

School Tuition Organization Tax Credit

Federation of Tax Administrators
Revenue Estimating Conference
October 9, 2018

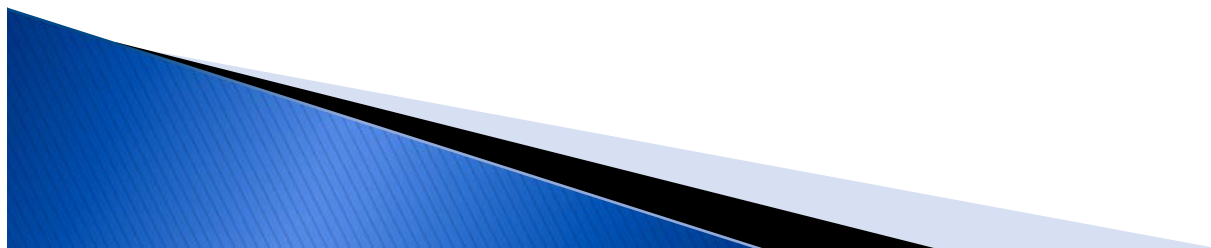
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Outline of Remarks

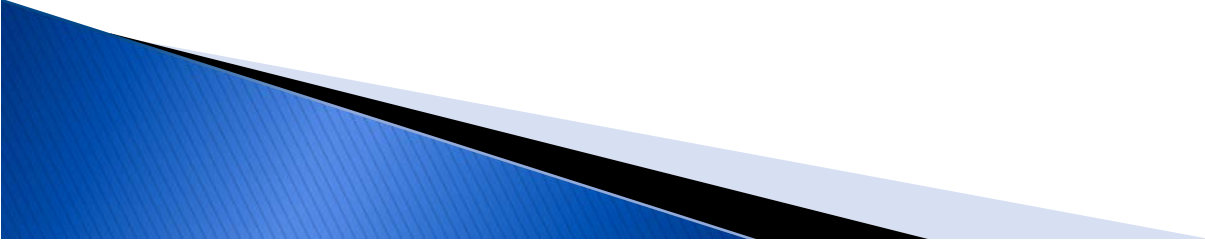
- ▶ Background on the School Tuition Organization (STO) Tax Credit
- ▶ Other education scholarship tax credits in the United States
- ▶ STO tax credit awards and claims
- ▶ Evaluating the fiscal impact of the STO tax credit

STO Tax Credit Description

- ▶ Enacted in tax year 2006
- ▶ Awarded to a taxpayer who makes a voluntary contribution to one of 12 qualifying School Tuition Organizations (STOs)
- ▶ Tax credit equals 65% of the contribution
- ▶ Contribution cannot be taken as an itemized deduction for charitable contributions for Iowa tax purposes



Tuition Grants Overview

- ▶ Using contributions, STOs provide tuition grants to students to attend private K–12 schools in Iowa
 - ▶ The contribution *cannot* directly benefit any student designated by the taxpayer
 - ▶ An STO must represent more than one school
 - ▶ Tuition grantee's household income must be below applicable poverty guidelines multiplied by 3. (Effective 2019–20, increased to 4 x poverty guidelines.)
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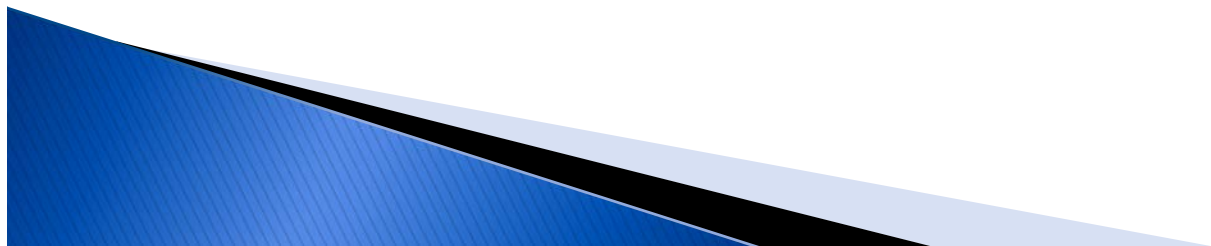
STO Tax Credit Program Award Cap

- ▶ Set at \$5 million for its first full year, the program award cap has been raised three times
- ▶ From 2014 to 2017, program awards are capped at \$12 million
- ▶ In 2018, capped at \$13 million


| Tax Year | Program Award Cap (\$ Millions) |
|----------|------------------------------------|
| 2006 | \$2.50 |
| 2007 | \$5.00 |
| 2008 | \$7.50 |
| 2009 | \$7.50 |
| 2010 | \$7.50 |
| 2011 | \$7.50 |
| 2012 | \$8.75 |
| 2013 | \$8.75 |
| 2014 | \$12.00 |
| 2015 | \$12.00 |
| 2016 | \$12.00 |
| 2017 | \$12.00 |
| 2018 | \$13.00 |

Tax Credit Details

- ▶ Overall tax credit cap is allocated among STOs based on enrollment at represented schools
- ▶ Claims against individual income tax and, since 2009, corporation income tax
- ▶ Each STO can award up to 25 percent of allocated credits to corporate donors
- ▶ Tax credits are not transferable
- ▶ Nonrefundable, 5-year carryforward

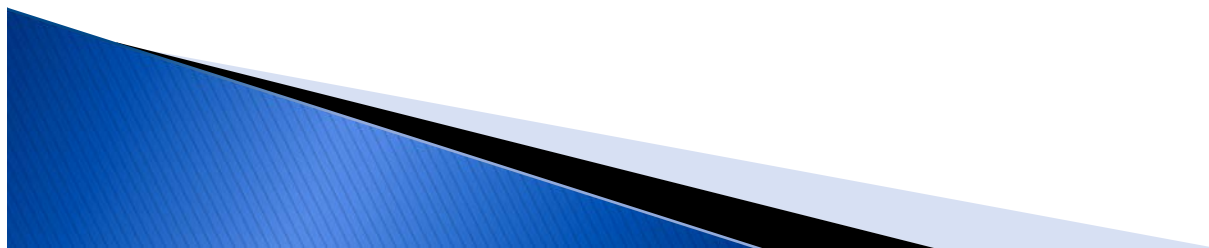


Iowa Code Requires that Each STO...

