

Education Tax Credit Programs in the United States

There are currently seven states with corporate education tax credit (ETC) programs (AZ, FL, GA, IA, OK, PA, and RI). Most of the existing programs share common core features with some measure of variation. Each program provides tax credits to businesses which donate to registered non-profit scholarship organizations (SOs). The SOs disburse scholarship funds to eligible students to use for educational purposes. State regulations vary regarding means-testing, reporting requirements, independent auditing, use of funds, etc.

For the sake of clarity and consistency, this paper refers only to “scholarship organizations” (SOs) unless referring specifically to a given state’s program, which may employ the use of other terms, such as “student scholarship organizations,” “scholarship granting organizations” or “school tuition organizations.”

The major areas of program design include:

Scholarships: Some states cap the size of the scholarships that SOs can disburse with a range of about \$4000-\$5000. Arizona has a two-tiered cap that allows more spending for high school. Oklahoma’s program is fixed at the greater of \$5000 or 80% of local education spending. Other states (GA, PA, and RI) have no caps. While Iowa doesn’t have a per-scholarship cap, it limits overall SO spending to each SO’s share of statewide enrollment.

Means-testing: Only one state (GA) lacks a means-testing provision. All other states require that scholarships be awarded to families earning below a certain income level, usually benchmarked against the federal poverty line (which is also used for the federal free-and-reduced lunch program). Limits vary from 185% to 300% of the federal poverty line. Pennsylvania’s cap is annual family earnings of \$50,000 plus \$10,000 per child.

Corporate Credits: Credits range from 50% to 100% of the corporate donation. In most states, the overall amount of credits issued is capped. Some states cap the amount of credits that individual corporations may receive, while most do not.

Fund Disbursement: Most states require that 90% of the SO’s funds be disbursed to students in the form of scholarships each year (with a range of 80%-97%). Some allow a certain amount to carry forward. All SOs are subject to certain reporting requirements, though the extent varies. Other common regulations include independent audits (especially for larger SOs), standardized testing, a ban on “earmarking” donations to certain students (especially family members), and a requirement that SOs not limit scholarships to only one school.

Jason Bedrick
Harvard Kennedy School of Government

State	Students	Participating Schools	Scholarship Organizations	Program Cap (annual spending)
Arizona	3,652	169	19	\$10 million
Florida	28,927	1,033	4	\$140 million
Georgia	1,900	400	11	\$50 million
Iowa	9,265	140	11	\$7.5 million
Oklahoma	N/A	N/A	N/A	N/A
Pennsylvania	38,646	N/A	286	\$40.2 million
Rhode Island	511	3	11	\$1 million

State	Corporate Credits	% Spent on Scholarships
Arizona	100% credit	90%
Florida	100% credit	97%
Georgia	100% credit up to 75% of total tax liability	90%
Iowa	65% credit; Overall limit of 25% of program (75% from income tax credits)	90%
Oklahoma	50% credit up to \$100,000 per year	90%
Pennsylvania	75% credit (90% if two consecutive)	80%
Rhode Island	75% credit (90% if two consecutive) up to \$100,00 per year	90%

State	Scholarship Caps	Means-testing
Arizona	K-8: \$4500 9-12: \$5,800 (average: \$2,158); automatically rises \$100 per year	185% of federal poverty level
Florida	\$4,106 (may not exceed private school costs, 75% used for tuition); transportation grants up to \$500	185% of federal poverty level
Georgia	No cap	No
Iowa	No cap, but limited to share of statewide enrollment (average: \$1,184)	300% federal poverty line
Oklahoma	Greater of: \$5000 or 80% avg local cost per pupil	300% federal poverty line (or “needs improvement” district)
Pennsylvania	No cap (average: \$1,044)	\$50,000 + \$10,000 per child
Rhode Island	No cap (average: \$2,248)	250% federal poverty line

State Analysis: Foundation for Educational Choice

1) ARIZONA

Arizona provides a credit on corporate income taxes for donations to School Tuition Organizations (STOs), privately run non-profit organizations that support private-school scholarships. This program is modeled after Arizona's existing personal tax credit for donations to STOs, and the two programs work in tandem. All organizations registered as STOs may participate in both programs. Corporate taxpayers contributing to STOs may claim a tax credit equal to the full amount of their contribution. In 2009, a total of 19 STOs participated in the program and awarded scholarships.

