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## **Scholarship Tax Credits: Creating More Opportunities for Pennsylvania Students**

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Ziva loves school. Yet just a year ago, it was a different story. According to her mother, Jessica, Ziva's first grade teacher had given up on little Ziva, claiming the young student could neither read nor learn. Thanks to Educational Improvement Tax Credit (EITC) scholarships, Ziva and her siblings are now flourishing at St. Michael School in Greenville, PA.

Pennsylvania was at the forefront of a nationwide movement when it launched the EITC program in 2001—the first tax credit scholarship program in the country. This tremendously successful program has provided more than 570,000 scholarships. But demand consistently outpaces available credits. Each year, students and parents eagerly anticipate legislative efforts to expand the program, as many remain left out.

Instead of treating scholarships as a political football, elected officials should increase limits on the EITC and Opportunity Scholarship Tax Credit (OSTC) program to empower more parents to meet their children's unique educational needs.

### **EITC and OSTC Basics**

Under the [EITC program](#), businesses make donations to approved Scholarship Organizations (SOs) and/or Education Improvement Organizations (EIOs). Businesses can receive a tax credit of 75 percent of their donation for a one-year commitment, or 90 percent with a two-year commitment with a maximum credit is \$750,000 per tax year.

- \$85 million in tax credits are for scholarship organizations (SOs), which provide K-12 scholarships that allow children to attend private schools. Each SO sets its own scholarship amount and application procedure. The average K-12 scholarship was just \$1,658 in 2016-17.
- Pre-kindergarten programs have their own scholarship organizations. Tax credits for pre-K are currently capped at \$12.5 million. In 2016-17, the average pre-K scholarship was \$1,375.
- EIOs are non-profits that give grants to public or private schools for innovative educational programs. Under current limits, EIOs are eligible for \$37.5 million in EITC funds each year.
- Eligibility to apply for EITC scholarships is based on income limits set by the state; the current household income limit is \$77,648 plus \$15,530 per dependent.

The OSTC program allows businesses to make donations to approved SOs for a tax credit of 75 percent for a one-year commitment, and 90 percent for a two-year commitment with a maximum credit of \$750,000 per tax year.

- OSTC scholarships are limited to students residing within the boundaries of a low-achieving school. A low-achieving school is defined as a school ranking in the bottom 15 percent based on combined math and reading Pennsylvania System of School Assessment (PSSA) scores.
- OSTC tax credits for scholarships are currently capped at \$50 million, with an average scholarship of \$2,420 in 2016-17.

### **EITC and OSTC Growth and Demand**

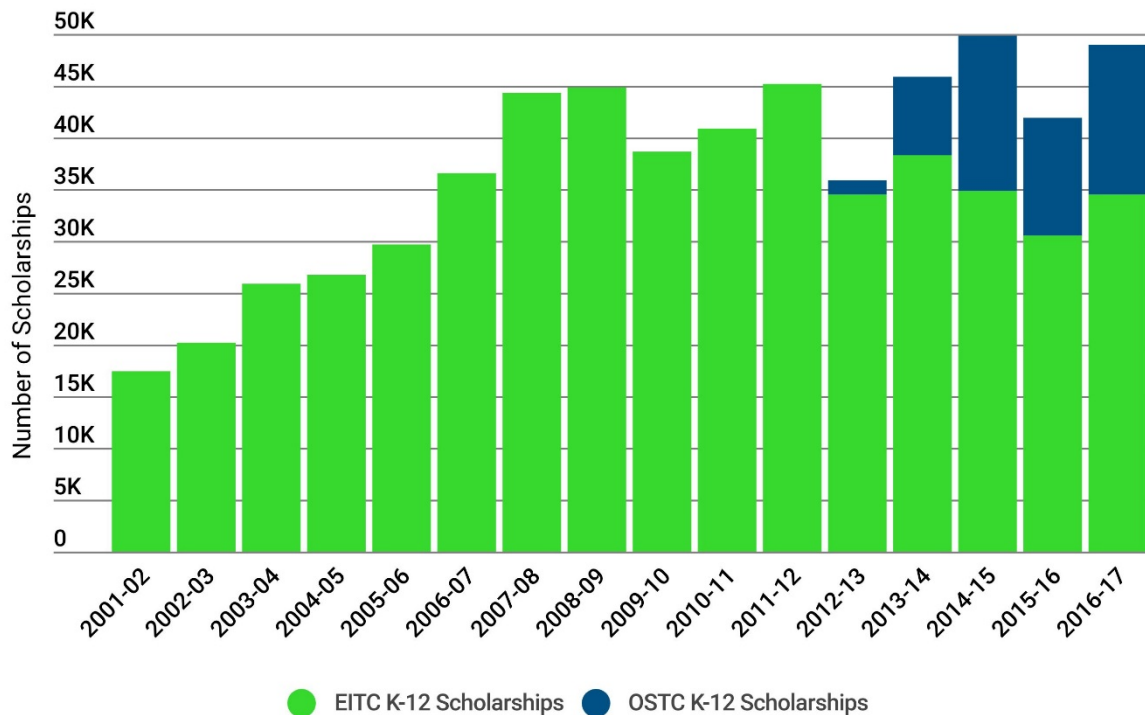
EITC tax credits were initially capped at \$30 million and have increased several times to the current \$135 million. The OSTC has been capped at \$50 million since its creation in 2012.