- ▶ Be a 501(c)(3) charitable organization
 - ▶ Allot 90% of annual revenue to Tuition Grants
 - ▶ Register with the Iowa Department of Revenue (IDR) and provide the following information annually to IDR:
 - Names and addresses of the STO's board of directors
 - Total number and dollar value of contributions received and tax credits approved for each year
 - List of each individual donor's tax credit amount and certificate number
 - Total number of students receiving Tuition Grants and total dollar amount of grants
 - Names and addresses of its represented schools, enrollment, and total dollar amounts of Tuition Grants at each school
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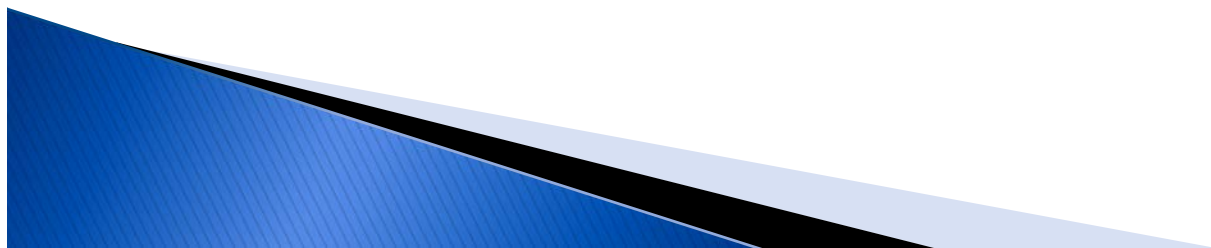
Education Scholarship Tax Credit Programs in Other States

- ▶ 17 states have a scholarship tax credit
- ▶ Statewide caps
 - ▶ Low: \$1.5 million (Rhode Island)
 - ▶ High: \$699 million (Florida)
 - ▶ Louisiana has no statewide cap
 - ▶ Arizona has one program that is capped at the state level and another program that has no statewide cap
- ▶ Eight states place dollar amount cap on eligible donation by individual income taxpayer
 - ▶ Montana: \$150
 - ▶ Pennsylvania: \$750,000



Education Scholarship Tax Credit Programs in Other States

- ▶ Tax credits range from 50% – 100% of contribution amount
 - 100% of contribution in seven states
 - AL, AZ, FL, GA, MT, NV, SC
 - 50% of contribution in two states
 - IN, OK
- ▶ Refundable in one state
 - LA



Contributions and Awards

| Year | Total Contributions (\$ Millions) | Total Awards (\$ Millions) | Number of Awards Issued | Average Award Issued | Median Award Issued |
|-------|--------------------------------------|-------------------------------|-------------------------------|----------------------------|---------------------------|
| 2006 | \$3.85 | \$2.50 | 1,125 | \$2,222 | \$650 |
| 2007 | \$7.44 | \$4.87 | 1,850 | \$2,642 | \$650 |
| 2008 | \$9.54 | \$6.20 | 2,830 | \$2,191 | \$650 |
| 2009 | \$11.39 | \$7.41 | 3,160 | \$2,342 | \$650 |
| 2010 | \$11.54 | \$7.50 | 3,029 | \$2,476 | \$650 |
| 2011 | \$11.54 | \$7.50 | 2,835 | \$2,645 | \$650 |
| 2012 | \$13.46 | \$8.75 | 3,103 | \$2,820 | \$650 |
| 2013 | \$13.46 | \$8.75 | 2,996 | \$2,921 | \$650 |
| 2014 | \$18.33 | \$11.91 | 3,708 | \$3,236 | \$975 |
| 2015 | \$18.46 | \$12.00 | 3,396 | \$3,534 | \$975 |
| 2016 | \$18.46 | \$12.00 | 3,484 | \$3,444 | \$976 |
| 2017 | \$18.46 | \$12.00 | 3,054 | \$3,929 | \$1,300 |
| Total | \$155.93 | \$101.39 | 34,570 | \$2,935 | \$650 |

Source: Iowa Department of Revenue

Since 2006, \$101.4 million in tax credit awards based on donations of \$155.9 million

Tax Credit Claims

| Tax Year | Amount of Tax Credits Claimed (\$ Millions) | Amount of Tax Credits Expired (\$ Millions) | Amount of Tax Credits Carried Forward to Next Tax Year (\$ Millions) |
|--------------|--|--|---|
| 2006 | \$2.19 | \$0.00 | \$0.25 |
| 2007 | \$4.47 | \$0.00 | \$0.60 |
| 2008 | \$5.60 | \$0.00 | \$1.07 |
| 2009 | \$6.86 | \$0.00 | \$1.46 |
| 2010 | \$7.21 | \$0.00 | \$1.59 |
| 2011 | \$6.78 | \$0.01 | \$2.25 |
| 2012 | \$8.56 | \$0.04 | \$2.07 |
| 2013 | \$8.20 | \$0.06 | \$2.16 |
| 2014 | \$11.27 | \$0.13 | \$3.03 |
| 2015* | \$11.27 | \$0.15 | \$2.82 |
| 2016* | \$11.27 | \$0.11 | \$3.02 |
| 2017* | \$8.99 | \$0.12 | \$2.43 |
| Total | \$92.66 | \$0.62 | |

* Review of tax credit claims for tax years 2015 through 2017 is not final.

- Since 2006, \$92.7 million in claims
- \$620,000 in awards have expired

Number of STOs, Enrollment, and Tuition Grant Amounts

| School Year | Number of STOs | Number of Schools Covered by STOs | Total Enrollment at STO Schools | Number of Tuition Grants Issued | Share of Total Enrollment Receiving Tuition Grants | Amount of Tuition Grants Issued (\$ Millions) | Average Tuition Grant |
|-------------|----------------|-----------------------------------|---------------------------------|---------------------------------|--|---|-----------------------|
| 2006-07 | 9 | 127 | 33,230 | 487 | 1.5% | \$0.30 | \$610 |
| 2007-08 | 10 | 137 | 34,697 | 7,527 | 21.7% | \$3.98 | \$528 |
| 2008-09 | 11 | 136 | 35,082 | 8,623 | 24.6% | \$7.37 | \$855 |
| 2009-10 | 11 | 136 | 34,537 | 9,411 | 27.2% | \$9.11 | \$968 |
| 2010-11 | 12 | 140 | 33,987 | 10,279 | 30.2% | \$10.94 | \$1,064 |
| 2011-12 | 12 | 140 | 33,563 | 10,600 | 31.6% | \$10.93 | \$1,031 |
| 2012-13 | 12 | 138 | 33,506 | 10,446 | 31.2% | \$11.33 | \$1,084 |
| 2013-14 | 12 | 138 | 33,469 | 10,388 | 31.0% | \$12.66 | \$1,219 |
| 2014-15 | 12 | 139 | 33,363 | 10,494 | 31.5% | \$13.51 | \$1,287 |
| 2015-16 | 12 | 140 | 33,342 | 10,848 | 32.5% | \$17.61 | \$1,624 |
| 2016-17 | 11 | 138 | 33,465 | 10,792 | 32.2% | \$17.12 | \$1,586 |
| 2017-18 | 12 | 146 | 33,740 | 10,752 | 31.9% | \$17.69 | \$1,645 |

Source: Iowa Department of Revenue



Who benefits from STO tuition grants?

