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AUTHOR	Augenblick, John; McGuire, C. Kent
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ABSTRACT

In an attempt to discover how regional differences result in variations in the benefit patterns of federal programs, this booklet examines how education tax credits would be distributed across states. Using a simulation model, alternative tax credit structures are examined and their regional distribution is compared to the current distribution of federal aid for elementary and secondary schools. What is shown is that some regions would benefit to a far greater extent than others, that private schools could possibly receive more federal support on a per pupil basis than public schools, and that the structure of the credit affects the level and distribution of benefits. (Author/JM)

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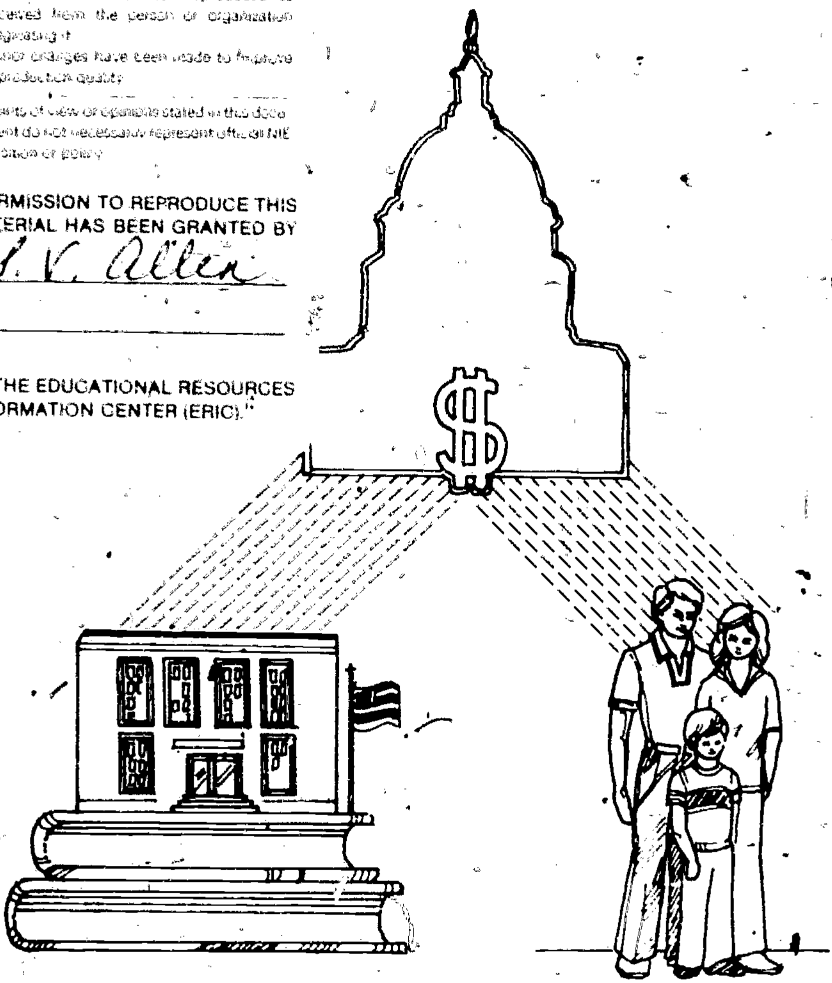

Tuition Tax Credits: Their Impact on the States

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Their Impact on the States

Report No. F82-4

By John Augenblick
and C. Kent McGuire

Education Finance Center
Education Programs Division
Education Commission of the States
Denver, Colorado

Robert C. Andringa, Executive Director

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John Augenblick is the director and Kent McGuire is a policy analyst in the Education Finance Center. Appreciation is expressed to Van Dougherty for her assistance in collecting data and to Anna Likens for preparing the manuscript.

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Executive Summary

The U.S. Congress recently considered a White House proposal to provide tax credits to families of pupils attending private elementary and secondary schools. This proposal could reduce the tax bills of eligible families by up to $500 when fully implemented in 1985. The purpose of this booklet is to demonstrate how education tax credits would be distributed across states.

In the past, numerous proposals have been offered to Congress to use the federal income tax system to aid families that enroll their children in private schools. Tax deductions, tax deferrals and tax incentives for education have been considered as possible methods of assisting these families. Tuition tax credits became popular in the 1960s when proposals were pending in both the U.S. House of Representatives and the U.S. Senate. Six tuition tax credit bills passed in the Senate between 1967 and 1977. Not until 1978 did a tuition tax credit proposal pass in the House. However, the idea has never received the necessary support to become law.