- Despite EITC increases, demand for funds often exceeds the available credits.
- Every year at Ziva's new school there are families who are denied EITC scholarships. The principal, Mrs. Kremm, says they turn to "creative financing" to help families. She calls upon alumni and parish families and asks them to be "angels," or sponsor the tuition for students in need. Unfortunately, not every school has this option.
- The Children's Scholarship Foundation in Philadelphia [turned away 8,000 applicants](#) last year.

Tax credit caps leave families at the mercy of politicians who use the program for political leverage.

- [\\$15 million was temporarily cut](#) from the program during budget battles in 2009, leading to [6,200 fewer scholarships](#) awarded the following year.
- Gov. Wolf held EITC and OSTC approval letters for an unnecessary, and illegal in the latter case, length of time during budget impasses in [2015](#) and [2017](#).
  - The 2015 delay resulted in a drop of more than 4,000 EITC and 3,500 OSTC scholarships the following year. We have yet to see the impact of last year's delay.

## Pennsylvania Tax Credit Scholarships

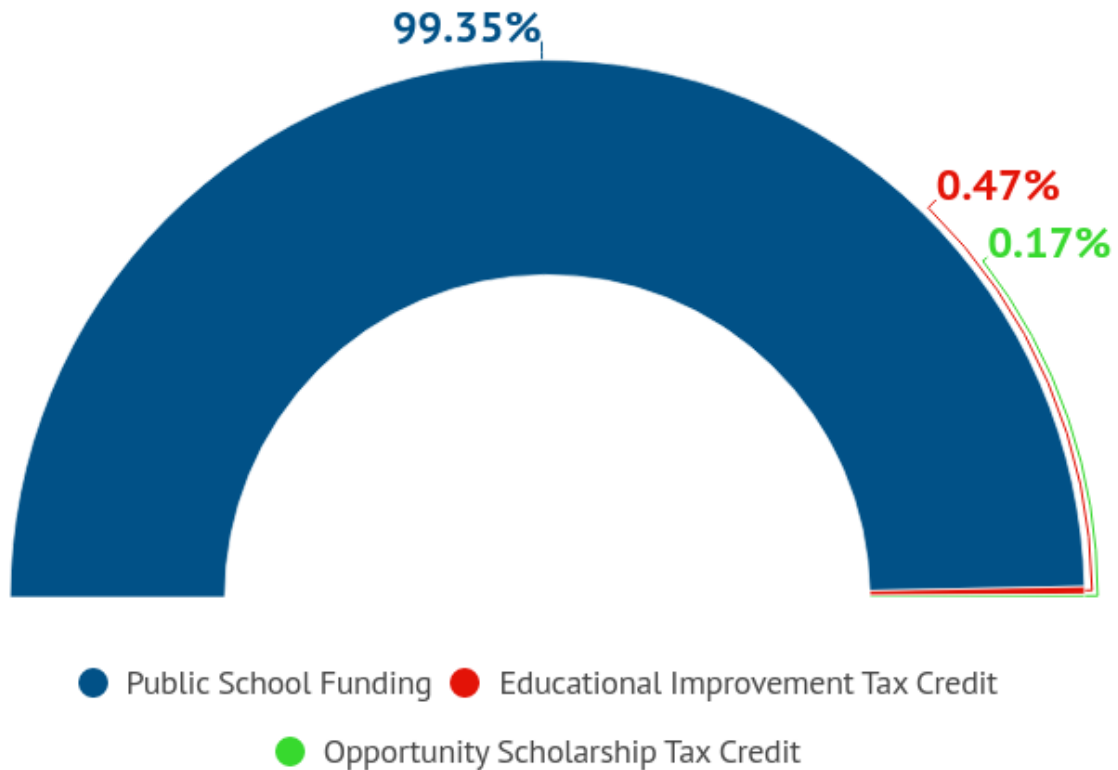


Source: PA Department of Community and Economic Development

### EITC Benefits District Schools and Taxpayers

- The average EITC scholarship in 2015-16 was \$1,673—which represents only **10 percent** of the \$16,400 **spent per student** in Pennsylvania public schools that year.
