance/notices/iegs/IEGs09-10.pdf (November 13, 2010)

The program will initially have a statewide cap of $150 million during the first year, which will automatically increase by 25 percent each year that the claimed credits reach 90 percent of the initial program cap.

Credits available through the donation tax credit program apply only to state income taxes and will only impact the tax revenue which accrues to the State of Virginia. Localities, cities and counties will not see a reduction in revenue as a result.

Estimating Revenue Generated through the Donation Tax Credit

In Virginia, sufficient funds can be drawn from income tax revenue to support a tax credit scholarship program. During the 2009 fiscal year, individual income taxes represented 66 percent of all taxes raised in the Commonwealth, totaling $9.4 billion. Corporate income tax revenue represented 5 percent of all taxes generated in Virginia in 2009, totaling $648 million.[30]

The program will initially have a statewide cap of $150 million during the first year, which will automatically increase by 25 percent each year that the claimed credits reach 90 percent of the initial program cap.

In order to determine how many families will benefit from the scholarships, it is necessary to estimate the number of individuals and corporations that will donate to scholarship-granting organizations. A useful proxy for how many individuals and corporations are likely to donate to an SGO is the number of donations to other education-related charities. Based on charitable giving rates nationally, conservative estimates suggest that 10 percent of taxpayers could be expected to donate to a scholarship-granting organization.[31]

In 2007, more than 3.5 million individual income tax returns were filed in Virginia totaling more than $9.6 billion.[32] Average state income tax liability exceeded $2,668 that year. In 2007, 70,726 corporate income tax returns were filed totaling more than $879 million. Corporate income tax liability, on average, exceeded $12,436 per corporation.[33] More than 71 percent of Virginia's state tax revenues were generated from individual and corporate income taxes in 2007, providing ample income to support a Public Education Tax Credit Program.

30 Virginia Department of Taxation, "Annual Report: Fiscal Year 2009," at http://www.tax.virginia.gov/documents%5CAnnualReportFY2009.pdf (November 7, 2010)

31 Darcy Ann Olsen, Carrie Lips and Dan Lips estimate that, while 20 million households contributed to education charities in 1995 that charitable giving to scholarship-granting organizations through a donation tax credit program could be considerably higher since "taxpayers have no choice but to pay income taxes, the act of redirecting a portion of those taxes to scholarships puts no additional cost on the taxpayer…donations are 'costless'…To exercise the credit, however, taxpayers would have to be willing and able to make a donation by the end of the calendar year and wait to be reimbursed until tax returns were processed." See: Darcy Ann Olsen, Carrie Lips, and Dan Lips, "Fiscal Analysis of a $500 Federal Education Tax Credit to Help Millions, Save Billions," Cato Institute, Policy Analysis No. 398, May 1, 2001, at http://www.cato.org/pubs/pas/pa-398es.html (November 13, 2010)

32 3,597,912 individual income tax returns were filed totaling $9,601,762,404. See: Virginia Department of Taxation, "Annual Report: Fiscal Year 2009," at http://www.tax.virginia.gov/documents%5CAnnualReportFY2009.pdf (November 7, 2010)

33 70,726 corporate income tax returns were filed in 2007 totaling $879,575,371. See: Virginia Department of Taxation, "Annual Report: Fiscal Year 2009," at http://www.tax.virginia.gov/documents%5CAnnualReportFY2009.pdf (November 7, 2010)

The potential amount of revenue that could be generated for scholarships through the donation tax credit program can be estimated by assuming varying participation rates among individuals and corporations. Assuming a moderate average individual contribution of $500 and an average corporate contribution of $10,000,[34] contributions to scholarship-granting organizations from individuals and businesses are estimated to range from $24 million to $245 million, depending on the rate of giving.

Potential Donation Scholarship Tax Credit Revenue

Participation Rates among Individuals and Corporations (%)	Number of Individual Donors	Number of Corporate Donors	Amount Donated from Individuals @ $500	Amount Donated from Corporations @ $10,000	Total Revenue Generated
1	35,000	707	$17,500,000	$7,070,000	$24,570,000
5	175,000	3,536	$87,500,000	$35,360,000	$122,860,000
10	350,000	7,072	$175,000,000	$70,720,000	$245,720,000

This school year, Florida's tax credit program is capped at $229 million, benefiting an estimated 37,000 students.

Virginia has a flat 6 percent rate of taxation on all corporate income. For the 2009 fiscal year, corporate income tax revenue totaled $648 million. Allowing businesses to take a dollar-for-dollar credit on their corporate income tax obligations for donating to a SGO could yield a substantial number of scholarships for low- and middle-income families. In 2001, Florida began allowing businesses to take a dollar-for-dollar tax credit on donations to scholarship granting organizations. During the 2010-11 school year, corporations contributed over $129 million to SGOs. As a result, more than 34,550 students received scholarships to attend a private school of their choice.[35] Since 2002, corporations have donated more than $550 million to fund scholarships for low-income children in the Sunshine State. This school year, Florida's tax credit program is capped at $229 million, benefiting an estimated 37,000 students.