Tax credits can be made sensitive to several factors that can alter the flow of benefits: the income level of taxpayers, the level and type of education expenditures against which the credit can be applied and the inclusion or exclusion of a refundability provision. For example, if the tax credit is refundable, then taxpayers with no income tax liability receive a direct payment from the government in the amount of the credit. Taxpayers with a tax liability less than the value of the credit would receive a direct payment of the difference between the amount of the credit and their income tax liability. If the tax credit is not refundable, then the amount of the credit cannot exceed an individual's income tax liability.

In spite of an intense debate over tuition tax credits, little is known about their probable impacts. Researchers have examined specific tax credit proposals to determine the revenue loss to the federal treasury and the distributional impacts among regions, schools and individuals. For a tax credit program offering a maximum credit of $250, limited to families with children enrolled in private elementary/secondary schools, it has been estimated that 1.3 billion fewer dollars would flow into the U.S. treasury annually. Altering provisions of the tax credit program, such as extending eligibility to students in postsecondary schools or including a refundability provision, would change the cost estimate dramatically.

While new evidence suggests recent shifts in the composition of private school enrollments, these enrollments nevertheless remain predominantly more Northern, white and wealthier than the general school population. It is speculated that the distribution of tuition tax credit benefits would be proportional to current private school attendance rates.

If the Administration's tax credit proposal were implemented fully (a tax credit equal to 50 percent of tuition expense up to $500), the total cost would be about $1.3 billion. On average, parents of pupils attending private schools would receive a tax benefit of about $249 per pupil. This compares to the $8.9 billion in direct federal aid for elementary/secondary education currently being distributed, or about $221 per pupil.

However, the level of tax credit benefits and their relation to current federal aid would vary dramatically among the states. For example, the Mideastern region receives about 14 percent of all federal aid for education; it would receive about 26 percent of all tax credits. The Southeastern region receives about 28 percent of all federal education aid; it would receive about 20 percent of all tax credits. If the Administration's tax credit proposal were implemented, the average tax credit would exceed the per pupil amount of federal aid currently flowing to some states. In other states, the value of the average tax credit would be less than the average level of support to pupils in public schools. If the revenue loss due to tax credits were partially offset by reducing federal aid to public schools, the average value of the credit would equal or exceed the average value of federal aid to public schools in almost every state.

Changing the Administration's tax credit approach would affect the total cost of the program. For example, the addition of refundability would add approximately $300 million to the total cost of the program. On the other hand, reducing the proportion of costs covered by the tax credit from 50 to 33 percent would reduce total costs by $330 million. Eliminating the income ceiling would cost about $20 million. The regional distribution of benefits resulting from these changes would not be significantly different from those produced by the Administration's approach. That is, the proportion of total benefits going to a particular region would be similar to the proportion of private school pupils enrolled in that region.

Preface

This booklet is concerned with the flow of funds under various proposals that have been suggested by which the federal government would provide tax credits for families paying private school tuition.

Whether the federal government should provide such tax credits has been debated for years in the U.S. Congress. Those in favor of tax credits argue that they would increase the choice of families who must educate their children by reducing the cost of enrollment in private schools. It is also felt that the provision of tax credits would increase competition between public and private schools, improving education services in the process. Critics of tax credits argue that they would not increase public choice, but would provide unrestricted funds for private schools and would lead to the deterioration of pluralistic, public education.

Arguments on either side of the issue are not the subject of this booklet. Neither the Education Commission of the States nor the National Institute of Education has taken formal positions on tuition tax credits. Rather, both organizations support continued scrutiny of this public policy issue. This booklet makes a contribution to the public debate by focusing on the flow of tax credits to the states and by examining the impacts of alternative approaches to providing tax credits.

Inherent in the tax credit issue are values and attitudes about education, public schools, private schools and the role of the federal government in supporting education. This booklet does not make value judgments. Such judgments can be informed by analysis of the sort presented, but ultimately they must be made by individuals and organizations after careful examination of the issues and the facts.

Introduction

In June 1982, Senator Dole, on behalf of President Reagan, introduced S. 2673, the Educational Opportunity and Equity Act of 1982, for consideration by the U.S. Congress. If enacted, this legislation would provide a credit against the income tax liability of families with children attending private elementary/secondary schools. The bill would phase in the maximum value of the credit, which would increase from $100 in 1983 to $500 in 1985. It also would limit the credit to no more than 50 percent of tuition payments. Under the proposed method of distributing tax credits, families with incomes over $75,000 would not be eligible to receive a credit. The bill also specifies that the tax credit would not be refundable. It should be noted that in September 1982 the Senate Finance Committee cleared the way for a tax credit proposal to be brought before the U.S. Senate. The proposal would limit the maximum credit to $300 in 1985, make the credit refundable and provide full credits for families with incomes up to $40,000.

