



## **SCHOOL CHOICE TODAY:**

### *EDUCATION TAX CREDIT SCHOLARSHIPS RANKING AND SCORECARD 2014*

States are increasingly stimulating private, voluntary contributions by businesses and individuals to fund tuition scholarships that allow students to attend the private school of their choice. As of 2014, 14 states have enacted tax credit-funded scholarship programs, with half of those states enacting programs in just the past three years. Tax credit-funded scholarship programs now pay tuition for approximately 190,000 students, a school-choice program participation level that is surpassed only by enrollment in charter schools.

The general concept is fairly simple: states allow individuals or businesses (or both) to claim a credit against their tax bill for donations made to authorized organizations that in turn use those donations to fund tuition scholarships for eligible students to attend a school of their choice. While some policy-makers note that such programs can serve to reduce state expenditures – the cost of tax revenue forgone for a scholarship often is less than the state would spend per pupil in a traditional district school – a significant benefit of these scholarship programs is to shift the power of choosing a child’s education from the government to the child’s parent.

## **RANKING THE STATES**

Important differences exist among the state laws creating these scholarship programs, factors that significantly affect the number of students eligible to participate in the program, how effectively the program is designed to stimulate private donations, and how well the program stimulates families to choose school options newly available to them.

### **Strength Of The Laws/Program Design**

Important elements of state tax credit-funded scholarship program laws include the following:

- Individual taxpayers, corporate taxpayers, or both may be allowed to receive tax credits for donations to scholarship granting organizations (SGOs). The best laws allow both individuals and businesses to claim tax credits for donations (although in states such as Florida and New Hampshire that have no state income tax, limiting tax credits to business donations makes sense).
- The value of the credit offered can range from partial or full credit for each dollar donated. To stimulate the most contributions, the best state laws allow a dollar-for-dollar credit on the amount donated.

- The best state laws allow scholarships to be awarded to any student. Other laws allow scholarships to be awarded only to students from lower-income families, only to students attending failing schools, only to special needs students, or other specially situated students.
- To make enrollment in private schools or tuition-charging out-of-district public schools a practical reality, the best programs allow scholarships to cover a student's full cost of tuition.
- Good state laws preserve the current level of autonomy enjoyed by private schools over their educational programs while they participate in the program. Other laws impose new restrictions on participating private schools as a condition of participation, including eligibility requirements, testing mandates, and educational content or course requirements.

- States may choose to merely dip their toes into the school choice pool by severely limiting the total dollar amount that is allocated to the tax credit program, or they may set a generous budgetary cap that allows for demand-triggered annual increases.

The differences among state laws are significant – they affect the depth and breadth of the scholarship program, and thus impact how effectively these programs truly give parents the power to choose the best school option for their children. The Center for Education Reform has analyzed each state tax credit-funded scholarship law, grading them and ranking them according to their strength. The results appear in the table below; a discussion of the methodology with a link to the detailed scoring rubric follows.

SCHOOL CHOICE TODAY: EDUCATION TAX CREDIT SCHOLARSHIPS RANKING AND SCORECARD 2014			
GRADE	STATE	POINTS <i>(out of 80)</i>	COMMENTS
A (>80% of available points)	Arizona	90% (72 pts)	Arizona – the first state to dive into the tax credit-funded scholarship pool – leads the nation, encouraging the greatest breadth of participation by both students and donors. It is expected that the automatic escalator clause, which increases the amount of tax credits allowed by 20 percent in a subsequent year whenever the current year's total allocation is reached, will increase the size of the program in future years in ways that will only increase Arizona's rating. The program could be made stronger by allowing a higher tax credit to individual donors.
	Florida	82.5% (66 pts)	Already with a strong law, Florida moved this year to address a few areas of weakness: increasing the income eligibility for families wanting to participate; and, dropping a requirement that only students enrolled in public schools qualify for scholarships. Florida's automatic escalator clause increases the program size by 25 percent whenever at least 80 percent of the allowable credits are claimed in a given year.