34 From 2001 to 2008, approximately 3,600 companies donated more than $350 million to Pennsylvania's Educational Improvement Tax Credit program, averaging $13,888 over that time period. See: "Educational Tax Credits," Reach Foundation, at http://www.paschoolchoice.org/reach/cwp/view.asp?a=1367&q=568487# (November 13, 2010)

35 FTC Scholarship Program, Florida Department of Education, at http://www.floridaschoolchoice.org/Information/CTC/files/ctc_fast_facts.pdf

Estimated Fiscal Impact of the Donation Tax Credit – Low Participation

Total Donations to SGOs	$24,570,000
Scholarships Distributed	$22,113,000
Individual Scholarship	$8,065.50
Number of Scholarships	2,741
Per-Pupil Public School Cost	$10,754
Savings for Virginia	$29,476,714
Net Fiscal Benefit	$4,906,714

Estimated Fiscal Impact of the Donation Tax Credit – Moderate Participation

Total Donations to SGOs	$122,860,000
Scholarships Distributed	$110,574,000
Individual Scholarship	$8,065.50
Number of Scholarships	13,709
Per-Pupil Public School Cost	$10,754
Savings for Virginia	$147,426,586
Net Fiscal Benefit	$24,566,586

Estimated Fiscal Impact of the Donation Tax Credit – High Participation

Total Donations to SGOs	$245,720,000
Scholarships Distributed	$221,148,000
Individual Scholarship	$8,065.50
Number of Scholarships	27,419
Per-Pupil Public School Cost	$10,754
Savings for Virginia	$294,863,926
Net Fiscal Benefit	$49,143,926

Assuming similar rates of participation in the Commonwealth, and capping Virginia's tax credit program at $150 million in the first year, an estimated 13,709 scholarships could be funded through the donation scholarship tax credit program assuming moderate participation, with 5 percent of corporations and individuals donating. Taxpayers would enjoy a savings of more than $24 million.

Assuming similar rates of participation in the Commonwealth, and capping Virginia's tax credit program at $150 million in the first year, an estimated 13,709 scholarships could be funded through the donation scholarship tax credit program assuming moderate participation, with 5 percent of corporations and individuals donating. Taxpayers would enjoy a savings of more than $24 million.

In order to maximize participation in the donation tax credit program, individuals and corporations should receive their credit when they file taxes. For example, prior to changes in the Arizona tax credit program, the state would require that donations be made by December 31 of a given year, meaning donors would have to wait four months for reimbursement. By not requiring corporations and individuals to wait for a reimbursement, participation in the donation tax credit program can be maximized.

Another means of increasing participation is through voluntary paycheck withholding. Virginia should allow for paycheck withholding as a means of making a donation to a SGO. The state should also make public information about the credit available through public service announcements (PSAs) and via government websites.

Personal-Use Tax Credit

Families that have chosen to bear the brunt of the cost for educating their children, and who do not rely on the taxpayer-funded public school system, should receive tax relief for their incurred expenses. As part of the Public Education Tax Credit program, families may take personal-use tax credits against the taxpayer's income tax liability. All families will have access to the personal-use tax credit, regardless of income level. Families in the Commonwealth will be able to take a 75 percent tax credit for educational expenses, not to exceed 75 percent of the rate of per-pupil expenditures in Virginia public schools. For students from low-income families, 100 percent of the cost of education-related expenses can be taken as a credit, not to exceed 75 percent of per-pupil expenditures in Virginia public schools.

All families will have access to the personal-use tax credit, regardless of income level. Families in the Commonwealth will be able to take a 75 percent tax credit for educational expenses, not to exceed 75 percent of the rate of per-pupil expenditures in Virginia public schools.

In addition to benefiting from credits for contributions to their own children's tuition or educational expenses, or to the education-related expenses of any other eligible students, individuals and married couples filing jointly can combine personal use and donation tax credits, up to 100 percent of total income tax liability. Unused personal-use tax credits can be carried forward for up to three years.

Families can also claim the balance of their income tax liability in donation tax credits for contributions to scholarship-granting organizations if their income tax liability is greater than the personal-use credits claimed for their children's education-related expenses. As a result, upper-income families will be more likely to support low-income children through donations to scholarship-granting organizations.

Parents and legal guardians may begin taking advantage of the personal-use tax credits after the donation tax credit program has been in effect for three years.

Private school students and homeschooling families already save Virginia taxpayers considerable money. The estimated 27,000 homeschooled students alone save the state $290 million annually.[36] Families that have chosen to pay for the cost of educating their children through homeschooling or private school should receive tax relief for their incurred expenses. The personal-use tax credit is a valuable means for ensuring private and homeschooling families are able to continue educating their children in a means that best suits their needs.

