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Bill Analysis

Another Tax Credit for Private School Scholarships

House Bill 865 (LC 34 4770)

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Georgia lawmakers are considering legislation to create a new tax credit for individuals and corporations that donate to organizations that provide scholarships to K-12 students from low-income families to attend private schools. The proposal, House Bill 865, would establish the Building Educational Success Together (BEST) program, which allows for $25 million in total new tax credits for donations to a student scholarship organization. The proposed new program would add to an existing $58 million tax credit scholarship program. While the new program could provide greater transparency and accountability than the existing one, it falls short of what is needed to determine if students' learning needs are met and hold participating schools accountable for doing so.

The state cost for the proposed program varies depending on multiple factors including the percentage of students who would attend public schools in the absence of a private school scholarship. The maximum state fiscal impact is $25 million in lost revenue.

The Education Reform Commission created by Gov. Nathan Deal considered, but did not approve the creation of a new tax credit program similar to the one outlined in HB 865 in Nov. 2015. It recommended the Legislature add new reporting requirements for the existing program similar to what is proposed in HB 865.

Overview of Proposal

If HB 865 is approved, taxpayers will be able to redirect tax dollars to student scholarship organizations instead of the state treasury under the BEST tax credit program. Individuals are allowed a credit up to $1,000 annually and married couples up to $2,500 a year. Corporate donors are allowed a credit up to $2.5 million. Donors can retain unused tax credits for up to five years. The total annual amount is capped at $25 million.

Donors must be approved by the Georgia Department of Revenue to receive a tax credit. The proposal calls for the department to approve requests on a first-come, first-served basis until the cap is reached. The credit is 100 percent of the donated amount.

Students will be eligible for a BEST scholarship if they qualify for the free or reduced-price lunch program, a federal program for students whose family income is 185 percent or less of the U.S. poverty line, or about $37,300 annually for a family of three. Now 62.5 percent of Georgia's K-12 students, or 1,097,195, participate in the lunch program. They must also attend a public school for six weeks unless they are in kindergarten or first grade. The attendance requirement is waived for students in schools identified as failing, who have experienced documented physical or verbal abuse in school, or who were homeschooled for at least one year prior to participation in the BEST program.

The bill calls for participating schools to administer a nationally norm-referenced test or the tests used by the Georgia Department of Education to assess student achievement. They must report test results as well as graduation rates to the Office of Student Achievement.

Student scholarship organizations must report information on participating students' grade level, gender, family income level and race to the Georgia Department of Education.

Cost of Proposal is Uncertain

The new tax credit program would essentially direct $25 million in potential state revenue to student scholarship organizations that subsidize students from low-income families who want to attend private schools. The state's revenue loss could be partly offset by a reduction in state funding to school districts for the students who would attend public schools if not for the scholarship. The program's cost is also determined by the number of participating students, the tax credit per student and the portion of students who would switch from public to private schools according to a Georgia State University analysis.[1]

The analysis weighs various factors that affect the cost of the existing program and an earlier version of the proposed BEST program.

- The program carries a greater net state cost when a relatively low proportion of students switch from public to private schools. It could be revenue-neutral or even reduce state costs if larger numbers of students switch from public to private schools.
- Smaller tax credits per student require lower levels of student switch rates to have a neutral or positive fiscal impact.
- As the per-student tax credit amount increases, higher student switch rates are required for the program to be cost-neutral or positive.
- A means-tested program likely delivers a higher switch rate than the current program.

Similar Programs Show Uneven Effect on Student Learning

Tax credit scholarship programs and voucher programs, which function in a very similar way, have a mixed effect on student learning according to program evaluations and empirical research.

Florida's tax credit scholarship program for students from low-income families has comprehensive accountability measures. A 2014 evaluation of the program found that the average student maintained the same national ranking in math and reading scores from one year to the next.[2] A typical scholarship student scoring at the 47th percentile in reading one year at a private school will likely score about the same the following year.

