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MONTANA BUDGET & POLICY CENTER

Tuition Tax Credits: A Threat to Montana-Based Education Solutions

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Proposals for tuition tax credits reallocate critical state investment in public schools in our communities, cost the state millions of dollars, and are not a viable option for Montana families, students, and communities. When tax benefit programs were implemented in other states, studies showed that these programs failed to improve access to high-quality education or save the state money. Instead, tuition tax credits divert funding away from public schools, jeopardizing the state's ability to encourage improvements and innovation within public schools. Montana's strong public school system already provides varied opportunities for children of all backgrounds, helping to create a well-trained workforce and prosperous state. In Montana, tuition tax credits would reduce the state's ability to find state-based solutions for improving our education system, threatening the benefits our public schools provide to the wider community.

Key Findings

- Tuition tax credits divert state funding from public schools to private schools.
- The American Legislative Exchange Council (ALEC) drafts school privatization bills without considering Montana's needs.
- Most recipients of these tax credit programs already attend private schools. These programs do not tend to help low-income students access private schools.
- Despite claims, states do not save money by implementing tax credits. In fact, these programs can cost the state money, because a school's fixed costs are not reduced when a student leaves the public school system.
- There is no proven academic benefit to those who receive tax credits for private schools.
- Because Montana is a rural state, many students would not be able to access private schools and utilize tax credits.

Privatization Legislation

School privatization, also called "school choice," is a trendy issue in the debates around public education. Supporters argue that families should be able to select the school their children will attend - public or private. To make this possible, proponents often support the following privatization legislation:

- *Tuition Tax Credits* – Taxpayers receive a credit on state taxes for education expenses.
- *Tax Credit Scholarships* – Taxpayers receive a credit on their state taxes for donations made to private school scholarship organizations.
- *Voucher Programs* – Parents use public funds to pay for private schooling. Since school vouchers often raise legal challenges, advocates have begun proposing tuition tax credit and tax credit scholarships as alternatives.

In Montana, current legislation aims to enact a nonrefundable tuition tax credit that reduces an individual's state income tax liability up to the first $1,000 of qualifying education expenses made to private and out-of-district public schools.[1] Proponents suggest that this legislation increases

"school choice" and educational opportunities by making private education more affordable. However the truth is, Montanans can already send their children to schools of their choice. In fact, 92% of Montana families made the choice to send their children to public schools.[2] Once in public schools, there are further options to personalize children's educational opportunities based on their needs and interests, including curriculum and career paths, advanced placement, and distance learning courses. Privatizing education only draws funding away from a successful public education system.

> *"[Privatization] proponents have co-opted the term "school choice" with all its benign implications and the suggestion that somehow we don't have it right now. In fact, we are free to send our children to any school we want...What the debate is really about is reallocating public money for private education.*
>
> - Bozeman Daily Chronicle. January 5th, 2015

ALEC Drives Privatization Legislation

The American Legislative Exchange Council (ALEC) is a driving force behind school privatization legislation. Part of ALEC's "limited government" agenda includes the privatization of public education through tax credit scholarship programs, school vouchers, and charter schools.[3] ALEC drafted "school choice" legislation for state legislators across the country to present as solutions for their state.[4] However, ALEC's privatization legislation does not factor in Montana's strong public education system nor does it address Montana-specific challenges or opportunities.

Montana Public Schools Are Working

Supporters of school privatization fail to acknowledge that Montana public schools are already strong and provide a quality education to students from all socioeconomic backgrounds. School privatization proponents claim that legislation can help address a failing public school system and provide opportunities for low-income students. However, in 2013, Montana ranked 6th in the nation for K-12 student achievement, and the National Assessment of Educational Progress science scores ranked Montana 1st in the country.[5] In 2014, 85.4% of high school students in the state graduated on time,[6] placing Montana 12th in the country for graduation rates.[7]

Montana Public Schools are Strong

Graduation

- **85.4%** of Montana public high school students graduate on time.
- Montana's graduation rate is **12th highest** nationally.

Academic Performance

- Montana 8th graders' average NAEP math and reading scores rank **6th in the nation.**
- Average 8th grade NAEP science scores are **ranked 1st in the nation**.

Public School Spending

- Montana spends an average **of $850 less per student** compared to national average.
- Montana's efficient public education system **saves taxpayers $123 million annually**.

Montana spends $850 less per student than the national average, saving taxpayers about $123 million annually.[8] This reflects an efficient and quality public education system.
There are schools and students in Montana that face significant challenges, and private schools are not necessarily the solution. Social and economic factors – like isolation and multigenerational poverty – have greater impacts on student performance than a school itself. Moving students to new schools would not fix these root socioeconomic issues.[9]

Montana is already addressing many of the barriers to student success. For example, the Office of Public Instruction implemented a program called *Schools of Promise*, designed to target struggling schools by improving teacher performance, connecting schools and communities, and increasing support for students.[10] Focusing on the whole community offers a culturally appropriate way of addressing struggling schools and acknowledges the structural problems at the root of underperformance. Unlike ALEC's privatization legislation, *Schools of Promise* is a Montana-based solution to address the needs of underperforming schools in this state.

Montana voters support the state's public school system and are confident in its ability to educate their children. In a recent survey, 66% gave their local public schools an A or B, 88% declared that they want their children to have a well-rounded public education, and the majority of voters suggested that state spending should be prioritized to fund K-12 public education.[11] Montana public schools outperform the majority of public schools in the country, and Montanans are confident in the education public schools provide their children. Redirecting state funding from public schools to private schools will only hurt our thriving public education system.

