EDCHOICE BRIEF

SCHOOL CHOICE FALLACIES: DISPROVING DETRACTORS’ ALLEGATIONS AGAINST TAX-CREDIT SCHOLARSHIP PROGRAMS

MARTIN F. LUEKEN, PH.D.
MICHAEL SHAW
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KEY FINDINGS

• What is a tax-credit scholarship? Tax-credit scholarships are programs that help K–12 families access a better educational fit for their children by allowing taxpayers to receive full or partial tax credits when they donate to nonprofits that provide private school scholarships.

• Criticizing school choice tax credits but not the hundreds of other tax-credit policies available in states is inconsistent. School choice detractors have labeled tax-credit scholarship programs as policies that lead to “profit,” “double-dipping,” “get-rich schemes,” and “tax shelters” for donors. Yet states have enacted hundreds of other tax-credit programs.

• The key to understanding claims of “profit” and “double-dipping” is understanding Alternative Minimum Tax (AMT). In states with tax-credit scholarship programs, taxpayers subject to the AMT can make donations to scholarship organizations and receive tax credits to reduce their state tax liability. At the same time, AMT filers can deduct their charitable contributions from their federal taxable income to reduce their federal tax liability. As a result, the reduction in tax liability can exceed the amount they contributed. But it is also possible for taxpayers who do not make charitable contributions to still receive the same level of tax benefits because they can deduct their state tax liability from their federal taxable income. If AMT filers could deduct their state taxes from their federal taxable income, then the amount that taxpayers can reduce their tax liability would be equivalent for all taxpayers at the same income level, putting them on equal footing. The so-called “profit” would go away because taxpayers subject to the AMT cannot deduct their state taxes from their federal taxable income, while the majority of non-AMT taxpayers can.

• This characteristic is not unique to K–12 tax-credit scholarship programs. Many dollar-for-dollar state tax credits, including tax credits for healthcare premiums, child services agencies, and general charitable giving allow for this same practice.

• Many AMT filers who could benefit from so-called “double-dipping” tend not to be the nation’s wealthiest taxpayers. AMT filers tend to be middle- and upper-middle-class taxpayers and large families.

• To the extent that Americans want to change this feature of the federal tax code, there are simple options. For instance, Congress may, at any time, change the law to prevent taxpayers who file AMT from deducting their charitable contributions from one’s federal taxable income. This approach, however, will likely dampen incentives in place for taxpayers to invest in their states.
In light of increased attention paid to school choice programs, detractors have labeled tax-credit scholarship (TCS) programs as leading to “profit,” “double-dipping,” “get-rich schemes,” and “tax shelters” for donors. Those leveling such claims against these state-based programs, which help families send children to K–12 schools of their choice, are misguided in their interpretations and fail to examine the broader picture surrounding various taxation policies.

Many of these allegations have been collated in a recent report by the School Superintendents Association (AASA) and Institute on Taxation and Economic Policy (ITEP). The report makes much ado about a part of tax law that allows certain taxpayers to make charitable contributions to scholarship organizations for tax credits. In return, taxpayers can receive tax benefits that exceed their charitable donations if they are subject to the individual Alternative Minimum Tax (AMT). The AASA and ITEP calls this “profit.” But it is also possible for taxpayers who do not make charitable contributions to still receive the same level of tax benefits because they can deduct their state tax liability from their federal taxable income.

The key factor for understanding tax-credit scholarship opponents’ claims is that taxpayers subject to the AMT cannot deduct their state taxes from their federal taxable income, while the majority of non-AMT taxpayers can. If AMT filers could deduct their state taxes from federal taxable income, then the amount that taxpayers can reduce their tax liability would be equivalent for all taxpayers at the same income level, putting them on equal footing. The so-called “profit” would go away.

**FIGURE 1** Understanding Liability Under Alternative Minimum Tax Scenarios


Note: This chart is intended to show in a general sense the tax liability a given taxpayer at a given income level faces under different scenarios. Numerous factors can impact one's taxes (e.g., filing status, family size, and income). This flow chart simplifies the example by assuming all factors are held constant, except whether one is subject to AMT and whether one makes charitable contributions and deductions.
It is noteworthy that some state tax-credit programs are explicitly designed to encourage double-dipping as defined in the true sense of the term where taxpayers can receive tax credits at both the state and federal levels on the same contributions made. For example, Indiana's Adoption Credit pays 110 percent of adoption services claimed by a similar federal credit. This is a more accurate example of double-dipping than what opponents have cited for tax-credit scholarship programs.

