

Tax-Credit Scholarships

Executive Summary

House Bill [349](#) (and Senate Bills [23](#), [25](#), [55](#), [251](#)) would establish a Missouri Empowerment Scholarship Account (ESA) Program; House Bill [540](#) (and Senate Bill [30](#)) would establish the Show Me a Brighter Future Scholarship Fund. Both are examples of tax-credit funded scholarship programs for qualified students who choose not to enroll in their district public school. Recipients can apply funds toward educational programs (e.g., private schools, homeschool) and services (e.g., tutoring, textbooks). Several states currently operate statewide tax-credit scholarship or related educational savings account programs to increase nonpublic school choice. While limited, government and scholarly evaluation of existing private school choice policies highlight some of the ways that these programs can influence parental satisfaction, student performance, public school funding and the accessibility of quality choice options.

Highlights

- Tax-credit scholarships, education savings accounts and vouchers are the three primary tools to increase private school choice. **Program parameters (e.g., funding mechanisms, student eligibility, approved providers) within and across private school choice options vary by state.**
- Government evaluations of tax-credit scholarships and education savings account programs **tend to find high program satisfaction and moderate academic improvements in some, but not all, states.** While states report **some level of resource misuse**, most indicate that they **don't have the resources to effectively audit all program expenditures.**
- Along with student eligibility requirements (e.g., income, disability), **the geographic distribution of choice options and size of the scholarship/grant may make the full range of choice options less accessible to some rural and/or low-income students.**

Limitations

- Due to significant differences in policies across states, it is **difficult to compare student achievement (e.g., test scores, graduation rates) and program outcomes.** Consistent evaluation of program quality is further complicated by non-standardized or changing assessments and frequent legislative changes to existing program parameters.
- Because many of these programs are new and changing, it is **difficult to predict the long-term impacts of tax-credit scholarship programs on public school finances and performance** (e.g., facilities or administrative costs, teacher pay and/or quality).
- A substantial number of studies and reports on this topic have been funded, performed and/or published by pro- and anti- school choice advocacy groups.

Research Background

Tax-Credit Scholarships & Related Private School Choice Programs

Vouchers, tax-credit scholarships (e.g., ESAs) and education savings accounts are meant to increase nonpublic educational options for students/families who are unsatisfied with their current

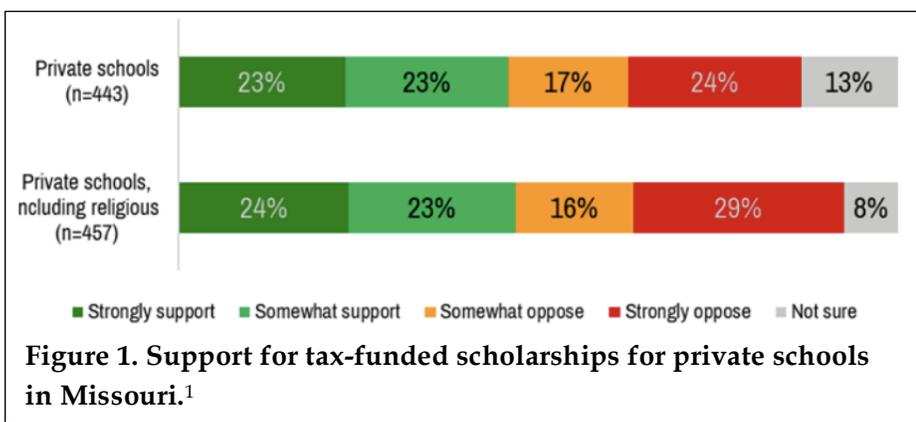


Figure 1. Support for tax-funded scholarships for private schools in Missouri.¹

district/public school assignment. According to a 2020 poll of Missouri families, approximately half of the survey respondents strongly or somewhat support tax-funded scholarship programs like Empowerment Scholarship Accounts. Opposition increases slightly when these programs include religious private schools. (Figure 1).¹

Private school choice programs vary across states depending on if they are funded through general revenue or tax credits, which students are eligible to receive funds, who manages the accounts, and requirements for education service providers. Of the tax-credit scholarship bills introduced so far in Missouri this year, the tax credit amount and student eligibility requirements vary. Senate Bill [296](#) would authorize a similar but distinct education savings account program that is directly funded by the state and determines student eligibility based on income. For an overview of how the proposed Missouri programs and existing programs in other states compare, see [Supplemental Table 1](#).