GRADE	STATE	POINTS <i>(out of 80)</i>	COMMENTS
<b>B</b> (earned 70.0-79.9% of available points)	Georgia	78.8% (63 pts)	For the most part a relatively strong program, Georgia's law suffers most significantly from being too small – too low an amount allocated for the total tax credit pool, and as a result too few students able to benefit from the program.
	Pennsylvania	72.5% (58 pts)	More students participate in Pennsylvania's tax credit-funded scholarship program than in any other state. Yet, only slightly more than half of the total allowed tax credits are claimed, and the state does not allow individuals to claim a credit for donations.
	New Hampshire	72.5% (58 pts)	Enacted in 2013, New Hampshire's law suffers from low eligibility thresholds on family income (setting eligibility at three times the reduced-price lunch eligibility rate rather than three times the poverty rate would go a long way to improving this), a low maximum average scholarship size, and a small program size. An automatic escalator clause, increasing the program by 25 percent if 80 percent of the previous year's credit allocation is reached, may grow the program in the future.
	Indiana	71.3% (57 pts)	Indiana's good policies of having no cap on the maximum credit that can be claimed and allowing scholarships to cover the full cost of tuition are weakened overall by the state's small program size (\$7.5M total), the ability to claim only 50 percent of donations as a credit, and relatively low family income-eligibility threshold.
	Virginia	71.3% (57 pts)	Virginia's law restricts claimable credits to 65 percent of donations, falling behind all but two other states. The relatively small program size and lack of an annual automatic escalator clause means that families are dependent upon helpful legislative action if demand calls for this new program (enacted in 2013) to expand.
<b>C</b> (earned 60.0-69.9% of available points)	Iowa	68.8% (55 pts)	While several components are solid, Iowa's law ranks an unimpressive 10th of the 14 states in relative total size of its tax credit program, its income-eligibility threshold on family income is low, it allows a credit of only 65 percent of the value of donations made, and its law lacks an automatic escalator clause. The state also requires private schools to administer state exams as a condition of participation, a mandate that pressures schools to change educational content to match state-chosen tests.
	South Carolina	63.8% (51 pts)	A newer law (2013), South Carolina allows scholarships only for special needs students, established the strictest cap on the maximum credit allowed (60 percent of liability), and impinges upon private schools' autonomy by, among other things, delineating courses that must be offered (though waivers from this requirement are available).
	Louisiana	62.5% (50 pts)	Louisiana's law ties for second-lowest family income eligibility threshold, restricting access to the program for many families. Requiring that private schools administer state exams as a condition of participation also significantly hurts its ranking.
	Oklahoma	61.3% (49 pts)	Although Oklahoma's law offers one of the highest eligibility thresholds on family income (three times reduced-price school meals), it restricts participation to students currently attending a state-categorized failing school, limits the allowable credit to about half of the value of the donation, and restricts individual credits to a low \$2,000.

GRADE	STATE	POINTS <i>(out of 80)</i>	COMMENTS
D (50.0-59.9% of points)	Rhode Island	58.8% (47 pts)	While Rhode Island's law allows scholarships to be given to students currently enrolled in any public or private school, failure to allow donations by individuals to qualify for tax credits and a second-lowest income eligibility threshold hurt the law's rating.
	Kansas	52.5% (42 pts)	Kansas would have done better to model its new (2014) tax credit-funded scholarship program after strong states such as Arizona and Florida rather than enact a law with numerous seriously restrictive provisions: individual donations are not eligible for tax credits; the law is tied for the lowest-in-the-nation income eligibility threshold; and, it allows only partial credit for each dollar donated, for example.
F (<50% of points)	Alabama	48.8% (39 pts)	Joining Kansas as the most recent state to adopt a tax credit-funded scholarship program (2014), Alabama's law suffers from significant design problems: only students currently attending state-labeled failing schools are eligible to participate (regardless of whether any nearby nonfailing school options are available); there are strict limits on the maximum size of the credit that can be claimed, and there are numerous requirements imposed on private schools participating in the program.

## PARTICIPATION AND IMPLEMENTATION

Laws that establish strong tax credit-funded scholarship programs, when effectively implemented, should be able to be validated in part by measuring relative to other states the strength of participation by families in such programs. The better designed the program, the broader and deeper its reach, and the stronger the state's commitment is to it, the greater parents will be empowered with a genuine ability to take advantage of these private donation-backed school choice scholarships.

Three states that recently adopted their tax credit-funded scholarship laws – South Carolina, Kansas, and Alabama – have programs too new to generate and evaluate implementation and participation data. With Kansas and Alabama adopting the two weakest laws in the nation, however, it is unfortunate and unlikely that the standing of these states will improve meaningfully once the data become available. States that are not willing to design laws that give parents true power over their children's education are unlikely to see a significant number of parents participating in and thus benefiting from these programs.

## Findings

Strong-law states also posted strong participation and implementation scores. In fact, states with the five highest-rated laws ranked in the top six spots in measures of student and donor participation.

The table below presents the number of students enrolling in a school of choice using tax credit-funded scholarships in each of the 11 states with available data. These figures then are transformed into a percentage of the state's school-aged (5-17 years old) population to control for the size of each state. This measure provides an effective point of comparison on the proportion of parents seizing the power made available to them over their children's education through these programs.