Claims that school choice programs drain public school resources also abound in tax-credit scholarship critiques. This misinformation is too great to be addressed in a single policy brief, and many of the report's common claims have already been addressed elsewhere. Notably, tax-credit scholarship programs may differ from other tax-credit programs because they generate positive fiscal benefits for state taxpayers and public K–12 schools, the latter of which often constitutes states' largest category of spending.

BACKGROUND

Tax-Credit Scholarship Programs

More than 250,000 children in 17 states recently received tax-credit scholarships to enroll in private schools of their choosing. These programs allow taxpayers to receive up to one dollar in tax credits for every dollar donated to qualifying scholarship organizations, which subsequently award scholarships to help low- and middle-income students attend private schools. Currently, nine of 21 state tax-credit scholarship programs award tax credits at rates between 50 percent and 90 percent of donations, while 12 of the programs are dollar-for-dollar.

How tax-credit scholarship programs operate can vary significantly in design, student eligibility, credit value, allowable donations, rules governing scholarship organizations, testing requirements, and other regulations. For instance, some programs limit student eligibility based on income, while other programs target students with special needs. Some programs require students’ prior enrollment in public schools before participating. Arizona’s Original Individual Income and Montana’s Tax Credits for Contributions to Student Scholarship Organizations Program permit all K–12 students to participate.

To date, researchers have not published any rigorous studies on the participant effects of tax-credit scholarship programs, and only very limited research has examined their effects on students in public schools nearby the private schools that participants attended. Figlio and Hart measured the competitive effects of the Florida Tax Credit Scholarship Program and found that students attending schools that faced greater competition experienced greater test score improvements after the introduction of the program, suggesting “modest benefits for public school students from increased competition.”

Though reports claim that tax-credit scholarship programs drain resources from public schools, fiscal effects analyses suggest otherwise. It is true that revenue declines for school districts when students leave, but it is also true that public school costs decline because schools no longer bear the responsibility of educating the students who leave. Lueken conducted a fiscal analysis of 10 tax-credit scholarship programs in seven states. The analysis estimated the overall fiscal impact on the state and public schools combined. After accounting for students who would have enrolled in private schools anyway without the programs in place, the analysis estimated that these programs saved between $1.7 billion and $3.4 billion through FY 2014, or up to $3,000 per student who received a tax-credit scholarship. In FY 2014 alone, savings were worth $580 million.

An analysis by the Florida legislature’s Office of Program Policy Analysis and Government Accountability estimated the fiscal impact on the state (and not public schools) and concluded that the state’s tax-credit scholarship program produced $1.44 in reduced expenditures for every $1 in decreased revenue.

How Tax Credits and Deductions Work

Though they can interact, tax credits and deductions are not the same taxation vehicle. The same is true for federal and state taxes, whose interaction forms the
framework of the misinterpretation of “profiting” from tax-credit scholarship donations. Still, it is important to demonstrate these interactions, which we do later in this brief. This section provides simple examples to show how credits and deductions work separately.

Let’s start with a simple example of an individual (or corporation) who owes $2,000 in state taxes and makes a $100 donation. A donation to a tax credit program would allow a taxpayer to reduce their tax liability by some amount for each dollar donated. Some tax credit programs award credits on a dollar-for-dollar basis, and others award credits equal to a fraction of the amount donated. A $100 donation to a dollar-for-dollar tax credit program would generate $100 in tax credits and reduce one’s state tax liability by $100. In this example, the final tax liability is $1,900. If a tax credit is worth 65 percent of a creditable donation, then $100 in donations will generate $65 in credits, and the final tax bill will be $1,935.

