Seventeen states divert more than $1 billion per year toward private schools via school voucher credits. When combined with a federal tax loophole, nine of these states’ credits are so lucrative that they allow some upper-income taxpayers to turn a profit on contributions they make to fund private school vouchers. Under legislation pending in Congress, a similarly profitable tax shelter would be offered to corporations and investors nationwide.

Congressional tax reform leaders must reject the creation of a national school voucher tax shelter and close current tax loopholes that allow wealthy individuals in some states to profit from donations to private schools.

Boosting resources for private schools while simultaneously providing tax breaks for wealthy taxpayers and corporations will greatly undermine public education.

Public Loss, Private Gain: How School Voucher Tax Shelters Undermine Public Education is a new report by AASA, The School Superintendents Association, and the Institute on Taxation and Economic Policy which exposes how state and federal tax policy promotes the privatization of education funding while simultaneously draining public coffers to enable savvy taxpayers to turn a profit. Seventeen states divert a total of over $1 billion per year toward private schools via school voucher tax credits. When combined with a federal tax loophole, nine of these states’ credits are so lucrative that they allow some upper-income taxpayers to turn a profit on contributions they make to fund private school vouchers, all while leaving less resources available for federal investments in education. Simply put, wealthy taxpayers are benefiting from a federally sanctioned voucher tax shelter.

Public education advocates have reason to be alarmed. Legislation pending in Congress called the Educational Opportunities Act would preserve existing voucher tax shelters and open up entirely new ways for corporations and successful investors to turn a profit by helping transfer public funds to unaccountable private schools. The result could be an explosion in funding for private schools at the expense of public education.

Public Loss Private Gain explains how a desire to promote private school vouchers has turned into a get-rich scheme for shrewd taxpayers that is harming America’s neediest public schools. The details of this voucher tax shelter are unknown to most of the public, though private schools and savvy tax accountants have been advising wealthy taxpayers of its existence for years. Using this tax shelter requires exploiting a complex interaction between state tax credits (which lower tax bills dollar-for-dollar) and federal tax deductions (which shave money off taxable income). Currently, donors in states with voucher tax shelters, called “tuition tax credits” by proponents, can claim both a federal deduction and a state tax credit on the same donation to a school voucher nonprofit (referred to as “scholarship granting organizations,” or SGOs). For some taxpayers, most often the wealthy, this double-dipping allows them to actually profit from donating to support private school education. See Figure 1.

The Educational Opportunities Act (HR 895 / S 148) would put two new types of voucher tax shelters within reach for many more Americans, and for profitable corporations. It would allow individual taxpayers and businesses in any state to receive federal tax credits for donations to school voucher nonprofits, up to $4,500 per year for individuals or $100,000 per year for corporations. Donors in states with state voucher tax credit programs would also be eligible for a state credit. By stacking federal credits and state credits together on a single donation, some individuals and corporations would be able to double their money by claiming a dollar in state credit and a dollar in federal credit for each dollar donated. The result would be a risk-free, 100% profit of up to $4,500 per year for individuals or up to $100,000 for corporations. Wealth managers and tax accountants would be foolish to not advise their clients to take advantage of this handout from their federal and state governments.
The same tax credit would create an additional voucher tax shelter for successful investors and corporations. While the details are complex, the tax shelter hinges on donating stock or other property that has grown in value as a tactic for avoiding any tax on the capital gain portion of that stock’s value. Since the investor would be compensated for their donation with a federal tax credit, making this “donation” would actually be more lucrative than if the investor had simply sold the stock and kept the money for themselves. *Public Loss Private Gain* explains the workings of this tax shelter in detail.

As with other voucher programs, this tax voucher scheme lacks major accountability safeguards. SGOs can distribute funds exclusively to private schools that are unaccredited, use questionable curriculum, or promote a particular religion. Unlike public schools, participating private schools are not required to disclose basic information to the public or to the parents of students such as graduation rates, opportunities for advanced coursework, access to mental health services, disciplinary policies, teacher credentials, etc. making it difficult for parents to make an informed choice.

Despite accepting public funds, these private schools can also reject students who are not desirable to educate: students with specific learning disabilities, students who are English learners, students who are not reading on grade level, and students with a history of disciplinary issues. This means not every parent will be able to use a voucher from a SGO as their child may not be accepted into the private school of their choice. This is starkly different from public schools, which must serve all students.

How does this voucher tax shelter impact public education? Like all voucher schemes, it undermines public schools and the students they serve in a variety of ways. In particular, it starves public education of critical funding at a time when available resources are already limited. Thirty-five states provided less overall state funding per student in the 2014 school year than in the 2008 school year, before the recession took hold. Instead of investing more in public education, this voucher tax scheme allows states to reimburse wealthy taxpayers with tax credits in return for providing funding to private schools on the state’s behalf. The profit to wealthy taxpayers from double dipping these credits is underwritten by the federal government and exacerbates federal revenue constraints. The impact of state funding cuts could soon be compounded by federal cuts, as the FY2018 budget from the Trump Administration recommends a 13% cut to the Department of Education. The end result is the same as under a direct voucher program: a boost in resources for private schools and a reduction in resources for public education and other services. Congressional tax reform that creates a federal tax credit for private school donations would further diminish the resources available for public schools and enable taxpayers across the country to steer public dollars toward private schools and provide lucrative, and sometimes profitable, tax subsidies for wealthy individuals.

Allowing certain taxpayers to opt out of funding an institution as fundamentally important as the nation’s public school system erodes the public’s level of investment in that institution—both literally and figuratively. Advocates of public education—as well as advocates for a fair tax code—must take immediate steps to close the current voucher tax shelter loophole and oppose attempts by private school proponents to expand that tax shelter nationwide.