

# EITC & OSTC Escalator: Because Kids Need a Longer Lifeline

Many Pennsylvanians have never experienced life in a dangerous or low-performing school. We've never had to watch our kids pass through metal detectors in search of an education.

For families who face these experiences every day, tax credit scholarships are providing a lifeline. Unfortunately, Pennsylvania's lifeline is too short—and thousands of kids are being left behind.

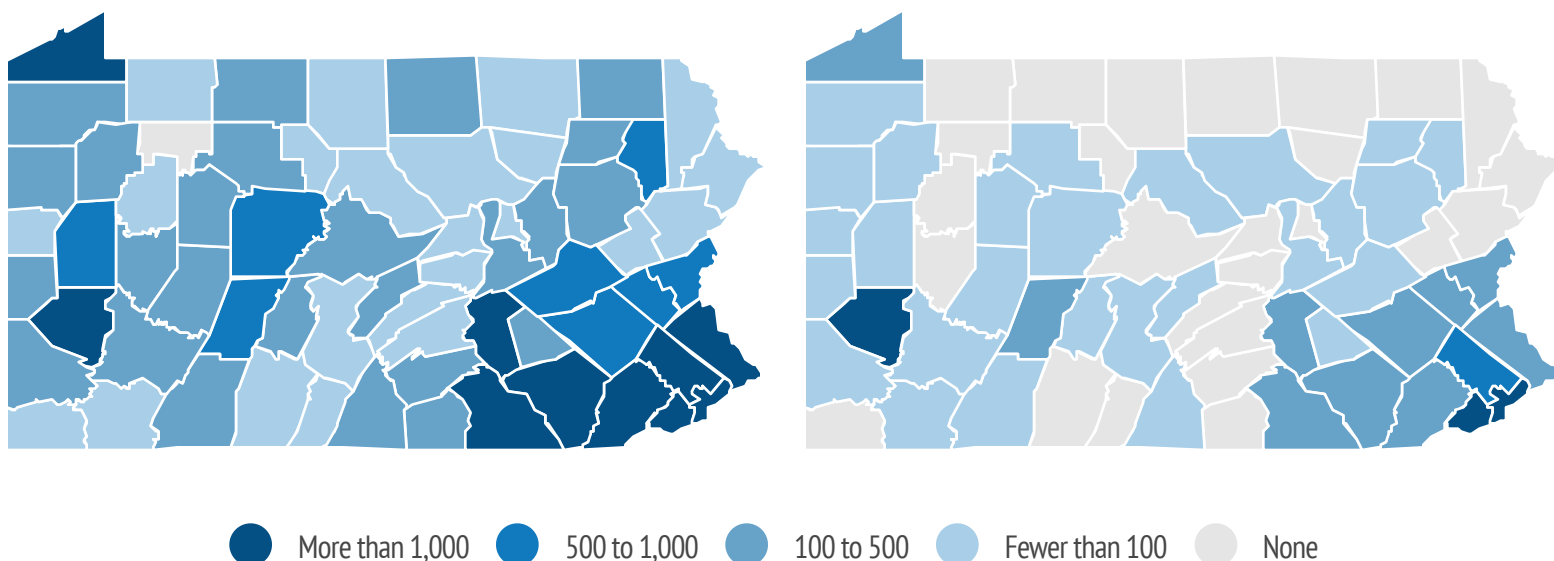
## ***What are EITC and OSTC?***

Under the Educational Improvement Tax Credit (EITC) and Opportunity Scholarship Tax Credit (OSTC) programs, businesses receive tax credits for donations to approved Scholarship Organizations (SOs). 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; the maximum credit is \$750,000 per tax year.

## ***Where are EITC & OSTC scholarship students from?***

Tax credit scholarship are awarded to students from every county in Pennsylvania except Forest. The maps below show the geographic distribution of scholarship recipients in 2017-18.