- Describe tuition grant recipients in terms of financial characteristics including family income and level of financial aid need
- Analysis is based on student-level data provided by STOs on a voluntary basis
- Iowa Code does not require STOs to retain or report this information to IDR
- Data concerns school years 2012–13 through 2016–17

Overview of Analysis Data File

| School Year | Tax Credit Program Administrative Data | | | STO-Reported Student-Level Data in Analysis Data File | | | |
|--------------|--|-----------------------------|--------------------------------|---|-------------------|--------------------------|-------------------------------|
| | Total Number of STOs | Total Number of STO Schools | Total Number of Tuition Grants | STOs Reporting Student-Level Data | Number of Schools | Number of Tuition Grants | Share of Total Tuition Grants |
| 2012-13 | 12 | 138 | 10,446 | 4 | 37 | 2,365 | 22.6% |
| 2013-14 | 12 | 138 | 10,388 | 5 | 69 | 5,069 | 48.8% |
| 2014-15 | 12 | 139 | 10,494 | 6 | 82 | 5,929 | 56.5% |
| 2015-16 | 12 | 140 | 10,848 | 7 | 90 | 7,740 | 71.3% |
| 2016-17 | 11 | 138 | 10,771 | 5 | 49 | 3,094 | 28.7% |
| Total | | | 52,947 | | | 24,197 | 45.7% |

Source: Iowa Department of Revenue analysis of School Tuition Organization data
 The table represents data reported by School Tuition Organizations and analyzed by Iowa Department of Revenue staff as of November 1, 2017

Poverty Guidelines and Tuition Grant Eligibility for 2018–19 School Year

| Number of Persons in Family/ Household | 2017 Poverty Guidelines | 2017 Poverty Guidelines Multiplied by 3 |
|--|----------------------------|---|
| 1 | \$12,060 | \$36,180 |
| 2 | \$16,240 | \$48,720 |
| 3 | \$20,420 | \$61,260 |
| 4 | \$24,600 | \$73,800 |
| 5 | \$28,780 | \$86,340 |
| 6 | \$32,960 | \$98,880 |
| 7 | \$37,140 | \$111,420 |
| 8 | \$41,320 | \$123,960 |

Source: U.S. Department of Health and Human Services

Iowa Code (§422.11S): “Eligible student” means a student who is a member of a household whose total annual income during the calendar year before the student receives a tuition grant [...] does not exceed an amount equal to three times the most recently published federal poverty guidelines[...].

Full Tuition for Tuition Grant Recipients

| | School Year | | | | |
|---------|-------------|-----------|-----------|-----------|-----------|
| | 2012-2013 | 2013-2014 | 2014-2015 | 2015-2016 | 2016-2017 |
| Average | \$3,233 | \$2,871 | \$3,226 | \$3,521 | \$4,148 |
| Median | \$2,521 | \$2,484 | \$2,775 | \$3,050 | \$3,400 |
| Minimum | \$591 | \$846 | \$295 | \$205 | \$226 |
| Maximum | \$20,050 | \$15,900 | \$16,900 | \$18,700 | \$24,400 |

Source: Iowa Department of Revenue analysis of School Tuition Organization data

Financial Aid Need

- ▶ Whereas poverty guidelines are used to establish *eligibility* for a Tuition Grant, financial aid need is used to determine Tuition Grant *amount*
- ▶ Procedures for calculating financial aid need are determined by each STO
- ▶ Financial aid need represents the difference between a family's calculated ability to pay and the cost of tuition
- ▶ STOs can provide Tuition Grants to all eligible students even if Need = \$0

