

# **NEPC Review: The Economic Impact from Colorado’s Choice to Participate in the “Education Freedom Tax Credit” (Common Sense Institute, March 2026)**



**Reviewed by:**

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May 2026

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# Acknowledgements

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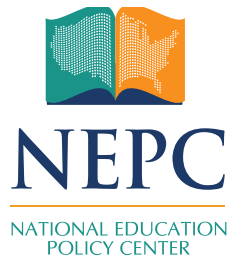
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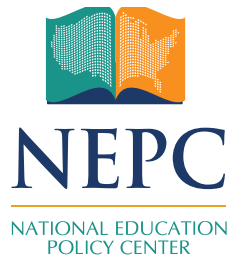
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## Summary

As part of the One Big Beautiful Bill Act passed in July 2025, the federal government established a nationwide tax credit for contributions to so-called scholarship-granting organizations that can fund some K-12 educational expenses. Taxpayers may receive a credit of \$1,700 each year for these donations. Key rules are still being drafted by the Trump administration, but eligible families will likely be able to use these funds on a range of educational expenses, including private school tuition, tutoring, transportation, instructional materials, and taking courses at either private or public educational institutions. A recent Common Sense Institute Colorado report claims significant benefits for Colorado, where the current governor is opting into the program. The report predicts that the tax credits will keep Colorado taxpayer money in state (instead of sending it away to federal coffers), boost incomes, create jobs, generate revenues for public schools and increase enrollment in private schools. But these large hypothesized positive benefits are unlikely. Participation rates in similar scholarship programs have historically been much lower than the report predicts for Colorado, likely capping meaningful gains from a diversion of federal tax dollars into educational expenses in Colorado. The economic impact model employed by the report leaves many questions unanswered, and assumptions regarding increased private school enrollment are unsupported by evidence. In addition, the report ignores the steadily accumulating warning signs regarding tax credit scholarships in many states, including in neighboring Arizona. In sum, the report’s value in fostering an informed, evidence-based policy debate is negligible.



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## I. Introduction

Education Savings Accounts (ESAs) are a growing form of school choice policy in which governments deposit public funds into restricted-use accounts that families can spend on approved educational expenses.<sup>1</sup> These include private school tuition, fees, homeschooling materials, and other educational services.<sup>2</sup> ESAs are similar to traditional school voucher programs but typically provide greater flexibility in use of funds. Supporters argue that ESAs empower parents to customize their children’s education and provide opportunities for families who might otherwise be unable to afford private schooling or supplemental educational services. Critics, however, argue that these programs lack adequate oversight, have limited effectiveness, and divert public funds away from traditional public schools.<sup>3</sup>

The One Big Beautiful Bill Act (OBBBA) signed by President Trump in July 2025 established a nationwide tax credit for contributions to K-12 educational expenses. Taxpayers may receive a federal one-for-one tax credit of up to \$1,700 each year for donations used to fund scholarship-granting organizations (SGOs) that support K12 students.<sup>4</sup> Eligible families may use these funds on a range of educational expenses, including private school tuition, tutoring, transportation, instructional materials, and other costs associated with taking courses at either private or public educational institutions (including dual enrollment classes, and Advanced Placement (AP) classes).

Colorado will opt into the program starting in 2027. The Centennial State has a significant presence of charter schools, accounting for 12% of the student population in 2024-2025. However, unlike states with existing education savings accounts (ESAs), Colorado does not have a history of public support for private schooling expenditures. Against this background, the potential effects of federal incentives to stimulate charitable giving in education would be instructive and keenly watched by families, educators, policymakers and researchers alike.

In this context, the Common Sense Institute released *The Economic Impact from Colorado's Choice to Participate in the "Education Freedom Tax Credit,"* authored by Jimena Sanchez and Thomas Young.<sup>5</sup> The report predicts a variety of benefits associated with keeping Colorado taxpayer money in the state.