36 Virginia is home to an estimated 27,000 homeschooled students. See: http://www.winchesterstar.com/articles/view/home_is_where_school_is (27,000*$10,754 = $290,358,000)

Estimating Demand for the Personal-Use Tax Credit

To calculate the budget impact of the personal-use tax credit, policymakers must estimate how many taxpayers will take advantage of the option. To estimate the number of families that will benefit from the personal-use tax credit, a price elasticity of demand estimate can provide a prediction of the increase in demand for private school as a result in a decrease in cost due to the tax credit. Economic literature suggests that a good estimate of the price elasticity of demand is -.48.[37] Economists Barry R. Chiswick and Stella Koutroumanes "concluded that the price elasticity for private school was -.48, with the 95 percent confidence interval between -.59 and -.38."[38]

Tax credit programs can be designed to both maximize educational opportunities for children and reduce costs to taxpayers.

The average cost of private school in Virginia is approximately $7,000 per year.[39] Assuming that all families with dependent children will take advantage of the personal-use tax credit, and utilizing a -.48 price elasticity of demand, the impact of state tax revenue can be estimated.

In Virginia, average income tax liability was $2,668 in 2007. If a family takes the full amount of the personal-use tax credit (a 75 percent tax credit for educational expenses) for a dependent child – or approximately $2,000 – the cost of private school would be reduced from $7,000 to $5,000, a 28 percent reduction.

These estimates suggest that the personal-use tax credit would increase demand for private schooling by 13.4 percent,[40] meaning approximately 19,180 students could be expected to transfer to private schools from public schools.[41] (The number of current private school students is taken to be a rough estimate of the current demand for private schools, meaning approximately 13.4 percent of the 143,140 students enrolled in private schools.)

Cost-Benefit Analysis of the Public Education Tax Credit Program

Tax credit programs can be designed to both maximize educational opportunities for children and reduce costs to taxpayers. As more and more children enroll in private schools, taxpayers are relieved of some of the costs of financing government education, which has not proven as

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37 Darcy Ann Olsen, Carrie Lips, and Dan Lips, "Fiscal Analysis of a $500 Federal Education Tax Credit to Help Millions, Save Billions," Cato Institute, Policy Analysis No. 398, May 1, 2001, at http://www.cato.org/pubs/pas/pa-398es.html (November 11, 2010)

38 *Ibid.*

39 Adam Schaeffer, "The Real Cost of Public Education," The Daily Press, September 22, 2010, at http://www.dailypress.com/news/opinion/dp-edt-oped-real-cost-education-sept22,0,202764.story (November 11, 2010)

40

$$\varepsilon_{PED} = \frac{\Delta Q/Q}{\Delta P/P} = \frac{\mathrm{Q}_{inc}(\%)}{\mathrm{P}_{dec}(\%)}$$

$$\mathrm{Q}_{inc}(\%) = \varepsilon_{PED} \cdot \mathrm{P}_{dec}(\%)$$

$$\mathrm{Q}_{inc}(\%) = (-0.48) \cdot (-28) = 13.44$$

41 "Private elementary and secondary schools, enrollment, teachers, and high school graduates, by state: Selected years, 1997 through 2007," Digest of Education Statistics: 2009, National Center for Education Statistics, U.S. Department of Education, at http://nces.ed.gov/programs/digest/d09/tables/dt09_062.asp?referrer=list (November 11, 2010)

cost-effective as other options. The rate at which taxpayers use both the personal-use and donation tax credits will impact the demand for private school options as more scholarships are made available.[42] How the tuition tax credit program is designed will have a significant impact on Virginia taxpayers in terms of both the projected fiscal impact and the number of quality educational options available to families.

The Public Education Tax Credit provides a net fiscal benefit to the state. While money spent on the tax credit program results in a direct revenue loss to the state, the scholarships offset the revenue loss by permitting students to transfer to private schools, providing considerable savings to state and local governments. For this reason, the Public Education Tax Credit Program can be implemented without raising taxes.

Taken together, the personal-use tax credit and the individual and corporate donation tax credit will empower thousands of children to attend private school. As the cap increases, more and more donors will be able to contribute and an increasing number of families will be empowered to send their children to a private school of choice. By 2017, it is possible that the program cap could reach nearly $300 million, empowering more than 32,889 children to attend private school. As such, the Public Education Tax Credit Program will save nearly $100 million for Virginia taxpayers in public school operating costs annually.

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Combined Impact of Personal-Use and Donation Tax Credits[43]

Public to private school transfers resulting from personal-use tax credit	19,180
Public to private school transfers resulting from donation tax credit	13,709
Total number of students switching to private school	32,889
Taxpayer savings for students switching to private school	$353,688,306
State revenue "loss" for personal-use tax credit[1]	$137,066,042
State revenue "loss" for donation tax credit	$122,860,000
Total savings for Virginia taxpayers	$93,762,264

42 Darcy Ann Olsen and Dan Lips, "The Oklahoma Scholarship Tax Credit: Giving Parents Choices, Saving Taxpayers Money," Oklahoma Council of Public Affairs, February 2002, at http://www.ocpathink.org/sites/ocpathink/uploads/documents/policypaper02-1.pdf (October 11, 2010)

43 This estimate assumes high participation in the personal-use tax credit program and moderate participation in the donation tax credit program.

