PIONEER EDUCATION

Earning Full Credit:

A Toolkit for Designing Tax-Credit Scholarship Policies (2022 Edition)

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Table of Contents

Executive Summary

Over the last quarter-century, tax-credit scholarship (TCS) policies have helped hundreds of thousands of American families provide their children with the learning environment that meets their individual needs. Although less well-known than school vouchers, TCS policies are the most-used form of private school choice. In 2021, four states enacted new TCS policies, including the first two tax-credit education savings accounts policies. Now available in 23 states, more than 325,000 students nationwide use tax-credit scholarships to attend the school of their family's choice.

TCS policies create an incentive for taxpayers to contribute to nonprofit scholarship organizations that aid families with tuition and, in some states, other K–12 educational expenses. As with other policies, their ultimate success or failure depends greatly on how they are designed. This paper explores the central design features of TCS policies—such as eligibility, the tax credit value, tax credit caps, scholarship size and uses, and academic accountability provisions—and outlines the different approaches taken by the TCS policies in each state.

The paper also offers suggestions regarding each feature for policymakers who want to design a TCS policy that most likely to succeed at its central purpose: empowering families to provide their children with the education that works best for them. To that end, the paper recommends designing each policy element in such a way that they maximize the incentive for taxpayers to contribute to scholarship organizations, maximize the number of families that can benefit from the scholarships, and maximize the freedom and flexibility of scholarship organizations to serve those families. A summary of these suggestions can be found in the conclusion.

Finally, the appendix offers policymakers with a wide variety of additional resources, including model legislation, parent satisfaction and public opinion surveys, research on fiscal effects, various policy briefs on tax-credit scholarships, information about the constitutional landscape, and public relations resources.

1. Introduction: Tax-Credit Scholarship Policies in the United States

Although not as well-known as traditional school vouchers, the most common form of private school choice policy is the tax-credit scholarship (TCS). In 1997, Arizona became the first state to enact a TCS policy. As of the 2020–21 academic year, nearly 330,000 students received scholarships via 24 TCS policies in 19 states, including Alabama, Arizona, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Louisiana, Montana, Nevada, New Hampshire, Oklahoma, Pennsylvania, Rhode Island, South Carolina, South Dakota, Utah and Virginia.[1] In 2021, two states (Arkansas and Ohio) enacted new tax-credit scholarship policies. Additionally, another two states (Kentucky and Missouri) enacted the nation's first tax-credit-funded education savings account (TC-ESA) policies. As described in greater detail below TC-ESAs empower families to choose from among a wide variety of educational goods and services, including private school tuition, tutoring, textbooks, homeschool curricula, special-needs therapy, and more, and unused funds can be saved for future expenses.[2] In total, there are now 26 TCS policies and two TC-ESA policies in 23 states.

Tax-credit ESAs empower families to choose from among a wide variety of educational goods and services.

TCS policies are popular among parents and the general public. In a 2018 survey of more than 14,000 scholarship families in Florida—the largest survey of a school choice program ever conducted—92 percent of families expressed satisfaction with the program and about 90 percent were satisfied with the school their child attended using a scholarship.[3] Surveys of the general public also consistently find high levels of support for TCS policies. According to the 2021 *Education Next* survey, 56 percent of Americans support TCS policies.[4] Support is even higher among parents (58 percent) and Americans who are black (64 percent) and Hispanic (66 percent). According to EdChoice's Fall 2021 "Schooling in America" survey, 70 percent of the general public and 80 percent of parents of K–12 students supported TCS policies.[5]

State	TCS Policy	Enacted	2020–21 Scholarships
Alabama	Education Scholarship Program	2013	4,202 (2019–20)
Arizona	Original Individual Income Tax Credit Scholarships	1997	36,579 (2018–19)
Arizona	Low-Income Corporate Income Tax Credit Scholarships	2006	28,972 (2018–19)
Arizona	Lexie's Law for Disabled and Displaced Students	2009	964 (2019–20)
Arizona	"Switcher" Individual Income Tax Credit Scholarships	2012	26,859 (2018–19)
Arkansas	Philanthropic Investment in Arkansas Kids Scholarship Program	2021	N/A
Florida	Florida Tax Credit Scholarship Program	2001	102,969
Florida	Florida Hope Scholarship Program	2018	393
Georgia	Qualified Education Expense Tax Credit	2008	16,358 (2019–20)
Illinois	Invest in Kids Program	2017	7,435 (2019–20)
Indiana	School Scholarship Tax Credit	2009	10,012 (2019–20)
Iowa	School Tuition Organization Tax Credit	2006	12,538 (2019–20)
Kansas	Tax Credit for Low Income Students Scholarship Program	2014	632
Kentucky	Education Opportunity Account Program	2021	N/A
Louisiana	Tuition Donation Credit Program	2012	2,032 (2018–19)
Missouri	Empowerment Scholarship Accounts Program	2021	N/A
Montana	Tax Credits for Contributions to Student Scholarship Organizations	2015	15
Nevada	Educational Choice Scholarship Program	2015	1,055
New Hampshire	Education Tax Credit Program	2012	718
Ohio	Tax-Credit Scholarship Program	2021	N/A
Oklahoma	Equal Opportunity Education Scholarships	2011	2,555 (2018–19)
Pennsylvania	Educational Improvement Tax Credit Program	2001	45,882 (2018–19)
Pennsylvania	Opportunity Scholarship Tax Credit Program	2012	14,505 (2018–19)
Rhode Island	Tax Credits for Contributions to Scholarship Organizations	2006	576
South Carolina	Educational Credit for Exceptional Needs Children	2013	1,635 (2019–20)
South Dakota	Partners in Education Tax Credit Program	2016	863
Utah	Special Needs Opportunity Scholarship Program	2020	N/A
Virginia	Educational Opportunity Scholarships Tax Credits Program	2012	4,498 (2019–20)

Note: Unless otherwise noted, all facts and figures in the tables are from EdChoice's 2021 Edition of the ABCs of School Choice report, https://www.edchoice.org/research/the-abcs-of-school-choice/.

Tax-credit scholarship policies are popular among parents and the general public.