Family Income, Financial Aid Need, and Tuition Grant Amounts

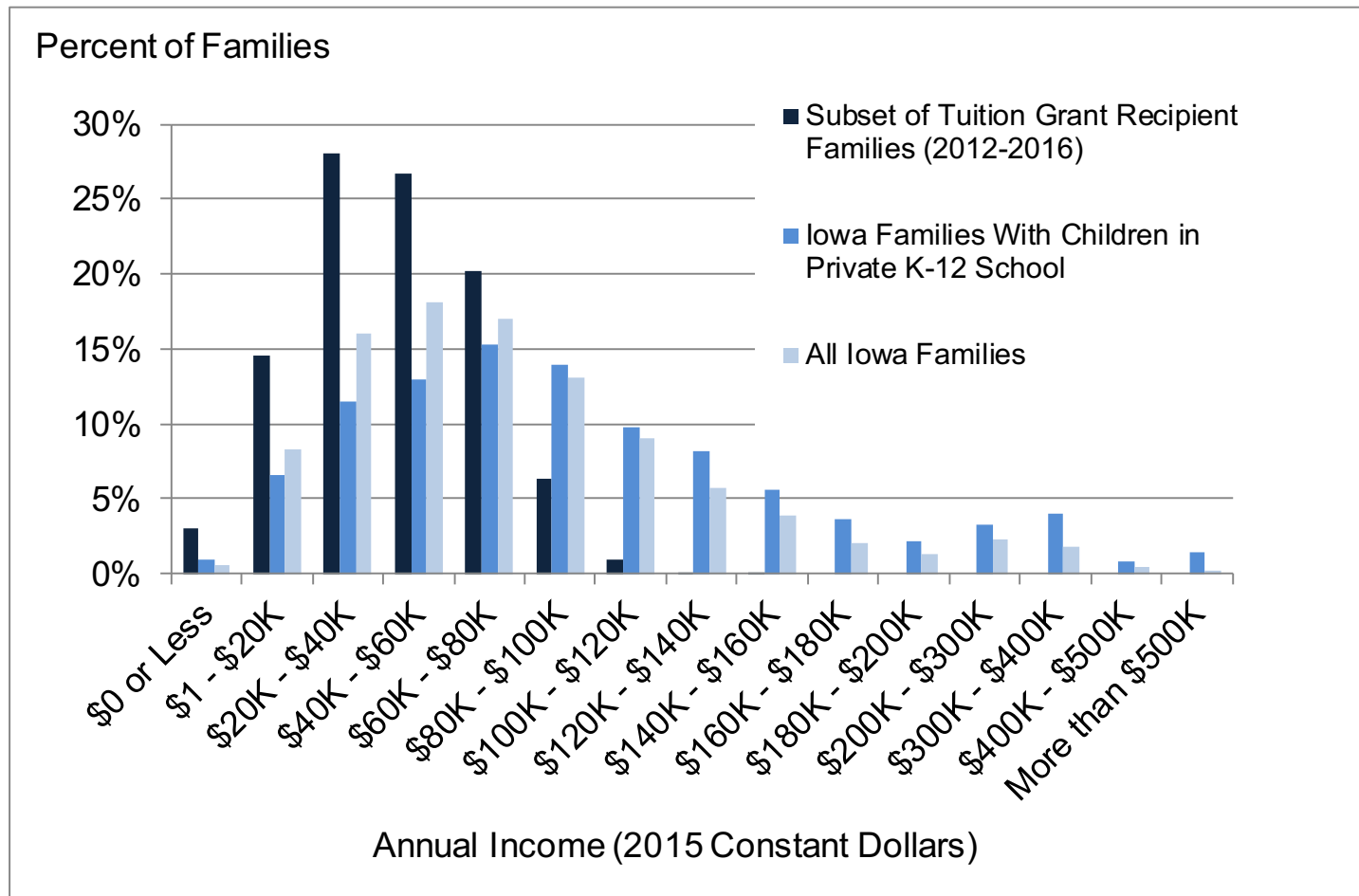
2015–16 School Year Tuition Grant Recipients

| | Family Income | Financial Aid Need | Tuition Grant | Percent of Need Met by Tuition Grant | Percent of Tuition Met by Tuition Grant |
|---------|--------------------------|-------------------------------|--------------------------|---|--|
| Mean | \$44,322 | \$2,170 | \$1,811 | 75% | 61% |
| Median | \$43,019 | \$2,155 | \$1,663 | 74% | 65% |
| Minimum | -\$259,970 | \$0 | \$100 | 16% | 2% |
| Maximum | \$155,093 | \$10,635 | \$5,750 | 100% | 100% |

Source: Iowa Department of Revenue analysis of School Tuition Organization data

Family Income

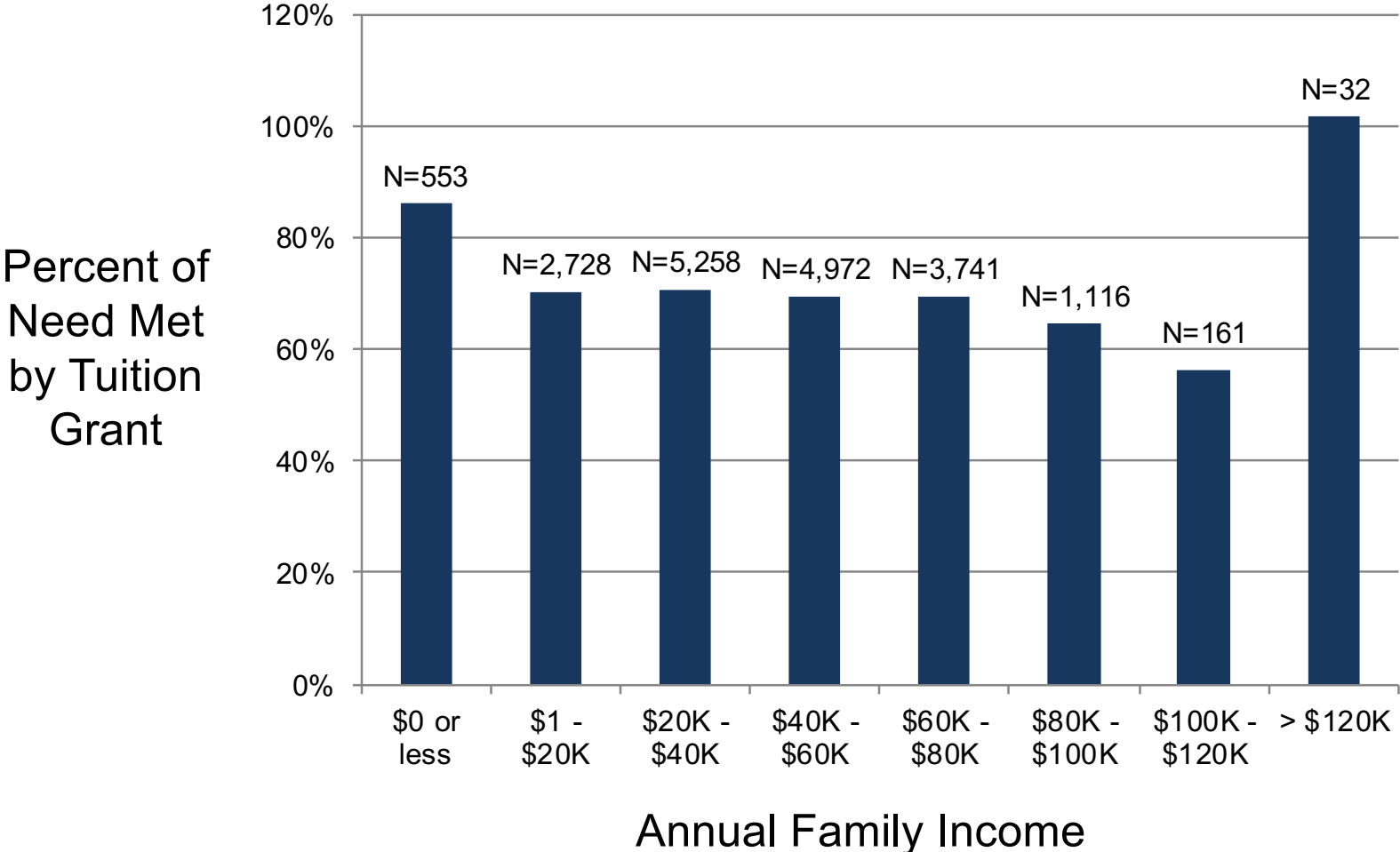
Tuition Grant Families, Private School Families, and Iowa Families