A tax deduction allows an individual to lower their taxable income by some amount and equals the percentage of one’s marginal tax bracket. Taxpayers can take a standard federal deduction (if they qualify) or itemize their deductions. They cannot do both. If an individual is in the 30 percent bracket and takes a $100 deduction for a $100 donation, then that deduction saves $30 in taxes (= 30% x $100). She then owes $1,970 in taxes.

### Tax-Credit Programs

The 21 tax-credit scholarship programs currently operating in 17 states represents a very small share of the hundreds of various tax-credit programs policymakers have enacted. These programs serve a variety of purposes, including incentivizing charitable giving intended to aid low-income families as well as for community development, innovation, business development, job creation, green energy, and more. Despite this fact, the AASA/ITEP report chose to focus on only tax-credit programs for K–12 students.

States with tax-credit scholarship programs also provide more than 180 other tax-credit programs for providing incentives for taxpayers to invest in their states. Figure 2 shows the number of tax-credit programs by type, omitting the 21 tax-credit scholarship programs.

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**FIGURE 2**

State Tax Credit Programs Create Incentives for Investing in a Variety of Areas

_Distribution of Tax Credit Programs By Type in 15 States with Tax-Credit Scholarship Programs, Excluding 21 Tax-Credit Scholarship Programs_

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Source: Michael Shaw (2017), Tax Credits in States with TCS Programs [data set], last modified June 27, 2017, retrieved from [link](http://docs.google.com/spreadsheets/d/1UTp6thIMvD0XQFB7nUx4BD2g7JUKq6D8dhT6ZK24). Note: See endnote 14.
Non-TCS education tax-credit programs constitute only eight of the tax-credit programs (4 percent of the sample) in these states. This ranks a distant fifth in credit categories when omitting various miscellaneous credits. When including tax-credit scholarship programs in states which have enacted them, the number of education tax-credit programs jumps to 29 and ranks third. This investment suggests legislators place a high degree of importance on tax-credit scholarship programs as a positive education policy for families.

Notably, 23 of these tax-credit programs (13 percent of the sample) offer dollar-for-dollar tax credits for contributions and qualified expenditures such as purchase of classroom supplies by teachers, fuel taxes, and expenditures used to comply with environmental standards. Thus, these programs will also be susceptible to the claims proposed in the AASA/ITEP report. But credit value as a percent of contribution only begins to describe the amount of value a tax-credit program may have for individuals and businesses.

Tax-credit programs can cap donations (and awards) at both the individual level and program level. While a 100 percent credit may seem like the upper bound of a tax-credit program, many programs are not designed with a percentage in mind. Some programs, especially energy and job-creation credits, offer per-unit tax-credits (e.g. awarding credits for each job created by an employer or a certain number of credits for each gallon of biofuel produced). Other credits, unlike most tax-credit scholarship programs, offer unlimited contributions. Finally, appropriation amounts for tax-credit programs vary greatly. Of the non-TCS programs analyzed, 22 programs had higher appropriation amounts or no caps at all than the average of the tax-credit scholarship programs' appropriations.

Many credits, including some for individuals but especially for businesses, may be bought and sold. As tax credits lower one’s tax liability, individuals and businesses may want to sell or purchase credits at non-market rates during certain years to alter taxable liability, which can improve overall tax savings. Tax-credit scholarship programs explicitly prohibit this practice, thus diminishing their potential economic value to any one contributor. Simply put, tax credits for K–12 scholarship programs are less liquid and potentially less valuable to businesses and tax experts seeking to minimize their total tax liability.

Furthermore, some credits are explicitly designed to encourage double-dipping as defined in the true sense of the term where taxpayers can receive tax credits at both the state and federal levels on the same contributions made. For example, Oklahoma’s Historic Rehabilitation Tax Credit matches 100 percent of the amount of a federal preservation credit for qualified rehabilitation investments. Indiana’s Adoption Credit pays 110 percent of adoption services claimed by a similar federal credit. Both of these credits offer a more accurate and economically efficient example of “double-dipping” than the AASA/ITEP report details for tax-credit scholarship programs.

As it stands, all across the country states collectively offer hundreds of tax-credit programs that incentivize its citizens to invest in the welfare and development of their states. Tax-credit scholarship programs have proved to be effective programs that allow states’ taxpayers to invest in educational options for low- and middle-income families.