At their core, TCS policies are very similar. Taxpayers receive tax credits for contributions to scholarship granting organizations that fund students attending schools other than their assigned district school. However, their details vary significantly. For example, in some states, only individual taxpayers are eligible for the tax credits while in others only corporate taxpayers are (this is often because a given state does not have either a personal or a corporate income tax). The value of the tax credits varies from 50 percent to 100 percent of contributions with 16 of the 28 programs offering credits worth 100 percent of contributions and another nine offering credits between 75 and 97 percent. Some scholarships are available for all students in a given state while others are targeted towards students from low-income families or students with special needs.

TCS policies can be designed in a way that they are revenue neutral for the state or even produce savings for state coffers. These savings materialize when the reduction in state tax revenue resulting from the tax credits is less than the associated reduction in state spending, after adjusting for students who would not have attended a public school anyway. According to a 2018 study by Dr. Martin Lueken, 10 TCS policies in seven states generated between $1.7 billion and $3.4 billion in cumulative taxpayer savings from 1997 through the 2013–14 school year for a cumulative savings per pupil of between $1,650 and $3,000.[6] In 2021, Lueken conducted an even broader review that examined the fiscal effects of 40 educational choice programs, including 18 TCS policies, finding that through fiscal year 2018, they "generated an estimated $12.1 billion to $27.8 billion in cumulative net fiscal savings for state and local taxpayers" representing $3,200 to $7,400 in savings per participating student.[7] A 2021 study of Virginia's TCS policy by Magnum Economics calculated that it saved the state government $1.78 in education costs for every $1.00 reduction in tax revenue during the 2018–19 academic year, for a total $19.5 million in state savings, with a positive net fiscal impact of $8.5 million.[8]

Tax-credit scholarship policies can greatly expand educational opportunities, but the devil is in the details. This paper explains the various design elements of TCS policies, details how various TCS policies differ across states, and offers suggestions to policymakers seeking to craft TCS legislation in their own states.

2. Designing a Tax-Credit Scholarship Policy

When designing a tax-credit scholarship policy, policymakers must balance various competing considerations. The primary goal of such policies is to empower families to choose the schools that work best for their children, but policymakers must also consider the fiscal impact and ensure accountability. For example, various policy levers—like the value of the tax credits or eligibility restrictions—could ensure that a new tax credit would be revenue-neutral or even generate savings for the state treasury, but some policies might come at the expense of empowering families or raising sufficient funds to meet demand. Likewise, there can be tension between attempts to guarantee academic quality and respecting the freedom of families and education providers to try new and different ways of educating children. In this section, we will describe some of the main elements of TCS policies, explore the tradeoffs of various options, and offer suggestions for navigating those options.

Policymakers should strive to make the scholarships available to as many students as possible.

2.1 Eligibility

The promise of public education is that every single child should have access to a high-quality education that meets his or her needs. Accordingly, the ideal educational choice program would be available to all children. Four TCS policies (in Georgia, Montana, Ohio, and Arizona's individual-contributor TCS) offer tax-credit scholarships to all K–12 students. However, since resources are limited, most states prioritize students who are most in need.

The most common eligibility restriction is on the basis of family income. Of the remaining 24 TCS and TC-ESA policies that impose eligibility restrictions, 19 limit eligibility to students from low- and middle-income families. The most restrictive income thresholds are in Alabama and Kansas, which limit eligibility to families earning up to 185 percent of the federal poverty line ($49,025 for a family of four in 2021).[9] Fourteen policies have income thresholds that are 300 percent of the federal poverty line ($79,500 for a family of four in 2021) or higher.

Two states (South Carolina and Utah) limit eligibility to students with special needs. Additionally, Arizona's "Lexie's Law" scholarships are for students who have special needs or who are in foster care or were adopted through the state's foster care system.

Pennsylvania's "Opportunity Scholarship Tax Credit" is now the only TCS policy that is limited to students who are assigned to a low-performing district school. Although well-intentioned, the "failing schools" model suffers from several flaws. First, it can make the scholarship policy unnecessarily confusing as the geographic areas that qualify change from year to year. Scholarship organizations already face a significant challenge in informing the public about the availability of the scholarships—constantly shifting eligibility zones exacerbate that challenge. Second, the "failing schools" policy puts the focus on the wrong place: the performance of the district schools rather than the needs of the child. Even a school with high test scores may not be the right fit for some children, while a school with low test scores may be great for others. A child's access to a learning environment that's the right fit for them shouldn't depend on the average test score of their assigned district school.[10] For these and other reasons, in 2021, lawmakers in Kansas replaced their "failing schools" eligibility criteria with an income-eligibility requirement (which it also raised from 130 percent to 185 percent of the federal poverty line).

In 2018, Florida became the first (and, so far, only) state to enact a TCS policy specifically for students who had been the victims of bullying or abuse. The purpose of such "student safety scholarships" is both to give students an immediate escape hatch from a dangerous environment as well as to provide schools with a strong incentive to address issues of bullying when (or even before) they arise. In 2021, during the COVID pandemic, Florida policymakers clarified that the Hope Scholarships could be used by children being harassed based on whether or not they wore masks at school.[11]

Although policymakers may find it necessary to impose some eligibility restrictions, they should strive to make the scholarships available to as many students as possible. This is not only a matter of fairness, but also a matter of effectiveness. If we want an education system that is continuously innovating and improving, then a wide swath of the population must have access to a wide variety of education options. As Professor Paul Hill of the University of Washington explains, market-induced improvements to our education system, "depend on the supply-side, that is, on the success of arrangements that promote the creation of a wide variety of school options, expose all schools to performance pressures through competition, and permit constant replacement of weak schools by promising new ones."[12] A scholarship policy that is limited only to low-income families will fill empty seats in the existing system, but it will do little to spur widespread innovation and improvement. Policymakers who want to see educational choice policies spur systemic improvement should design them to be as inclusive as possible.

Fortunately, the public supports universal choice. Polls consistently find significantly higher levels of public support for universal educational choice programs than targeted programs. For example, in EdChoice's Fall 2021 Schooling in America Survey, 76 percent of respondents agreed with the statement "ESAs [education savings accounts] should be available to all families, regardless of income or special needs," while only 21 percent disagreed.[13] By contrast, only 50 percent of respondents agreed with the statement, "ESAs should be available only to families based on financial need," while 47 percent disagreed. In other words, universal policies tend to attract more supporters and draw fewer detractors than the more controversial means-tested policies.