Sources: Iowa Department of Revenue analysis of School Tuition Organization data and U.S. Census American Community Survey Public Use Microdata 5-Year Sample 2015

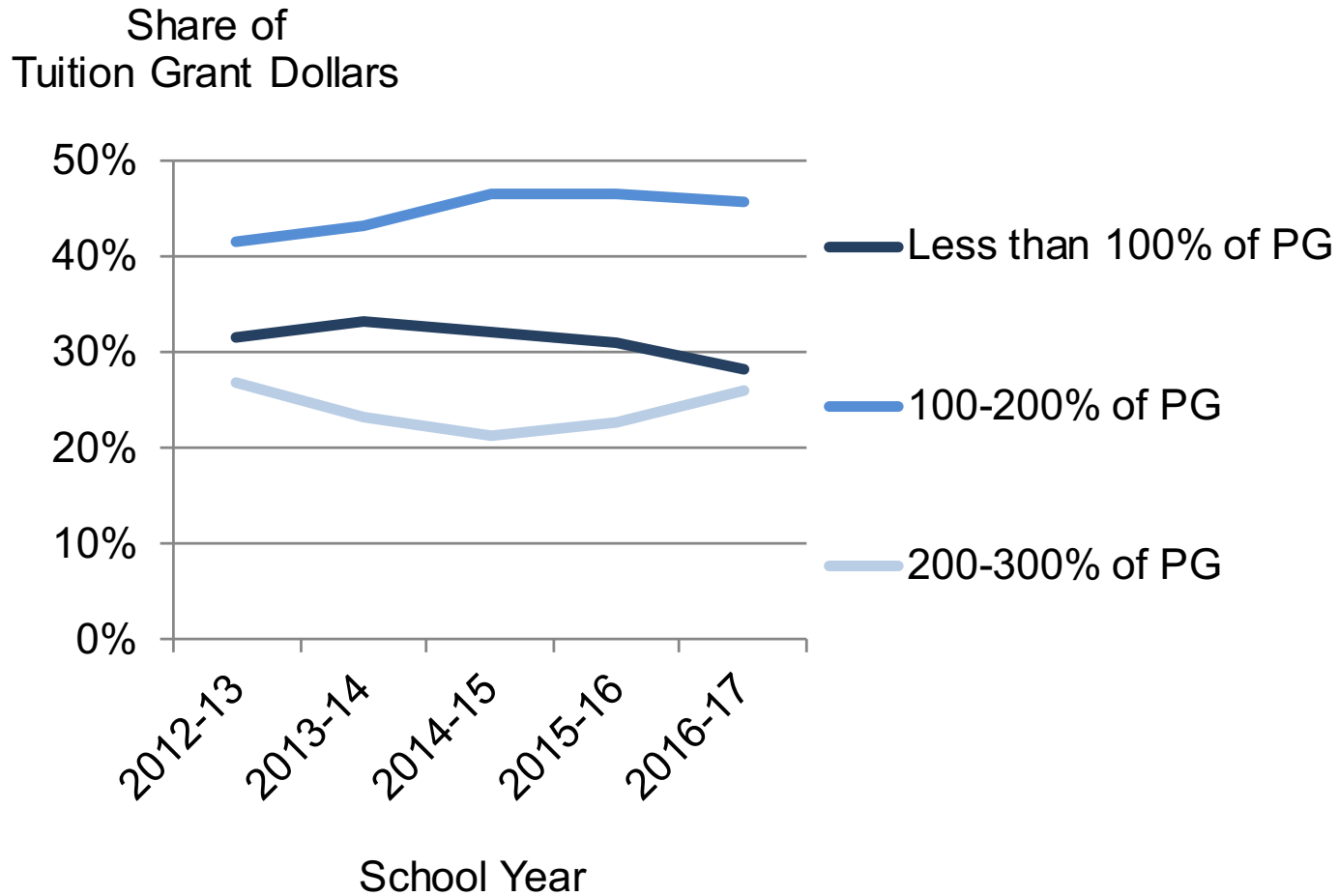
Percent of Need Met, by Family Income

School Years 2012-13 Through 2016-17 Combined



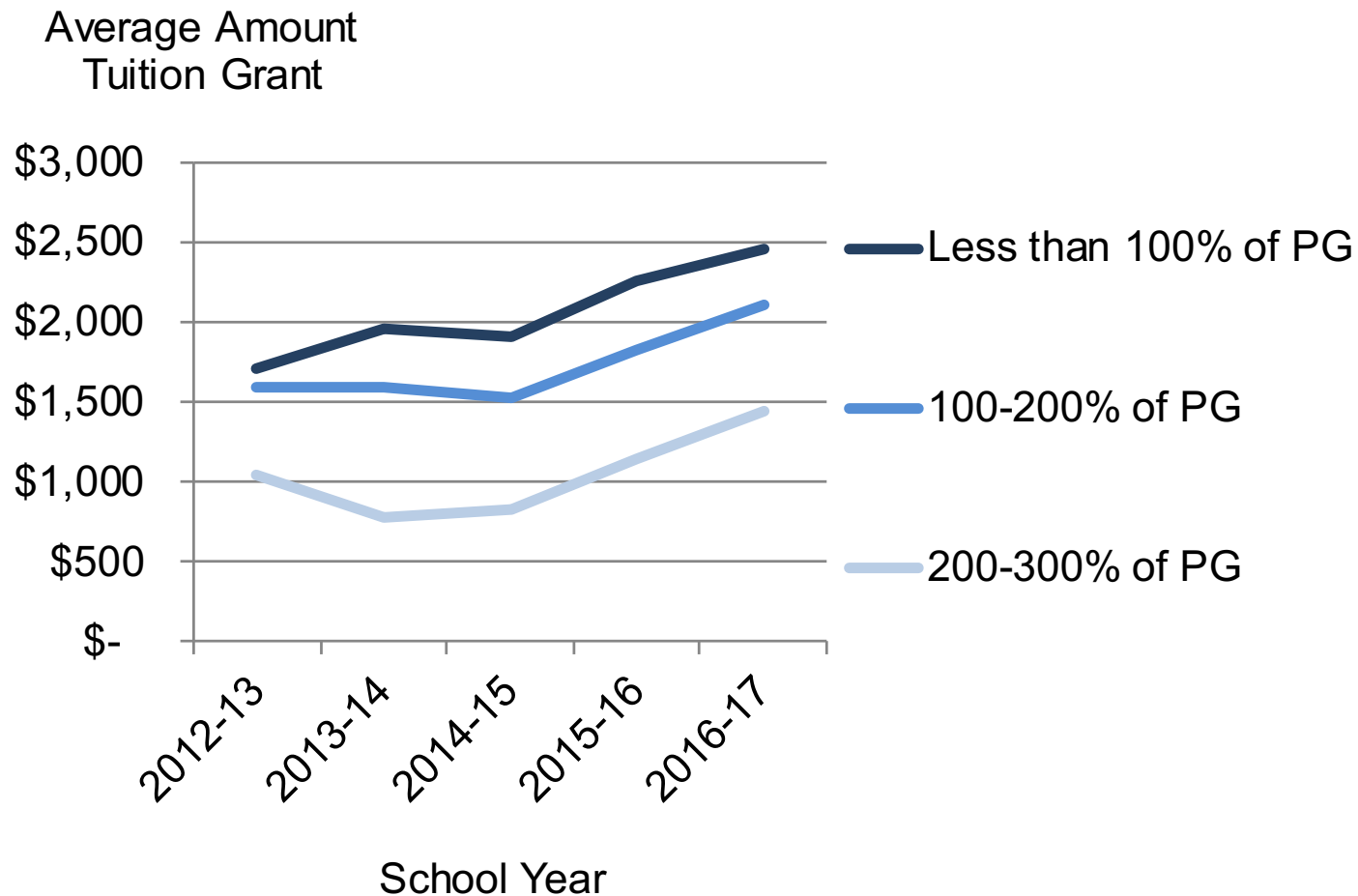
Source: Iowa Department of Revenue analysis of School Tuition Organization data