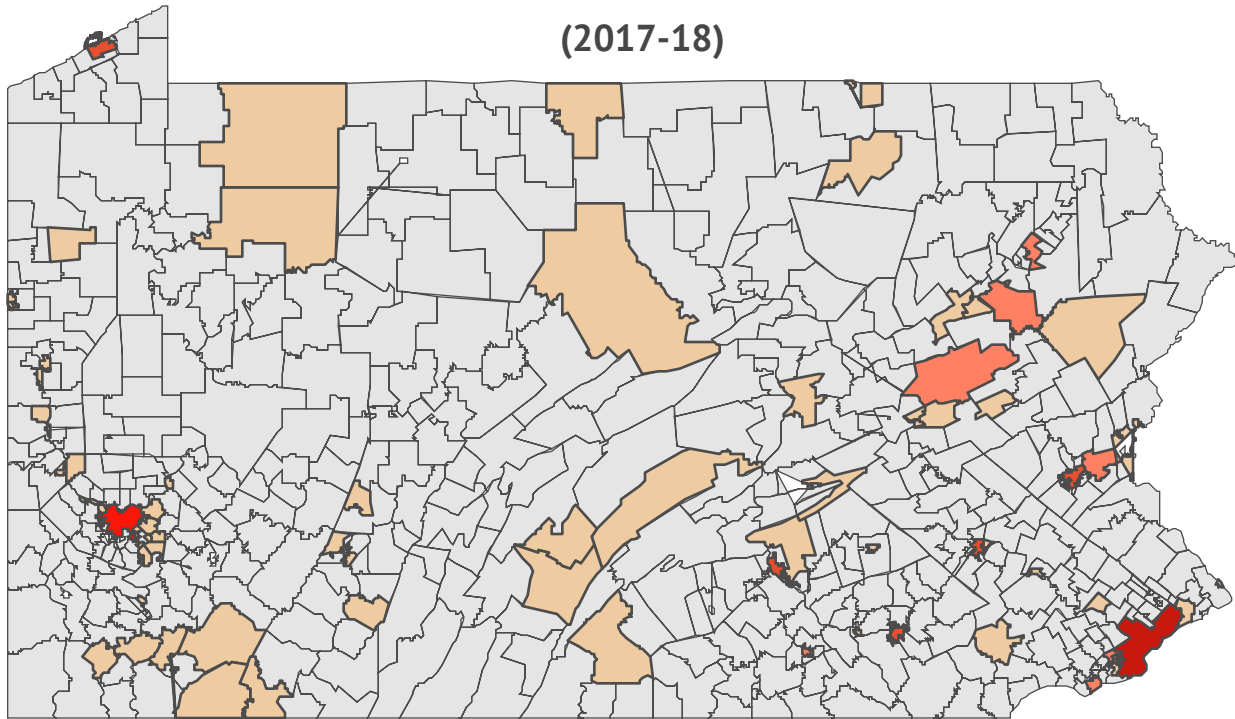
## NUMBER OF SCHOLARSHIPS AWARDED (2017-18)



*Source: Right-to-know-law request, PA Department of Community and Economic Development.*

The OSTC program is limited to students who are assigned to schools in the bottom 15 percent based on state testing.

## DISTRICTS WITH LOW-ACHIEVING SCHOOLS (2017-18)



● 149 ● 27 ● 10-20 ● 5-9 ● Fewer than 5

Source: Pennsylvania Department of Education/Opportunity Scholarship Tax Credit Program

### ***Do low-income students benefit from the EITC and OSTC?***

Scholarship Organizations use donations to award scholarships to children who meet the program requirements. Both programs are limited to families with an annual household income of not more than \$85,000 plus \$15,000 per dependent. However, many SOs prioritize families with lower incomes.

Here are the just a few of the schools and organizations serving low-income students that would be able to serve more families under a tax credit expansion:

- Joshua Group in Harrisburg;
- Logos Academy in York;
- Independence Mission Schools in Philadelphia;
- Mother Teresa Academy in Erie;
- Gesu School in Philadelphia;
- Penn Mont Academy in Hollidaysburg;
- Imani Christian Academy in Pittsburgh; and
- Children's Scholarship Fund in Philadelphia (which has so many applicants for scholarship, they hold a lottery to select recipient)

Expanding tax credits will direct resources to the Pennsylvania schoolchildren who need them the most. In fact, it will give these children academic hope, support, and opportunities that otherwise would not exist. for them.