HYPOTHETICAL EXAMPLES OF THE PUBLIC EDUCATION TAX CREDIT PROGRAM

Examples of the Personal-Use Tax Credit

A middle-income family enrolls their two children in a moderately priced private school, which charges $5,000 in tuition. The family owes $10,000 in tuition for their two children annually. The family also owes $4,300 in income tax. The family can take the maximum 75 percent credit for the tuition charged for each child in school, or $3,750, for a total of $7,500. However, since the family has only $4,300 in income tax liability, their maximum credit will be $4,300. This credit will reduce the cost of their total tuition obligation to $5,700 annually.

An upper-income family sends their son to a private college preparatory academy with an annual tuition of $23,000 per year. The family will only be able to get a portion of their taxes reduced through credits, as 75 percent of the cost of tuition is $17,250, and exceeds the maximum credit of $8,065.50 (75 percent of Virginia's per-pupil expenditures at public schools). The family will receive a credit of $8,065.50, significantly reducing their income tax burden.

Examples of the Donation Tax Credit

An upper-income couple with no children owes $17,000 in income tax. The family learns that in lieu of sending their money directly to the state's general fund that they can redirect that money to cover the educational expenses or scholarships of less-fortunate children in the Commonwealth. The family decides to donate $12,000 to a scholarship-granting organization and the remaining $5,000 to cover the educational expenses of children at a local foreign language school. The family enjoys a 100 percent credit for their donations.

An office supply store donates $50,000 to a scholarship-granting organization in Virginia. The company owes $15,000 in corporate income tax, and is able to take a 100 percent credit toward their tax liability. As a result, the supply store is able to finance the scholarships of several children in the state.

An animal feed company with several locations throughout the Commonwealth offers an employee donation program which funds up to $3,000 of the educational expenses of each employee's child. Last year, 15 employees with a total of 23 children took advantage of the program. The feed company was then able to receive a corporate tax credit for $69,000 of the $75,000 owed in corporate income tax.

Examples of the Combined Personal-Use and Donation Tax Credit

Mr. and Mrs. Smith are part of a middle income family with one child, Julie. For the past three years, the Smiths have received credits toward their income tax liability for the cost of sending Julie to a private Catholic school. Last year the Smiths, who file their taxes jointly, owed $6,500 in state income taxes. Thanks to the tax credit, they were able to receive a credit for the cost of tuition at their daughter's private school, which is $4,500 annually. Since the full amount of the credit they are able to take ($4,500) does not exceed the Smith's income tax obligations, the couple was able to take the remaining $2,000 as a credit when they decided to donate that money to a scholarship-granting organization. Since individuals and married couples filing jointly can combine personal use and donation tax credits for up to 100 percent of total income tax liability, the Public Education Tax Credit benefited not only the Smith's and their own daughter's education, but provided funding for a scholarship for a low-income child in the Commonwealth.

Marcia Gomez is a middle-income earner who owes $2,000 in income taxes to the state of Virginia. Ms. Gomez can claim $1,600 in tax credits to cover the cost of her son's educational expenses. Her son will be starting kindergarten at a private math and science academy, where tuition begins at $9,000 per year. Her employer also offers donations to cover the educational expenses of employees' children, up to $3,000. Ms. Gomez can combine her personal-use tax credit of $1,600 with the $3,000 her employer offers, for a total of $4,600 toward her son's private school tuition. Together, the credits reduce the cost of her son's tuition to $4,400.

Examples of Tax Credit Programs in Other States

Arizona. Arizona's Corporate and Individual School Tuition Organization Tax Credit Program continues to flourish. In 2009, the corporate program was expanded to allow for credits toward insurance premiums, and the individual program began permitting donations to be made through payroll deductions. Since 1997, individuals have been able to claim credits for contributions to scholarship-granting organizations, and since 2006, corporations have been able to receive dollar-for-dollar income tax credits for contributions to SGOs, which in turn provide scholarships to low-income children to attend a private school of their choice. During the 2011-12 school year, more than 4,500 students received scholarships to attend a private school of their choice thanks to corporate donations, and nearly 25,000 students received scholarships through the individual tax credit donation program.[44]

Florida. The Sunshine State significantly expanded the Florida Corporate Tax Credit Scholarship Program during the 2011-2012 school year. The program, enacted in 2001, has seen the

44 "School Choice Now: The Year of School Choice," The Alliance for School Choice, at https://s3.amazonaws.com/assets.allianceforschoolchoice.com/admin_assets/uploads/92/North+Carolina+Individual+Tax+Credits.pdf

cap on contributions grow to $140 million and now includes insurance premium tax credits. During the 2010-2011 school year, more than 34,500 students received scholarships to attend private schools.

