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Educational Vouchers and Tax Credits: A State-by-State Summary of Current Programs

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Executive Summary

As the Colorado legislature seeks to improve education for all students in the state through vouchers or tax credits, Colorado can learn lessons from its sister states about the various forms such legislation can take—and in the process find a plan that works best for this state.

This paper defines what is meant by vouchers and tax credits and gives a broad overview of such programs where they are currently administered.

- Ten states currently offer some variety of educational tax credit, tax deduction, or voucher.
- Five states provide some form of K-12 vouchers for a limited and designated segment of the population.
- Four states allow individuals a tax credit for selected educational expenses incurred in the education of their children in grades K-12.
- Three states allow individual or corporate tax credits for donations to school tuition organizations (STOs) or public schools.

Minnesota is the only state that provides a tax deduction for K-12 educational expenses and tuition for all families residing in the state with students in grades K-12.

School Vouchers

School vouchers have a designated dollar value that may be applied toward full or partial payment of tuition or fees at the participating public or private school of the parents' choice. Vouchers are similar to the G.I. Bill and Pell Grants, which are scholarships funded by the government and given to post-secondary students for use in the religious or non-religious school of their choice.¹

Florida

- **Opportunity Scholarships** go to families with children in schools that receive an F on the state report card for two years out of a four-year period, for use in any participating private school or another public school receiving a C or better.² Scholarships are equal to the amount of the state's share of an eligible student's educational expenses.³ For example, if more money is spent on a special education student in public school, that increases the amount of the scholarship. Participating private schools agree to accept the scholarship as full tuition. If tuition is less than the amount of a full scholarship, the state is refunded the difference. In 2001-2002 the average scholarship amount awarded was \$3,500 to \$3,900. As of the fall of 2002, 600 students attend private schools with this scholarship.⁴
- The **McKay Scholarship**, distinct from the Opportunity Scholarship, offers students with disabilities who are attending schools not meeting the student's individual performance goals the option to attend another public school or an eligible private school.⁵ In 2001-2002 the average amount awarded was \$5,547. As of the fall of 2002, 8,200 students participate in the program.⁶

Maine

- Students residing in school districts without a public school may attend a public school in another school district or non-religious private school at a state and/or town expense of up to \$6,305. Public funds may be used for some non-tuition educational expenses in religious schools.⁷ In the fall of 2001, 8,252 students attended public schools outside of the district in which they reside and 5,933 students attended private schools with public funds.⁸

Cleveland, Ohio

- Students residing in the Cleveland Municipal School District in grades K-8 are eligible to receive scholarships to attend a qualified public, private secular or religious school of their choice. Depending on a family's income, the state's contribution is either 75% or 90% (the state pays up to \$2,250) of tuition that cannot exceed \$2,500. Priority is given to low-income families.⁹ In the 2001-2002 school year 4,523 students participated in the program.¹⁰ On June 27, 2002 the U. S. Supreme Court ruled the program constitutional.

Vermont

- Students residing in school districts without a public school may attend a public school in another school district or approved non-religious private school at school district expense (so-called “tuitioned students”).¹¹ In 2001-2002, approximately 7,147 students attended public and private schools outside of their school district under this law.¹²

Milwaukee, Wisconsin

- The **Milwaukee Parental Choice Program** provides the opportunity for 15%¹³ (approximately 15,000 students) of the Milwaukee school district students with family income at or below 175% of the poverty level to receive vouchers.¹⁴ The value of the voucher is equal to the Milwaukee per-pupil state aid or private school tuition, whichever is less. In 2001-2002 the voucher was valued at \$5,553 and available for use in a private secular or religious school. If more students apply at a particular school than there are open spots, students are selected by lottery.¹⁵ As of January 2002, 10,789 students participated in the program.¹⁶

Individual Tax Credits for K-12 Educational Expenses

Individual tax credits, for educational expenses, reduce the tax liability of an individual. Credits may be dollar-for-dollar or a percentage of expenses incurred. A refundable tax credit allows the individual to receive a refund for the tax credit even if he does not owe taxes or the credit exceeds the amount he owes. A nonrefundable tax credit does not refund any excess credit to the taxpayer for the tax year. For example, if Cynthia owes \$200 in taxes and her tax credit is worth \$250 because of educational expenses she incurred for her child, a state with a refundable tax credit would send her a check for \$50. If she lived in a state with a nonrefundable tax credit, she would not receive a \$50 refund. Some states allow the individual to carry forward the remaining credit to the next tax year.