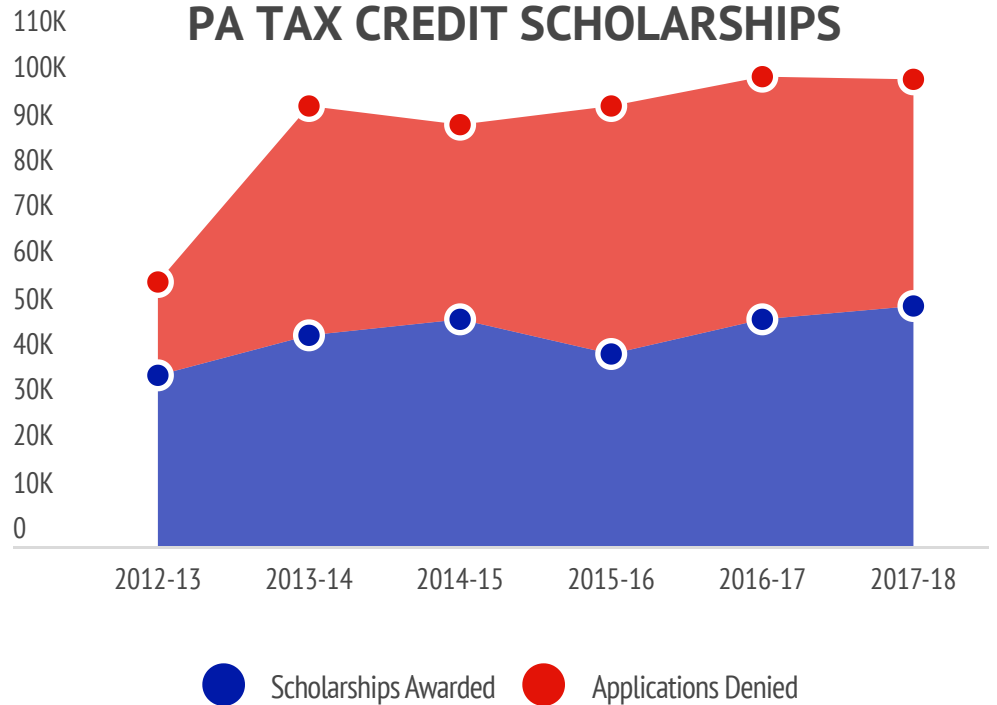
### Why should lawmakers expand these programs?

EITC and OSTC credits are arbitrarily capped by state government. While hundreds of thousands of children have benefitted from EITC and OSTC, around 50 percent of applications are denied each year due to lack of funds. In 2017-18, more than 49,000 applications were turned away