Now let’s take a closer look and examine the “double-dipping” and “profit” claims made in the AASA/ITEP report.

DO TAX-CREDIT SCHOLARSHIP PROGRAMS CREATE “TAX SHELTERS” FOR WEALTHY TAXPAYERS?

Under tax-credit scholarship programs, taxpayers can make donations to scholarship organizations and receive tax credits from their state. At the same time, they can also reduce their federal taxable income by deducting charitable contributions. Taxpayers subject to the AMT cannot deduct their state taxes from their federal taxable income while the majority of non-AMT taxpayers can. If AMT filers could deduct their state taxes from federal taxable income, then the amount that taxpayers can reduce their tax liability would be equivalent for all taxpayers, putting them on equal footing.
The validity of claims that tax-credit scholarship programs (and other tax credit programs, for that matter) allow “double-dipping” and “profit” depends on what alternative tax scenarios are being compared. We illustrate how this works below.

**Some Simple Scenarios to Provide Context for Evaluating the “Profit” Argument**

We illustrate these concepts by discussing several different scenarios below. Results for different scenarios are summarized in Table 1 on page 7. The examples below assume that taxpayers donating to a scholarship organization receive a one dollar tax credit for each dollar donated.

Let’s consider an individual who reports $200,000 in gross income. For simplicity, let’s assume the state tax rate is 5 percent. If she takes no deductions, she will owe $10,000 in state taxes. She can also reduce her federal taxable income by the amount of her owed state taxes, leaving her with $190,000 in federal taxable income. Assuming tax brackets for Tax Year 2016, she will pay $46,230 in federal taxes. By claiming state taxes as a deduction, she could reduce her federal tax liability ($49,530 under regular rules) by about $3,300. This is Scenario A.

Now consider a similarly situated taxpayer who makes a $10,000 contribution and receives $10,000 in tax credits. Call this Scenario B. Instead of deducting $10,000 in state taxes from her federal taxable income (as in Scenario A), she can deduct $10,000 of her charitable donations from her taxable income. In this example, the state and federal tax liabilities under both scenarios are the same.

Claims of taxpayer “profit” come in where the AMT is concerned. For federal tax purposes, she will also calculate how much she would owe under AMT rules. She will owe the higher of the two amounts calculated under regular rules and AMT rules. For instance, if the AMT amount is less than $46,230, then she will still pay $46,230 in federal taxes. If the AMT amount is greater, then she will pay the AMT amount.

The key factor is that taxpayers subject to the AMT cannot deduct their state taxes from their federal taxable income, while the majority of non-AMT taxpayers can.

As such, AMT filers who do not make any charitable contributions will face a higher federal tax liability than AMT filers who deduct their charitable contributions.

Federal tax law allows for the possibility that certain tax benefits can significantly reduce the amount of tax liability a taxpayer owes. Originally enacted in 1969 and aimed at closing a loophole for high-income filers to avoid paying any federal taxes, the Alternative Minimum Tax (AMT) sets a limit on these tax benefits and guarantees they pay a minimum amount of federal tax. This minimum amount is a separate calculation from regular tax (the IRS calls it the “tentative minimum tax”). The AMT is the amount which the tentative minimum tax exceeds the regular tax. Taxpayers pay the greater of AMT or regular tax. While the AMT ensures that certain taxpayers pay a minimum, it does nothing to reduce taxes for taxpayers who pay more in regular taxes relative to the tax calculation under AMT rules.

It should be noted that the AMT generally hits filers with high incomes, but not the highest. Because it is a deduction-limiting tax, it is more likely to impact large families, married filers, and those who live in high-tax states.18

The validity of claims that tax-credit scholarship programs (and other tax credit programs, for that matter) allow “double-dipping” and “profit” depends on what alternative tax scenarios are being compared. We illustrate how this works below.