## **II. Findings and Conclusions of the Report**

The report first argues that the total amount of potential maximum contributions by Colorado taxpayers could reach \$3.3 billion in donations that would reduce federal income tax.<sup>6</sup> With a 10% participation rate, extrapolating from the fact that a 1% participation rate at the maximum amount would generate \$33 million for K-12 schools in the first year (2027), the available amount of money is \$329 million.<sup>7</sup> Assuming an 20%-80% split across expenses incurred at public schools and at private entities (the list of allowable expenses include many items that can be provided by public schools) the report asserts that public schools might see an additional boost in funding of about \$66 million in the first year. On the other hand, these donations could also enable up to 36,000 new students to attend a private school of their choice.

The report then calculates statewide monetary benefits of these additional educational expenses. It employs an economic impact analysis and estimates potential income and job creation effects over the first five-year period under the new program (2027-2031). Again assuming an 20%-80% split across additional public and private educational expenses made possible by the program, and a 10% participation rate (\$329 million), this economic impact predicts:

A steady increase in jobs, starting around 6,600 in the first year and rising to 8,500 in 2031.

A corresponding increase in state GDP, again rising from \$708 million in 2027 to \$1,248 million in 2031. Personal income consistently rises over the years too, from under \$492 million to \$948 million.

These numbers would translate to an additional \$600 for each Coloradan, with teachers being the biggest beneficiary. The report concludes that incentivizing more

private dollars to be dedicated towards education—instead of being siphoned off to Washington DC—will lead teachers, teachers’ aides, and other educational providers to receive additional total wages of over \$1.1 billion (over a five-year period, 2027 to 2031).

### **III. The Report’s Rationale for Its Findings and Conclusions**

The report draws upon assumptions about two important associations to estimate a large increase in economic impact to Colorado. The first key relationship is the amount of money that federal taxpayers in the state will be contributing to scholarship granting organizations (SGOs), given that the tax credit maxes out at \$1,700 per tax return for contributions. This is a crucial assumption because it determines the pool of money available for education-related expenses by eligible families; once donations are received by SGOs, they must allocate a minimum of 90% of the donations for actual schooling-related expenses. These education savings accounts are only available for students who are eligible to enroll in a public elementary or secondary school, and who comes from a household with income not greater than 300% of the area’s median gross income.

The second crucial relationship is the multiplier effect of the educational expenses allocated by SGOs. In essence, this entails making assumptions about the economic ripple effect to the larger state economy. The report uses an economic impact analysis model to ascertain the likely almost immediate outcomes of additional educational spending, under a hypothetical breakdown of overall expenses into private education and public education.

Overall, the report rationalizes that prior estimates of the propensity to take advantage of education tax credits can provide a reliable benchmark to the likely impacts of the new federal tax credit. These estimates can then be combined with estimates of the financial impacts brought about by increased educational spending, in turn resulting from allocations out of the education savings accounts by SGOs. Put quite simply, two assumptions are the lynchpins to the report’s conclusions.

### **IV. The Report’s Use of Research Literature**

The report’s use (and omission) of research is imbalanced. In essence, it cherry picks existing research in this emerging field using a small sample of selected reports. First, it overlooks the growing research base on education savings accounts—an omission which significantly compromises the reliability of the postulated effects.<sup>8</sup>

Second, it employs an economic impact model for its estimates without describing its nature and its properties, and without any citations as to prior applicability of the model under similar circumstances. This oversight cannot be understated because so much of the report rests on its projections. Yet without explaining its choice or properties of the model, understanding the growth trajectory of economic variables over the first five years of the program remains a challenge, a veritable “black box.”<sup>9</sup> In particular, there are not only large immediate economic impacts of the tax credits, but these impacts steadily increase—though at varying rates for the different economic variables.<sup>10</sup> In view of the sustained and rising economic impact of additional education spending over the years, the report should have included robustness analyses using alternate economic impact models which are more popular in the literature.<sup>11</sup>

