COMMENTARY

Under the Voucher Radar

By Kevin G. Welner

Tuition tax credits for private schools, a policy increasingly popular among advocates of school choice, present us with several riddles. When is a charitable donation not charity? When is a public expenditure not public spending? And what policy can be virtually indistinguishable from a voucher in its effects, but be treated by courts as something very different? The answer to this last question, and the key to answering the first two, is a type of tuition tax credit I call a “neovoucher.”

Traditional vouchers offer parents government funding for tuition at nonpublic schools. Neovouchers rely on a more complicated, and thus less transparent, process:

First, a taxpayer donates money to a private, nonprofit organization. Then that organization bundles the donations and issues them to parents as vouchers toward tuition at nonpublic schools. Finally, the taxpayer-donor receives some or all of the donated money back, in the form of a tax credit from the state.

The money thus goes from taxpayer, to nonprofit organization, to parent, to school. The taxpayer then is reimbursed by the state. This answers the first riddle. In Arizona, Florida, and Georgia, that reimbursement is 100 percent. The taxpayer’s “charitable donation” is little more than a reassignment of his or her tax obligation to the neovoucher program. Three other states have similar programs: Iowa, Pennsylvania, and Rhode Island. In those states, the tax credit ranges from 65 percent to 90 percent of the donation—still ample, but leaving some room for actual charity.

Currently, about twice as many students (approximately 100,000) receive neovouchers as compared with traditional vouchers. Yet we know very little about them or what effect they are having on our education system.

Proponents of neovouchers contend that they provide opportunities for greater academic and life success, particularly for underserved children. This is a powerful and important claim that deserves to be given a fair evaluation. Unfortunately, none of the six states with neovoucher laws collects sufficient information to allow us to evaluate this claim, or to answer a host of other important questions such as these:

• What are the effects of neovouchers on achievement and competition?
• What are the incomes and ethnicities of the families that receive neovouchers?
• Does the use of neovouchers produce greater stratification of school enrollments, or do these vouchers serve to mitigate existing stratification?
• Which schools receive neovouchers? What are the characteristics of those schools?
• What percentage of neovouchers go to students switching from public to private school?
• What is the overall effect of neovoucher policies on public spending?
• Do neovouchers produce demand pressures that increase the supply of nonpublic schools, increase tuition, or both?

To date, we have at best partial answers to these important questions. In Arizona, for instance, there is some evidence that neovouchers are used by wealthier families with children who already attend private school. Will other states have different results? Without the data, we simply don’t know.

Neovouchers’ convoluted funding mechanism may be an inefficient way of allocating tax dollars, but it serves an important legal purpose. Which answers the second riddle: Since no new money ever actually enters the state’s coffers, proponents can argue that state money has not been spent on religious education. This reasoning was adopted by a majority of judges on the Arizona Supreme Court (Kotterman v. Killian, 1999), in a state that, like many others, has a constitutional provision forbidding expenditure of public dollars on religious schools.

The elaborate neovoucher system also serves a political purpose because traditional vouchers have acquired formidable negative baggage. (In fact, voucher supporters often attempt to blunt public opposition by inventing new terms such as “opportunity scholarships.”)

Beyond these intended effects of neovoucher policies, though, are other notable policy consequences. The tax-credit process places decisions on public funding in the hands of only those private citizens who file itemized tax returns, rather than taking the standardized deduction. Such taxpayers tend to be a relatively wealthy subset of all taxpayers. Using Arizona data from 2000 to 2004, for example, I found that those with a taxable income of around $24,000 are about as likely to file an itemized return as to take the standardized deduction. At $40,000, they are twice as likely to file an itemized return. That likelihood begins to escalate sharply at higher income levels. Taxpayers in the bracket from $100,000 to $199,999 are 24 times more likely to itemize than not.

With traditional vouchers, democratically elected lawmakers decide on the rules for eligibility, and no part of the private school sector is given preference over another. Neovouchers, by contrast, permit a subset of taxpayers to decide which students and schools receive assistance. Each person claiming a tax credit in effect substitutes his or her spending preferences for those of an elected legislative body. On the surface, this may seem attractive. But the public-policy implications are profound.

In Arizona, schools and students supported by neovouchers have disproportionately been found in more-affluent neighborhoods. The local “donors” have used the neovoucher system to effectively help pay for the education of their own children, an option not available to families who do not file itemized tax returns or who owe only minimal (or no) state taxes. At a time when most states are trying to close achievement gaps, Arizona’s neovoucher program appears to be disproportionately subsidizing the education of children in its wealthiest families.

Neovoucher plans have had considerable success in avoiding the controversy and opposition that have plagued other voucher proposals. The advocacy behind them has also been persistent and quite impressive. When legislation is introduced in a particular state, it is invariably accompanied by
supportive articles put forward by the local free-market think tank, as well as by influential national groups.

Equally impressive have been the results, as evidenced by the recent adoption of neovouchers in Georgia, Iowa, and Rhode Island. Lawmakers in Arizona, Florida, and Pennsylvania have also amended their older neovoucher policies. They have raised contribution caps per donor, increased overall tax-credit annual-contribution ceilings, and expanded eligibility rules. This growth has far outpaced legislative interest in gathering information about the impact of these programs, which makes systematic empirical investigation of the policies’ weaknesses and strengths virtually impossible.

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Some recipients of neovouchers undoubtedly have more educational options than would otherwise be the case. But we don’t know how many such students there are, whether or not neovouchers more efficiently provide such enhanced choices than other policy options would, or what the educational outcomes are for students who do use neovouchers. What is knowable now, however, is that neovouchers move policy away from democratic control over education, and from a societal commitment to public schooling. This, for me, is a real concern.

Opponents of neovouchers have attacked the policy as “money laundering,” “a shell game,” and “back-door vouchers.” And the obfuscation of public expenditures by neovoucher legislation does deserve a closer look. But the value of neovoucher policies will ultimately depend on how well they accomplish our shared educational goals. Unless and until the neovoucher states require the collecting and reporting of meaningful data, all we really have is one more riddle: Why would advocates of a wonderful reform try to shield its results from public view?

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