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As such, AMT filers who do not make any charitable contributions will face a higher federal tax liability than AMT filers who deduct their charitable contributions.
Now let’s assume the taxpayer from Scenario A is subject to the AMT. This is Scenario C. An AMT filer would face a federal tax liability of $49,530. This tax liability is higher than tax liabilities from the previous two scenarios and represents the base comparison central to the claims made in the AASA/ITEP report. In this case, being subject to the AMT while not making donations results in a higher tax liability than under the previous two scenarios because AMT filers cannot deduct their state taxes from their federal taxable income, though they would be able to deduct charitable contributions and potentially face a lower tax bill. Charitable deductions are one of only six types of deductions permissible under the AMT.20

Finally, consider Scenario D, where the taxpayer is subject to the AMT and makes a $10,000 contribution to a scholarship organization. This taxpayer will receive $10,000 in tax credits and be able to subtract this amount from her state tax liability. Under this scenario, the amount of state taxes owed reduces to zero. She can also deduct these charitable donations and other allowable deductions on her federal tax return. Doing so brings the amount owed in federal taxes to $46,230. Notably, this amount is equal to what she would owe had she not been subject to the AMT.

AASA and ITEP define the difference between the taxpayer’s liability in Scenario C and Scenario D as

**TABLE 1** How Taxpayers Not Subject to the Alternative Minimum Tax (AMT) Can Be on Even Ground with AMT Filers Who Can Deduct Their Charitable Contributions

<table>
<thead>
<tr>
<th>No Contributions</th>
<th>Make $10,000 in contributions to SGO (receive $10,000 tax credits)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scenario A</strong></td>
<td><strong>Scenario B</strong></td>
</tr>
<tr>
<td>Gross income: $200,000</td>
<td>Gross income: $200,000</td>
</tr>
<tr>
<td>Contributions: $0</td>
<td>Contributions: $10,000</td>
</tr>
<tr>
<td>State tax credits: $0</td>
<td>State tax credits: $10,000</td>
</tr>
<tr>
<td>State tax rate: 5 percent</td>
<td>State tax rate: 5 percent</td>
</tr>
<tr>
<td>State taxes owed: $10,000</td>
<td>State taxes owed: $0</td>
</tr>
<tr>
<td>Eligible deductions (federal): $10,000</td>
<td>Eligible deductions (federal): $10,000</td>
</tr>
<tr>
<td>Federal taxable income: $190,000</td>
<td>Federal taxable income: $190,000</td>
</tr>
<tr>
<td>Federal taxes owed: $46,230*</td>
<td>Federal taxes owed: $46,230*</td>
</tr>
</tbody>
</table>

| **Scenario C**   | **Scenario D**                                                   |
| Gross income: $200,000 | Gross income: $200,000                                            |
| Contributions: $0 | Contributions: $10,000                                           |
| State tax credits: $0 | State tax credits: $10,000                                       |
| State tax rate: 5 percent | State tax rate: 5 percent                                        |
| State taxes owed: $10,000† | State taxes owed: $0                                             |
| Eligible deductions (federal): $0 | Eligible deductions (federal): $10,000 |
| Federal taxable income: $200,000 | Federal taxable income: $190,000 |
| Federal taxes owed: $49,530 * | Federal taxes owed: $46,230 * |

* We use tax brackets for Tax Year 2016 to estimate federal taxes owed. If the AMT is greater than regular taxes owed, then federal taxes owed will be the greater amount.
†Taxpayers subject to the AMT cannot deduct their state taxes from their federal taxable income.
“profit.” This provides the basis for the claim that tax-credit scholarship programs allow “profit” among taxpayers subject to the AMT. In this example, the “profit” is worth about $3,300. That is, AASA and ITEP imply the amount of taxes that “should” be owed is the amount under Scenario C ($49,530). But note that the taxes owed under Scenario A and Scenario B are the same amount, or $46,230, as the “profit” scenario (Scenario D). These are cases where taxpayers are not subject to the AMT; yet, they both face the same tax liability as the “profit” scenario that AASA and ITEP focus on by being able to deduct either their state taxes or charitable contributions from their federal taxable income. It would be equally valid to consider these non-AMT scenarios as the base comparison, in which case there is no so-called “profit” as AASA and ITEP define it.