Fast Facts
• Students Participating: 3,652
• Schools Participating: 169
• Average Scholarship Value: \$2,158

Scholarship Value

STOs provide varying amounts of student aid. In 2009, the average scholarship awarded was worth \$2,158. In 2009, scholarships were capped at \$4,500 in grades K-8 and \$5,800 in grades 9-12; the cap will automatically rise by \$100 per year.

Student or School Participation

In 2009, 3,652 scholarships worth a total of \$7,881,787 were awarded. The program is limited to a total of \$10 million worth of tax credits per year per donor; corporations can donate more than that, but will not get more than \$5 million of tax credits in each year.

Student Eligibility

Students receiving scholarships under the corporate tax credit program must have family incomes below 185 percent of the income eligible for free and reduced-price lunch, which in turn is set at 185 percent of the federal poverty level (meaning a final program eligibility cutoff of \$75,467 for a family of four in 2010) and must have previously attended a public school or be entering kindergarten. The income requirement does not apply to Arizona's other tax credit scholarship program, which is funded by individuals rather than by corporate donors. In addition, each STO may set its own eligibility guidelines. Most STOs give to students based solely on financial need, sometimes concentrating on a specific location or school system.

Legal Status of Program

In September 2006, the Arizona Civil Liberties Union, the Arizona School Boards Association, and the Arizona Center for Law in the Public Interest filed suit in Maricopa County Superior Court to block the program under the state's Blaine Amendment. The Institute for Justice, representing four Arizona families, moved to

Jason Bedrick
Harvard Kennedy School of Government

dismiss the suit on grounds that the Arizona Supreme Court had already found that school choice doesn't violate the state constitution (see the previous entry for Arizona's other tax credit scholarship program). The Institute was joined by the former chief justice of the state high court, who wrote the opinion in that case. The suit was dismissed by the Maricopa County Superior Court in March 2007. On March 12, 2009, the Arizona Court of Appeals upheld the tax credit program in *Green v. Garriott*, and the Arizona Supreme Court refused to hear an appeal from that decision.

Regulations on the Program

STOs are required to be non-profit organizations that allocate at least 90 percent of their revenue to private school scholarships. STOs must file fiscal reports with the Department of Revenue and may not restrict their scholarships to a single school. Participating private schools may not discriminate on the basis of race, color, handicap, familial status, or national origin.

2) FLORIDA

Florida provides a tax credit on corporate income taxes as well as insurance premium taxes for donations to Scholarship Funding Organizations (SFOs), privately run non-profit organizations that distribute private school scholarships. SFOs provide scholarships worth up to \$4,106 for low-income students. They also may provide students with funds for transportation to another public school. Businesses get a dollar-for-dollar tax credit for contributions to scholarship organizations. The overall size of the program is capped at \$140 million for 2010-11.

<u>Fast Facts</u>
• Students Participating: 28,927
• Schools Participating: 1,033
• Maximum Scholarship Value: \$4,106

Scholarship Value

SFOs provide scholarships worth up to \$4,106 for private school tuition and fees, though they may not exceed the actual private school costs. At least 75 percent of the scholarship must be used for tuition, with the rest available for textbooks and transportation. Transportation grants are worth up to \$500.

Student or School Participation

In 2009-10, four Scholarship Funding Organizations provided scholarships to 28,927 students at 1,033 private schools.

