



NATIONAL CONFERENCE of STATE LEGISLATURES

SCHOLARSHIP TAX CREDITS



Overview

Scholarship tax credit programs are a growing school choice option some states are exploring. As of January 2016, 16 states have scholarship tax credit programs. These programs allow individuals and corporations to allocate a portion of their owed state taxes to private nonprofit scholarship-granting organizations that issue scholarships to K-12 students. The scholarship allows a student to choose among a list of private schools, and sometimes public schools outside of the district,

approved by the scholarship organization. The scholarship is used to pay tuition, fees, and other related expenses. As a result, the state does not have to appropriate per-pupil education funding for those students that receive scholarships.

Tax credit programs provide an alternative to school voucher programs. Supporters of scholarship tax credits say they save the state money because annual tuition at a private school is typically less than the per-pupil cost at public schools. This is shown through a nonpartisan analysis of the **Florida Tax Credit Scholarship Program**. It reported for every \$1 spent on the tax credit program, Florida taxpayers saved an estimated \$1.49. However, the report notes that the state's savings is dependent on a proper balance between the cap on the tax credit and the number of qualified students participating in the program. In other words, if the cap is too high, and not enough students participate, the lost tax revenue will be higher than the savings in education funding.

Opponents of scholarship tax credit programs argue that private schools are not as accountable to state and local education achievement standards as public schools. Some states have accounted for this by requiring participating private schools to administer and publish results from a nationally recognized standardized test. Many critics also oppose allowing scholarship recipients to attend private religious schools, claiming it is a violation of the separation between church and state. Some scholarship organizations allow scholarship recipients to attend only specified religious schools. Lastly, the **National Education Association** points out that moving students from public to private schools harms school districts because they cannot reduce their fixed facilities and transportation costs in proportion to the number of students who leave.

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What States Have Done

Alabama - Alabama allows both individuals and corporations to claim a tax credit for donations to scholarship granting organizations (SGOs) (HB 84, 2013). Individuals can claim 100% of their donation as an income tax credit up to 50% of their total tax liability or \$7,500, whichever is less. Corporations can claim 50% of their donation as a tax credit but cannot receive a credit for more than 50% of their total tax liability in a given year. There is a statewide cap on total tax credits awarded of \$25 million. All taxpayers can carry their credit forward for up to three consecutive years.

Scholarships can be awarded to students with household incomes equal or less than 150% of the median household income and that were zoned to attend a failing public school the previous semester, although previous public school attendance is not required. SGOs must ensure that at least 75% of first-time recipients of scholarships were not continuously enrolled in a private school during the previous year. SGOs must spend at least 95% of their revenue on scholarships. Participating private schools must administer state assessments, or an equivalent test, to students who receive scholarships. Test results must be reported to the state along with participant graduation rates allowing the program's effectiveness to be evaluated. Participating schools will have their aggregate assessment data publicly displayed on the state website.

Arizona - Arizona allows both individuals (A.R.S. 43-1089) and corporations (A.R.S. 43-1183) to claim a tax credit on income for donations made to "school tuition organizations" (STOs). They are two separate programs with varying requirements. The value of the credit is 100 percent of the donation made up to a maximum of \$500 for individuals and \$1,000 for couples filing jointly. There is no maximum credit for corporations, meaning if they donate an amount equal to their entire corporate income tax liability they will not owe any income tax. There is, however, a cap on the total aggregate credits offered. In FY 2010, the state offered a maximum of \$17.28 million in tax credits given on a first-come, first-served basis to corporations. That cap increases by 20 percent each year.

Scholarship funds from individual donations can go to any student of the STOs choosing including those already attending private school. Scholarship funds received from corporate donations must go to low-income students who are either starting kindergarten or attended a public school the previous year. Arizona's scholarships can only be used for

private school expenses. In other words, students who receive scholarships must attend a private school approved by the STO. However, private schools participating in the corporate scholarship program must annually administer a qualified standardized test, and make the results available to the public. There is no testing requirement for schools participating in the individual scholarship program.