Arizona

- A dollar-for-dollar tax credit of up to \$200 for the individual or \$250 for a married couple is allowed for fees paid to public schools for extracurricular activities or character education programs. The credit is nonrefundable, but may be carried forward for no more than five consecutive years.¹⁷

Illinois

- A nonrefundable tax credit is available for 25% of education-related expenses, including tuition, books, and lab fees that exceed \$250. The maximum amount of credit an individual can claim is \$500, for educational expenses in public, private secular or religious school, or homeschool.¹⁸

Iowa

- Iowa taxpayers, regardless of income, may claim a tax credit of 25% of the first \$1,000 spent on each dependent's elementary or secondary educational expenses, including non-religious tuition, textbooks, and/or extracurricular activities.¹⁹

Minnesota

- Families with income up to \$33,500 may receive a refundable tax credit of 75% of educational expenses, up to \$1,000 per student with a maximum of \$2,000. A reduced credit is available to families with income that exceeds \$33,500, but not more than \$37,500. Allowed expenses include tutoring, books and materials for non-religious classes, but not tuition. Computer hardware and software expenses up to \$200 are also allowed. An education tax deduction is also available and may be used for expenses exceeding the credit.²⁰

Individual Tax Deductions for K-12 Educational Expenses

Individual tax deductions for educational expenses reduce the amount of taxable income for an individual before the tax liability is calculated. For example if John and Sally have a taxable income of \$50,000 a year and they buy \$100 in textbooks for their son, their taxable income becomes \$49,900.

Minnesota

- A tax deduction is available for educational expenses of up to \$1,625 for students in grades K-6 and up to \$2,500 for students in grades 7-12. Expenses include private school tuition in Minnesota or surrounding states, tutoring, textbooks and materials for non-religious classes. Computer hardware and software expenses of up to \$200 are also allowed. Taxpayers with students in grades K-12 in public, private, or home school qualify regardless of income.²¹

Individual Tax Credits for Donations

Individual tax credits, for donations to school tuition organizations (STOs) or to public schools, reduce the tax liability of an individual. Credits may be dollar-for-dollar or a percentage of the donation. A refundable tax credit allows the individual to receive a refund for the tax credit even if he does not owe taxes or the credit exceeds the amount he owes. A nonrefundable tax credit does not refund any excess credit to the taxpayer for the tax year. For example, if Lucy owes \$500 in taxes and her tax credit is worth \$250 because of educational expenses she incurred for her child, a state with a refundable tax credit would send her a check for \$250. If she lives in a state with a nonrefundable tax credit she would not receive a \$250 refund. Arizona allows the individual to carry forward the remaining credit to the next tax year.

Arizona

- A dollar-for-dollar tax credit of up to \$500 for an individual or \$625 for a married couple is allowed for donations to organizations that provide scholarships for students to attend private or religious schools. The credit is nonrefundable, but may be carried forward for no more than five consecutive years.²²
- A dollar-for-dollar tax credit of up to \$200 for an individual or \$250 for a married couple is allowed for donations to a public school for support of extracurricular activities or character education programs. The credit is nonrefundable, but may be carried forward for no more than five consecutive years.²³

Corporate Tax Credits for Donations

Corporate tax credits, for donations to school tuition organizations (STOs), reduce the tax liability of a corporation. Credits may be dollar-for-dollar or a percentage of the donation. A refundable tax credit allows the corporation to receive a refund for the tax credit even if it does not owe taxes or the credit exceeds the amount it owes. A nonrefundable tax credit does not refund any excess credit to the corporation for the tax year. For example, if Sid's Pencil Company owes \$100,000 in taxes, the allowable percentage of credit is 75% for a donation, and Sid's donates \$200,000 to an STO, the tax credit is valued at \$150,000. A state with a refundable credit would send Sid's Pencil Company a check for \$50,000. If Sid's were located in a state with a nonrefundable tax credit, the company would not receive a \$50,000 refund.