Student Eligibility

Students who qualify for free and reduced-price lunch (185 percent of the federal

Jason Bedrick
Harvard Kennedy School of Government

poverty level) and who are either enrolled in public school or are about to enter kindergarten or first grade are eligible to receive scholarships. A family of four must earn \$40,792 or less to qualify in 2010. If a student's household income rises, the student may stay in the program under full scholarship as long as the family earns no more than 200 percent of the poverty level, a three-quarter scholarship for no more than 215 percent, and a half scholarship for no more than 230 percent. Participating private schools are required to accept scholarship students, but if they have more applicants than open seats they are not required to admit students at random.

Legal Status of Program

No legal challenges have been filed against the program.

Regulations on the Program

SFOs are required to be non-profit organizations incorporated in Florida. They must disburse 97 percent of their income from tax credit donations as scholarships in the same year in which the donation is received (administrative costs must be paid separately) and be audited annually by an outside accountant. They may not use a donor's money to support that donor's child. Participating private schools must complete a five-page notarized questionnaire covering issues such as the number of teachers and food safety inspections. They also must administer a norm-referenced test to participating students, and test scores are reported annually. They must file a financial report by a certified accountant if they receive more than \$250,000 in scholarship money in a given year.

3) GEORGIA

Georgia provides a credit on both personal and corporate income taxes for donations to Student Scholarship Organizations (SSOs), privately run non-profit organizations that distribute private school scholarships. Individual taxpayers contributing to SSOs may claim a dollar-for-dollar credit of up to \$1,000, and married couples filing jointly may claim up to \$2,500. Corporate taxpayers may claim a dollar-for-dollar credit worth up to 75 percent of the taxpayer's total tax liability. The program is capped at \$50 million in tax credits per year.

Fast Facts
• Students Participating: 1,900 (estimated)
• Schools Participating: 400 (estimated)
• Active Student Scholarship Organizations: 11

Scholarship Value

SSOs may determine the amount of each scholarship, as in most other states with tax credit scholarship programs.

Jason Bedrick
Harvard Kennedy School of Government

Student or School Participation

In 2009-10, the program served approximately 1,900 students at about 400 schools. Average scholarship amount was not available.

Student Eligibility

All Georgia students enrolled in public schools are eligible to receive scholarships. SSOs may set their own eligibility guidelines. Taxpayers may not make contributions earmarked for a particular child.

Legal Status of Program

No legal challenges have been filed against the program.

Regulations on the Program

SSOs are required to be non-profit organizations that allocate at least 90 percent of their revenue to private school scholarships. No more than 25 percent of an SSO's revenue may be carried forward into the next year before it is spent. SSOs must undergo annual audits by certified public accountants, file audits and fiscal reports with the Department of Revenue, may not use a donor's money to support that donor's child, and may not restrict their scholarships to a single school. Participating private schools must obey anti-discrimination laws.

4) IOWA

Iowa provides a credit on personal income taxes for donations to School Tuition Organizations (STOs), privately run non-profit organizations that distribute private school scholarships. The credit is worth 65 percent of the value of the donation. The value of the tax credit is also limited by a statewide cap. A maximum of \$7.5 million in tax credits is available. Each STO is able to grant tax credits to its donors up to its share of this statewide limit, with each STO's share determined by the enrollment at the schools it serves. There are 11 STOs. In 2009, an expansion allowed corporate donations for the first time. These donations are able to constitute up to 25 percent of the \$7.5 million cap.

Fast Facts
• Students Participating: 9,624
• Schools Participating: 140
• Average Scholarship Value: \$1,184

Scholarship Value

Each STO determines the amount of the scholarships it distributes. In 2009-10, the average scholarship was worth \$1,184.

Student or School Participation

In 2009-10, a total of 9,624 scholarships were distributed.

Jason Bedrick
Harvard Kennedy School of Government

Student Eligibility

Children are eligible to receive scholarships if their family incomes do not exceed 300 percent of federal poverty guidelines.

Legal Status of Program

No legal challenges have been filed against the program.