Arizona also offers a similar corporate tax credit for special needs and foster children (A.R.S. 43-1184) that replaced a previous voucher program after it was ruled unconstitutional by the Arizona Supreme Court in 2009.

Florida – Florida allows corporations to apply for a tax credit for donations to an "eligible nonprofit scholarship-funding organization" (F.S. 220.1875). The value of the credit is 100 percent of the donation made. The credit can be applied to multiple forms of taxation including corporate income tax, sales tax, some excise taxes, insurance premium tax, and severance tax. Each has its own cap on the value of the credit, however, the income tax credit is awarded the most. A corporation can apply for a credit worth up to 75 percent of its total income tax liability. As a whole, the state awards a maximum of \$140 million (FY 2011) in scholarship tax credits. However, Florida's statewide limit is flexible, meaning if the amount of corporate donations made exceeds 90 percent of the tax credit limit (\$140 million) it automatically increases by 25 percent.

Scholarships must be awarded to students who qualify for the free or reduced-price lunch program and are either entering kindergarten or first grade, or attended a public school the previous school year. Eligible nonprofit scholarship-funding organizations can spend only 3 percent of collected donations on administrative expenses. Additionally, qualified private schools must administer or make arrangements to allow scholarship recipients between grades 3 and 10 to take an approved standardized test. Scholarships can also be awarded to low-income students that attend a public school outside of their own district. This scholarship is intended to cover travel expenses and any other related educational expenses (F.S. 1002.395).

Georgia – Georgia allows individuals and corporations to claim a tax credit for donations made to "student scholarship organizations" valued at 100 percent of the donation made. Corporations are limited to a credit worth 75 percent of the its total income tax liability. Individuals are limited to a credit worth up to \$1,000 for an individual and \$2,500 for a married couple. The state is allowed to award a total of \$50 million in credits each year (O.C.G.A. § 48-7-29.16).

All students enrolled in a Georgia public school or entering kindergarten are eligible to receive a scholarship to a qualified private school. Student scholarship organizations must spend at least 90 percent of their revenue in the form of scholarships. There is no requirement that students receiving scholarships take a standardized test (O.C.G.A. § 20-2A).

Indiana – Indiana offers individuals and corporations a tax credit for donations to "scholarship granting organizations." Taxpayers receive a credit worth 50 percent of the donation made with no maximum credit. However, the state caps the statewide total credits awarded at \$2.5 million (I.C. 6-3.1-30.5).

Eligible students must have a household income at 200 percent of the required level for the free or reduced-price lunch program. No previous public school attendance is required. Scholarship granting organizations must spend at least 90 percent of their total donations on student scholarships. Participating private schools must administer standardized tests to all students in the school (I.C. 20-51).

Iowa – Iowa offers individuals a tax credit for donations made to "school tuition organizations." The credit is equal to 65 percent of an individual's total contribution. While there is no limit on the size of a credit an individual can claim, there is a statewide tax credit cap of \$7.5 million.

To receive a scholarship, a student's family income must be no more than 300 percent of the federal poverty guideline as defined by the U.S. Department of Health and Human Services. Additionally, students already enrolled in private school are also eligible for scholarships. Qualified schools must be private and receive accreditation by the Iowa Department of Education. This accreditation includes assessing student achievement through standardized testing. School tuition organizations must allocate 90 percent of their annual revenue in the form of scholarships (I.C. 422.11S).

Kansas – Kansas offers corporations a tax credit for donations to scholarship granting organizations. The credit is equal to 70% of the total contribution. There is no limit on how much a corporation can claim. If a credit exceeds a corporation's yearly tax liability then the remaining credit can be carried forward to subsequent years until the credit is fully claimed. There is an annual statewide cap of \$10 million that can be awarded in tax credits under this program.

To be eligible for the scholarship, students must qualify for free and reduced price lunch and attend a low performing school according to the state school accountability system. Students must attend a public school for one year prior to qualifying for a scholarship, unless a student is under the age of 6. Once a student receives a scholarship, the student is considered eligible through high school graduation regardless of changes in household income. Students can receive a scholarship worth up to \$8,000 to cover the costs of private school tuition, fees, and transportation if it is provided by the private school.