Tax Credits Reward Higher-Income Families and Hurt Public Schools

Legislation offering tax credits for private schools does not save states money, but instead, forces schools to do more with less. These legislative proposals rest on the idea that families save the state money by enrolling their children into private schools rather than public ones. However, this logic is flawed. In reality, tax credits cost the state money, at the same time risk forcing schools to survive on smaller budgets. States do not save money when students transfer schools, because public schools cannot reduce costs at the same rate. Schools have two types of costs – variable costs, such as books, which change based on the number of students, and fixed costs, like building maintenance and utilities, which do not change. When students transfer out of a public school, that school's variable costs decrease, but their fixed costs do not. A school cannot eliminate a teaching position if one or two students switch schools. There would need to be a significant migration of students away from public schools to decrease overall operating costs. Since the barriers to attending private schools are greater than tuition costs alone, tax credits have not created a significant change in public school attendance.[12,13] In short, tax credits drain public school funds without significantly reducing operating costs, forcing schools to make do with less funding.

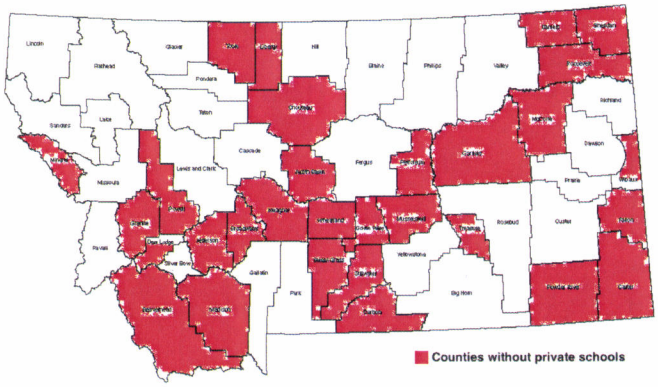
Furthermore, the primary users of such tax credits are students who would have attended or already attend private schools, regardless of whether or not their parents received a tax credit.

Thus, money is redirected from the public school system to fund the private school tuitions that parents can already afford. For example, in Arizona, only 5% to 15% of students receiving tax credit scholarships were newly enrolled in private school.[14] Even in Georgia, which limited scholarships to previously enrolled public- school students, the program did not greatly increase private school enrollment.[15] Even after Arizona enacted tax credit scholarships in the late 1990s, the state lost about $4,000 for every student that used the scholarship to transfer. In the first three years of the program, Arizona saw a $74.3 million loss in state revenue.[16] Since the program did not cause a large number of students to leave public schools, Arizona saved no money. Instead, the state footed the cost of tuition for those already able to afford private school.[17]

Tax Credits: Many Montanans Wouldn't Benefit

In Montana, with its large rural population, tax credits are not a viable option, and they do not address the factors that determine what schools students attend. In fact, 31 of Montana's 56 counties do not have private schools, and over two-thirds of the 122 private schools in Montana are located in just eight counties (Figure 1).[18] Thus, Montana students in rural communities would not have equal access to tax credits.

Figure 1: Students don't have equal access to tax benefits in rural communities



Source: National Center for Educational Statistics

Although nonrefundable tax credits reduce an individual's income tax liability, they also leave out low-income families. These types of credits do not take into account the fact that, while low-income families may not have a high enough income to incur state income taxes, they still incur payroll taxes. Therefore, nonrefundable credits are more beneficial to moderate- to high-income individuals and families. A tuition tax credit set at $1,000 would only cover a portion of the costs associated with attending private schools, including tuition, fees, uniforms, and transportation, doing little to help those who cannot afford this option.

Private Schools Provide No Increased Academic Performance and Little Oversight

Beyond accessibility issues, tax credits fail to increase academic performance. In a 2007 study, the Center on Education Policy found that private school students did not perform any better on achievement tests in reading, science, or math, and were no more likely to attend college than public school students, when considering family background.[19] This study suggests that factors

outside the school environment are more influential on student performance than school placement. Tax credits do not address external factors, and thus do not benefit students who need the most assistance to achieve success. Likewise, the Center on Education Policy found that vouchers, a more controversial privatization alternative, do not impact students' academic performance.[20]

While private schools do receive accreditation by the Montana Board of Education, they are not consistently held to the same oversight and accountability practices as public schools. Proposed tuition tax credit legislation in Montana would require private schools to administer nationally-recognized standardized tests and report results to students and their parents; however, there is no language that requires private schools to be held accountable by school boards or the public. This directly goes against Montanans' desire for public oversight for private schools.

Montanan's Oppose Tax Benefits for Private Schools

- 54% of Montanan voters oppose tax benefits to those for religious private schools.
- 67% oppose tax benefits to private schools that are not held accountable by community-elected school boards.
- 74% oppose tax benefits if private schools do not have some form of public scrutiny in place such as open-and-public meetings and/or public participation statutes.

Source: Montana Voters Poll. Zogby Analytics. 2014

According to a recent poll, the majority of Montana voters oppose tax benefits, like tuition tax credits, for tuition paid to religious private schools. Specifically, it showed 67% oppose tax benefits if private schools are not held accountable by community-elected school boards, and 74% are against tax credits if private schools are not subject to public scrutiny practices like open meetings.

With the current proposed tuition tax credit legislation in Montana, there is no guarantee that oversight of private schools and the quality of education they provide would be held to the same standard as public schools.

Conclusion

States that implemented tax credit programs have not met their goals of saving money or allowing lower-income students to afford a better education. In reality, tax credits divert public funds to private institutions without improving access to high-quality education. There is also no evidence to suggest that private schools offer superior educational opportunities. In short, tax credits would fail to increase these opportunities for Montana students. Instead of privatizing our public school system, Montana should focus on measures that continue to improve the public schools already benefiting students in the state.

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