The study also says the average gain in student test scores varied considerably across participating schools during the evaluation period. The average test score in reading remained the same or declined up to nine percentile points from one year to the next in nearly 40 percent of schools. It increased between one and 10 percentile points in 50 percent of schools. About 4 percent of schools saw average gains of 11 percentile points or more, while 6.3 percent of schools saw declines of 10 percentile points or more.

Voucher programs also provide some insight into the tax credit scholarship program's influence on student learning. Participants in Louisiana's voucher program for low-income students experienced declines in math, reading, social studies and science test scores in their first year in private schools, according to a recent study.[3] Milwaukee's voucher program showed no difference in achievement between students attending a private school with vouchers and those attending its public schools for the first four years, according to a five-year study. Voucher program students made greater gains in the fifth year of the program after participating private schools were required to administer the state's reading and math test and results were publicly reported.[4] Other voucher program studies show modest effects on student test scores and high school graduation rates.

Accountability Provisions can be Strengthened

The BEST tax credit program outlined in HB 865 is narrowly targeted to low-income students and improves on the accountability measures of the existing tax credit program. These steps can be further strengthened to ensure students benefit as intended.[5] This is particularly important if the goal of the program is to reduce the achievement gap between students from low-income families and their more affluent peers. Specific measures to report include:

- Student test scores and associated learning gains or losses, aggregated by students' grade level, gender, race and participants' number of years in the program.
- Private schools participating
- Student test scores and associated learning gains for schools serving 30 or more BEST scholarship students
- A biannual, independent evaluation of the BEST program

Measures to identify private schools that persistently perform poorly should also be developed. Poorly performing schools should lose program eligibility.[6]

Lawmakers should extend the six-week public school attendance eligibility requirement to one semester. This increases chances the program will not tap into the state treasury.

Lawmakers should also consider requiring participating private schools to have an open admission policy for BEST scholarship students. This would help ensure that all students, including those with the greatest academic challenges, have full access to the program.

The existing program should be subject to similar transparency and accountability measures. This aligns with the recommendations of the Education Reform Commission and ensures lawmakers can access information to compare the effectiveness of both programs.

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[1] Buschman, R. & Sjoquist, D. L. (2014) Georgia's tax credit scholarship program. Atlanta, GA: Fiscal Research Center, Georgia State University. Retrieved from http://frc.gsu.edu/files/2014/06/Georgia-Tax-Credit-Scholarship_Nov2014.pdf.

[2] Figlio, D. (2014) Evaluation of the Florida tax credit scholarship program participation, compliance and test scores in 2012-13. Cambridge, MA: National Bureau of Economic Research. Retrieved from http://www.floridaschoolchoice.org/pdf/FTC_Research_2012-13_report.pdf.
[3] Abdulkadiroglu, A., Pathak, P. & Walters, C. (2015). School vouchers and student achievement: first-year evidence from the Louisiana scholarship program. Cambridge, MA: National Bureau of Economic Research. Retrieved from http://economics.mit.edu/files/11259.
[4] Witte, J., Carlson, D., Cowen, J., Fleming, D., & Wolf, P. J. (2012) MPCP longitudinal educational growth study: fifth year report. Retrieved from http://www.uaedreform.org/downloads/2012/02/report-29-mpcp-longitudinal-educational-growth-study-fifth-year-report.pdf
[5] Alliance for School Choice. (2015) School choice yearbook 2014-2015. Washington, DC. Retrieved from http://afcgrowthfund.org/wp-content/uploads/2015/04/AFC_2014-15_Yearbook.pdf.
[6] Thomas B. Fordham Institute (2014). Public accountability and private-school choice. Washington, DC. Retrieved from http://edex.s3-us-west-2.amazonaws.com/publication/pdfs/Public-Accountability-and-Private-School-Choice_0.pdf. The Fordham Institute outlines recommendations for how states can strengthen the accountability and quality of voucher and tax credit programs in this report.