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Tuition Tax Credits Can't Be Credited for Helping Poor

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Alex Molnar and Glen Wilson

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The people who crafted Arizona's tuition tax-credit law five years ago promised that it was a tool to help the poor. The law, they argued, would give impoverished families the same access to private schools that wealthy ones had.

Has it lived up to that promise?

The answer is a resounding no.

Our analysis of the tax credit law has produced evidence that the poor get no more than pennies from tax-credit dollars spent by the state. The real beneficiaries of the law are the middle-class and well-to-do who have been using private schools all along. Arizona's law allows taxpayers who donate money to school tuition organizations to receive a dollar-for-dollar tax credit for their donations, which then are used to pay for private-school tuition grants. Credits are worth up to \$500 for a single filer and \$625 for married couples filing jointly.

The grants have no means test, however, and all evidence points to the likelihood that only a fraction go to the poor for whom the law ostensibly was intended. The average tuition grant of \$855.81 in 2000 was just 27 percent of the median tuition charge for private elementary schools, not enough to allow large numbers of poor people to attend private schools.

The Goldwater Institute counters that a 2001 study by the Cato Institute showed that 80 percent of the tuition grants go to students in financial need. The Cato Institute got its figure from the Center for Market-Based Education, a unit of the Goldwater Institute. In other words, Goldwater is citing itself. What neither Cato nor Goldwater do, however, is explain where this number came from.

Even using the assumptions of the Cato Institute, which strongly supports tax credits, we estimate just 19 cents out of every dollar donated has gone to help students switch from public to private schools. Moreover, it appears that fewer than 3,900 students switched from public to private schools thanks to the program.

If every one of those students was poor, which is almost certainly a considerable overstatement, only 2.1 percent of the state's poor youngsters switched from public to private schools in grades K-12.

Regrettably, school tuition organizations are under no obligation to disclose how many grants go to existing private-school students. Nor are they required to report on the family incomes of grant recipients. In other words, taxpayer money is being spent with no obligation to demonstrate it is being spent for its intended purpose. In this environment, the kind of flamboyant claims advanced by the Goldwater Institute flourish.

One outcome of the tax credit program is no secret: the price tag. While failing to come anywhere close to helping significant numbers of poor students, the tax credit has cost the state an astonishing \$74.3 million in lost tax revenue so far, a figure expected to rise to more than \$115 million when the tax-credit program completes its fourth year. The loss of those funds is especially critical now as the state scrambles to plug its \$988 million revenue shortfall.

Now an enthusiastic backer of the tax-credit program wants to expand it. The Goldwater Institute is advancing a plan to give private businesses the same tax credits for donating to school tuition organizations that individual taxpayers receive.

The evidence is clear that the tax-credit program hasn't been a boon to the poor - it was a bill of goods. The tax credit shouldn't be expanded to include businesses; it needs to be reined in, or better yet, abolished.