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Arizona Report Finds Poorest Gain Little From Tax Credits

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One of the nation's most closely watched educational-tax-credit programs has done little to broaden opportunities for the state's poor families, a university report contends.

The 4-year-old Arizona program offers up to \$625 in dollar-for-dollar state credits to individual taxpayers for their donations to nonprofit organizations that give private school scholarships to K-12 students.

But the law, which aims to help low-income families expand their educational options to include private schools, has mainly benefited middle-class families whose children already attend private schools, the study concludes. The program also has drained tens of millions of dollars from state coffers, it says.

The report by the Education Policy Studies Laboratory at Arizona State University is titled "The Equity Impact of Arizona's Education Tax Credit Program: A Review of the First Three Years."

Released March 25, the report says that a separate public school tax credit that is part of the same law and which parents use to offset the cost of extracurricular activities, such as sports or field trips that require a student fee, also has helped well-off public schools more than schools with poorer students.

The wealthiest quarter of public schools, according to the analysis, received more than five times as much money from that program as the poorest quarter of schools. Glen Wilson, the assistant director of the laboratory and the author of the report, said the two tax-credit programs have cost the state, which currently faces a \$1 billion budget shortfall, about \$115 million over the life of the program. "[The report] has national

implications, because vouchers have had such trouble in states, and some of the proponents here have been saying this is as good as a voucher," Mr. Wilson said. "The tax credit here was billed as a way of helping low-income kids, and as best as we can determine, it is spectacularly ineffective in doing that."

Time to Reassess?

The average scholarship generated by the contributions covered in the tax-credit law amounted to \$856 in 2000, the study found. According to the report, that amount covered just over a fourth of the cost of Arizona's median private elementary school tuition of \$3,175, and less than one-fifth of the median private junior high or high school tuition.

The study estimates that the program may have helped fewer than 3,900 needy students overall, or 2 percent of the state's estimated population of public school students from needy families.

While Rep. Mark Anderson, the original sponsor of the tax-credit law, said he didn't agree with much of the report, he believes it's time to reassess the program.

"We do need to take a look at it now that it has been up and running for a few years," said Mr. Anderson, a Republican.

One possible change is to require scholarship organizations to provide a specific percentage of the scholarships to low-income families. But he doesn't see it as a flaw that middle-income families gain from the tax credit as well.

The tax-credit report was released just before the Goldwater Institute, a free-market thinktank in Phoenix, unveiled a plan on March 26 to expand the Tax Credits to businesses.

Under the plan, businesses would receive credits for giving money to charitable organizations that provide scholarships specifically for students who qualify for free or reduced-price school lunches.

While other states have provided tax breaks directly to parents for school expenses, Arizona's plan offered a novel twist when it was passed in 1997 by giving credits for donations to scholarship-providing organizations.

States including Florida, Illinois, Iowa, Minnesota, and Pennsylvania have various education Tax Credits for individuals or corporations.

Minnesota, for example, gives a tax deduction to parents to help offset private school tuition, as well as income-Tax Credits to help buy services and textbooks.

Last year, Florida enacted a law that offers corporations income-Tax Credits for directing a portion of their state taxes to organizations that provide vouchers to students who qualify for free or reduced-price lunches.

Arizona's law faced immediate challenge from groups, including the Arizona Federation of Teachers, who argued that the plan hurt public schools and violated federal and state prohibitions against government aid to religion.

The Arizona Supreme Court upheld the law in 1999. (["Tax Credits Pass Muster in Arizona,"](#) Feb. 3, 1999.) The U.S. Supreme Court that same year declined to take up an appeal of that decision.

Clint Bolick, the director of litigation for the Washington-based Institute for Justice, which has defended the constitutionality of educational-tax-credit and voucher programs around the country, said the Arizona program and others like it have helped thousands of needy students attend private schools.

"There may be some changes that can be made to help eliminate unintended beneficiaries, but the focus of the program has always been on low-income kids," Mr. Bolick said. "An ivory-tower report that fails to take that factor into account is all too typical of what comes out of the educational establishment."