

# Tax-Credit Scholarships & Education Savings Accounts



## Executive Summary

Several states currently operate statewide tax-credit scholarship or related educational savings account programs to increase nonpublic school choice. In 2021, Missouri established the Empowerment Scholarship Account (ESA) Program via [HB 349](#) and [SB 86](#). In 2022, HB [2211](#) was introduced to expand this program by allowing qualifying students to include those from counties with more than 100,000 inhabitants (currently 12 Missouri counties). [SB 841](#) has also been proposed to establish a distinct, Education Savings Account Program. It would differ in implementation from the Empowerment Scholarship Program in several ways including its funding mechanism. 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 **do not 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, and education savings accounts are meant to increase nonpublic educational options for students/families who are unsatisfied with their current district/public school assignment.

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. The [Missouri Empowerment Scholarship Accounts Program](#) is funded through contributions to the program's fund with contributors receiving a tax credit equal to their contribution up to 50% of their state tax liability. For an overview of how the Missouri program and existing programs in other states compare ([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.<sup>1</sup> The Nevada program currently remains in statute but inactive due to lack of funding. The United States Supreme Court also ruled in 2020 (*Espinoza v. Montana Department of Revenue*) that tax credits can be used to pay for religious schools.<sup>2</sup>

### 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.<sup>3</sup> 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.<sup>4,5</sup> 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. Proposed [SB 841](#) would require the Treasurer to administer annual parent satisfaction surveys.

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, 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.<sup>6</sup> 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. Seventy-eight percent 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.<sup>4</sup> Participation in tax-credit scholarship programs is also associated with improved graduation rates in some states (e.g. Florida).<sup>7</sup> However, 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.<sup>8</sup> 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.<sup>9</sup> In the Mississippi Education Saving Account program, which is targeted toward students with disabilities, 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.<sup>4</sup> 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.<sup>4</sup> Nevada's income-based program, on the other hand, has an average household income of \$45,694 and diverse student participants [Hispanic (28%), Caucasian (27%), and mixed race (26%)].<sup>6</sup>

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.<sup>5</sup> 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.<sup>10,11</sup>

## **Existing and Proposed Programs in Missouri**

### The Missouri Empowerment Scholarship Account Program

Educational assistance organizations (EAOs) are funded through donations that are then reimbursed through tax credits. The amount of tax credits for the program is limited to a maximum \$25 million for the first year and \$50 million for subsequent years and only goes into effect if student transportation is appropriated at 40% or more of the projected costs. EAOs provide Empowerment Scholarship Accounts through contracts with parents that must ensure that qualified students enroll in nonpublic schools or public schools in a different district. Additionally, funds from Empowerment Scholarship Accounts must be used for tuition or fees to qualifying schools and/or can be used for educational expenses such as tutoring, textbooks, etc. Only 10 EAOs can be certified in a single school year and a maximum of 6 can be based in each of the following areas: Greene County; Jackson County; St. Charles County; St. Louis County; and St. Louis City. Finally, public schools can count students that transfer with Empowerment Scholarship Accounts as part of their attendance for the calculation of state and federal funding for up to 5 years.

There are several requirements for qualifying students for the Missouri Empowerment Scholarship Program including that students must be from counties with charter forms of government or live in municipalities with populations over 30,000 residents. Additionally, qualified students must have an individualized education plan (IEP) or be from families with a family income under two times the standard income used for qualification for free and reduced price lunch. For a family of 4, the qualifying income is less than ~\$100,000. Finally, qualified students are required to have attended a public school for at least one semester in the previous year or be attending kindergarten or first grade. House Bill [2211](#) would expand the reach of the Empowerment Scholarship Program by allowing qualifying students to include those from counties with more than 100,000 inhabitants (currently 12 Missouri counties), however, the program is still capped at 50 million. According to a 2021 poll of Missouri families, 53% of survey respondents strongly or somewhat supported the Empowerment Scholarship Accounts program. Additionally, 55% oppose a current rule which limits the program to large metropolitan areas.<sup>12</sup>

### Education Savings Account Program

Proposed via [SB 841](#), the Education Savings Account Program would be funded through State General Revenue funds. In this program, parents would open untaxed Education Savings Accounts, managed by the Treasurer, which would be funded through grants from an Educational Savings Account Program Fund, funded through General Revenue allocations. Qualified students are those whose family incomes do not exceed 200% of the income qualification for free and reduced price lunch. Once in the program, participants and their siblings are eligible to stay in the program until they graduate or reach the age of 21 regardless

of changes in family income. Unlike the Education Savings Account Program, there are no limitations in what regions of the state qualify and the program would only fund private school and other educational expenses, not nonresident public schools. There is no set limit on the amount of funding that can be allocated for the program (see [Supplemental Table 1](#)).

