

Tuition Tax Credits

What are tuition tax credits?

Education tax credits are intended to reduce the price of private education services, while encouraging parents to use and purchase private resources. Families are allowed to subtract a predetermined amount of private educational expenses from their tax liability. Tuition tax credits represent a unique attempt to build private markets in education.

For further reading on tuition tax credits, see the following NCSPE articles:

Occasional Paper 33: Belfield, Clive R. 2001. "Tuition Tax Credits: What We Know So Far?" http://www.ncspe.org/publications_files/530_OP33.pdf
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How are tax credits different than tax deductions?

Tuition tax credits help families to spend money on private education services by allowing all or a portion of this expense to be removed from the amount of tax a family must pay to the state government. The tax a family owes is first determined, then the credit reduces a family's tax burden by the amount of the credit. Unlike a tax credit, a tax deduction reduces the amount of income a family must pay taxes on by the percentage of tax rate rather than the entire dollar amount of the deduction.

Why are tuition tax credits controversial?

Tuition tax credits actively promote private education. Families are provided with a financial incentive, an education tax credit, to pursue private educational opportunities. Thus, opponents claim tuition tax credits undermine public education. Proponents insist tuition tax credits provide parents with opportunities previously reserved for wealthy families.

What are the possible advantages of tuition tax credits?

- **Increased Choice.** Tax credits provide parents with money to choose the school they most desire for their child, rather than the one they can afford.
- **Access to Good Schools.** Tuition costs, especially for poor, urban families can prohibit a child from attending a good school. Tax credits help address this issue.
- **Improved Efficiency.** By facilitating choice and competition, public schools are encouraged to improve services by increasing efficiency.
- **Empowered Parents.** Allowing parents greater control over money spent on education, prompts families to take a greater interest in their child's education

What are the possible disadvantages of tuition tax credits?

- **The Forgotten Lower-class.** To use a tax credit, a family must earn a level of income such that they have a tax liability, unless it is a refundable credit, which is received by families for any amount in excess of their tax burden.
- **Lost Public Revenues.** If a large number of families whose children already attend private schools claim tuition tax credits, the state may have a large drain on its resources.
- **Lack of Social Cohesion.** Tuition tax credits may further segregate students, especially from different social classes, leading to increased social divisions.
- **Undermines Public Schools.** Rather than address and solve the problems of public schools, tuition tax credits openly encourage families who might press for change to attend private schools.

What is the size of the tuition tax credit movement?

Despite state legislators' regular efforts to create tuition tax credit programs, few actually exist. As of fall 2003, only four states allowed tuition tax credits: Arizona, Illinois, Iowa, and Minnesota. While the Minnesota program is restricted to low-income families, tuition tax credits are available to all citizens in the other three states. Florida, Pennsylvania, and Arizona allow individuals and corporations that contribute to voucher or scholarship programs to benefit from tax credits. The chart below identifies the characteristics of current tuition tax credit programs.

Current Tuition Tax Credit Programs			
State	Origin	Eligibility	Tax Credit
Arizona	1997	All Taxpayers	Taxpayers may claim 25% of the first \$1,000 dollars spent on educational expenses. Also, taxpayers can claim up to \$500 (\$625 if filed jointly) for scholarship contributions.
Florida	2002	Corporations	Corporations may claim up to \$50 million dollars annually as a tax credit for donations to scholarship funds. The tax credit may not exceed 75% of a corporation's tax bill.
Illinois	1999	All Taxpayers	Parents may claim a 25% credit on a maximum of \$500 for educational expenses at public, private, and parochial schools.
Iowa	1987	All Taxpayers	Taxpayers may claim 25% of the first \$1,000 spent on educational expenses as a tax credit.
Minnesota	1997	Families with income less than \$37,500	Families with an income less than \$33,500 may claim 75% of first \$1,000 dollars spent on each child as tax credit. The maximum credit for a family is \$2,000. Families that earn between \$33,500 and \$37,500 receive a reduced tax credit.
Pennsylvania	2001	Corporations	Corporations that contribute to scholarship funds receive a 75% tax credit and 90% for a commitment to make the same donation the following year. Up to \$100,000 dollars can be donated annually.

Source: People for the American Way. <http://www.pfaw.org/pfaw/general/default.aspx?oid=12074>

Where can I find out more about tuition tax credits?

Information about tuition tax credits located on the NCSPE website can be found at <http://www.ncspe.org/inforead.php?mysub=8>

For additional information from internet resources see:

People for the American Way– an advocate for public education– at:
<http://www.pfaw.org>