Share of Tuition Grant Dollars by Percentage of Poverty Guideline (PG)



Source: Iowa Department of Revenue analysis of School Tuition Organization Data

Average Tuition Grant by Percentage of Poverty Guideline (PG)



Source: Iowa Department of Revenue analysis of School Tuition Organization data

What is the Net Fiscal Impact of the STO Tax Credit?

Addresses the question, Do Tuition Grants funded by tax credits save State money through lower public education spending? Calculation procedures follow two sources:

- Buschman, R., & Sjoquist, D. L. (2014). *Georgia's Tax Credit Scholarship Program*
- Lueken, M. F. (2016). *The Tax-Credit Scholarship Audit: Do Publicly Funded Private School Choice Programs Save Money?*

Estimated Net Fiscal Impact

$$\text{Fiscal Value} - \text{Fiscal Cost} = \\ (G \times E \times p) - C$$

Where

G = total number of Tuition Grant recipients

E = per pupil cost of public Education

p = estimated Percentage of Tuition Grant recipients who otherwise would attend public school (i.e., *substitution rate*)

C = Cost of the tax credit (i.e., total awards)

Per Pupil Cost of Public Education in Iowa

- ▶ Iowa School Finance Formula
 - Establishes public school funding levels
 - Based on enrollment
- ▶ Regular Program Cost + State Categorical Supplements
- ▶ Available from Iowa Department of Management
- ▶ \$7,613 for 2016–17 School Year

Substitution Rate

- ▶ Estimated percentage of students who receive Tuition Grants for private school who, without the financial support, would otherwise attend a public school
- ▶ Estimate is based on student-level information provided by STOs

Substitution Rate

| Percentile | Tuition as Percentage of Family Income | Need as Percentage of Full Tuition | Percent of Full Tuition Met by Tuition Grant |
|------------|--|------------------------------------|--|
| 99th | 102.0% | 100.0% | 100.0% |
| 90th | 21.0% | 100.0% | 95.0% |
| 80th | 13.4% | 100.0% | 79.7% |
| 70th | 9.9% | 100.0% | 71.9% |
| 60th | 7.9% | 100.0% | 60.5% |
| 50th | 6.4% | 95.7% | 57.9% |
| 40th | 5.2% | 79.0% | 48.0% |
| 30th | 4.3% | 57.5% | 33.9% |
| 20th | 3.6% | 25.4% | 21.5% |
| 10th | 2.7% | 0.0% | 15.0% |
| Min | 0.6% | 0.0% | 2.0% |