Georgia. Since 2008, students in the Peach State have had access to scholarships to attend a private school of their choice thanks to the Georgia Scholarship Tax Credit Program, which permits individuals and corporations to receive tax credits for contributions to scholarship-granting organizations. During the 2009-2010 school year, more than 1,900 children received scholarships through the tax credit program.[45]

Illinois. Illinois families enjoy access to a personal use tax credit, enacted in 2001, worth up to $500 to cover private school tuition and other education-related expenses. Nearly 250,000 families took advantage of the credit during the 2008-09 school year.[46]

Indiana. During the 2009-2010 school year, Indiana enacted an individual and corporate tax credit program to provide scholarships for low-income children to attend a private school of their choice. In 2001, the cap was increased from $2.5 million to $5 million.

Iowa. Since 2009, both individuals and corporations in Iowa have been able to make donations to scholarship-granting organizations and receive tax credits toward their income tax liability. During the 2009-2010 school year, more than 9,600 students were served through the tax credit program.[47] Iowa also has a limited personal-use tax credit of up to $250 to help offset the cost of education-related expenses for families.

Louisiana. In 2012, Louisiana created a tax credit program for contributions to scholarship-granting organizations. Individuals receive a rebate for contributions to SGOs, which provide scholarships to low-income children throughout the state.

New Hampshire. In 2012, New Hampshire lawmakers established the Corporate Education Tax Credit, providing tax credits to corporations that contribute to scholarship-granting organizations. Corporations can receive tax credits for their contributions funding the scholarships of children from households below 300 percent of the federal poverty line, which may include public school students, charter school students, and homeschooled students. Scholarships of up to $2,500 are available to New Hampshire students, and scholarships of up to $4,300 are available to children with disabilities. The program is capped at $4.3 million in 2012-13 fiscal year, with the cap raising to $5 million in 2013-14.[48]

45 *Ibid*.

46 "Illinois - Tax Credits for Educational Expenses," The Friedman Foundation, at http://www.edchoice.org/School-Choice/Programs/Tax-Credits-for-Educational-Expenses.aspx

47 Alliance for School Choice.

48 "New Hampshire – Corporate Education Tax Credit," The Friedman Foundation for Educational Choice, at http://www.edchoice.org/School-Choice/Programs/Corporate-Education-Tax-Credit.aspx

North Carolina. In 2011, North Carolina enacted individual tuition tax credits for children with special needs. Families with children who receive special education services and have an individualized education plan (IEP) can take a take credit of up to $6,000 to cover the cost of private school tuition and special education services.[49]

Oklahoma. In 2011, The Sooner State created the Oklahoma Equal Opportunity Education Scholarship Act, which allows children from families earning below 300 percent of the federal poverty line to receive scholarships to attend a private school of choice. The scholarships are financed through individual and corporate contributions to scholarship-granting organizations. Children can receive scholarships of up to $5,000 ($25,000 for special needs children).

Individuals can take a 50 percent tax credit for contributions to an SGO, up to $1,000. Corporations can receive credits of up to $100,000. The tax credit program is capped at $5 million.[50]

Pennsylvania. In 2012, Pennsylvania launched the Educational Opportunity Scholarship Tax Credit. The EOSTC provides tax credits to corporations that make contributions to scholarship-granting organizations. Children can then use the scholarships provided by the SGOs to attend a private school of choice. The EOSTC enables corporations to claim a 75 percent tax credit for contributions made to SGOs in order to offset their corporate income tax obligation. The program is capped at $50 million, and credits per business are capped at $400,000 for the 2012-13 school year.[51] Scholarships up to $8,500 ($15,000 for special needs students) are available to students assigned to under-performing public schools that meet the income threshold.[52]

Pennsylvania corporations can also take advantage of the Educational Improvement Tax Credit Program, which has enabled businesses to take an income tax credit for up to 75 percent of their tax liability (90 percent for donations two consecutive years) for donations to scholarship-granting organizations. The program, enacted in 2001, empowered more than 40,000 students to receive scholarships during the 2010-2011 school year.[53]

Rhode Island. Since 2006, Rhode Island has allowed corporations to receive dollar-for-dollar tax credits for contributions to scholarship-granting organizations. The tax credit program

49 Alliance for School Choice.

50 "Oklahoma Equal Opportunity Education Scholarships," The Friedman Foundation, at http://www.edchoice.org/School-Choice/Programs/Oklahoma-Equal-Opportunity-Education-Scholarships.aspx

51 "Pennsylvania: Educational Opportunity Scholarship Tax Credit," The Friedman Foundation for Educational Choice, at http://www.edchoice.org/School-Choice/Programs/Educational-Opportunity-Scholarship-Tax-Credit.aspx