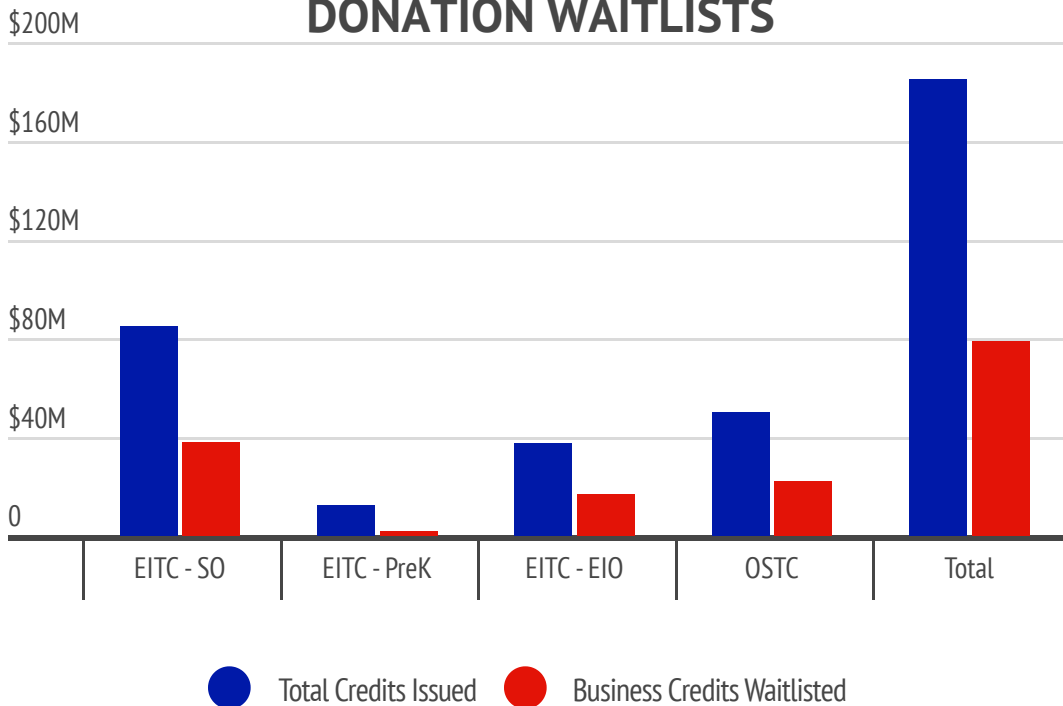


**49%  
Left Behind**

### PA TAX CREDIT SCHOLARSHIPS



### TAX CREDIT SCHOLARSHIP DONATION WAITLISTS



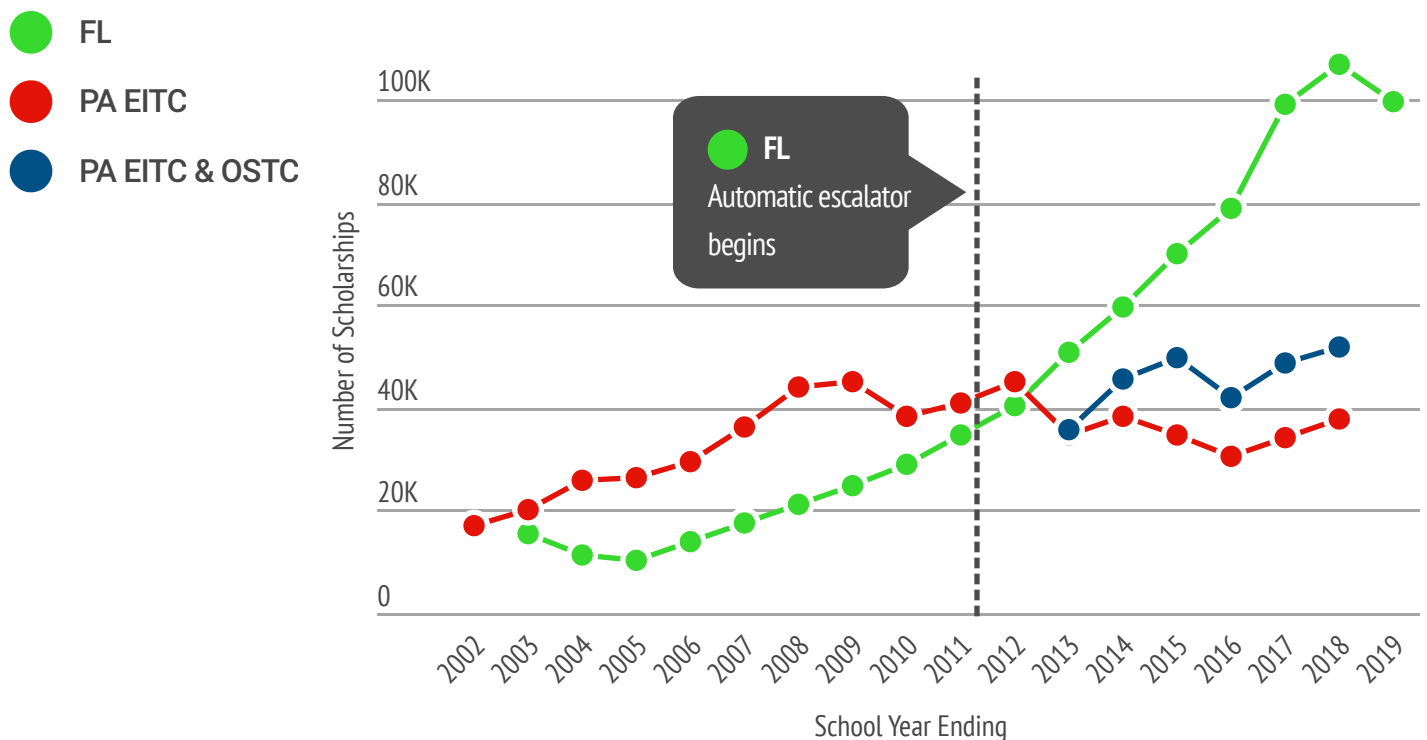
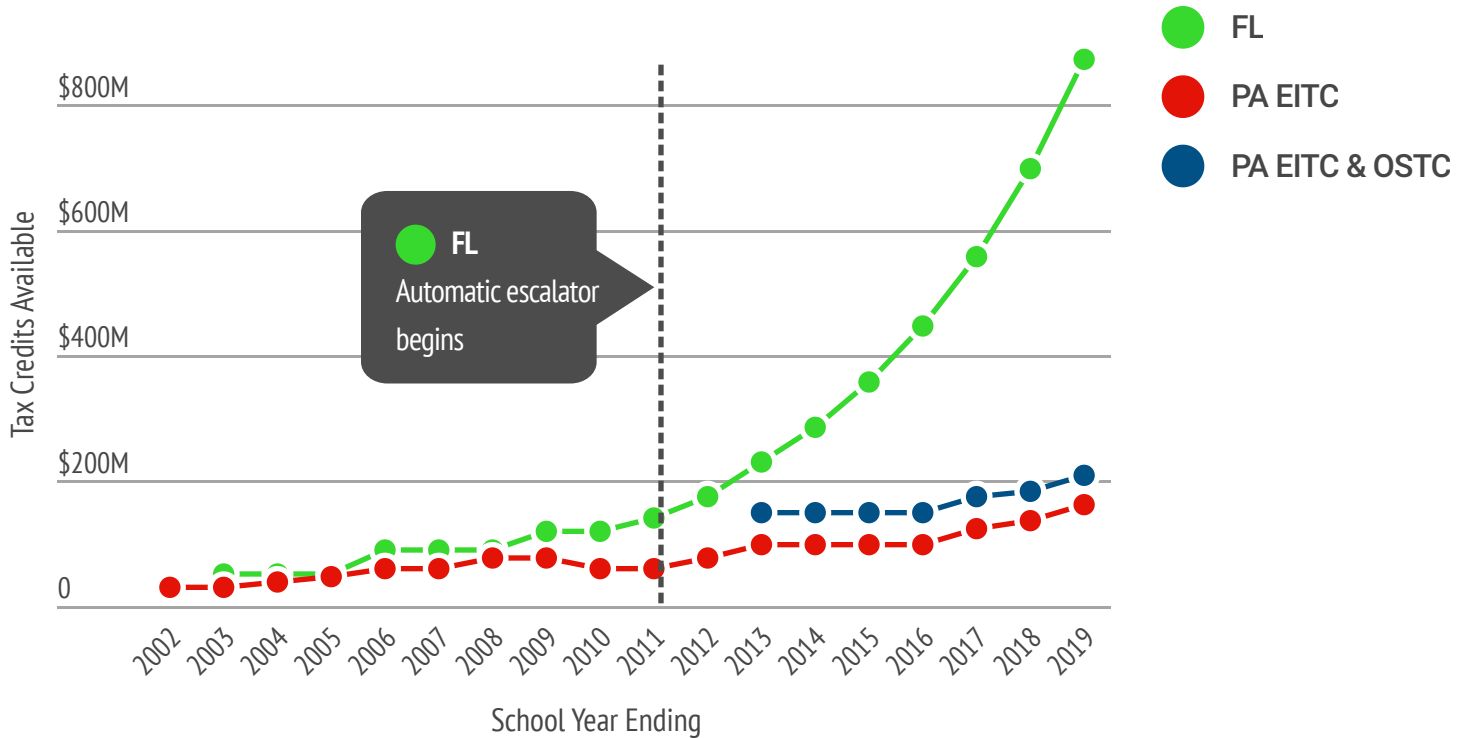
At the same time, businesses applied to donate millions more for scholarships and were waitlisted because of the cap. Passing an automatic escalator would allow these programs to grow with demand.