Third, the report’s discussion of Arizona as a fitting comparator ignores inconvenient facts and findings about how tax credits have impacted that state. The Arizona program has a similar structure, but it also has a significant caveat: its cap for married-filing-jointly taxpayers in 2027 is double the new federal credit of \$1,700 per tax filer. Moreover, the report’s analysis of Arizona continues its selective use of research, overlooking the relatively large body of literature documenting Arizona’s experience with education savings accounts—a literature which cautions stakeholders with respect to various negative intended consequences of the policy.<sup>12</sup>

The Arizona experience tells a cautionary tale. Since 1994 that state has been a leader in the school choice movement.<sup>13</sup> But despite its active engagement with alternatives to traditional public schooling, it ranks in the lowest third of states nationally in terms of student performance. In the National Assessment of Educational Progress (NAEP) tests conducted in 2024, 31 states performed significantly better than Arizona in fourth grade reading while only two states performed significantly worse.<sup>14</sup> In contrast, Colorado was the fifth best performing state in the nation, 13 points higher than Arizona. The results were similar for fourth grade mathematics, and for eighth grade reading and mathematics.<sup>15</sup> This information has economic impact worthy of discussion (and if it was positive, one wonders if we would have read about it) to provide a complete account, something this report fails to do.

Finally, the report avoids recent literature that has tracked private schools’ responses to state voucher and choice expansion, uncovering signs that they continue to restrict access and maintain exclusivity. In both Arizona and Iowa, education savings accounts led private schools to increase tuition, thus capturing the subsidies and adding them to their tuition.<sup>16</sup> If this scenario repeats in Colorado, then the vaunted benefits of the tax credit will vanish—access to private schooling options, for example, may be moot if higher tuitions keep these choices out of reach of many low- and middle-income families. In other words, the argument that choice expands high-quality options to low- and middle-class families may turn out to be mirage and

a boon to private schools that capture the taxpayer subsidy. At the very least, this report should acknowledge this possibility signaling to policymakers considerable risk and potential unintended consequences of tax credits.

## **V. Review of the Report's Methods**

The report's main conclusions rest on the hypothesized rates of taxpayer participation in the federal initiative. Its essential calculations assume a participation rate of 10% of taxpayers, which would make Colorado an outlier for credit scholarship programs. Historically, take-up rates for these programs have been low. A recent analysis by EdChoice concludes that during their first year, the average take-up rate for tax-credit scholarship programs was 0.35%, and that even by their tenth year, the take-up rate only went up to 1.86%.<sup>17</sup> Another analysis notes that the typical participation rate in state tax credit scholarship programs is 2%, which would only yield \$66 million per year for the scholarship program for Colorado. In perhaps the most careful study of the potential impact of the new federal scholarship program, the Urban Institute calculates that, even with favorable assumptions, the participation rate is likely to hover around 3% and the total amount of tax credit claimed nationally on an annual basis would probably be only \$5.6 billion. As the report itself states, the Joint Committee on Taxation assumed that this bill would reduce federal revenues by approximately \$5.0 billion each year between 2027 and 2030. Given that Colorado accounts for slightly less than 2% of the U.S. GDP, and is home to a similar share of the U.S. K-12 population, the corresponding savings for Colorado taxpayers—that would be available for educational expenses in the state—would only be about \$100 million. Against this national benchmark, the current report's reliance on a 10% participation rate of the maximum potential donations—resulting in \$329 million for the state—seems exaggerated.<sup>18</sup> To be sure, there is potential for higher taxpayer interest down the road,<sup>19</sup> but key assumptions made in the report should reflect a more realistic path up, if at all.

Additionally, the report's choice of the model (REMI Tax PI+) to conduct its economic impact analysis deserves considerable additional discussion because it is also core to its main conclusions. Specifically, the model attempts to estimate the job- and income-creation effects of the additional money being spent in state, rather than being sent off to federal coffers in Washington DC. But there is little to no information given on how this model works or discussion of any specifics about its benefits and drawbacks. No citations are provided. This leaves the reader—including policymakers trying to make high-stakes, high-dollar decisions with taxpayer money—with unresolved questions.