"Prior Year Public" Requirements

Tax-credit scholarships reduce state expenditures on its public K–12 school system when a student uses the scholarship to switch from a public school to a private or home school. Most states base their K–12 education spending at least partially on student enrollment. Accordingly, when students leave the district school system, the state experiences corresponding savings. To ensure that the TCS policy is revenue neutral or produces savings, 11 TCS policies require that all or some percentage of scholarship students attended a traditional district or public charter school in the year prior to receiving a scholarship. Several of these states make exceptions for students who are entering kindergarten or first grade, entering a transition year like grades six or nine, or who are attending school in the state for the first time. In 2021, South Dakota eliminated its "prior public" requirement.

When students leave the district school system, the state experiences corresponding savings.

A greater proportion of switchers translates into more savings for the state. However, there are numerous low-income families who would otherwise qualify for the scholarships who do not want to send their children to a school that does not meet their needs in order to qualify for a scholarship. They often receive financial aid through private schools or other charitable institutions, and it would seem unfair to exclude them entirely from the program. Ideally, policymakers would refrain from imposing "prior year public" requirements. However, it is sometimes necessary to include provisions that guarantee a policy will be revenue neutral or produce savings. To balance these competing interests, states like Alabama and New Hampshire require that a certain portion of scholarship recipients be switchers, but allow scholarship organizations to grant the remainder to any qualifying low-income family. Each year, the percentage of students that New Hampshire requires to be "switchers" decreases by five percentage points.

State	Income Limit	Prior Year Public
Arizona (Universal)	None	None
Montana	None	None
Ohio	None	None
Arizona (Switcher)	None	Yes, with exceptions
Georgia	None	Yes, with exceptions
Indiana	555% x Poverty Line	None
Oklahoma	555% x Poverty Line	None
Pennsylvania (EITC)	$92,160 + $16,222/child (Approx. 500% x FPL)	None
Iowa	400% x Poverty Line	None
Arizona (Low-Income)	342.25% x Poverty Line	Yes, with exceptions
Illinois	300% x Poverty Line (400% for renewals)	None
Virginia	300% x Poverty Line (400% for students w/special needs)	Yes, with exceptions
Nevada	300% x Poverty Line	None
New Hampshire	300% x Poverty Line	Yes, with exceptions
South Dakota	275.5% x Poverty Line	None
Rhode Island	250% x Poverty Line	None
Louisiana	250% x Poverty Line	Yes, with exceptions
Arkansas	200% x Poverty Line	Yes, with exceptions
Alabama	185% x Poverty Line	Yes, with exceptions

TCS Policies for Students with Special Needs or Special Situations

State	Income Limit	Prior Year Public	Additional Eligibility Requirements
Arizona (Special Needs)	None	None	Limited to students with special needs or previously in foster care
South Carolina	None	None	Limited to students with special needs
Utah	None	None	Limited to students with special needs
Florida (Hope)	None	Yes	Limited to victims of bullying attending public schools
Kansas	185% x Poverty Line	Yes, with exceptions	Limited to students assigned to low-performing schools
Pennsylvania (OSTC)	$92,160 + $16,222/child (Approx. 500% x FPL)	None	Limited to students assigned to low-performing schools
Kentucky	323.75% x Poverty Line	None	Must live in county with more than 90,000 residents
Missouri	370% x Poverty Line (or IEP)	Yes, with exceptions	Must live in charter county or city with more than 30,000 residents

2.2 Tax Credit Value

The "tax credit value" is the percentage of a taxpayer's contribution to a scholarship organization that they can claim as a credit on their state taxes. As of 2021, the tax credit values in TCS policies nationwide vary from 50 percent to 100 percent of the taxpayer's contributions. Sixteen of the 28 programs offer credits worth 100 percent of the contribution and another nine offer credits between 75 and 97 percent. In 2021, Iowa raised their credit value from 65 percent to 75 percent.

Lower tax credit values are intended to produce greater savings for the state treasury, but the potential savings come at the cost of reducing the incentive to contribute to an SGO. For example, states with tax credit values worth 100 percent, like Arizona and Florida, regularly hit their total tax credit caps (currently $123 million and $874 million, respectively) whereas New Hampshire has never hit its $5 million credit cap with its 85 percent credit value. Since the purpose of TCS policies is to expand educational opportunity for as many children as possible, ideally the tax credit value will be as high as possible. As detailed in EdChoice's 2016 report, "The Tax-Credit Scholarship Audit," even policies with 100 percent credit values can produce fiscal savings for a state when the per-student cost of tax credit disbursements is less than the per-student reduction in state spending, after adjusting for students who would not have attended a public school anyway.[14]

Some states provide an incentive to corporate taxpayers to make multi-year contribution commitments by offering a higher tax credit value. For example, in Pennsylvania and Rhode Island, taxpayers can claim a tax credit worth 75 percent of single-year contributions or 90 percent for multi-year contributions.

State	Credit Value
Alabama	100%
Arizona (Universal)	100%
Arizona (Low-Income)	100%
Arizona (Special Needs)	100%
Arizona (Switcher)	100%
Arkansas	100%
Florida (Main)	100%
Florida (Hope)	100%
Georgia	100%
Missouri	100%
Montana	100%
Nevada	100%
Ohio	100%
Louisiana	100%
South Carolina	100%
Utah	100%
Kentucky	95% (single-year) / 97% (multi-year)
Pennsylvania (EITC)	75% (single-year) / 90% (multi-year)
Pennsylvania (OSTC)	75% (single-year) / 90% (multi-year)
Rhode Island	75% (single-year) / 90% (multi-year)
New Hampshire	85%
South Dakota	80%
Illinois	75%
Iowa	75%
Kansas	70%
Oklahoma	50% (single-year) / 75% (multi-year)
Virginia	65%
Indiana	50%

2.3 Tax Credit Caps

Another way TCS policies manage the fiscal impact on the state is to limit availability of the credits. Generally, states impose at least one of two types of caps: caps on the size of the contribution for which individual taxpayers can claim a tax credit and caps on the total amount of tax credits available to all taxpayers.