The table also displays a calculation of what portion of the available tax credits under the law were claimed, offering a comparative measure of how well each state has enticed private donations to fund these school-choice scholarship programs.

## MEASURING PARTICIPATION & IMPLEMENTATION OF STATE LAWS FOR TAX CREDIT-FUNDED SCHOLARSHIP PROGRAMS - 2014

RANK	STATE	STUDENT PARTICIPATION			DONOR PARTICIPATION			% OF TOTAL POINTS EARNED (OUT OF 20)	STRENGTH OF LAW GRADE (% PTS; RANK [OF 14])
		TOTAL # STUDENTS ENROLLED USING TAX CREDIT-FUNDED SCHOLARSHIPS*	AS % OF TOTAL AGE 5-17 POPULATION	POINTS (OUT OF 10)	TAX CREDITS AWARDED* (IN MILLIONS)	AS % OF TOTAL CREDITS AVAILABLE	POINTS (OUT OF 10)		
1	Arizona	42,259	4.7%	9	\$108.4	100%	10	95% (19 pts)	A (90.0%; 1st)
2	Florida	59,674	2.7%	6	\$286.3	100%	10	80% (16 pts)	A (82.5%; 2nd)
3	Iowa	10,475	2.6%	5	\$13.5	100%+	10	75% (15 pts)	C (68.8%; 8th)
4	Pennsylvania	60,619	3.9%	7	\$84.8	57%	5	60% (12 pts)	B (72.5%; 4th)
5	Georgia	13,285	1.0%	2	\$48.1	83%	8	50% (10 pts)	B (78.8%; 3rd)
6	Indiana	4,638	0.5%	1	\$6.4	85%	8	45% (9 pts)	B (71.3%; 6th)
7	Rhode Island	408	0.3%	1	\$1.7	33%	3	20% (4 pts)	D (58.8%; 12th)
8	New Hampshire	103	0.1%	1	\$0.1	3%	1	10% (2 pts)	B (72.5%; 5th)
9	Oklahoma	467	0.1%	1	\$0.4	8%	1	10% (2 pts)	C (61.3%; 11th)
10	Virginia	275	0.0%	0	\$1.2	5%	1	5% (1 pts)	B (71.3%; 7th)
11	Louisiana	15	0.0%	1	\$0.0	0%	0	5% (1 pts)	C (62.5%; 10th)

\*Most recent publicly reported data available

## **Top-Scorers: Arizona and Florida**

The commitment of Arizona and Florida, the two strongest-law states, to school choice is evident by the participation of students and donors in their tax credit-funded scholarship programs. Both states have awarded the total amount of tax credits available, thus generating the maximum amount of private charitable donations possible to scholarship programs. Both states also have demand-based automatic escalator clauses, meaning that the total amount of tax credits available will automatically increase next year by 20 percent in Arizona and by 25 percent in Florida, making tens of thousands of new school choice scholarships available to students. With more than 100,000 students combined already enrolling in private schools on tax credit-funded tuition scholarships, these two states continue to lead the nation on this component of reform, putting a significant amount of power in education directly into the hands of parents.

## **Worthy Efforts: Iowa, Pennsylvania, and Georgia**

Iowa – a C-graded state on its law, ranking 7th of 14 states overall, scores very well on implementation, doling out every dollar (and then some) available to be claimed as a tax credit for donations to scholarships. With the fourth-highest student participation rate out of the active states, the Hawkeye State would do well to immediately increase its commitment to these tax credits and to amend its law to include an automatic escalator to address future demand.

Although Pennsylvania enrolls the greatest number of tax credit-funded scholarship students in private schools (the second-greatest proportion of school-aged kids, next to Arizona), it has done a shoddy job of enticing businesses to donate: only about half of the allowable credits were claimed in the latest reporting year. Opening-up the tax credit program to

individual donors would strengthen both the state's law itself as well as its implementation score.

While Georgia's strong law design has encouraged a good proportion – 83 percent – of its available tax credits to be claimed, the program remains relatively small to score well on the number of students reached. Here, scholarships are offered to only about one-third the proportion of its school-aged population as is found in the next highest-ranked state on this measure (Iowa).

## **Middlin': Indiana**

B-graded, top-five state Indiana doesn't rank more than middle-of-the-pack when it comes to participation. Though 85 percent of available tax credits are claimed, the program is so small that it offers alternatives for fewer than 5,000 students, about one-half of one percent of the state's school-aged population.