Regulations on the Program

STOs must be governed by a seven member board of directors, allocate 90 percent of their annual tax-credit donations to scholarships, submit annual reports, and undergo an annual financial review by a public accounting firm. They may not restrict their scholarships to one school (although all of an STO's scholarships may end up at one school if all the parents decide to use them at that school). Donors may not earmark their donations for particular students. Participating schools may only receive scholarships from one STO and must be accredited by the state and adhere to federal and state civil rights laws.

5) OKLAHOMA

Provides a tax credit to individuals and corporations that donate to organizations providing "Opportunity Scholarships" to students. Scholarships go toward paying private school tuition. Students are eligible for scholarships if they come from families with income under 300% of the threshold for the federal free and reduced-price lunch program, or if they live in the attendance zone for a "needs improvement" school. Scholarships are worth the greater of \$5,000 or 80% of the average local public schools' per-pupil expenditures. Special needs students can receive up to \$25,000 per year.

Scholarship Value

For most students, the scholarship value is worth up to \$5,000 or 80 percent of the average per-pupil expenditure in the public school district, whichever is greater. For students with special needs who attended a public school with an Individualized Education Program (IEP), the scholarship value is worth up to \$25,000.

The allowable tax credit is 50 percent of the amount of contributions made during a taxable year, up to \$1,000 for single individuals, \$2,000 for married couples, and \$100,000 for corporations.

The overall statewide cap on the program is \$3,500,000 per year, because of caps on the individual and corporate tax credits of \$1,750,000 per year apiece. If donations exceed the statewide cap in a given year, the Oklahoma Tax Commission will allocate the tax credits to individuals (or corporations) on a pro rata basis. If individual donations fail to meet the \$1,750,000 cap while corporate donations

Jason Bedrick
Harvard Kennedy School of Government

exceed the cap, the unused individual credits can be allocated to corporations (and to a separate tax credit for public school improvement grants), and vice versa.

Student or School Participation

N/A.

Student Eligibility

Students are eligible for scholarship if they either 1) live in families with income up to 300 percent of the level established for the federal free and reduced-price lunch program, or 2) attend, or live in the attendance zone for, a public school designated as in need of improvement. Once a student has received an educational scholarship, that student and his or her siblings remain eligible until high school graduation or age 21.

Legal Status of Program

On May 16, 2011, Gov. Mary Fallin signed Senate Bill 969, known as the Oklahoma Equal Opportunity Education Scholarship Act. No legal challenges have been filed against the program.

Regulations on the Program

Participating schools must be accredited, must comply with all health and safety codes, must have a policy against discrimination on the basis of race, color, national origin or disability, and must ensure academic accountability through regular progress reports.

Scholarship-granting organizations must be nonprofit entities, must distribute scholarships to parents of participating students, and must spend no more than 10 percent of annual revenue on any expenditures other than the scholarships. If an organization spends less than 90 percent of its revenue on scholarships, tax credits for donations to that organization will be disallowed. Organizations must award at least as much money to poor children (eligible for free and reduced-price lunch) as their percentage of the state population. Organizations must register with the Oklahoma Tax Commission, must carry out criminal background checks on all employees and board members, and must retain full financial records so as to demonstrate financial accountability.

6) PENNSYLVANIA

The Educational Improvement Tax Credit Program provides a tax credit on the state's corporate income tax for contributions to Scholarship Organizations (SOs), which give private school scholarships to eligible children, or Educational Improvement Organizations (EIOs), which support innovative programs in public schools. A company may claim a tax credit worth 75 percent of its contribution. Alternatively, if it commits to two consecutive annual contributions, it may claim a tax credit worth 90 percent of its contribution. In either case, the maximum tax credit is \$300,000 in each year that a donation is made. The total of all K-12 tax credits is limited to \$40.2 million in 2011. Credits are awarded to companies on a first-come, first-served basis until the cap is reached.