Per-Donor Caps

In some states, like South Carolina, the amount of tax credits taxpayers can claim is limited to a certain percentage of their tax liability. Other states cap credit-eligible donations at a certain dollar figure. Still others, like Georgia, do both.

Per-donor caps recognize that taxpayers' tax liability cover a wide variety of governmental services beyond education. However, when the per-donor cap is too restrictive, it can negatively affect the ability of scholarship organizations to raise funds, thereby undermining the purpose of the TCS policy. Until 2021, Montana's excessively restrictive cap of $150 per donor crippled the program. During the 2020–21 academic year, only 15 students received tax-credit scholarships worth an average of about $500 even though the total tax credit cap was $3 million. By contrast, in Florida—which does not cap the amount of tax credits donors can claim—more than 100,000 students receive tax-credit scholarships worth about $6,350, on average. In 2021, Montana lawmakers wisely increased the per-donor credit cap from $150 to $200,000.

Since the purpose of TCS policies is to expand educational opportunity for as many children as possible, ideally the tax credit value will be as high as possible.

Policymakers should keep in mind that, due to inflation, fixed caps have the effect of reducing the real total available funds for scholarships over time. If policymakers impose per-donor caps, they should consider following the lead of Arizona by pegging the caps to inflation.

State	Per-Donor Cap	Total Credit Cap
Alabama	Up to 50% of tax liability (not to exceed $50,000 for individuals)	$30 million
Arizona (Universal)	$593 single, $1,186 married (adjusted annually for inflation)	None
Arizona (Low-Income)	None	$123 million (escalator)
Arizona (Special Needs)	None	$6 million
Arizona (Switcher)	$590 single, $1,179 married (adjusted annually for inflation)	None
Arkansas	None	$2 million
Florida (Main)	None	$873.6 million (escalator)
Florida (Hope)	$105 (vehicle tax)	None
Georgia	$1,250 single, $2,500 married, up to 75% of corporate tax liability not to exceed $10,000	$100 million
Illinois	$1 million	$75 million
Indiana	None	$14 million
Iowa	None	$20 million
Kansas	$500,000	$10 million
Kentucky	$1 million	$25 million
Louisiana	None	None
Missouri	50% of taxpayer's liability	$25 million (inflation adjusted)
Montana	$200,000	$1 million in 2022; $2 million in 2023 (escalator)
Nevada	None	$14.2 million (escalator)
New Hampshire	$1 million	$5.1 million
Ohio	$750	None
Oklahoma	$1,000 single, $2,000 married, $100,000 corporations	$25 million
Pennsylvania (EITC)	$750,000	$185 million ($135M for K–12; $12.5M for pre-K)
Pennsylvania (OSTC)	$750,000	$55 million
Rhode Island	$100,000	$1.5 million
South Carolina	60% of tax liability	$12 million
South Dakota	None	$2 million
Utah	None	$5.9 million (escalator)
Virginia	$125,000 for individuals / None for corporations	$25 million

Total Credit Caps

Most states impose a cap on the total amount of tax credits available so that the fiscal effects of the policy are limited and predictable. As noted above, fixed caps will mean that inflation will reduce the real value of the scholarships over time. Moreover, in states that are experiencing population growth, fixed caps will diminish the percentage of students who have access to these scholarships. Policymakers should therefore include "escalator" clauses that allow the total amount of available tax credits to grow over time to meet demand. For example, whenever Florida taxpayers claim at least 90 percent of the total amount of available tax credits in a given year, the total amount of tax credits increases by 25 percent in the following year.

In 2021, several states increased the total amount of tax credits available. The largest expansions were in Oklahoma, which raised its total tax credit cap from $3.5 million to $25 million, and in Pennsylvania, which raised the total tax credit cap of the Education Improvement Tax Credit by $40 million—the largest single-year increase in the state's history. Additionally, Arizona increased the total tax credit cap for Lexie's Law for students with special needs by $1 million, Iowa raised its total tax credit cap from $15 million to $20 million, and Nevada also increased its credit cap by about $5 million.

2.4 Scholarships

Scholarship Size

Another factor that affects the fiscal impact of a TCS policy is the size of the scholarships. Such policies produce savings when the reduction in revenue per pupil is less than the reduction in state spending per pupil, after accounting for scholarship students who would have attended a private school anyway. If scholarship organizations give relatively large scholarships to a small number of students, the savings may not offset the reduction in revenue. One way to ensure savings is to set a maximum value for the scholarships. In all the TCS policies so far enacted, states set some sort of maximum scholarship value, sometimes a set dollar figure and other times a percentage of the state's portion of the statewide average per-pupil expenditure for district schools. Since the scholarships are intended to bridge the gap between what families can afford and the cost of tuition, ideally the scholarship values should be as high as possible.

If policymakers set a specific dollar figure, they should consider pegging the scholarship cap to inflation so the real value of the scholarships does not diminish over time due to inflation. Additionally, it is better to set a maximum average scholarship value, as in New Hampshire, rather than to set a maximum value for all scholarships. Setting a maximum average gives the scholarship organizations greater flexibility to tailor scholarship awards based on the financial need of families while still ensuring that the tax credit policy is revenue neutral or produces savings.

Setting a maximum average gives the scholarship organizations greater flexibility to tailor scholarship awards while still ensuring the policy is revenue neutral or produces savings.

Scholarship Uses

In most states, the tax-credit scholarships have one use: private school tuition. Increasingly, however, policymakers are coming to realize that the society's interest in ensuring that every child has access to a quality education can be met outside of the traditional classroom. Indeed, education need not take place entirely or primarily in a traditional school.

In recent years, some states have enacted educational choice policies that empower families to select a wide variety of different educational products and services. Five states (Arizona, Florida, Mississippi, North Carolina, and Tennessee) have enacted K–12 education savings account policies that deposit 90 percent of the state's portion of public school per-pupil expenditures into restricted-use bank accounts. Families can use these accounts to pay for private school tuition, tutoring, textbooks, online courses, educational therapy, and more. They can also roll over unused funds to save for later educational expenses, including college.