Florida

- Dollar-for-dollar corporate tax credits are allowed for donations to non-profit STOs. The credit may not exceed 75% of the company's tax due for the tax year and no one company may donate more than \$5 million to any one STO. There is a \$50 million cap on the total amount of tax credit the state awards within a fiscal year. Low-income students qualify to receive scholarships of up to \$3,500 to use for private school tuition, textbooks, and/or transportation. At least 75% of the scholarship for a private school must be used for tuition. Students who transfer to a public school outside of the district in which they reside may receive a scholarship of up to \$500.²⁴

Pennsylvania

- Corporate tax credits are available for donations to STOs that provide scholarships to students who want to attend private schools. The credit is worth 75% of the donation, which rises to 90% for a multi-year commitment. The credit is not to exceed \$100,000 for any one corporation and there is a cap of \$30 million credited throughout the state in a fiscal year. Scholarships go to families with income of no more than \$50,000, plus \$10,000 for every additional dependent.²⁵ ■

ENDNOTES

1 Robert E. Moffit, Jennifer J. Garrett, and Janice A. Smith, *School Choice 2001: What's Happening in the States*, Heritage Foundation, <http://www.heritage.org/Research/Education/Schools/glossary.cfm>.

2 FloridaChild.org, "Opportunity Scholarship Frequently Asked Questions," <http://floridachild.org/opportunityscholarships/ospfaq.html>. In order to participate in the Opportunity Scholarship program, private schools must be subject to instruction, curriculum and attendance criteria adopted by an accrediting body, be academically accountable to the parent for meeting the educational needs of the student, and supply a school profile which includes student performance. See Florida Statute § 1002.38(4)(f), http://www.flsenate.gov/Statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=Ch1002/SEC38.HTM&Title=->2002->Ch1002->Section%2038.

3 Florida Statute § 1002.38(6)(a), http://www.leg.state.fl.us/Statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=Ch1002/SEC38.HTM&Title=->2002->Ch1002->Section%2038.

4 Bob Metty, Choice Office at the Florida Department of Education, telephone interview with the author on September 17, 2002.

5 Florida Department of Education, OpportunitySchools.org, "John M. McKay Program for Students with Disabilities," <https://www.opportunityschools.org/Info/McKay/default.asp>. In order to participate in the McKay program, private schools must demonstrate fiscal soundness, give notice to the Florida Department of Education of intent to participate, be academically accountable to the parent for meeting the student's educational needs, comply with antidiscrimination laws, meet state and local health and safety laws and codes, employ qualified teachers, comply with all state laws relating to private schools, and adhere to the school's published disciplinary procedures prior to the expulsion of a scholarship student. See Florida Statute § 1002.39(4), http://www.flsenate.gov/Statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=Ch1002/SEC39.HTM&Title=->2002->Ch1002->Section%2039.

⁶ Bob Metty, Choice Office at the Florida Department of Education, telephone interview with the author on September 17, 2002.

7 Frank Heller, *Lessons from Maine: Education Vouchers for Students since 1873*, Cato Institute, September 10, 2001, <http://www.cato.org/pubs/briefs/bp-066es.html>.

8 Patrick Dow, School Enrollment Consultant, Maine Department of Education, chart e-mailed to the author entitled, "Summary Statistics for Receiving Tuition Units October 2001," October 22, 2002.

9 Ohio Department of Education, "The Scholarship Program," http://www.ode.state.oh.us/school_options/scholarship/ScholarshipProgramRequirements.asp. In order to participate in the Cleveland Parental Choice Program, private schools must be located in the Cleveland school district and "chartered" by the state (not to be confused with "charter schools" which are called "community schools" in Ohio). This means going through a rigorous chartering process, and abiding by state operating standards (for said standards see, http://www.ode.state.oh.us/school_improvement/standards/Default.asp?).

10 Choice Office, Ohio Department of Education, telephone interview with the author, September 5, 2002.

11 Education Commission of the States, "School Choice: State Actions," <http://www.ecs.org/clearinghouse/13/75/1375.htm>.