Fast Facts
• Students Participating: 38,646
• Active Scholarship Organizations: 286
• Average Scholarship Value: \$1,044

Scholarship Value

Each SO determines the amount of the scholarships it distributes.

Student or School Participation

About 38,000 scholarships were awarded in 2010. There are 286 SOs.

Student Eligibility

Children are eligible for scholarships if their household incomes are under \$50,000 plus \$10,000 for each child in the family. For example, a family with one child must have an income below \$60,000, while a family with three children must have an income below \$80,000. Household income does not include items such as disability payments, workers compensation, retirement pensions, public assistance or unemployment compensation. Some SOs have other eligibility criteria.

Legal Status of Program

No legal challenges have been filed against the program.

Regulations on the Program

SOs and EIOs must be non-profit organizations incorporated in Pennsylvania. An SO must contribute at least 80 percent of its annual tax credit donations to scholarships and submit annual reports, and it may not restrict its scholarships to a single school. Participating schools must satisfy the requirements of Pennsylvania's compulsory-attendance law and comply with anti-discrimination laws.

7) RHODE ISLAND

Started in 2007, Rhode Island began providing a credit on corporate income taxes for donations to Scholarship Organizations (SOs), privately run non-profit organizations that distribute private school scholarships. Corporate taxpayers contributing to SOs may claim a tax credit equal to 75 percent of their contribution, or 90 percent if they donate for two consecutive years and the second year's donation is worth at least 80 percent of the first year's donation.

Fast Facts
• Students Participating: 511
• Schools Participating: 51
• Active Scholarship Organizations: 3
• Average Scholarship Value: \$2,248

Scholarship Value

Each SO determines the amount of the scholarships it distributes.

Student or School Participation

The total size of the program statewide is capped at \$1 million. Each corporate donor can receive only \$100,000 in tax credits each year, and cannot use surplus donations in one year to generate tax credits in future years (as is permitted in some states). Most recently, in 2009-10, there were 511 students attending 51 schools, with an average scholarship of \$2,248.

Student Eligibility

Students must have family incomes at or below 250 percent of the poverty level (\$55,125 for a family of four in 2009).

Legal Status of Program

No challenges have been made to this program.

Regulations on the Program

A CPA must certify that each donation was made. SOs must use 90 percent of their donations for scholarships each year, and may not restrict scholarships to a single school. Donations may not be designated for particular schools or students. SOs must annually report the number of scholarships distributed at each school, the dollar range of the scholarships, the ZI P Codes of students receiving scholarships, and a description of all criteria used to determine which applicants receive scholarships.

Jason Bedrick
Harvard Kennedy School of Government

SOURCES

AZ: <http://www.edchoice.org/School-Choice/Programs/Corporate-Tax-Credits-for-School-Tuition-Organizations.aspx>

AZ Special Needs Students Program: <http://www.edchoice.org/School-Choice/Programs/-Lexie-s-Law--Corporate-Tax-Credits.aspx>

See Also: <http://www.arizonaschooltaxcredit.com/az-tax-credit.aspx>

FL: <http://www.edchoice.org/School-Choice/Programs/Florida-Tax-Credit-Scholarship-Program.aspx>

GA: <http://www.edchoice.org/School-Choice/Programs/Tax-Credits-for-Student-Scholarship-Organizations.aspx>

IA: <http://www.edchoice.org/School-Choice/Programs/Tax-Credits-for-School-Tuition-Organizations.aspx>

OK: <http://www.edchoice.org/School-Choice/Programs/Oklahoma-Equal-Opportunity-Education-Scholarships.aspx>

PA: <http://www.edchoice.org/School-Choice/Programs/Educational-Improvement-Tax-Credit-Program.aspx>

RI: <http://www.edchoice.org/School-Choice/Programs/Corporate-Tax-Credits-for-Scholarship-Organizations.aspx>

RI SGOs: <http://www.rischolarshipalliance.org/sgos/index.html>