Until recently, only New Hampshire's TCS policy enabled families to use the scholarships for a wide variety of educational purposes. Granite State families can use their scholarships for a variety of home education expenses in addition to or instead of private school tuition. In 2020, Utah enacted a TCS policy for students with special needs that allows the scholarships to be used for tuition, fees, textbooks, testing costs, supplemental and online materials at private schools as well as educational therapies from licensed physicians and therapists.

In 2021, Kentucky and Missouri enacted tax-credit education savings account policies that also allow families to spend the TC-ESA funds on a wide variety of educational expenses. Kentucky's TC-ESA can be used for private school tuition, public school classes and non-athletic extracurricular activities, instructional materials, technology, transportation, school uniforms, testing fees, summer and after-school programs therapies, and higher education courses. Similarly, Missouri's TC-ESA can be used for tuition, textbooks, educational therapies, tutoring services, curriculum, virtual school tuition, standardized tests, public school classes and extracurricular activities, certain approved computer hardware and technological devices, summer education programs, after-school programs, and transportation to and from school.

Policymakers crafting TCS policies should consider following the example of ESA policies by permitting the scholarships to cover a similarly broad menu of educational products and services.

Policymakers should permit the scholarships to cover a broad menu of educational products and services.

State	Scholarship Cap	Avg. Scholarship
Alabama	$6,000 (K–5) / $8,000 (6–8) / $10,000 (9–12)	$5,960
Arizona (Universal)	None	$1,780
Arizona (Low-Income)	$5,400 (K–8) / $6,700 (9–12)	$2,469
Arizona (Special Needs)	90% State Funding	$1,476
Arizona (Switcher)	None	$5,214
Arkansas	80% of State's Foundation Funding ($5,614 in K–8 / $6,316 in 9–12)	N/A
Florida (Main)	$7,111	$6,195
Florida (Hope)	$7,111	$7,111
Georgia	$9,817 (2018)	$4,008
Illinois	$12,973	$1,614
Indiana	Full Tuition	$7,380
Iowa	Full Tuition	$2,145
Kansas	$8,000	$4,058
Kentucky	100% of State's Base Per-Pupil Funding ($4,700)	N/A
Louisiana	Conditional	$4,379
Missouri	100% of State Adequacy Target ($6,375)	N/A
Montana	50% of State Expenditure	$500
Nevada	$8,132	$2,247
New Hampshire	$2,762, on average / $4,749 (special needs minimum)	$5,370
Ohio	None	N/A
Oklahoma	Conditional	$2,017
Pennsylvania (EITC)	Full Tuition	$2,490
Pennsylvania (OSTC)	$8,500 / $15,000 (special needs)	$1,816
Rhode Island	None	$3,416
South Carolina	$11,000	$4,973
South Dakota	82.5% of State Funding	$419
Utah	Weighted Pupil Unit	N/A
Virginia	100% of State Funding	$3,134

2.5 Scholarship Granting Organizations[15]

Scholarship granting organizations (SGOs) are the engines that run tax-credit scholarship policies. SGOs are nonprofit organizations registered under a state's TCS policy that raise funds from individual and corporate taxpayers and collaborate with private schools to aid families in need and expand educational opportunity. Donors to the SGOs receive tax credits against certain state taxes—usually individual and corporate income taxes. SGOs are often required to meet certain reporting requirements or undergo regular audits.

Scholarship granting organizations are an important part of the social fabric.

SGO Missions

Although united in their goal of expanding educational opportunity, SGOs, like other non-profits, have a variety of different missions. Some SGOs have a religious mission and only work with schools that share their religious affiliation. Other SGOs have a mission to help students attending schools with a particular pedagogical approach (e.g., Montessori). Some serve students in a particular geographic area. Many SGOs support students attending any school their parents choose, no matter their religious affiliation or pedagogical approach. The vast majority of SGOs prioritize scholarship awards based on the financial need of the applicants, even beyond what the state laws require. Most states respect the right of these nonprofit SGOs to define their own missions, so long as they grant scholarships to students eligible under the state law. Donors have the freedom to support SGOs whose missions align with their values.

A few states' TCS policies restrict tax-credit eligible contributions to SGOs that fund scholarships to children attending any school of their family's choice. Although this is a worthwhile model, it is not the only worthy model. Many mission-based SGOs long predated the enactment of TCS policies, sometimes by more than a century. SGOs have a plurality of missions that reflect the diversity of our plural society. They are an important part of the social fabric, and they should not be excluded from TCS programs merely because they do not operate like a state-run voucher program would.[16] Moreover, restricting their ability to determine their own particular missions may even be counter-productive, as it would prevent donors from supporting organizations whose values align with their own, having the net effect of shrinking the pie of available donations.

Administrative Expenses

As with any other organization, SGOs need funds to cover administrative costs such as staff salaries, regulatory compliance, marketing, printing, website maintenance, and so on. These and other expenses are incurred to carry out the central functions of the organization, such as fundraising, advertising availability of the scholarships, verifying eligibility, disbursing the scholarships, and meeting all the reporting requirements. In most states, the TCS policy allows SGOs to use up to 10 percent of the tax-credit eligible contributions they receive for administrative costs, although some states (like Alabama, Illinois, Louisiana, and Nevada) allow only 5 percent.[17]

The level of the administrative allowance may affect the number of SGOs that participate in the program. It is likely no coincidence that the state with the most generous administrative allowance—Pennsylvania, at 20 percent[18]—has the greatest number of participating SGOs (258). On the flip side of the coin, despite issuing more scholarships than any other state, Florida only has only two participating SGOs. This is likely related to its parsimonious 3 percent administrative allowance, which is only granted to SGOs that have operated for at least three years without any administrative allowance.[19] Ohio's statute does not contain a cap on SGOs' administrative expenses, but such a cap may be included in the administrative rules adopted before the scholarship policy goes into effect.

Although there is no magic number, policymakers should avoid restricting the administrative allowance so much that it is difficult to create or operate SGOs. Ultimately, the purpose of a TCS policy is to help as many students as possible gain access to greater educational opportunity. Policymakers should seek to craft policies that aid SGOs in carrying out that mission.

