

Private School Scholarship Tax Credits

RECOMMENDATION:

Reject scholarship tax credits

OVERVIEW

Under scholarship tax credit programs, the state forgoes revenue to provide a tax benefit to those who make donations to private school scholarship-granting organizations (SGOs), which, in turn, provide scholarships to students in private K-12 schools. Bills to enact scholarship tax credits create much greater tax benefits for donations to SGOs, as compared to donations to all other nonprofits.

SCHOLARSHIP TAX CREDITS MORE LUCRATIVE THAN OTHER DONATIONS

Tax credits enhance the tax benefit of donating to SGOs, as opposed to tax deductions for other types of charitable donations. For example, under a bill proposed in 2020,¹ an individual, couple, or business could receive a credit equal to 100 percent of their total contributions or 50 percent of their income tax liability, whichever amount is smaller. There are, however, no limits on donation amounts. This means that as long as there are enough credits available, a corporation with an income tax liability of \$1 million could make a donation to a private SGO of \$500,000 and receive a \$500,000 tax credit. (See sidebar for another example of a tax credit donation.)

CREDIT WOULD DIVERT PUBLIC DOLLARS THAT CAN BE USED TO SUPPORT AND IMPROVE PUBLIC EDUCATION

A scholarship tax credit would exacerbate Nebraska's increasing school funding needs at a time when state funding of K-12 education has been regularly constrained due to budget shortfalls.² This low level of state support leads to a heavy reliance on property taxes to fund schools. Diverting state resources to scholarship tax credits will make it harder to address state public education needs and will further shift the cost of funding K-12 onto the property tax base.

SCHOLARSHIP TAX CREDITS ARE UNLIKELY TO CREATE SAVINGS FOR STATE

It's highly unlikely that the credit would lead to enough children switching to private schools to create savings in public schools. In order to generate

Tale of two donations

Under the bill proposed in 2020, if a couple with income tax liability of at least \$20,000, made a donation to an SGO of \$10,000, they would receive a state tax benefit of \$10,000. On the other hand, if the same couple made a \$10,000 donation to a non-profit private or public school foundation and they pay the state's top personal income tax rate of 6.84%, their tax savings would have been \$684. The tax benefit for a donation to an SGO would be 14.5 times greater for this couple than they would experience with a donation to a public school foundation.

ISSUE: PRIVATE SCHOOL SCHOLARSHIP TAX CREDITS

savings for the state through reduced public school costs, not only would a significant number of students need to switch from public to private school, but those students would need to be highly concentrated in certain school buildings. A large percentage of public school costs are fixed, and can't be reduced without a large reduction in enrollment. For example, if one or two students in a public school classroom leave and go to private school, the public school must still pay the teacher and maintain the facilities in the same way it would have before the students changed schools.

CONCLUSION

Scholarship tax credits would divert state revenue at a time when Nebraska is struggling to fully fund education needs. Enacting such measures could force lawmakers to make cuts to vital services, such as public K-12 education, or shift more of the load of funding our schools on to property taxpayers. Considering these factors, we have serious concerns about creating a new tax credit that would reduce state revenue.

Credit would be hard to evaluate

Like many other state tax credits, the scholarship tax credit proposals in Nebraska have contained no data collection requirements, so policymakers wouldn't have any information to review whether the measures are achieving their stated goals of improving education or providing savings to the state. This means that, over time, the credits could become significant drains on revenue that may or may not offer Nebraska a good return on investment.

REFERENCES

- 1 Nebraska Legislature, "LB 1202," downloaded from https://www.nebraskalegislature.gov/bills/view_bill.php?DocumentID=40666 on Feb. 24, 2020.
- 2 LB 409 (2017) made changes to the TEEOSA formula to reduce school funding by \$123 million in FY 18-19.