Source: Iowa Department of Revenue analysis of School Tuition Organization data

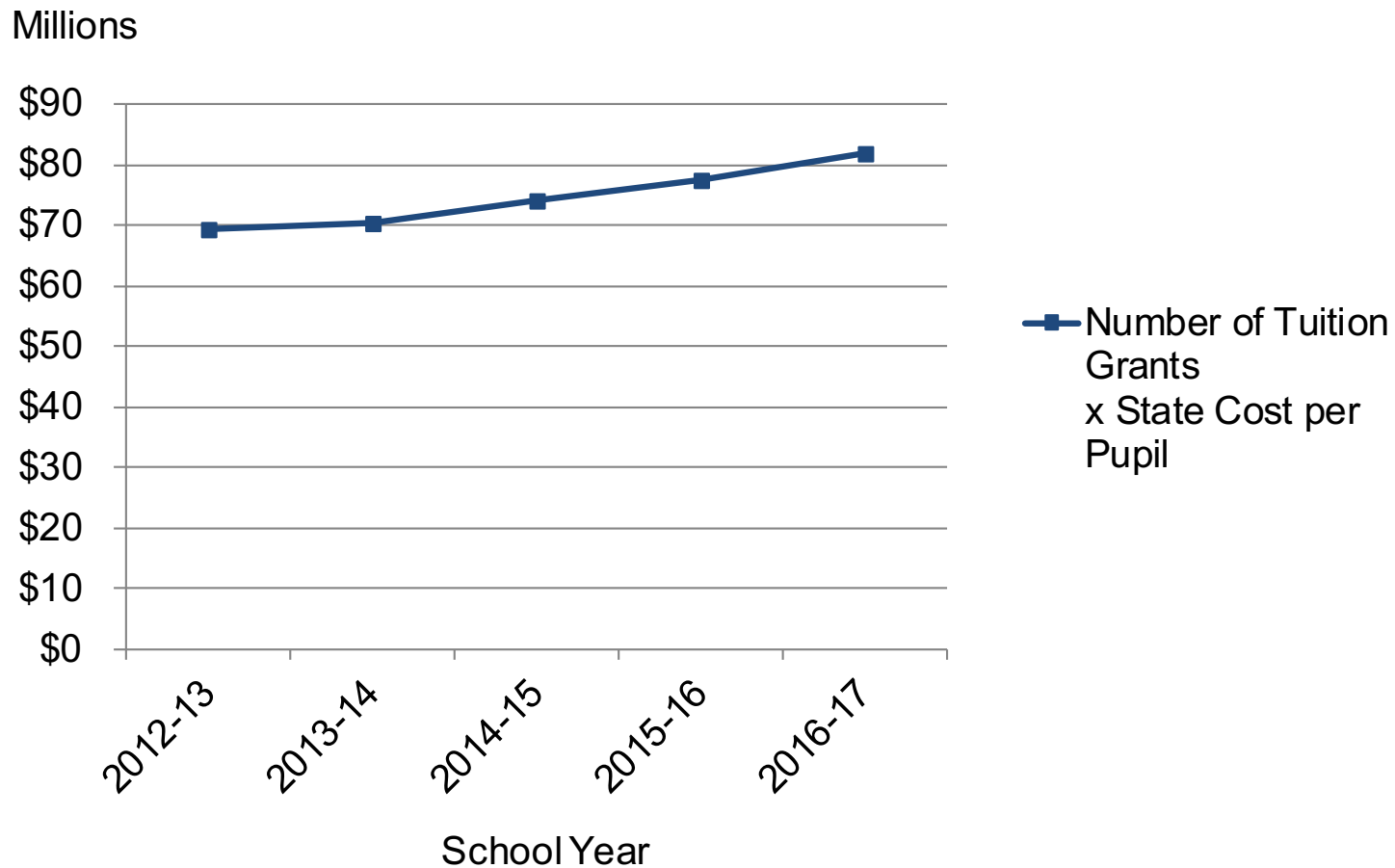
Cost of STO Tax Credit and Estimated Cost of Public Schooling for Tuition Grant Recipients

| School Year | Number of Tuition Grants | State Cost per Pupil for Public Schooling | Number of Tuition Grants x State Cost per Pupil of Public School (\$ Millions) | Estimated Substitution Rate | Cost of STO Tax Credit (\$ Millions) |
|-------------|--------------------------|---|--|-----------------------------|--------------------------------------|
| 2012-13 | 10,446 | \$6,641 | \$69.37 | 30.0% | \$7.50 |
| 2013-14 | 10,388 | \$6,773 | \$70.36 | 30.0% | \$8.75 |
| 2014-15 | 10,494 | \$7,044 | \$73.92 | 30.0% | \$8.75 |
| 2015-16 | 10,848 | \$7,133 | \$77.38 | 30.0% | \$12.00 |
| 2016-17 | 10,771 | \$7,613 | \$82.00 | 30.0% | \$12.00 |

Source: Iowa Department of Revenue analysis

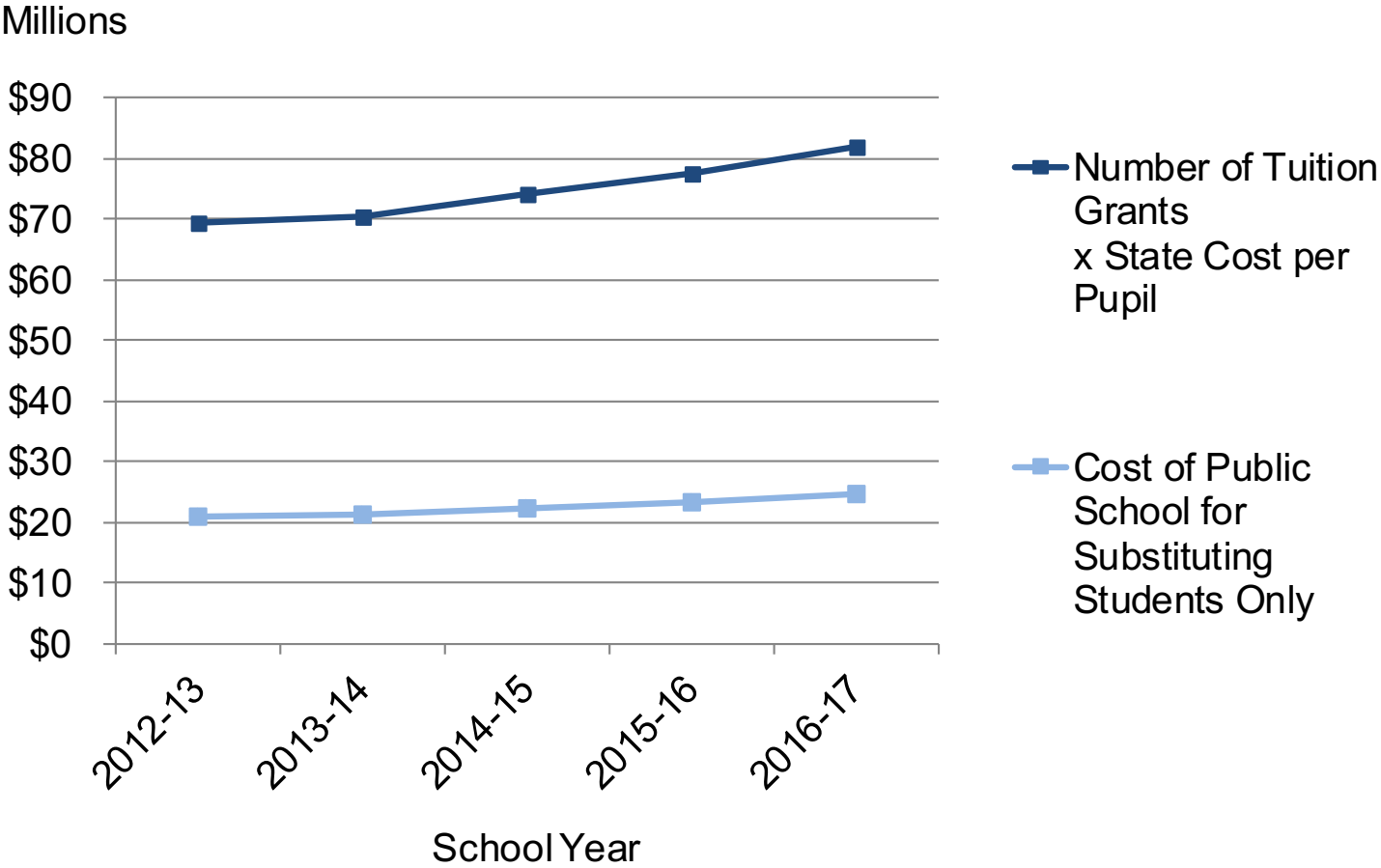
It is estimated that 30% of Tuition Grant recipients would, without that support, attend public school. For this percentage of recipients, the Tuition Grant represents at least 70% of the full cost of tuition. In addition, financial aid need represents the total cost of tuition for more than 30% of Tuition Grant recipients.