State	Admin Allowance
Pennsylvania (EITC)	20%
Pennsylvania (OSTC)	20%
Arizona (Universal)	10%
Arizona (Low-Income)	10%
Arizona (Special Needs)	10%
Arizona (Switcher)	10%
Arkansas	10%
Indiana	10%
Iowa	10%
Kansas	10%
Kentucky	10%
Missouri	10%
Montana	10%
New Hampshire	10%
Oklahoma	10%
Rhode Island	10%
South Carolina	10%
South Dakota	10%
Utah	10%
Virginia	10%
Georgia	8%
Alabama	5%
Louisiana	5%
Nevada	5%
Illinois	5%
Florida (Main)	3% (first three years 0%)
Florida (Hope)	3% (first three years 0%)
Ohio	N/A

2.6 Academic Accountability

To ensure that families have the information necessary to hold education providers accountable, some states mandate that students receiving tax-credit scholarships take standardized tests. Only two states—Illinois and Louisiana—mandate the same test that is administered to all district school students. Most states that require a test give private schools the option of choosing from a menu of nationally norm-referenced (NNR) tests, like the SAT, Stanford 10 or Iowa Test of Basic Skills.

The impulse to require a test is understandable, but mandating a single test for all schools creates serious unintended consequences that can undermine the value of educational choice. As detailed in the EdChoice Policy Toolkit, mandating a single test can create perverse incentives that distort how schools operate in unhealthy ways, such as changing what subjects and concepts are taught and how they are taught based on what is on the state test rather than according to what the educators believe is in the best interests of their students.[20]

State test mandates also reduce the participation of private schools in the scholarship programs, unnecessarily limiting the options available to scholarship families. An experimental evaluation of the effects of regulations on private school participation in school choice programs found that state standardized test requirements significantly reduced the likelihood that private schools would participate.[21] Specifically, requiring private schools to administer the state test decreased the likelihood that a private school was "certain to participate" in a school choice program by 9 percentage points, or 29 percent. By contrast, a proposed NNR test requirement did not reduce private school leaders' willingness to participate. An earlier study by same researchers found that a state test mandate would reduce private school participation in a proposed school choice program in Florida by around 11 to 14 percentage points, or 46 to 55 percent.[22] Likewise, a survey by the American Enterprise Institute found that 68 percent of Louisiana private school leaders who opted not to have their school accept vouchers cited concerns about the state testing requirement.[23]

By contrast, allowing private schools to choose among nationally norm-referenced tests gives parents information about how well a student is doing relative to his or her peers nationwide without unduly affecting how the schools operate. When schools can select the test that best aligns to their chosen curriculum and pedagogical approaches, they do not feel the same pressure to distort how they operate and they are more likely to participate in the scholarship program. The use of NNR tests empowers families with important information while respecting the freedom and autonomy of private schools.

State	Testing Mandates
Arizona (Universal)	None
Arizona (Low-Income)	None
Arizona (Special Needs)	None
Arizona (Switcher)	None
Georgia	None
Iowa	None
Kansas	None
Kentucky	None
New Hampshire	None
Oklahoma	None
Ohio	None
Pennsylvania (EITC)	None
Pennsylvania (OSTC)	None
Rhode Island	None
Utah	None
Alabama	State or NNR
Florida (Main)	State or NNR
Florida (Hope)	State or NNR
Missouri	State or NNR
South Carolina	State or NNR
South Dakota	State or NNR
Arkansas	NNR
Indiana	NNR
Montana	NNR
Nevada	NNR
Virginia	NNR
Illinois	State
Louisiana	State

The use of NNR tests empowers families with important information while respecting the freedom and autonomy of private schools.

3. Conclusion

Tax-credit scholarship policies are a popular and cost-effective way to expand educational choice. Of course, not all TCS policies are created equal. To a great extent, the success of such policies depends on how they are designed. The primary purpose of TCS policies is to empower families to choose the learning environments that work best for their children. To that end, policymakers should craft their TCS policies to maximize the incentive that taxpayers must contribute to scholarship organizations, maximize the number of families that can benefit from the scholarships, and maximize the freedom and flexibility that scholarship organizations have to serve those families. To achieve those goals, we recommend the following:

The success of tax-credit scholarship policies depends on how they are designed.

- **Eligibility:** Make all children eligible to receive the scholarships while prioritizing those most in need. Avoid "prior public" requirements.
- **Tax Credit Value:** Offer a tax credit that is as close to 100 percent of the taxpayer's contribution as possible.
- **Tax Credit Caps:** Aim to ensure that the total tax credit cap is sufficient to provide scholarships for all families who want one. Include "escalator clauses" that automatically raise the caps over time to keep up with rising demand. Per-donor caps should be pegged to inflation so as not to dilute their value over time.
- **Scholarships:** The maximum value of the scholarships should be as close as possible to the state's portion of per-pupil spending at the K–12 public schools. Families should be able to use the scholarships for a wide variety of educational good and services, including private school tuition, tutoring, textbooks, online courses, educational therapy, and more.
- **Scholarship Granting Organizations:** Policymakers should respect the freedom of SGOs to set their own missions consistent with the primary purpose of the TCS program. SGOs should be given sufficient allowance to spend the contributions they have received on administrative expenses necessary to fundraise, advertise the availability of the scholarships, verify eligibility, disburse the scholarships, and meet all reporting requirements.
- **Academic Accountability:** Policymakers should avoid mandating a single standardized test for all scholarship students. Allowing private schools to choose among many nationally norm-referenced tests gives parents information about how well a student is doing relative to his or her peers nationwide without unduly affecting how the schools operate.

The above list includes the central design elements of a tax-credit scholarship policy, but it does not exhaust all the policy decisions legislators will have to make when crafting TCS legislation. During the drafting and committee hearing process, legislators will likely regularly face the temptation to add new rules and regulations to address various issues that are raised. It is impossible to address all such possibilities here, but we recommend that policymakers always consider the consequences of such regulations, including how families, SGOs, and taxpayers are likely to behave in response. When considering a potential rule, policymakers should ask: Does this empower families or not? Does it aid or hinder the ability of SGOs to carry out their mission? Does it make it more or less likely that private schools would participate in the scholarship program? Is this necessary for the policy to function well?