## **Need to Try Harder: Rhode Island, New Hampshire, and Oklahoma**

Maybe it's doing the best it can with a poorly designed (D-graded) law, but Rhode Island's spending only one-third of the budget it allocated for tax credits and awarding scholarships to only 400 students doesn't look as if there's much of an effort at all.

Implementing its program just in 2013, donors in New Hampshire may be still getting used to this new route to educational liberty as less than one percent of the available credits were claimed. Another year should provide better insight on whether the Granite State's tight restrictions on amount of tax credit that can be claimed by business donors is the reason for its current lackluster participation performance.

The design flaws in Oklahoma's law – barely making it across the line to earn a grade of C – are manifesting in its lousy participation and implementation

scores. Restricting access to the program to only students in failing schools has resulted in the state allocating merely 8 percent of its total available tax credits and awarding fewer than 500 scholarships. Hardly a noteworthy program.

### **Bottom of the Heap: Virginia and Louisiana**

Giving it the benefit of the doubt, maybe Virginia's implementation and participation problems on what is otherwise a decently designed law is due to its relative newness – the tax credit-funded program was implemented in 2013. Another year should reveal whether the state's low credit claim rate – 65 percent of the value of the donation, the third-worst rate of all states – and its relatively small program size are truly to blame.

Louisiana frankly should be ashamed of itself. Something is desperately wrong when the state can manage to have scholarships offered to only 15 students. Fix the law, fix the administration of it, and fix the implementation effort.

## **METHODOLOGY FOR STATE RANKINGS**

Enabling state laws for tax credit-funded school choice scholarship programs were examined for a variety of characteristics, including student eligibility requirements, the design of the tax credit itself, the overall size of the tax credit program, and the potential impact on the autonomy of private schools that could result for schools that choose to participate in the scholarship program. Implementation elements of each program also were examined and evaluated, including how fully used each program is and how many students participate in each state's program. The methodology is discussed in detail below, and a link to the scoring rubrics used can be linked to [here](#).

## **Eligibility Requirements and Provider Availability**

Tax credit-funded scholarship programs are deemed better the more donors that are eligible to participate, the more students that are eligible to receive scholarships, and the more entities that are allowed to provide schooling choices.

- Programs can allow for donations to be made by and tax credits to be claimed by businesses, by individuals, or by both. State laws are awarded five points each for donations allowed by individuals and by businesses. In states without an income tax, full points (10) are awarded for programs allowing business tax credits for donations to scholarship granting organizations.
- Less restrictive income eligibility criteria on scholarship recipients allow more students from more families to participate. Many states tie student eligibility to some multiple of the poverty level or subsidized meal program eligibility, while several others have no income cap at all. State laws are awarded one point for a family-of-four annual income eligibility standard of \$50,000 or lower, plus one point for each \$10,000 above that up to a maximum of 10 points (states with no income limit earn the maximum points allowed).
- Tax credit-funded programs that make school choice scholarships available to all students have a broader reach than those limiting eligibility to only special needs students, only students attending schools labeled as “failing,” or only students currently enrolled in public schools. State laws are awarded four points if scholarships are made available to all income-eligible students, and two points for scholarships made available to students in any of these three subgroups.

- Laws that do not restrict the type of alternative education provider that can participate – notably virtual schools, out-of-district public schools, etc. – allow more opportunities for choice to participating parents. States laws without restrictions on the type of education providers that can participate in the program are awarded the maximum five points in this category, with fewer points awarded when restrictions are incorporated into the law.

### Tax Credit and Scholarship Design

Tax credit-funded scholarship programs are deemed better the closer to a dollar-for-dollar credit structure they have, the greater the size of credits allowed to be claimed, and the closer to full-tuition the awarded scholarships are allowed to be.

- Some states allow 100 percent of an individual's or a business's charitable contribution to be claimed as a credit against taxes owed, other states allow only 50 percent of the value of the contribution to be claimed as a credit, and the other states fall somewhere in between. Full points are awarded for those states that allow a full dollar-for-dollar credit to be claimed, with proportionately fewer points awarded to states allowing only a partial percentage of contributions to be claimed as a credit.
- The maximum credit allowed to be claimed for charitable contributions to scholarship-granting organizations varies from state to state, with some allowing 100 percent of the donor's tax liability to be claimed, others using various formulas, and still others fixing a set dollar-value cap. Up to 10 points are awarded based on how generous the maximum credit allowed to be claimed is provided in each state's law.