Source: Right-to-know-law request, PA Department of Community and Economic Development.

## What is an escalator?

Like Pennsylvania, Florida enacted tax credit scholarships in 2001. The two states followed similar paths until 2011, when Florida adopted an automatic escalator that increases the tax credit cap by 25 percent when at least 90 percent of available credits are used the previous year. If businesses do not voluntarily donate and use at least 90 percent of available credits, the program does not expand. Florida now awards twice as many student scholarships as Pennsylvania.

## FLORIDA vs. PENNSYLVANIA TAX CREDIT SCHOLARSHIP PROGRAMS

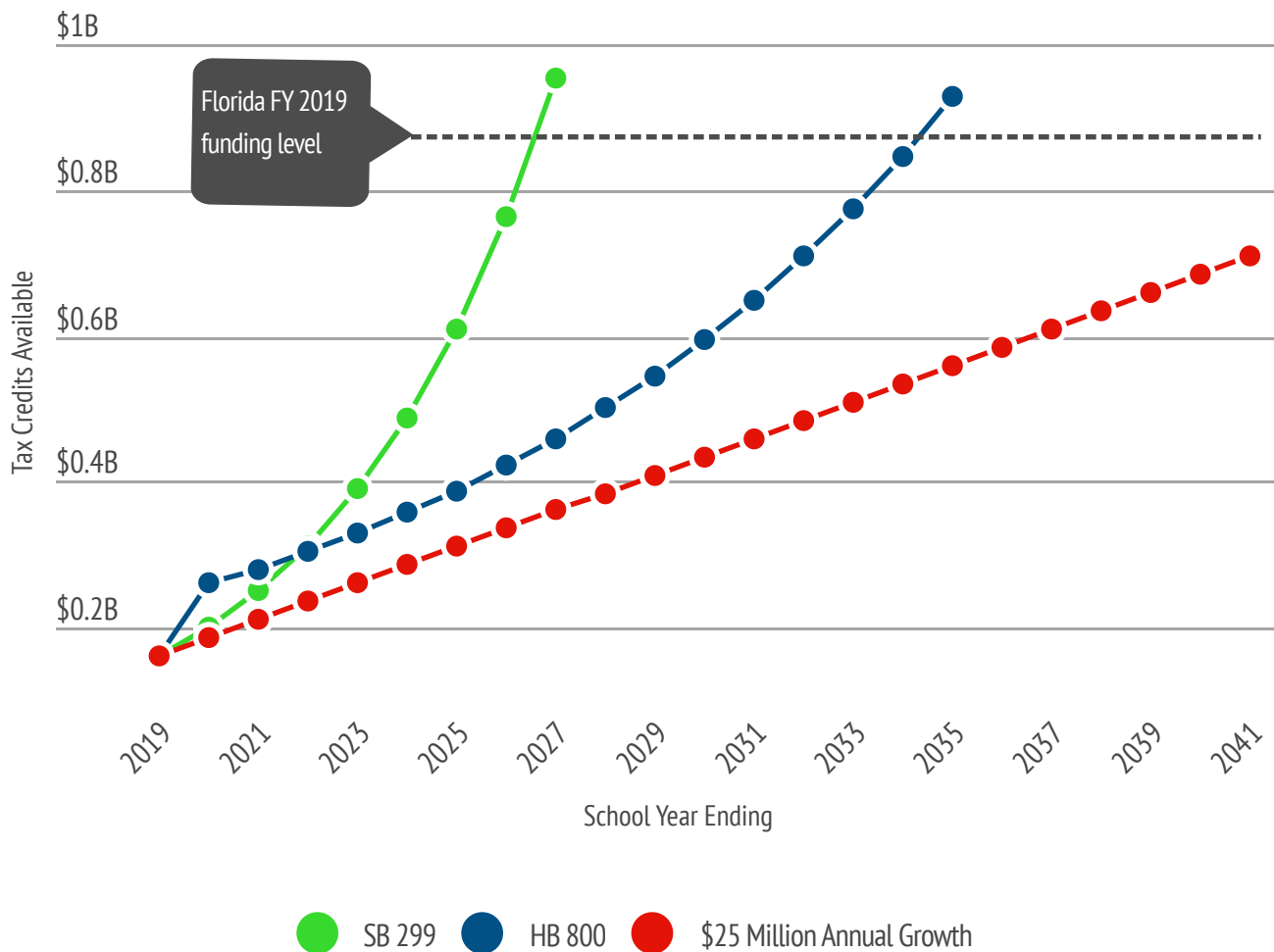


It's too late to help the kids who have been denied over the years. Lawmakers must look to the future and ensure other children are not left behind.

- Sen. Mike Regan's SB 299 follows the Florida model, boosting available EITC and OSTC tax credits by 25 percent if 90 percent of credits were used the previous year.
- Speaker of the House Mike Turzai's HB 800 calls for a \$100M increase in EITC K-12 scholarships next year—the largest one-year increase since the program's inception. In addition, his plan would boost available tax credits by 10 percent when 90 percent of tax credits were used the previous year.

## CATCHING UP TO FLORIDA

### IMPACT ON EITC & OSTC



Source: CF calculations based on bills and 2019 K-12 tax credit cap of \$160 million.