Policymakers should think carefully about the various design elements to ensure that the tax-credit policy they craft will successfully further its central purpose: empowering families to choose the learning environments that best meet their child's needs.

4. Appendix: Resources

Model Legislation

American Legislative Exchange Council (ALEC): *Great Schools Tax Credit Program Act*

This model bill is the product of years of collaboration between numerous national and state-level educational choice advocacy groups and think tanks based on the best practices in tax-credit scholarship policies nationwide.
https://www.alec.org/model-policy/the-great-schools-tax-credit-program-act-scholarship-tax-credits/

American Legislative Exchange Council (ALEC): *Student Safety Scholarship Act*

As above, this model bill is the product of collaboration between numerous national and state-level educational choice advocacy groups and think tanks. The major difference from the above model bill is that this one is designed to serve students who have been the victims of bullying or abuse.
https://www.alec.org/model-policy/the-student-safety-scholarships-act/

Institute for Justice

This model bill was developed by the legal experts at the Institute for Justice with the aim of crafting a tax-credit ESA that is well-positioned to survive a legal challenge.
https://ij.org/activism/legislation/model-legislation/model-esa-bill-tax-credit-funded/

Parent Satisfaction Survey

EdChoice: *Surveying Florida Scholarship Families*

Authors: Jason Bedrick and Lindsey Burke, Date: October 2018. Florida's tax-credit scholarship program serves some of the most disadvantaged students in the state. This survey explores the preferences and experiences of parents and guardians of Florida children using the program. As the largest-ever survey of participants in a private school choice program, it represents some of the strongest evidence to date of the views and educational priorities of parents exercising private school choice.
https://www.edchoice.org/research/surveying-florida-scholarship-families/

Public Opinion Surveys

EdChoice: *2021 Schooling in America: K–12 Education and School Choice Reforms*

Authors: Drew Catt, John Kristof, and Paul DiPerna, Date: September 2021. EdChoice's annual survey explores the public's views of educational choice and a variety of other education policies. It also includes breakouts to show similarities and differences among racial/ethnic communities.
https://www.edchoice.org/research-library/?report=2021-schooling-in-america#report

EdChoice: "Public Opinion Tracker"

This monthly survey tracks the public's views of educational choice and a variety of other education policies. It also includes information about the views of citizens in each state.
https://edchoice.morningconsultintelligence.com

Education Next: *Results from the 2021 Education Next Poll*

Authors: Michael B. Henderson, David Houston, Paul E. Peterson, and Martin R. West, Date: August 2021. The annual *Education Next* survey asks the public about their level of support for educational choice and a variety of other education policies.
https://www.educationnext.org/2021-ednext-poll-interactive/

Research on Fiscal Effects

EdChoice: ***The Fiscal Effects of Private K–12 Education Choice Programs in the United States***

Author: Martin Lueken, Date: August 2021. From an analysis of 40 private educational choice programs in 19 states plus D.C., this working paper summarizes the facts and evidence on the fiscal effects of educational choice programs across the United States. The programs in the analysis include three education savings accounts programs (ESAs), 19 school voucher programs, and 18 tax-credit scholarship programs.

https://www.edchoice.org/research-library/?report=the-fiscal-effects-of-private-k-12-education-choice-programs-in-the-united-states#report

EdChoice: ***The Tax-Credit Scholarship Audit***

Author: Martin Lueken, Date: October 2016. This report examines the fiscal effects of private school choice programs on state governments, state and local taxpayers and school districts. This audit looks at 10 tax-credit scholarship programs operating in seven states between 1997 and 2014. These 10 programs cover 93 percent of total scholarships awarded to students participating in tax-credit scholarship programs nationwide.

https://www.edchoice.org/research/tax-credit-scholarship-audit/

EdChoice: ***Projected Fiscal Impact of Pennsylvania Senate Bill No. 299***

Author: Martin Lueken, Date: May 2019. This paper reports results from a fiscal analysis of Pennsylvania SB 299, a proposal to expand the state's two tax-credit scholarship programs. Pennsylvania currently has two programs in operation, the Educational Improvement Tax Credit (EITC) Program and the Opportunity Scholarship Tax Credit (OSTC) Program.

https://www.edchoice.org/research/projected-fiscal-impact-of-pennsylvania-senate-bill-no-299/

Policy Briefs

Pioneer Institute report: ***Giving Kids Credit: Using Scholarship Tax Credits to Increase Educational Opportunity***

Authors: Ken Ardon and Jason Bedrick, Date: July 2014. While higher-income families have a plethora of K–12 educational options, lower-income families' options are often limited to the local district school to which they are assigned. This paper proposes a constitutional and fiscally responsible method of expanding educational options for low-income families by modeling education tax credits.

https://pioneerinstitute.org/pioneer-research/charter-schools/giving-kids-credit-using-scholarship-tax-credits-to-increase-educational-opportunity-in-massachusetts/

Pioneer Institute report: ***School Choice Without Vouchers: Expanding Education Options Through Tax Credits***

Authors: William Howell and Mindy Spencer, Date: October 2007. While efforts to offer Massachusetts families more private school choice remain difficult, many other states have moved ahead, implementing innovative education tax deductions and credit programs. By lowering barriers to private education, these programs open a new door for students trapped in underperforming public schools.

https://pioneerinstitute.org/education/school-choice-without-vouchers-expanding-education-options-through-tax-benefits/

Constitutionality

Pioneer Institute: ***Amicus Brief in Landmark U.S. Supreme Court Espinoza v. Montana DOE Case***

Pioneer Institute filed an *amicus curiae* brief in the landmark United States Supreme Court' case *Espinoza v. Montana Department of Revenue*. This brief urged the Court to strike down Montana's Blaine amendment, and drew on Massachusetts' 1855 Know-Nothing Amendment to its state constitution to support the challenge to the Montana constitutional Blaine amendment marked by religious bias. Pioneer's brief was cited by Justice Alito in his concurring opinion to United States Supreme Court's majority ruling.
https://pioneerinstitute.org/featured/pioneer-institute-files-updated-amicus-brief-in-potentially-landmark-school-choice-case-currently-before-u-s-supreme-court/