Calculating the Net Fiscal Impact of the STO Tax Credit



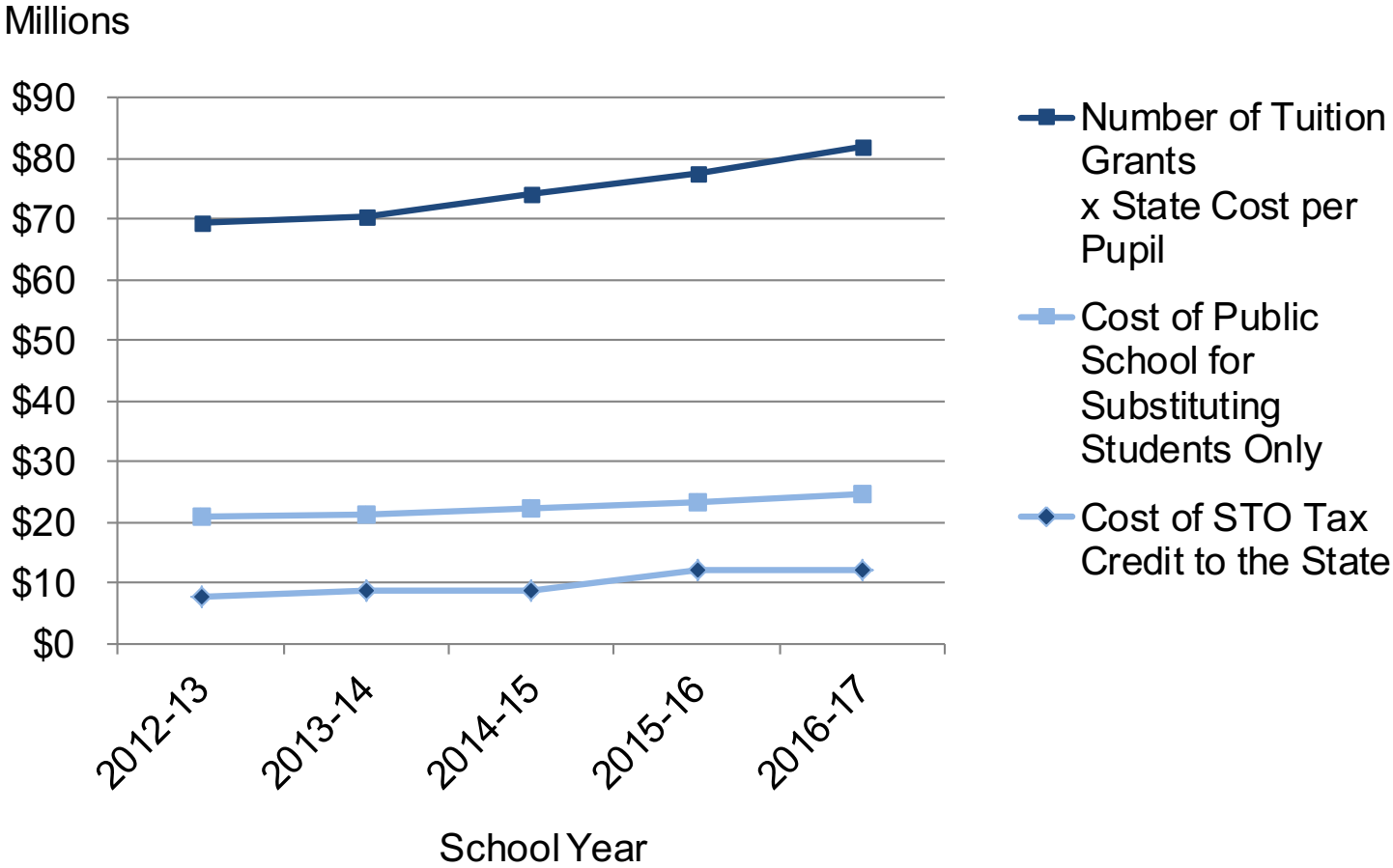
Source: Iowa Department of Revenue analysis

Calculating the Net Fiscal Impact of the STO Tax Credit



Source: Iowa Department of Revenue analysis

Calculating the Net Fiscal Impact of the STO Tax Credit



Source: Iowa Department of Revenue analysis

Calculating the Net Fiscal Impact of the STO Tax Credit

| School Year | Number of Tuition Grants x State Cost per Pupil (\$ Millions) | Estimated Substitution Rate | Cost of STO Tax Credit (\$ Millions) | Cost of Public School for Substituting Students Only (\$ Millions) | Estimated Net Fiscal Impact (\$ Millions) | Breakeven Substitution Rate |
|-------------|--|-----------------------------|---|---|--|-----------------------------|
| 2012-13 | \$69.37 | 30.0% | \$7.50 | \$20.81 | \$13.31 | 10.8% |
| 2013-14 | \$70.36 | 30.0% | \$8.75 | \$21.11 | \$12.36 | 12.4% |
| 2014-15 | \$73.92 | 30.0% | \$8.75 | \$22.18 | \$13.43 | 11.8% |
| 2015-16 | \$77.38 | 30.0% | \$12.00 | \$23.21 | \$11.22 | 15.5% |
| 2016-17 | \$82.00 | 30.0% | \$12.00 | \$24.60 | \$12.60 | 14.6% |

Source: Iowa Department of Revenue analysis

- At a 30% substitution rate, the State's public school financing costs are estimated to have been reduced by more than \$12 million over the amount of STO tax credits awarded
- Under the \$12 million cap, at least 15% of Tuition Grant recipients must move from public to private schools as a result of the program in order for the fiscal value to equal the fiscal cost

Questions?