12 Stephen Magill, Finance Policy Analyst, Vermont Department of Education, e-mail to the author, October 17, 2002. This number represents the average daily membership of "tuitioned students" for the first 40 days of the school year.

13 Wisconsin Statute § 119.23(2), http://folio.legis.state.wi.us/cgi-bin/om_isapi.dll?clientID=82296&infobase=stats.nfo&j1=119.23&jump=119.23&softpage=Browse_Frame_Pg.

¹⁴ Robert E. Moffit, Jennifer J. Garrett, and Janice A. Smith, *School Choice 2001: What's Happening in the States*, Heritage Foundation, <http://www.heritage.org/Research/Education/Schools/wisconsin.cfm>.

15 Milwaukee Parental Choice Program Frequently Asked Questions for 2002-2003, <http://www.dpi.state.wi.us/dpi/dfm/sms/doc/mpcfaq02.doc>. In order to participate in the Milwaukee Parental Choice Program, private schools must notify the state superintendent of intent to participate, comply with antidiscrimination laws, meet all health and safety laws or codes that apply to public schools, submit to an annual independent financial audit, and may not require a student to participate in religious activities if the parent has submitted a written request to exempt the student from such activities. In order to maintain their eligibility in the program, the schools must meet one of four criteria: 1) 70% of pupils in the program advance one grade level in each year, 2) average attendance rate for pupils in the program is at least 90%, 3) at least 80% of pupils in the program demonstrate significant academic progress, or 4) At least 70% of families of pupils in the program meet parent involvement criteria determined by the schools. See Wisconsin Statutes §§ 119.23(2)(a)(3)-(5), 119.23(7)(c) and 119.23(7)(a), http://folio.legis.state.wi.us/cgi-bin/om_isapi.dll?clientID=156619&infobase=stats.nfo&j1=119.23&jump=119.23&softpage=Browse_Frame_Pg.

16 Milwaukee Parental Choice Program Facts and Figures for 2001-2002, <http://www.dpi.state.wi.us/dpi/dfm/sms/doc/mpc01fnf.doc>.

17 Arizona Department of Revenue, School Tax Credits brochure, <http://www.revenue.state.az.us/brochure/707.pdf>.

18 Robert E. Moffit, Jennifer J. Garrett, and Janice A. Smith, *School Choice 2001: What's Happening in the States*, Heritage Foundation, <http://www.heritage.org/Research/Education/Schools/illinois.cfm>, see also: Illinois Compiled Statute § 35 ILCS 5/201(m) <http://www.legis.state.il.us/ilcs/ch35/ch35act5articles/ch35act5sub2.htm>.

19 Iowa Code § 422.12(2), <http://www.legis.state.ia.us/IACODE/2001SUPPLEMENT/> (from this page type in Chapter 422 and Section 12, the tuition credit is listed under subsection 2).

20 Minnesota Statute § 290.0674, <http://www.revisor.leg.state.mn.us/stats/290/0674.html>, see also: Minnesota education tax credit information, <http://cfl.state.mn.us/tax/credsh.html>.

21 Minnesota Statute § 290.01(19b)(3), http://www.revisor.leg.state.mn.us:8181/SEARCH/BASIS/mnstat/public/www/DDW?W%3DTEXT+PH+ANY+%27education+%27+AND+CHAPTER_NUMBER+PH+WORDS+%27290%27+ORDER+BY+SORT_KEY/Ascend%26M%3D1%26K%3D290.01%26R%3DY%26U%3D120%26PCU%3D100, see also: Minnesota education tax deduction information <http://cfl.state.mn.us/tax/dedsh.html>.

22 Arizona Department of Revenue, School Tax Credits brochure, <http://www.revenue.state.az.us/brochure/707.pdf>.

23 Ibid.

24 Florida Statute § 220.187, http://www.leg.state.fl.us/Statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=CH0220/SEC187.HTM&Title=->2001->CH0220->Section%20187.

25 Bess Keller, "Pa. Oks Private-Tutoring Grants to Parents," *Education Week*, May 16, 2001, <http://www.edweek.org/ew/ewstory.cfm?slug=36pa.h20>.

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