The “profit” stems from the fact that AMT filers cannot deduct their state taxes and other types of deductions, such as dependent care, property taxes, and job expenses, from their federal taxable income. This stipulation drives AASA/ITEP’s “profit” claim. As it stands, taxpayers not subject to the AMT can deduct their state taxes or their charitable contributions, putting them on even ground with AMT filers who can deduct their charitable contributions. Among these groups at the same income level, it is the AMT filer not deducting charitable donations who is relatively worse off because taxpayers subject to the AMT cannot deduct their state taxes while other taxpayers can.

A SIMPLE FIX

The fact that AMT filers cannot deduct their state taxes means that AMT filers who make charitable donations can reduce their tax liability by a greater amount than AMT filers who do not make donations. Some school choice detractors allege this is “profit” or “double-dipping.” For some trying to pass tax-credit scholarship bills in their states, it might make sense politically to include measures that prevent this from happening. A simple solution would be to put all taxpayers on even footing by permitting AMT filers to deduct their state taxes.

A GET-RICH SCHEME?

Though taxpayers subject to the AMT have relatively high incomes, the tax disproportionately affects middle- and upper middle-class taxpayers. Of the total number of AMT returns in 2014, 90 percent were filed by individuals with income below $500,000, while just 11 percent were filed by individuals with incomes above that amount. The AMT especially hits individuals with gross income between $200,000 and $500,000, where 64 percent of this group filed an AMT return. This rate is more than triple the AMT filing among those who made $1 million or more.

It is disingenuous to label this a “get-rich scheme.” No one can “get rich” by taking a tax credit. All they can do is reduce their tax liability. Moreover, it’s impossible to know with certainty the extent to which AMT filers deducted their contributions (and thus fall under AASA/ITEP’s category of taxpayers who “profit”) and which filers did not.

Although most tax returns had a qualified contributions deduction (a requisite for filing AMT taxes), Table 2 on page 9 shows fewer than 10 percent of all taxpayers filed AMT returns for the 2014 tax year, according to data from the Internal Revenue Service. The AMT disproportionately affects middle- and upper middle-class taxpayers. Of the total number of AMT returns, almost 90 percent were filed by individuals with income below $500,000, while just 11 percent were filed by individuals with incomes above that amount. The AMT especially hits individuals with gross income between $200,000 and $500,000, where 64 percent of this group filed an AMT return in tax year 2014. This rate is more than triple the AMT filing rate among millionaire taxpayers.
### TABLE 2
Share of Taxpayers Who Pay the Alternative Minimum Tax By Income Distribution, Tax Year 2014

<table>
<thead>
<tr>
<th>Adjusted Gross Income</th>
<th>Total Number of Returns</th>
<th>Number of AMT Returns</th>
<th>Share of Income Bin's Total Returns That Are AMT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $50,000</td>
<td>9,966,542</td>
<td>9,966,542</td>
<td>0.04%</td>
</tr>
<tr>
<td>$50,000 to under $100,000</td>
<td>14,760,417</td>
<td>14,760,417</td>
<td>0.67%</td>
</tr>
<tr>
<td>$100,000 under $200,000</td>
<td>13,455,839</td>
<td>13,455,839</td>
<td>4.57%</td>
</tr>
<tr>
<td>$200,000 under $500,000</td>
<td>4,639,462</td>
<td>4,639,462</td>
<td>63.88%</td>
</tr>
<tr>
<td>$500,000 under $1,000,000</td>
<td>770,130</td>
<td>770,130</td>
<td>47.73%</td>
</tr>
<tr>
<td>$1,000,000 under $1,500,000</td>
<td>162,973</td>
<td>162,973</td>
<td>18.88%</td>
</tr>
<tr>
<td>$1,500,000 under $2,000,000</td>
<td>69,305</td>
<td>69,305</td>
<td>18.75%</td>
</tr>
<tr>
<td>$2,000,000 under $5,000,000</td>
<td>99,160</td>
<td>99,160</td>
<td>18.67%</td>
</tr>
<tr>
<td>$5,000,000 under $10,000,000</td>
<td>25,075</td>
<td>25,075</td>
<td>20.65%</td>
</tr>
<tr>
<td>$10,000,000 or more</td>
<td>16,183</td>
<td>16,183</td>
<td>25.05%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>43,965,083</strong></td>
<td><strong>43,965,083</strong></td>
<td><strong>9.38%</strong></td>
</tr>
</tbody>
</table>


...taxes. Then their tax liability would be equivalent to the tax liability of non-AMT taxpayers.