Legal challenges: School choice that allows state money to be spent on private education is often challenged on the constitutional grounds that public funds should not be used on private, often religious, schools. Most recently, Nevada’s education saving account program was upheld by the Nevada Supreme Court, which found that it was constitutional for taxpayer money to be spent on private schools but that the legislature must establish a distinct funding stream from the funds allocated for public school spending.² The Nevada program currently remains in statute but inactive due to lack of funding. The United States Supreme Court also ruled last year (*Espinoza v. Montana Department of Revenue*) that tax credits can be used to pay for religious schools.³

How does increasing private school choice impact students, families & public schools?

Parent satisfaction: In general, parents who choose private school options have higher levels of satisfaction with their child’s school.⁴ Recent government evaluations of education savings

account programs for students with disabilities in Tennessee and Mississippi indicate that 80-90% of surveyed families are satisfied with the choice program.^{5,6} Because surveys are typically administered only to families participating in a choice program, there is insufficient data to determine how these programs impact school satisfaction ratings in families whose children were either ineligible to participate or chose not to participate.

Student performance: Most states do not require uniform assessments for private and public schools, making it difficult to measure performance improvements after program entry or to rigorously compare differences in student achievement between public and private schools. Many evaluations, therefore, rely on self-reporting by parents or districts rather than comparisons of standardized test scores. As of 2018, $\frac{2}{3}$ of survey respondents participating in Nevada's Opportunity Tax Credit Scholarship program for low-income students reported either no change or an increase in certain test scores.⁷ In Mississippi's education savings account program for students with disabilities, parents indicated that 92% of respondents reported positive progress toward their child's Individualized Education Program (IEP) or service plan. 78% of respondents also reported improvements in general subject areas, however less than 10% of respondents indicated that their child improved their performance on standardized tests and advanced placement coursework.⁵ Participation in tax-credit scholarship programs is also associated with improved graduation rates in some states (e.g. Florida).⁸ However, ESA opponents argue that graduation rate comparisons are inappropriate because private schools are able to select who can enroll and stay in schools, therefore artificially inflating graduation rates.

Public school funding: While tax-credit scholarship programs usually reduce the calculation of state aid to districts, they are also expected to decrease general revenue in the state which could impact overall public education funding and/or spending in other sectors.⁹ Depending on student eligibility requirements, certain public school districts may be disproportionately affected by student transfers. Eighty two percent of students eligible for Kansas's income-based, tax-credit scholarship come from two public school districts (Kansas City and Wichita) that have lower graduation rates than the state average.¹⁰ In the Mississippi Education Saving Account program, which is targeted toward students with disabilities, $\frac{2}{3}$ of participants were previously enrolled in public schools that would receive fewer state dollars because of the decreased average daily attendance calculation. Five relatively high-income, high-performing school districts accounted for a majority of public school transfers during FY20.⁵ Finally, due to program variation and periodic adjustments, it is difficult to determine the extent to which private school choice programs impact the fixed costs (e.g., building, administration, pensions) and hiring decisions of public schools over the long-term.

Accessibility of choices: While private schools who receive federal funds are expressly prohibited from discriminating based on sex, race, ethnicity, national origin or disability, courts have often upheld the ability of private schools to reject students based on religious affiliation. Opponents of private school choice programs argue that the ability of private schools to choose which certain

students they accept can lead to selection biases and discrimination. One way to evaluate program accessibility is to determine the demographics of program participants. In Mississippi's program, which serves 0.9% of students with disabilities in the state, 6% of participants are eligible for free or reduced lunch (compared to ~75% eligibility in public school populations) and participants are predominantly white.⁵ Nevada's income-based program, on the other hand, has an average household income of \$45,694.00 and diverse student participants [Hispanic (28%), Caucasian (27%), and mixed race (26%)].⁷ Costs and access to private education providers also influences who can access educational choices. In Tennessee, 40% of program participants indicated that they spent more than \$1000 of their own dollars each year because the Individualized Education Account allotment did not cover all of their educational expenses.⁶ However, because Tennessee's program serves students with disabilities, this may not be representative of other types of programs (e.g., income-based). In addition to eligibility and income barriers, lack of access to complete information, difficulty accessing information (i.e., language barriers, school meetings overlapping with work obligations) and geographical access can make it more difficult for rural and low-income families to access the full range of quality choice options.^{11,12}

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