### ***What's the financial impact on public schools?***

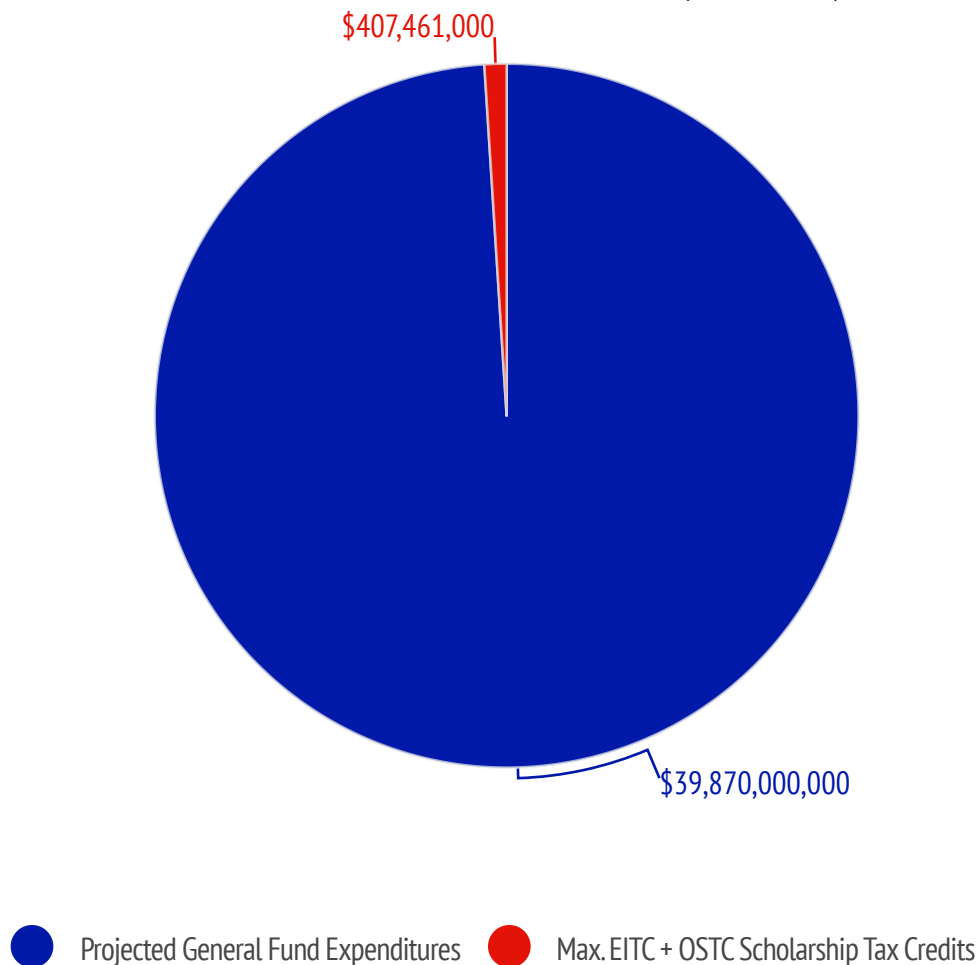
HB 800 and SB 299 enable per-student spending in public schools to increase slightly, as these schools keep monies received for students who are not physically in their classrooms.

The EITC is saving money overall for the commonwealth while right-sizing classrooms in some of the most challenged schools in the Keystone State. With average scholarships of \$1,800 for EITC and \$2,500 for OSTC—much less than the average \$17,600 per student at district schools—these programs offer a tremendous savings for taxpayers. New research from EdChoice estimates tax credit scholarships have saved Pennsylvanians more than \$2.9 billion since inception.

The EITC and OSTC tax credit scholarships currently represent a minuscule 0.64% of the General Fund Budget. Based on projections, if all the increases in HB 800 are used, by 2024 EITC & OSTC would grow to a still minuscule 1.02% of the General Fund. There is no evidence to suggest expanding tax credit programs would result in cuts to other education line items.

## **TAX CREDITS IN CONTEXT**

### **EITC & OSTC VS. GENERAL FUND (2023-24)**



*Sources: IFO Economic & Budget Outlook: Fiscal Years 2018-19 to 2023-24; CF calculations for EITC and OSTC based on HB 800.*

It's a rare policy that can help families around the state while saving taxpayer money. EITC and OSTC expansion will do just that. By adopting an automatic escalator, we can ensure these important lifelines grow as needed to rescue kids from schools that don't work for them.