52 *Ibid.*

53 "REACH Alliance Applauds Lawmakers for Avoiding Cuts to EITC," REACH Foundation, July 6, 2010, at http://www.paschoolchoice.org/reach/cwp/view.asp?Q=572498&A=11 (December 5, 2010)

now exceeds $1 million annually, empowering nearly 300 children to attend a private school of their choice.[54]

Virginia. The Education Improvement Scholarships Tax Credit was enacted in 2012 to allow businesses and individuals to receive tax credits for contributions to scholarship-granting organizations. Tax credits are awarded for 65 percent of a business or individual's contribution to an SGO, which in turn provides a voucher to a low-income child (from a family earning less than 300 percent of the federal poverty line) to attend a private school of choice. Special needs children also qualify for scholarships under the tax credit program.[55] The tax credit program is capped at $25 million annually (Florida's more robust tax credit program is capped at 140 million), and the tax credit is limited to $50,000 annually for individuals.[56]

In the near-term, lawmakers should work to enact a universal tuition tax credit program to ensure Virginia is at the vanguard of the school choice movement, to provide maximum educational opportunities to children, and to increase prospects for the state's prosperity in the future.

A Path Forward for Virginia

A universal (including both a personal-use and individual/corporate credit) public education tax credit program would provide a wide array of new school choice options for families in the Commonwealth. It would also provide businesses and individuals the opportunity to redirect their income tax obligations to educational options for Virginia's children. In the near-term, lawmakers should work to enact a universal tuition tax credit program to ensure Virginia is at the vanguard of the school choice movement, to provide maximum educational opportunities to children, and to increase prospects for the state's prosperity in the future.

In the future, lawmakers should also consider expanding the tax credit program beyond personal and corporate income tax. While policymakers may find the strongest support for a public education tax credit program as designed above, where individuals and businesses receive credit against personal and corporate state income tax, a more robust tax credit program could include provisions for property tax and sales tax credits down the road.

School choice is a bi-partisan issue. While school choice policies such as vouchers and tax credits have historically enjoyed support in conservative circles, providing families with quality educational options beyond their assigned public school now receives much favor from both sides of the political aisle. A majority of the black and Hispanic caucuses in Florida supported an expansion of the tuition tax credit program in 2009. In Illinois, Democrat Senator James Meeks introduced a voucher bill for students in Chicago in early 2010. And in Oklahoma, Governor Brad Henry, a Democrat, signed into law the newly-enacted special needs

54 Andrew Campanella and Ashley Ehrenreich, "Fighting for Opportunity: School Choice Yearbook 2009-10," Alliance for School Choice, 2010, at http://www.allianceforschoolchoice.org/UploadedFiles/ResearchResources/ASC_Yearbook_2010_FINAL.pdf (December 5, 2010)

55 Virginia – Education Improvement Scholarships Tax Credits, the Friedman Foundation for Educational Choice, at http://www.edchoice.org/School-Choice/Programs/Education-Improvement-Scholarships-Tax-Credits.aspx

56 *Ibid*.

scholarship program. At the national level, former Senator Joe Lieberman (I-CT) and Senator Dianne Feinstein (D-CA) are both supporters of the D.C. Opportunity Scholarship Program.

A universal public education tax credit program would empower parents to choose quality educational options for their children, while saving taxpayers money. Taken together, the personal-use tax credit and the individual and corporate donation tax credit will empower thousands of children to attend private school. The proposal also stands to save Virginia's taxpayers nearly $100 million in public school operating costs annually. By building on the existing tax credit program, and by joining the growing number of states that now support robust school choice options, Virginia can rest assured that educational opportunity in the Commonwealth will flourish, to the benefit of taxpayers, parents and students.

Taken together, the personal-use tax credit and the individual and corporate donation tax credit will empower thousands of children to attend private school. The proposal also stands to save Virginia's taxpayers nearly $100 million in public school operating costs annually.

ABOUT THE AUTHOR

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APPENDIX

The following model legislation was developed by Adam Schaeffer, Ph.D. The general structure and much of the language for this model legislation was adapted from model legislation developed by the Education Task Force of the American Legislative Exchange Council.

Public Education Tax Credit Act
(Donation and Personal-Use Education Tax Credits)

Summary: This legislation creates an education tax credit for direct payment of educational expenses and for contributions to organizations that provide educational scholarships to eligible students in order to allow all parents to choose the best education for their children.

Section 1: Title

The Public Education Tax Credit Act

Section 2: Definitions

A) "Program" means the program established by the Public Education Tax Credit Act.

B) "Department" means the state Department of Revenue.

C) "Educational expenses" means tuition at a qualifying school; transportation related to educational activities; tutoring services; educational association membership or testing fees; and educational materials such as books, school supplies, and academic lessons and curricula. Educational expenses for students taught in a nonpublic home-based program do not include expenses for tutoring or academic lessons if the parent conducts them. Educational expenses for a student who is enrolled in a public elementary and/or secondary school in Virginia but who is not a resident of that school district include only transportation and out-of-district tuition expenses. Educational expenses do not include athletic fees or expenses.