- Some state laws fix the maximum value of scholarships allowed to be awarded by SGOs. Several simply state that the scholarships to be awarded cannot exceed the full cost of tuition at a receiving private school, while others specify a dollar-value cap. State laws allowing scholarships to equal the full cost of tuition, \$10,000 or greater, or at least 100 percent of the average per-pupil spending amount in a student's host district are awarded full points (10), with points proportionately reduced as allowable scholarship value is reduced.

### Preservation of Private School Autonomy

Tax credit-funded scholarship programs that do not unnecessarily impinge upon the autonomy of private schools are deemed better than those that do. Penalty points are assessed on state laws for: overly restrictive eligibility conditions on participating private schools; mandates for testing that typically drive educational programming; educational content requirements; excessive reporting mandates; and other provisions that encroach upon private school autonomy.

- **Participating School Eligibility.** Basic eligibility requirements – such as that a school must be accredited; that it complies with the state's compulsory attendance laws; that it is approved by the state or by the SGO; etc. – are deemed minimally intrusive on private schools' autonomy. Other mandatory qualifications are deemed to negatively impact autonomy, and can result in states being assessed one penalty point.
- **Testing.** Requiring private schools to administer specific tests, including state standardized tests, could significantly impact the decision of how a private school designs its education program and intrudes unnecessarily – and potentially significantly – on the autonomy of private schools.



Requiring annual testing while providing for options of reasonable assessment tools, however – such as allowing a well-regarded national-normed test of the school’s choosing – is acceptable. Up to three penalty points are assessed on states with inflexible testing mandates on participating private schools.

- **Educational Content.** Requirements for private schools to meet specified content requirements in their educational programs as a condition for enrolling tax credit-funded scholarship students is a significant encroachment on private schools’ autonomy. Up to three penalty points are assessed on states that impose educational content or course requirements on private schools.
- **Reporting.** Excessive reporting requirements could be onerous and, depending upon the nature of that reporting, could negatively impact autonomy. Basic reporting requirements – such as meeting SGO requirements and reporting student performance data to parents and the state, for example – is deemed acceptable. Excessive and overly burdensome reporting requirements results in states being assessed one penalty point.
- **Other.** Some states impose other operational, compliance, and/or financial reporting requirements or activities. Up to two penalty points are assessed on states with additional burdensome reporting or other requirements on participating private schools.

## Budget

State tax credit-funded scholarship programs are deemed better the greater the amount of credits that are allowed to be claimed, proportionate to each state’s total budget, and the state’s commitment to increase this amount as demand for scholarships increase.

- Points are awarded to states based on the total dollar amount of the tax credit program relative to the total state budget. The greater the size of the tax credit program is relative to the size of the total state budget, the more points (up to 10) a state law is awarded.
- Some state tax credit scholarship laws incorporate triggers that automatically increase the amount of total tax credits allowed for the following year if claims in the current year have come close to reaching the statutory cap. Not only does this approach immediately accommodate evident desires for private donors to increase their contributions to scholarship programs, it avoids the need for annual legislative debate and approval to increase the reach of the program. Two points are awarded for each five-percent incremental increase automatically activated.

In the event of a tie, the state with the greater breadth in student eligibility is ranked higher, and if a tie still remains, then the state with the greater scholarship value is ranked higher.

## Participation and Implementation

Tax credit-funded scholarship programs are deemed better the more students that participate in them, relative to each state’s own school-aged population, and the greater percentage of available tax credits that are claimed by donors. This category did not contribute to the overall grade for the state law.

- States are awarded points based on the total number of students that are enrolled in a participating school using tax credit-funded tuition scholarships as a percent of the state’s total aged 5-17 population. One point is awarded for each 0.5 percent increment.

- States are awarded points based on the amount of program funds expended as a percent of total amount of available credits. One point is awarded for each 10 percent increment (thus, 10 points if 100 percent of available tax credits are claimed).

## RESOURCES

Resources used in the analysis of state education tax credit-funded scholarship laws include:

Relevant state laws; The ABCs of School Choice, The Friedman Foundation for School Choice, 2014, [www.edchoice.org](http://www.edchoice.org); 2013-14 School Choice Yearbook, Alliance for School Choice, 2014, [http://createonline.com/AFC\\_2013-14\\_Yearbook.pdf](http://createonline.com/AFC_2013-14_Yearbook.pdf); Education Tax Credit Programs: An Analysis of Provisions by State, Foundation for Opportunity in Education, October 2013, <http://opportunityined.org/wp-content/uploads/2013/11/Education-Tax-Credit-Programs-An-Analysis-of-Provisions-By-State.pdf>; State Expenditure Report, National

Association of State Budget Officers, Tables 1 and 7, [www.nasbo.com](http://www.nasbo.com).

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