Pioneer Institute: ***The Know-Nothing Amendments: Barriers to School Choice in Massachusetts***

Author: Cornelius Chapman, Date: April 2009. This paper considers the sad phenomenon in American history—19th-century nativism and in particular, anti-Catholic prejudice—and its lingering and deleterious effects on American primary and secondary education. The wave of nativist sentiment that swept through American thought, institutions, and state constitutions in the 19th century wiped out an older, pluralistic approach to primary and secondary education in which the interests of parents were balanced with those of the state.
https://pioneerinstitute.org/wp-content/uploads/dlm_uploads/chapman_know_nothing.pdf

Public Relations

OPINION: ***Education tax credit programs extend choice to families who can't afford private schools or to move to a tony community***

Our nation's Founding Fathers had a pluralistic view of K–12 schooling. A recent U.S. Supreme Court ruling brings the country closer to the original vision of the framers who crafted the federal and early state constitutions, and it helps erase the stain of 19th-century amendments to most state constitutions that were rooted in anti-Catholic bigotry.

The Court's June 2020 decision in *Espinoza v. Montana Department of Revenue* overturned a Montana Supreme Court ruling that prohibited using funds from an education tax credit program to attend a religious school.
https://hechingerreport.org/opinion-founders-education-tax-credit-programs-extend-choice-to-families-who-cant-afford-private-schools-or-to-move-to-a-tony-community/

FILM: ***Big Sacrifices, Big Dreams: Ending America's Bigoted Education Laws***

Pioneer Institute's 2018 documentary film explores the history of the bigoted Know Nothing/ Blaine Amendments, and traces the ordeals of four very different families who share the same struggle to send their children to schools that offer instruction rooted in religious faith, academic rigor, and a culture of respect. It received over 1 million views on Facebook and over 100,000 views on YouTube.
https://www.youtube.com/watch?v=Aeki7AUwB8o

Tax-Credit Scholarship Statutes

State	TCS Policy	Enacted	Statute
Alabama	Education Scholarship Program	2013	Ala. Code §§ 16-6D 1 through 9
Arizona	Original Individual Income Tax Credit Scholarships	1997	Ariz. Rev. Stat. §§ 43-1089; 43-1601 through 1605
Arizona	Low-Income Corporate Income Tax Credit Scholarships	2006	Ariz. Rev. Stat. §§ 43-1183; 43-1501 through 1507 and 20-224.06
Arizona	Lexie's Law for Disabled and Displaced Students	2009	Ariz. Rev. Stat. §§ 15-891; 43-1184; 43-1501 through 1507; and 20-224.07
Arizona	"Switcher" Individual Income Tax Credit Scholarships	2012	Ariz. Rev. Stat. §§ 43-1089.03; 43-1601 through 1605
Arkansas	Philanthropic Investment in Arkansas Kids Scholarship Program	2021	Ark. Code Ann. §§ 6-18-2201 through 2208; 19-5-1271
Florida	Florida Tax Credit Scholarship Program	2001	Fla. Stat. §§ 1002.395 and 1002.421
Florida	Florida Hope Scholarship Program	2018	Fla. Stat. § 1002.40
Georgia	Qualified Education Expense Tax Credit	2008	O.C.G.A. §§ 20-2A-1 through 7 and 48-7-29.16
Illinois	Invest in Kids Program	2017	35 ILCS 40 et seq.
Indiana	School Scholarship Tax Credit	2009	Ind. Code §§ 6-3.1-30.5 and 20-51-3
Iowa	School Tuition Organization Tax Credit	2006	Iowa Stat. § 422.11S
Kansas	Tax Credit for Low Income Students Scholarship Program	2014	K.S.A. §§ 72-453 through 457
Kentucky	Education Opportunity Account Program	2021	KRS § 141.500
Louisiana	Tuition Donation Credit Program	2012	La. Rev. Stat. § 47:6301
Missouri	Empowerment Scholarship Accounts Program	2021	Mo. Rev. Stat. §§ 135.712–14; 135.716; 135.719; 166.700; 166.705; 166.710; 166.715; and 166.720
Montana	Tax Credits for Contributions to Student Scholarship Organizations	2015	Mont. Code Ann. §§ 15-30-3101 through 3114
Nevada	Educational Choice Scholarship Program	2015	NRS 388D.250 through 280
New Hampshire	Education Tax Credit Program	2012	N.H. Rev. Stat. §§ 77-G:1 through 10
Ohio	Tax-Credit Scholarship Program	2021	Ohio Rev. Code §§ 5747.73.
Oklahoma	Oklahoma Equal Opportunity Education Scholarships	2011	Okla. Stat. tit. 68 § 2357.206
Pennsylvania	Educational Improvement Tax Credit Program	2001	24 Pa. Const. Stat. §§ 20-2001-B through 2013-B
Pennsylvania	Opportunity Scholarship Tax Credit Program	2012	24 Pa. Const. Stat. §§ 20-2009-B
Rhode Island	Tax Credits for Contributions to Scholarship Organizations	2006	44 R.I. Gen. Laws §§ 62-1 through 62-7
South Carolina	Educational Credit for Exceptional Needs Children	2013	S.C. Code Ann. § 12-6-3790
South Dakota	Partners in Education Tax Credit Program	2016	S.D. Codified Laws §§ 13-65-1 through 12
Utah	Special Needs Opportunity Scholarship Program	2020	Utah Code §§ 53F-4-301 through 307
Virginia	Educational Opportunity Scholarships Tax Credits Program	2012	Va. Code. §§ 58.1-439.25-28

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Pioneer Institute develops and communicates dynamic ideas that advance prosperity and a vibrant civic life in Massachusetts and beyond.

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Success for Pioneer is when the citizens of our state and nation prosper and our society thrives because we enjoy world-class options in education, healthcare, transportation and economic opportunity, and when our government is limited, accountable and transparent.

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Pioneer believes that America is at its best when our citizenry is well-educated, committed to liberty, personal responsibility, and free enterprise, and both willing and able to test their beliefs based on facts and the free exchange of ideas.

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