## References

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11. Fong, K., & Faude, S. (2018). Timing is Everything: Late Registration and Stratified Access to School Choice. *Sociology of Education*. 91(3). <https://doi.org/10.1177/0038040718785201>
12. Shelton, A. J., Burrola, A., Anglum, J. C., Rhinesmith, E. (2021). Do Missourians Support the MO Empowerment Scholarship Accounts Program? *Saint Louis University PRiME Center*. Retrieved from <https://www.sluprime.org/policy-brief-database/mo-esa-support>

**Supplemental Table 1.**

<b>Tax-Credit Scholarships</b>	<b>Current Missouri Empowerment Scholarship Accounts</b>	<b>Florida Tax Credit Scholarships</b>	<b>Kansas Tax Credit for Low Income Students Scholarship Program</b>	<b>Nevada Educational Choice Scholarship Program*</b>
<b>Statute/legislation</b>	Revised Statutes of Missouri <a href="#">166.705</a>	<a href="#">Fla. Stat. § 1002.395</a>	K.S.A. <a href="#">72-4351-4357</a>	N.R.S. <a href="#">388D.250-280</a>
<b>Funding source</b>	Up to 50 million in tax credits for <a href="#">FY 2023</a> ; up to 50% of taxpayer's state tax liability	100% tax credit for eligible donations (up to specified limit)	70% tax credit for eligible donations (up to specified limit)	tax credit for eligible donations (up to specified limit); credit value determined by state
<b>Account managed by</b>	Approved nonprofit education assistance organization (EAO); allowed to contract with private firms	approved nonprofit scholarship granting organizations (SGOs)	approved nonprofit scholarship granting organizations (SGOs)	approved nonprofit scholarship granting organizations (SGOs)
<b>Student eligibility</b>	In a prioritized order, with students having an approved individualized education plan (IEP) or living in a household whose total annual income meets the income standard for free and reduced price lunches being the first priority.	income-based (< 185% of the federal poverty level)	income-based (eligible for free or reduced lunch program)	income-based (< 300% of the federal poverty level)
<b>Accountability / requirements for nonpublic education providers</b>	A qualified school is incorporated in Missouri and that does not discriminate on the basis of race, color, or national origin.	- administer national norm-referenced test - nondiscrimination - health, safety and welfare standards - employee background checks <a href="#">*full list</a>	- must be accredited for the purpose of satisfying the teaching performance assessment for professional licensure	<i>not specified in statute</i>
<b>Recent program evaluation</b>	N/A	<a href="#">2018-19 Program Evaluation (Learning Policy Institute at Florida State University; June 2020)</a>	<a href="#">2021 Legislative Report (Kansas Department of Education; January 2021)</a>	<a href="#">2018-19 Fact Sheet (Nevada Department of Education; November 2018)</a> *Nevada's program is still in statute but has not been allocated funding and is therefore currently inactive.

<b>Education Savings</b>	<b>Missouri</b>	<b>Arizona Empowerment</b>	<b>Mississippi Education</b>	<b>Tennessee Individualized</b>
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<b>Accounts</b>	<b>Education Savings Accounts</b>	<b>Scholarship Accounts</b>	<b>Scholarship Accounts</b>	<b>Education Account Program</b>
<b>Statute/ legislation</b>	<a href="#">Senate Bill 841</a>	Ariz. Rev. Stat. § <a href="#">15-2401-2404</a>	Miss. Code Ann. § <a href="#">37-181-1-23</a>	Tenn. Code Ann. §§ <a href="#">49-10-1401-1406</a>
<b>Funding source</b>	state- general revenue	state- general revenue	state- general revenue	state- general revenue
<b>Account managed by</b>	state government; allowed to contract with private firms	state government; allowed to contract with private firms	state government	state government
<b>Student eligibility</b>	income-based (< 2x qualifying income for free and reduced lunch)	students with disabilities; foster children; military families; students living on reservation; students attending low-performing schools	students with disabilities, IEPs	students with disabilities, IEPs
<b>Accountability / requirements for nonpublic education providers</b>	<p>must:</p> <ul style="list-style-type: none"> <li>- require students to take state assessment or national norm-referenced test</li> <li>- comply with health &amp; safety code requirements for private schools;</li> <li>- maintain valid occupancy permit</li> <li>- have nondiscrimination policy</li> <li>- criminal background checks on employees</li> </ul>	- does not discriminate on the basis of race, color or national origin	- does not include a home instruction program - must take assessment but can choose what type	<ul style="list-style-type: none"> <li>- national norm-referenced test or state comprehensive assessment program (only grades 3-8)</li> <li>- must comply with criminal background checks, existing health and safety laws for public schools</li> <li>- nondiscrimination by race, color or national origin</li> </ul>
<b>Recent program evaluation</b>		<a href="#">2020 Audit (Arizona Department of Education; April 2020)</a>	<a href="#">2020 Legislative Report (Mississippi Joint Committee on Performance Evaluation and Expenditure Review; December 2020)</a>	<a href="#">2017-18 Program Implementation Report (Tennessee Department of Education; September 2018)</a>