Other options are available to prevent so-called “profit,” but policymakers should carefully weigh any tradeoffs and consider the potential effect on incentives for taxpayers to make contributions. Congress could at any time prohibit taxpayers from deducting state income taxes and contributions from federal taxable income. Such a change, however, would likely disproportionately affect contributors to tax-credit programs. Policymakers should keep in mind that the purpose of tax-credit programs is to spur investment in their states, and this change would likely dampen that incentive.

Some might propose prohibiting taxpayers who receive tax credits from deducting their charitable contributions from their federal taxable income. Imposing this change, however, would mean penalizing donors not subject to the AMT, relative to the current conditions, because though they wouldn’t be able to deduct their contributions, they would be able to deduct their state taxes. In other words, even in states with dollar-for-dollar credits, taxpayers would have a greater financial incentive to pay their taxes in full rather than to contribute to scholarship organizations serving low-income children. Again, such a change would penalize donors and dampen the incentive for taxpayers to invest in their states.

**CONCLUSION**

The handful of tax-credit scholarship programs serving low- and middle-income children represent but a very small share of the hundreds of other tax-credit programs that states offer for incentivizing taxpayers to invest in and improve their states. Increased attention on school choice programs have led to complaints that certain taxpayers can receive a combined state and federal tax benefit worth more than their contributions to tax-credit scholarship programs. While true, this criticism fails to note that similar tax credits are provided for a variety of worthy social goals such as reducing pollution, assisting low-income children and families, preserving historic homes, spurring economic development, and increasing agricultural production.
Moreover, the validity of the claim that tax-credit scholarship programs (and other tax-credit programs, for that matter) allow “double-dipping” and “profit” depends on what alternative tax benefits are being compared. While the reduction in tax liability for an AMT filer who makes and deducts charitable contributions is greater than the tax liability reduction for an AMT filer who does not make contributions, the tax liability of a donor who is also subject to the AMT will be the same as any non-AMT filer who deducts their charitable contributions or who deducts their state tax liability.

The discrepancy in taxes owed (or “profit” as AASA and ITEP define it) stems from the fact that AMT filers cannot deduct their state taxes. If AMT filers were permitted to deduct their state taxes, then their tax liability would be equivalent to the liability of non-AMT taxpayers—all these taxpayers would fall on even footing.

If anything, this specific critique of tax-credit scholarship programs is a criticism of the US tax code, not an indictment of educational choice or successful scholarships that help children access an educational setting that better fits their needs. At any point in the future Congress could decide that state taxes are deductible from the AMT or that charitable donations are not, and there would be no discrepancy between AMT and non-AMT filers (i.e., no “profit”) at all. The “profit” criticism amounts to a red herring, a mere pretext to oppose a policy that helps low- and middle-income families attend the schools of their choice.
NOTES


2. Scholarship organizations have monikers that differ by state, such as scholarship granting organizations (SGOs), school tuition organizations (STOs), scholarship funding organizations (SFOs), student scholarship organizations (SSOs), and scholarship foundations (SFs).


4. For starters, please see: EdChoice, School Choice FAQs [web page], retrieved from https://www.edchoice.org/resource-hub/school-choice-faqs


6. For further details about tax-credit scholarship programs and other private school choice programs, please see: EdChoice, School Choice in America [web page], retrieved from https://www.edchoice.org/school-choice/school-choice-in-america; Ibid.

7. Non-random assignment studies have been conducted in Florida and find that participating students are on par with the national average. Given that they are highly disadvantaged, that can be viewed as a positive outcome. Methods in this study are less rigorous than other school choice studies. Zahid Kisa, Melissa Dyehouse, Toby Park, Brian Andrews-Larson, and Carolyn Herrington (2016), Evaluation of the Florida Tax Credit Scholarship Program: Participation, Compliance and Test Scores in 2014-15, retrieved from Florida Department of Education website: http://www.fldoe.org/core/fileparse.php/5606/urlt/FTC_FinalReport-14-15.pdf


11. Of course, numerous other factors can impact one’s taxes and include filing status, family size, and income. We simplify our examples by assuming these factors are held constant.