Scholarship granting organizations must spend at least 90% of all contributions toward scholarships. They must be audited annually by a certified accountant and provide written reports annually showing the financial ability to pay 90% of expected donations toward scholarships for the upcoming year. Scholarship granting organizations cannot award scholarships for private schools that have staff or relatives of staff in common with the scholarship granting organizations. Any private school in the state can accept scholarship students as long as the State Board of Education is properly notified. Participating students are not required to take the state assessment or any other norm-referenced measure of academic performance (2014 KS HB 2506 - Sec. 55-61).

Louisiana – Louisiana allows any taxpayer who files a state income tax return to receive a tax credit for donations to "school tuition organizations". The credit is worth 100% of the donation made with no limit on the amount donated. There is no state cap on credits awarded (2012 LA HB 969).

To be eligible for a scholarship, a student's household income must be no more than 250% of the federal poverty level established by the federal Office of Management and Budget. Qualifying students must be entering kindergarten, must have attended public school the previous year, or must have received a scholarship under this program the previous school year. Eligible school tuition organizations must spend 95% of all donations received toward scholarships. Participating schools must administer state assessments to scholarship recipients in compliance with state accountability laws. Participating schools must also provide parents of scholarship recipients with the student's annual test scores. Schools must also hold a random lottery if there are more eligible applicants than available seats. Students who attend public school that have received a school grade of D or F get priority in the admission process.

Montana - Details Coming Soon

Nevada - Details Coming Soon

New Hampshire – New Hampshire allows businesses of any kind to receive a tax credit for donations made to scholarship funding organizations that award private school scholarships. The credit is equal to 85% of the donation made to a scholarship organization and can be applied to either the business profits tax or the business enterprise tax, or any combination of the two. No business can receive a tax credit for more than 10% of the aggregate amount of tax credits allowed in a given year. The aggregate amount of tax credits that can be awarded is \$3.4 million in the program's first year and \$5.1 million in the following years. If the total amount in scholarships awarded exceeds 80 percent of the maximum aggregate credits allowed then the aggregate credits allowed for the following year automatically increase by 25%.

Any student who is currently attending a New Hampshire public school is eligible to receive a scholarship under the program, including students with disabilities. Current private school and home school students with household incomes less than 300% of the federal poverty guidelines are also eligible for a scholarship. Scholarships can be used to attend private schools and public schools outside of a student's resident district. The scholarship can also be used to cover home schooling expenses.

At least 40% of the students a scholarship organization awards scholarships to must have qualified for the federal free or reduced-price lunch program in the final year they attended public school. Scholarship organizations cannot restrict use of a scholarship to one school and cannot limit scholarships to specific students. The operator of the scholarship organization also cannot own or operate a private school participating in the tax credit program. Scholarship organizations cannot use more than 10% of collected donations for administrative costs. Participating private schools are not required to administer state assessments, but New Hampshire law allows any private school to voluntarily administer state exams (2012 NH SB 372)

Oklahoma – Oklahoma passed the Oklahoma Equal Opportunity Education Scholarship Act in 2011 allowing individuals and corporations to claim a tax credit for contributions made to a "scholarship-granting organization". The credit is equal to 50 percent of the contribution made with a maximum credit of \$1,000/\$2,000 for single/married individuals and \$100,000 for any business entity. If a taxpayer makes a written pledge to donate for 3 consecutive years the credit is increased to 75% of the donation (with the same caps). The state can award a maximum of \$1.7 million in credits each year for individuals and \$1.7 million for businesses. If the credits awarded exceed the statewide credit maximum, a taxpayer's credit will be reduced proportionately to maintain the state-wide cap.

To qualify for a scholarship a student must be lawfully present in the U.S. and must have a household income that is no more than 300% of the standard to qualify for a free or reduced price lunch. Students who attended a school in the previous year identified as "failing", private school students living within the resident boundaries of a school marked as failing, or those identified as students with special needs also qualify for private school scholarships. The scholarships can be used at any accredited school the student gains acceptance to. Scholarship-granting organizations must spend 90% of their revenue on student scholarships.