  - The average OSTC scholarship in 2015-16 was \$2,668 or 16 percent of public school spending.
- An **EdChoice audit**, found that Pennsylvania’s EITC program saved taxpayers roughly \$1.3 billion from 2002-14.
- Of 28 studies analyzing the fiscal impact of school choice programs, **25 found they save taxpayer dollars**. The remaining three studies found school choice programs to be revenue neutral.
- School districts also benefit from the EITC & OSTC program. Since scholarships are funded through state tax credits, no local money goes to these programs. This results in increased per student funding in district schools and improvements like smaller class sizes.
- Tax credit scholarship funds equal less than one percent of total school district education funding in Pennsylvania.
  - Yet tax credit scholarships serve nearly 50,000 K-12 students, which would represent the second largest school district in Pennsylvania, nearly twice the size of Pittsburgh public schools.

## TOTAL PA SCHOOL DISTRICT FUNDING vs TAX CREDIT SCHOLARSHIPS



Source: PA Department of Education

### Pennsylvania is Falling Behind

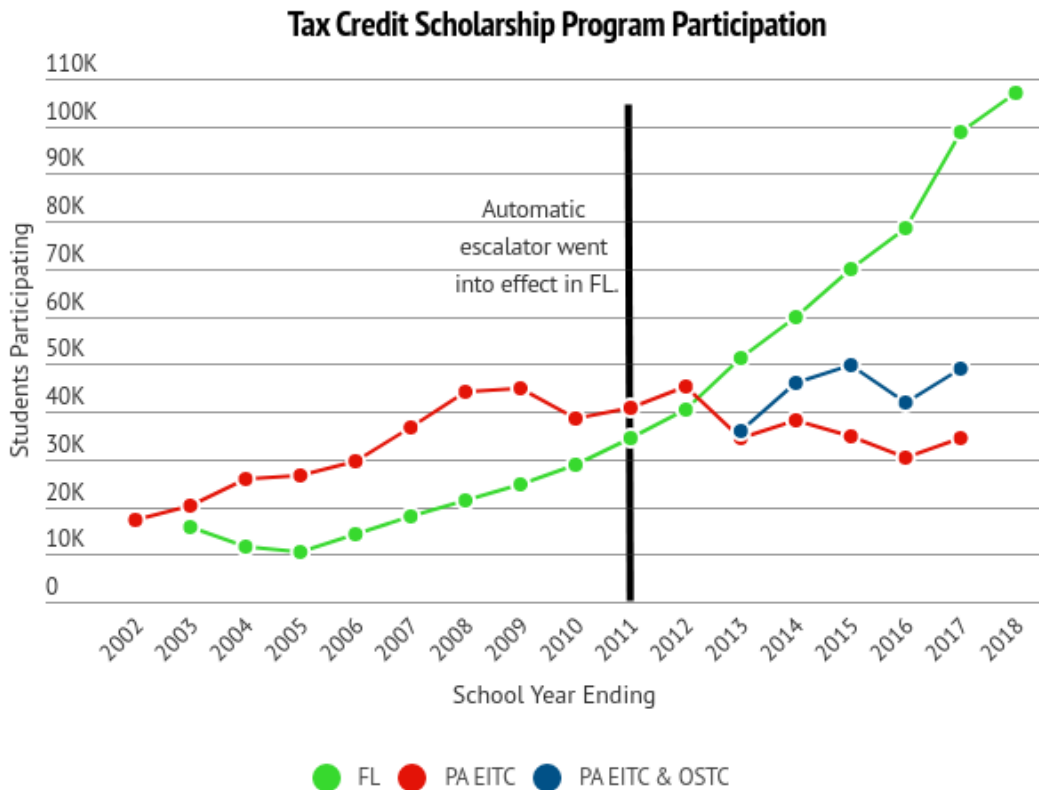
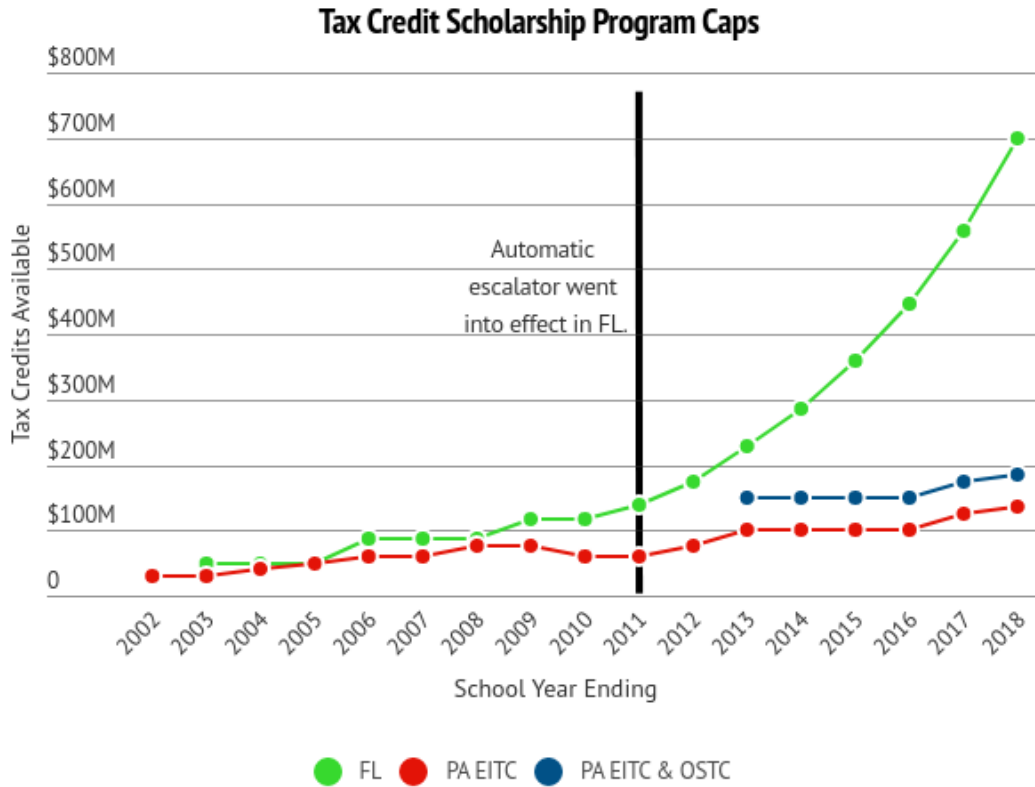
Pennsylvania, once a leader in terms of education choice, is falling behind.