D) "Eligible student" means a student who:

1) is a resident of the state no less than age 5, is no more than age 18, and has not graduated from high school; and

2) was eligible to attend a government school in a preceding semester or is starting school for the first time in the state, and is not enrolled in a public elementary or secondary school; and

3) meets additional requirements detailed in Section 3; or

4) is not a resident of the school district of the public school in which the student is enrolled.

The eligible student must otherwise be in compliance with state education law.

E) "Scholarship organization" means an organization that receives donations from taxpayers and gives educational scholarships to eligible students.

F) "Parent" includes a guardian, custodian, or other person with authority to act on behalf of the student.

G) "Educational scholarships" means grants to students to cover part or all of the educational expenses of an eligible student.

H) "State District Funding" means the dollar amount equal to the average per-pupil total expenditures for public schools from all state government sources and for all purposes during the year of enactment, with this amount adjusted each year in the same manner that brackets are adjusted in Section 1(f) of the Internal Revenue Code.

I) "Child credit cap" means the total amount a family is eligible to use for each eligible student as determined in Section 5.

J) "Government school" means a public government school as defined in state law.

K) "Program cap" means the total amount in public education credits available in a given year.

Section 3: Basic Elements of the Public Education Tax Credit Act

A) Individuals and corporations may claim a donation tax credit against relevant taxes detailed in Section 4 by contributing to scholarship organizations or by contributing directly to the payment of an eligible student's educational expenses.

B) An eligible student's family can use educational scholarships derived from donation tax credits that amount to no more than the total of all child credit caps for all dependent eligible students minus the family's total state income tax liability for which a tax credit is available during the taxable year in which the scholarship is claimed.

C) After the donation tax credit program has been in operation for three years, legal guardians may claim a personal-use tax credit against their own state income tax liability for the educational expenses of each child who is an eligible student.

D) No taxpayer may both claim a credit for a donation to a Scholarship Organization or for a donation made directly to a child and receive credit-claimed funds directly from a taxpayer or Scholarship organization within a two-year period.

E) Donation and personal-use tax credits are nonrefundable.

F) Scholarship organizations may solicit contributions from individuals and corporations and provide educational scholarships to eligible students.

G) A corporate taxpayer, an individual taxpayer, or a married couple filing jointly may carry forward unused donation and personal-use tax credits for three years.

H) For corporations, the amount of the donation tax credit shall equal any contributions to scholarship organizations during the taxable year for which the credit is claimed, up to 100 percent of the taxpayer's tax liability.

I) The total amount of the personal-use tax credit claimed by legal guardians for their eligible children shall equal no more than their total direct payments for educational expenses for all of their dependent eligible children, up to the child credit cap for each child or their total applicable tax liability, whichever is less, during the taxable year for which the credit is claimed.

J) The total amount of the funds used by legal guardians for their eligible children that are derived from scholarship organizations cannot exceed the total amount of their child credit caps minus their total state income tax liability.

K) For an individual taxpayer or a married couple filing jointly, the amount of the Public Education Tax Credit claimed shall equal the total direct payments for educational expenses of eligible students (personal use credit) plus any contributions to scholarship organizations (donation credit) during the taxable year for which the credit is claimed, up to 100 percent of the taxpayer's tax liability.

L) The total amount of tax credits that may be granted in the first year of operation under this section shall not exceed $150 million.

M) Following each year in which the total amount of credits claimed are equal to or more than 90 percent of the program cap, the credit cap will increase by 25 percent.

N) Beginning in the first year of program operation, 100 percent of students utilizing donation credit-derived scholarship funds for the first time must have attended a public school in the year prior to receiving the funds or be eligible for enrollment in a government school and starting school in Virginia for the first time.

O) Beginning in the first year following the year in which the program cap is equal to or greater than twice the amount of the program cap in the first year of operation, 90 percent of students utilizing donation credit-derived scholarship funds for the first time must have attended a public school in the year prior to receiving the funds or be eligible for enrollment in a government school and starting school in Virginia for the first time.

P) Beginning in the first year following the year in which the program cap is equal to or greater than three times the amount of the program cap in the first year of operation, 80 percent of students utilizing donation credit-derived scholarship funds for the first time must have attended a public school in the year prior to receiving the funds or be eligible for enrollment in a government school and starting school in Virginia for the first time.

Q) Beginning in the first year following the year in which the program cap is equal to or greater than three and one-half times the amount of the program cap in the first year of operation, 70 percent of students utilizing donation credit-derived scholarship funds for the first time must have attended a public school in the year prior to receiving the funds or be eligible for enrollment in a government school and starting school in Virginia for the first time.

R) Beginning in the first year following the year in which the program cap is equal to or greater than four times the amount of the program cap in the first year of operation, 60 percent of students utilizing donation credit-derived scholarship funds for the first time must have attended a public school in the year prior to receiving the funds or be eligible for enrollment in a government school and starting school in Virginia for the first time.