13. For simplicity, this example assumes the deduction does not bump the taxpayer to a lower income bracket.

14. Tax credits were tallied, analyzed, and categorized from the 17 TCS states’ departments’ of revenue, treasury departments’, and economic development departments’ websites. Expired credits, sunsets ted credits, credits no longer accepting applications, municipal and county credits, bond credits, tax-advantaged investment vehicles (such as 529 plans), and credits without current appropriation amounts were omitted when possible. Credit categorization was applied subjectively but broadly in order to simplify the analysis. We refer to “business development” credits as those that incentivize qualified business investments, “community development” credits as those that incentivize charitable giving and investment in specific communities and/or community organizations,
and “development” credits as those that incentivize general and infrastructure investments. While each states’ websites were thoroughly checked, this list does not claim to be exhaustive nor definitive. Its intent was to survey the rules, uses, and monetary amounts of tax credits as a comparison to tax-credit scholarship programs. Additional credits meeting our criteria were not found on departments’ of revenue websites for the following states with tax-credit scholarship programs: Nevada and South Dakota. Neither state have individual or corporate income taxes, and their tax-credit scholarship programs are funded via niche business taxes.

Education tax credit programs that are not tax-credit scholarship programs include programs designed to incentivize contributions to higher education institutions and help offset expenditures by college students for tuition and textbook purchases, by teachers for classroom supplies, and by low-income households for early childhood development.

Michael Shaw (2017), Tax Credits in States with TCS Programs [data set], last modified June 27, 2017, retrieved from http://docs.google.com/spreadsheets/d/1UTp6thIMvDKX8QFBH7nUx4BD2g7JUKeg6D8dhT62X24


Filers who make the same amount of income may differ in their responsibility to pay the AMT. Large families, especially, may see their purchasing power greatly reduced because of the AMT when compared to other filers of the same income level. Finally, because the AMT wasn’t indexed to inflation from its passage in 1969 until 2013, it has increasingly impacted middle-class families. Leonard E. Burman (2007), The Alternative Minimum Tax: Assault on the Middle Class, retrieved from Tax Policy Center website: http://www.taxpolicycenter.org/sites/default/files/alfresco/publication-pdfs/1001113-The-Alternative-Minimum-Tax.PDF


Quantitative definitions of “middle-class” vary greatly. This variation may exist because of the politicized nature surrounding classes, as well as the attainment of middle-class status via the “American Dream.” Some define upper-middle class households as those having incomes greater than $100,000, while informal surveys point to a wider range of those who consider themselves middle class. See: Richard Fry and Rakesh Kochar (2016), Are You in the American Middle Class? Find out with Our Income Calculator, Pew Research Center Fact Tank, retrieved from Pew website: http://www.pewresearch.org/fact-tank/2016/05/11/are-you-in-the-american-middle-class; Sam Grobart (September 2016), Everybody Thinks They’re Middle-Class, Bloomberg Businessweek, retrieved from http://www.bloomberg.com/features/2016-america-divided/middle-class
ABOUT THE AUTHORS

Martin Luken is the director of fiscal policy and analysis for EdChoice. He studied in the Department of Education Reform and received his doctorate in Education Policy from the University of Arkansas. He also earned a master’s degree in Economics from the University of Missouri.

Marty received his bachelor’s degree in Physical Education, with an emphasis in sports medicine, from Eastern Illinois University. After graduating, he moved to Yashio City in Japan, where he taught English in public junior high schools for five years.

Marty grew up in St. Louis and currently lives in Indianapolis with his lovely wife, Gao, and spunky—and “sometimes” sassy—5-year-old daughter, Yoni.

Michael Shaw is the research assistant for EdChoice. In that role, Mike supports quality control as the organization’s data collector, verifies its research, and analyzes data and policy issues.

He holds degrees in economics and journalism as well as a minor in Spanish from the University of Missouri. While there, Mike researched parochial school consolidation in the St. Louis area.

Mike grew up in Fenton, Missouri, and currently resides on the north side of Indianapolis.

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