THE CENTER FOR LEGISLATIVE ANALYSIS

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THE THOMAS JEFFERSON INSTITUTE FOR PUBLIC POLICY

LEGISLATIVE POLICY BRIEF

Educating Children, Saving State Funds

Scholarships under the Education Improvement Scholarships Tax Credit (EISTC) not only provide new opportunities to low-income students but do so at a significant savings to the state budget. Changes to the program would likely increase both the number of scholarships and the level of savings.

Background: The Education Improvement Scholarships Tax Credit offers a 65 percent state tax credit to donors making a donation to eligible scholarship foundations that, in turn, provide a scholarship to low-income public school students so they can attend a private school that better fits their needs. Scholarship foundations must use at least 90 percent of each donation to provide the scholarship, and the size of the scholarship is capped at the amount the state would have spent on the student's public school education in their school division of residence. For every 65 cents the state lost in revenue, it was expected that the state would also lose 90 cents in state education expenses – a net savings to the state.

School year 2013-2014 marks the first year students received scholarships. How did the theory work out in reality?

Results: Although scholarship foundations are permitted to offer scholarships up to the state's cost for educating a public school child in his own school division (in 2013-2014, this averaged $4,333 per child), the average scholarship offered students is significantly less. In the current school year, the average scholarship size is $2,456 per child – even as the scholarship eliminated state expenses of $4,333. This means the state will "profit" from the tax credit – to the tune of nearly $750,000 – just for the first 275 scholarships! A brief chart summarizes the effect:

Number of students awarded scholarships[1]	275
Total Scholarship dollars awarded[2]	$675,472
Amount donated[3]	$750,524
Tax credit cost of donation to the state[4]	$487,840
Education savings to the state[5]	$1,232,701
Total savings to the state[6]	$744,861

Increasing the number of scholarships that could be offered by scholarship foundations would therefore likely increase the savings to the state. However, an unusual provision of the law delayed by one year the donor's ability to claim the credit. For example, a donor making a donation in January 2013 would not be able to claim the credit until the taxpayer filed a tax return for 2014, in May 2015 – *more than two years after making the donation.*

Legislation introduced by Senator William Stanley (SB 269) and Delegate Jimmie Massie (HB 464) would give donors the tax credit in the same tax year the donation was made, aligning it with similar charitable donations made to the Neighborhood Assistance Program and increasing participation. 1/14/2014

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[1] As reported by scholarship foundations to the Thomas Jefferson Institute for Public Policy

[2] Ibid.

[3] Assumes all scholarship foundations used 90 percent of donations for scholarships and 10 percent (the maximum permitted by law) for overhead (Total Scholarship Dollars x 100/90 = Amount Donated)).

[4] Assumes all donors take the full 65 percent tax credit (Amount Donated x .65 = Tax credit cost of donation to the state)

[5] Based on 100 percent of Standards of Quality State Share Funding for each school division in which a scholarship recipient resides.

[6] Based on the difference between state share of SOQ funding in each school division minus the tax credit cost to the state (Education savings to the state – tax credit cost to the state = total savings to the state).

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