- In 2011, Pennsylvania's tax credit cap of \$60 million (while temporarily reduced) allowed businesses to provide EITC scholarships to 38,000 students, the most students of any scholarship program in country.
- At that same time, Florida's tax credit scholarship program served 29,000 students.
- Florida's tax credit cap is now \$698 million, nearly 6 times higher than a decade ago, while Pennsylvania's tax credit caps have grown to \$185 million.
- Today, Florida serves 107,000 students, more than twice as many as Pennsylvania, while their average scholarship amount is also significantly higher.

Several states, like Florida, have "automatic escalators" built into their tax credit scholarship programs when they are fully utilized.

- Nevada's cap increases 10 percent every year.
- New Hampshire's increases 25 percent when 80 percent of available tax credits are used in the previous year.
- In Florida, the cap automatically **increases 25 percent** if 90 percent of the tax credits are used the previous year.

# Florida vs Pennsylvania Tax Credit Scholarship Programs



## **A Path Forward**

Given its benefits to families, schools, and taxpayers, the EITC program should not be arbitrarily capped; it should be allowed to grow with the demand from Pennsylvania families.

- Lawmakers should pursue legislation to automatically increase the amount of available tax credits, provided 90 percent of available credits were claimed in the previous year.
- This model provides certainty and peace of mind for the students and businesses who participate in the EITC program.
- When students enroll in a school using EITC funds, they rely on those funds for the future. When political skirmishes disrupt the program as we saw in 2009, 2015, and 2017, students pay the price.

Ziva is thriving in her new school, and so are her siblings. Her sister, Skye, escaped the bullying she experienced at her old school; their brother, James, is excelling due to individualized attention from his teachers. Expanding tax credit programs by making them responsive to demand would help save taxpayer dollars, improve public schools, and, most importantly, ensure children like Ziva can receive the education they deserve.