



The Federal Tax Credit Program is Not Offering Free Money for States

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Perhaps the most pernicious and persistent contention offered to convince Democratic governors to opt into the federal SGO program is that they'd be fools to turn down ["free money."](#) This contention draws a distinction between the federal program and past state voucher programs: the latter involves a direct hit to state budgets, while the former does not. Drawing a [parallel to Medicaid expansion](#), they argue that any state that opts out would be a sucker if it turned down the "free" federal money while neighboring states suck up the benefit. Moreover, a state's public schools won't suffer, since the money isn't coming out of the state or local coffers that fund those schools; in fact, the SGO program could add considerable money or resources for public-school students.

This short memo responds to that argument, pointing to nine different ways that the new program will likely harm a state's public schools.

1. Most obviously, for every dollar contributed to an SGO, the federal budget loses a dollar that would otherwise be paid in taxes. The 100-percent tax credit for this one type of "donation" (to SGOs) stands alone. If you donate to any other cause – your church, the United Way, disaster relief, whichever charity is your favorite – you get a normal deduction from income, not a tax credit. And certainly not a 100-percent tax credit.

Note also the cost of this program – which could be [between \\$25 and \\$51 billion annually](#) (the program has no cap). Currently, the two biggest federal programs are Title I Grants to local school districts (about \$18.4 billion) and IDEA Special Education State Grants (approximately \$15 billion). This voucher program could dwarf those.

This points to a dramatic equity impact. The program barely has any means-testing, with eligibility set at (up to) 300 percent of the area median gross income. Keep in mind that [Project 2025](#) calls for phasing out Title I – and spending instead on a federal voucher program. And, sure enough, along with this massive voucher program, the Trump administration has been trying to cut down funding for Title I and other programs to help the nation's most vulnerable students.

So not only is this program likely more expensive than current programs; it's also part of an administration effort to shift spending to families with less need. Once we understand that President Trump is already severely cutting federal education spending and threatening Title I, it's hard to see this SGO program as free money. The loss of federal funds under Title I and

other programs, with funding instead diverted to this tax credit program, will place very real pressures on state budgets.

2. States' public schools will be hurt because the private schools supported by the SGO program are not subject to most anti-discrimination laws. Many of these schools can be expected to selectively leave behind in public schools those students, including those with disabilities, who are most expensive to educate.

3. States' public schools will be hurt because when private schools push out students mid-year – students the private schools see as not fitting academically or otherwise – they will place expensive and disruptive burdens on their local community's public schools. In [Indiana](#), officials found that as many as 3% of voucher students exited their school mid-year, and as many as 24% did not return the following year. The numbers appear to be larger in [Florida](#), where the state's director of the Department of Education Office of School Choice recently testified that there was so much mobility between sectors that about 23,000 students were funded as if they were enrolled in both sectors – a public school and a private school.

4. States' public schools will be hurt because the SGO donations will overwhelmingly go to students attending schools in wealthier neighborhoods. That is, even those donations that are provided to help students attending public schools are very likely to contribute to resource inequality. Arizona was the first state to adopt a tax-credit program like this. They passed two laws back in 1997/1998, with one law directing donations for private-school tuition support and a sister law that allowed SGO-like non-profits to take in donations to support extra-curricular activities in public schools. We quickly learned two things. First, a lot more money went to the private schools, in part because the donation ceiling was higher but also because the private and religious schools had effective campaigns to get their parents, grandparents, etc to donate. Second, if we just look at the public-school donations, we see a clear [rich-get-richer pattern](#). This shouldn't be surprising: Taxpayers who can shift their tax obligations to support schools tend to live in wealthier communities and tend to donate to schools in those local communities. I think we have every reason to expect that the public schools that receive significant benefits under the new federal SGO program will also be in the state's wealthier communities, adding to existing inequalities.

5. Lost enrollment from a state's public schools leaves those schools bearing considerable fixed costs, such as utilities, maintenance, debt, school leadership, and other personnel (e.g., school psychologists). Even teaching staff cannot be laid off to save money in smaller schools. An analogous analysis focused primarily on this fixed-cost issue looked at students leaving district-run schools for California charter schools. The economist who conducted the study conservatively estimated that the loss of the students resulted in approximately [\\$600 to \\$1,500 less per pupil](#) for the students left behind.

6. In states like Arizona that have large-scale voucher programs, districts have had to close public schools. There are clear fiscal costs, before and during closures (as well as, e.g., added transportation costs post-closure). But there are also non-fiscal costs of school closures.

[Student learning is disrupted](#). And these school-closure decisions are often the most [controversial and anguishing](#) decisions facing school boards.

7. While it is currently unclear what role a given state will have in administering the new program if it opts in, we can expect that there will be some costs of administering the program. At a minimum, states will be required to certify the eligibility of all SGOs that ask to be included in the program.

8. School districts must, under [IDEA's "Child Find" rules](#), "locate, identify, and evaluate" parentally placed private-school students with suspected disabilities. This means that the school district where a given private school is located must conduct disability testing for students moving to that private school, and the public district must bear the additional cost of doing so, pulling funding from their classrooms.

9. One result of the patterns and practices described above will be a cycle of disinvestment from a community's public schools. As fewer students attend these schools, and as the most wealthy and politically powerful families leave these schools, resources and political support will decrease. This will lead additional families to opt out, continuing the same cycle. The ultimate cost of the SGO program should have these long-term patterns in mind. A state's public school system can only be as strong as the state's widespread political and financial commitment to that system.