Section 4: Application of Tax Credits to Income

A) Tax credits may be claimed against a taxpayer's full income tax liability in accordance with Sections 3 and 5.

Section 5: Determining the Child Credit Cap

A) An eligible student's family can use a combination of Public Education Tax Credits up to the total amount of the child credit cap for each dependent eligible student.

B) The child credit cap is:

1) 75 percent of average State District Funding for each dependent eligible student.

C) Each family that makes use of a combination of both donation and personal use credits must ensure that the total used does not exceed the total in child credit caps for which they are eligible according to the guidelines in section 5B above. If a family overestimates the scholarship funds for which they are eligible, the taxpayer must adjust downward the personal tax credit claimed on their income tax return for the current year.

Section 6: Responsibilities of Parents Claiming or Using Public Education Tax Credits

A) Parents may claim the Public Education Tax Credit only for expenses they actually paid.

B) On a form prescribed by the department, parents will provide a detailed listing of the educational expenses for each child for whom they claim or have used a tax credit. They will attach to the form all receipts necessary to document these expenses.

C) On a form prescribed by the department, parents will provide a detailed listing of all taxpayers claiming tax credits for the educational expenses of the parents' dependent children and/or all scholarship organizations providing funds for the educational expenses for each dependent child. For each taxpayer and/or scholarship organization, parents will list the full name, address, total funds provided, and date of funding.

Section 7: Responsibilities of Taxpayers Claiming Tax Credits

A) On a form prescribed by the department, taxpayers will provide a detailed listing of the scholarship organization(s), child or children, and family or families to which they provided funds. In each case, taxpayers will list the full name, address, total funds provided, and date of funding.

Section 8: Responsibilities of Scholarship Organizations

A) Each scholarship organization shall:

1) notify the department of its intent to provide educational scholarships to eligible students;

2) demonstrate to the department that it has been granted exemption from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code;

3) distribute periodic scholarship payments to parents or education providers serving specified parents for the specified educational expenses;

4) provide a department-approved receipt to taxpayers for contributions made to the organization;

5) ensure that at least 90 percent of revenue from donations is spent on educational scholarships, and that all revenue from interest or investments is spent on educational scholarships;

6) verify annually by written and signed statement from each family or guardian the total scholarship amount for which each child is eligible according to Section 5;

7) demonstrate its financial accountability by:

a. submitting a financial information report for the organization, conducted by the certified public accountant, that complies with uniform financial accounting standards established by the department; and

b. having the auditor certify that the report is free of material misstatements.

8) file with the department prior to the start of the school year financial information that demonstrates the financial viability of the scholarship organization if it is to receive donations of $50,000 or more during the school year.

B) Notwithstanding the above, each scholarship organization may keep no more than 20 percent of total revenue from the previous fiscal year unused in a reserve fund. Any unused revenue in excess of this amount must be remitted to the taxpayer on or before a date one month prior to the tax filing deadline.

Section 9: Responsibilities of the Department of Revenue

A) The department shall develop a standardized form for education service providers to document the amount paid by a parent for qualified educational expenses.

B) The department shall ensure that parents are aware of the Public Education Tax Credit and that all procedures for claiming the credit are easy to follow.

C) The department shall establish guidelines for parents to easily assign their tax credit to their student's qualifying school and to easily adjust their state income tax withholding to reflect tax credit claims.

D) The department shall require all scholarship organizations to register and annually report the information the department needs to carry out its responsibilities.

E) The department shall adopt rules and procedures consistent with this act as necessary to implement the Public Education Tax Credit Act.

F) The department shall annually report to the legislature on the number of parents claiming the tax credit, the dollar amount of the credits claimed by parents, the number of schools accepting eligible students who received a tax credit or educational scholarship, the number of scholarship organizations, the number and dollar amount of contributions to a scholarship organization, and the number and dollar amount of educational scholarships given to eligible students.

G) The department shall have the authority to conduct either a financial review or audit of a scholarship organization if possessing evidence of fraud.

H) The department may bar a scholarship organization from participating in the program if the department establishes that the organization has intentionally and substantially failed to comply with the requirements in Section 8.

I) If the department decides to bar a scholarship organization from the program, it shall notify affected scholarship students and their parents of this decision as quickly as possible.

J) The department shall allow a taxpayer to divert a prorated amount of state income tax withholdings to a scholarship organization of the taxpayer's choice up to the maximum credit allowed by law, including carry-over credits. The department shall have the authority to develop a procedure to facilitate this process.

K) A qualifying school is autonomous and not an agent of the state or federal government. Neither the department nor any other state agency may regulate the educational program of a provider of educational services that accepts payments from eligible students under this program. The creation of the Public Education Tax Credit program does not expand the regulatory authority of the state, its officers, or any local school district to impose any additional regulation on education service providers.

Section 10: Effective Date

The Public Education Tax Credit may first be claimed in the next calendar year.

Virginia Institute for Public Policy

Board of Scholars

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