Moreover, the report's choice to separately model the output variables for private

education and for public education for public education using an 80%/20% split (80% of funds are distributed to private schools, 20% to public) remains entirely speculative and quite hopeful. This is particularly germane given that the estimated impacts of educational spending are large and overly optimistic compared to what the literature has established as typical. In any event, Colorado's GDP in 2025 was slightly above \$584 billion, so even with generous estimates of both the magnitude of taxpayer participation and the magnitude of resultant wealth generation, the net impact to the state's economy will be marginal (about 0.2%).<sup>20</sup>

Compounding these assumptions is the report's contention that there might be important secondary growth effects—effects potentially stemming from higher student achievement and from productivity—that are unrealistic. Evidence from neighboring Arizona has been sobering on that account. First, there have been significant disparities in the distribution of benefits, with families in higher-income neighborhoods reaping most of the benefits.<sup>21</sup> Second, due to a lack of oversight, many questionable expenses have been allowed.<sup>22</sup> Third, families have been hoarding many of the benefits—a recent report found that Arizona parents have stockpiled almost \$450 million in unused public funds in their Empowerment Scholarship Accounts.<sup>23</sup> Given that the new federal education tax credit program shares many of its features with the Arizona program, it is likely that the same negative patterns will emerge.<sup>24</sup> One important reason behind the reluctance of many governors and state legislatures to opt into the new program is its complete lack of oversight and accountability.<sup>25</sup>

Finally, the report makes bold claims without justification. For example, it states that in the current academic year about 7% of Colorado students, almost 73,000, in Grades K through 12 are enrolled in private schools. But it then simply asserts that, under the new regime, the number of new students that seek a different educational environment may range from 3,300 (from 6.7% to 7.0%) to 36,000 (from 6.7% to 10.0%). It goes on to say that as many as 90,000 students may choose a private school without providing the source of this statistic.

## **VI. Review of the Validity of the Findings and Conclusions**

The report's core conclusions cannot be taken seriously because of its use of incredible, unlikely assumptions, as well as its oversight of counterfactual literature in the field. To recap: It rosily concludes that more than a million Colorado taxpayers will avail themselves of the deduction, resulting in a redirection of money from D.C. to the Centennial State. It then argues that this money will catalyze the state's economy, generating more than 8,000 jobs and contributing more than \$1 billion dollars to the state's GDP every year beginning in 2029.

The reality is likely to be very different. As noted previously, taxpayer participation

in existing tax credit scholarships at the state level is uniformly low and it is more likely that only a handful of filers would take advantage of this federal initiative. Coupled with the fact that the economic impact analysis—on which few details are provided to the reader—generates estimates too large to be plausible, the report is unlikely to have meaningful validity.

The report's choice of Arizona to make the case for Colorado raises more cautionary questions than answers. Arizona has been a central player in the school choice movement over the last three decades, steadily expanding access to alternatives to traditional public schools. Still, student performance in Arizona lags significantly behind that in Colorado. Arizona should be emulating Colorado's educational policy landscape, not the other way around.

## **VII. Usefulness of the Report for Guidance of Policy and Practice**

The rapid spread of education savings accounts and universal voucher programs across the U.S. in the last few years calls for serious scholarship to understand the nature and consequences of increased public support for private educational expenses.<sup>26</sup> But instead of providing an informed analysis to aid policymakers, this report offers a simplistic and misleadingly rosy assessment of how Colorado's participation in the federal tax credit program would benefit the state. The uncertainty with respect to the magnitude of taxpayer participation in the program, and overestimates of short- and medium-term economic benefits, significantly limit the usefulness of this report for guiding policy and practice. Policymakers should look elsewhere for guidance.

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