Pennsylvania – Pennsylvania allows businesses to claim a tax credit for contributions made to "scholarship organizations." The credit is equal to 75 percent of a one-year contribution and 90 percent of a two-year contribution made by a business. Each contributing business can receive a maximum credit of \$300,000 per year. Statewide, the credits awarded cannot exceed \$44.7 million. Businesses can also receive a separate credit for contributions to pre-kindergarten scholarship organizations. This credit equals 100 percent of the contribution up to \$10,000 and 90 percent of any additional contribution up to \$150,000. The total value of credits awarded statewide is capped at \$8 million.

Students with family incomes of \$60,000 or less (\$12,000 allowance for each additional dependent) are eligible to receive a scholarship. This includes students already enrolled in private school. A scholarship organization must spend at least 80 percent of its revenue on scholarships. Scholarship recipients can attend a public or private school approved by the scholarship organization. There is no requirement for participating private schools to administer standardized tests (2012 Act 85, Art. XVII-G.1).

Rhode Island – Rhode Island offers businesses a tax credit for contributions to "scholarship organizations." The value of the credit is equal to 75 percent of the contribution, or 90 percent if the contribution is matched for two consecutive years. Each business can claim a maximum credit of \$100,000. The state will award a total maximum of \$1 million in tax credits.

Students with a household income less than 250 percent of the federal poverty guideline as defined by the U.S. Department of Health and Human Services are eligible to receive scholarships. Students already enrolled in private school are also eligible. Recipients must attend a private school approved by their scholarship organization.

Scholarship organizations must spend 90 percent of their revenue on student scholarships. There is no requirement for private schools to administer standardized tests (G.L. § 44-62).

South Carolina -

Individuals and businesses are awarded a tax credit for contributions to nonprofit scholarship funding organizations (HB 3710, 2013). Taxpayers can claim a credit up to 60% of their total tax liability for a given year. The statewide cap on total tax credits awarded is \$8 million.

To qualify for the scholarship, students must be designated by the state as having "exceptional needs". Previous public school enrollment is not required. Scholarship funding organizations must spend at least 95% of their revenue on scholarships. Participating schools must administer state assessments, or an equivalent exam, and must be in good standing with one of the designated regional private school association.

Virginia – Virginia awards businesses and individuals tax credits for contributions made to "scholarship foundations". The credit is equal to 65% of the contribution. All contributions must be at least \$500 to be eligible for the tax credit and individuals cannot receive a tax credit for more than \$50,000 in a given year. There is no cap on how much a business can receive in tax credits. The total amount of tax credits that can be awarded statewide is capped at \$25 million per year.

Students with household incomes less than 300% of the federal poverty guidelines, and who either attended public school the prior year or are entering kindergarten or first grade are eligible to receive scholarships to attend private schools approved by the scholarship foundation. Students with disabilities can also receive scholarships if their household income is less than 400% the federal poverty guidelines and they otherwise meet the student eligibility requirements. Participating private schools must administer a national norm-referenced assessment to students receiving scholarships under the program. Students can receive scholarships up to 100% of the per-pupil amount appropriated for each public school student unless the private school tuition is less than this amount. Each scholarship foundation must use 90% of its donation revenue towards the issuing of scholarships.

Resources

Alliance for School Choice, Hope for America's Children School Choice Yearbook, 2011

The Institute for Justice and American Legislative Exchange Council, School Choice and State Constitutions: A Guide to Designing School Choice Programs, 2007

Florida Office of Program Policy Analysis & Government Accountability, The Corporate Income Tax Credit Scholarship Program Saves State Dollars, 2008

National Education Association, Subsidizing Private Education – At Taxpayer Expense, 2010

NCSL Member Toolbox

Members Resources

- Get Involved With NCSL
- Jobs Clearinghouse
- Legislative Careers
- NCSL Staff Directories
- Staff Directories
- StateConnect Directory

Policy & Research Resources

- Bill Information Service
- Legislative Websites
- NCSL Bookstore
- State Legislatures Magazine

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- Tel: 1-800-659-2656 or 711
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- Accessibility Policy

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