The tax credit approach has been considered by Congress in the past. Alternative approaches using the income tax system to provide education support have been debated vigorously. However, none of the attempts to revise the income tax laws to recognize the direct costs to families paying for education services provided to their children has succeeded. Rather, over the past two decades, the federal government dramatically expanded its direct support of public schools through the allocation of aid that was accompanied by rules and regulations administered by various agencies concerned with education. Only during the last year has such federal aid begun to decline, reflecting in part the Administration's desire to consolidate programs, reduce expenditures and create different relationships among the various levels of government that provide support for elementary/secondary education.

In 1982 the federal government distributed about $8.8 billion for elementary/secondary education, slightly below the $9.1 billion that was distributed in 1981. Nevertheless, this level of federal support reflects substantial growth over the last 20 years, in both nominal and real terms. In 1960, federal expenditures for elementary/secondary education were $625 million. In 1982, the bulk of federal support was disbursed through a few categorical programs designed to assist school districts in providing service to pupils with special needs. Aid for pupils in need of compensatory education accounted for nearly 30 percent of all federal support. Almost 10 percent of all federal aid was designed to support education services for handicapped children. Other federal funds were allocated to provide vocational education, adult education, bilingual education, food services, libraries and other specialized services. Even after the consolidation of programs that resulted from the Education Consolidation and Improvement Act of 1981, the bulk of federal funds will flow through categorical programs that have specific objectives to serve pupils with special needs. Block grants to the states, distributed under Chapter II of the Act, will account only for about 5 percent of all federal aid to schools.

The federal government does not currently provide general support to private schools. A small proportion of the funds allocated through federal categorical programs does support private schools that offer required services to pupils with special needs, and private school students may participate in federally supported programs of the public schools. Only at the postsecondary education level does the federal government, through its student financial aid programs, provide general, although indirect, aid to private institutions. Assuming that the structure and funding of student grant, loan and work-study programs does not change dramatically, most observers see no need to modify federal policies specifically to increase support for private postsecondary institutions. In particular, the federal student aid system is viewed as a more equitable and efficient approach to supporting private colleges and universities than any approach that might use the income tax system, such as tax credits.

A significant number of elementary/secondary pupils attend private schools. In 1980, approximately 5.1 million pupils attended nearly 21,000 private schools. Private schools enrolled about 11 percent of all elementary/secondary pupils. Private school enrollments increased dramatically between 1940 and 1960 and have remained relatively stable since then. While it is generally felt that enrollments in private schools have grown in the past few years, due to the expansion of fundamentalist institutions, data are not available to substantiate the growth. Nearly two-thirds of all pupils attending private schools are enrolled in Catholic schools. Private schools enroll a smaller proportion of minority pupils compared with public schools.[1] Private schools also serve a smaller proportion of pupils from low income families compared with public schools. Because of these differences in the characteristics of public and private school

[1] Data do indicate that some private schools, particularly Catholic schools in urban centers, enroll large numbers of minority pupils

enrollments, it has been difficult to build a case for the provision of federal support to private schools using the same logic that has justified the expansion of federal support for public schools. This is not to say, however, that some of the pupils attending private schools do not have the same education needs as pupils attending public schools who benefit from the availability of federal funds.

Proponents of tuition tax credits support them in order to:

- Reduce the cost to parents of pupils attending private schools, thereby providing wider access to these institutions for low and middle income families.
- Promote competition among public and private schools, thereby enhancing the quality of education.

Critics of tax credits argue that:

- Tax credits would allow private institutions to raise tuition, disallowing any benefit to students and parents.
- Tax credits would be such a small portion of school costs that they would offer little choice to low income families.
- Tax credits would only siphon off the more affluent and vocal public school constituents.

The public debate over tax credits has intensified in the past few years as the possibility of legislative passage has increased. But the intensity is also indicative of the need to resolve several basic issues in regard to the nation's education support system. First, the federal government has not had a consistent strategy for providing its share of support. An approach to allocating federal support, and the level of that support, must be determined so that families, schools, communities and states know what to expect in the future. Second, the current system provides little support for private schools. It is important to consider whether the federal government should provide aid for private schools. Finally, the debate over tax credits is not only indicative of an interest in supporting private schools, it is symptomatic of a concern about the quality of public schools. A funding system that promotes quality in public schools needs to be identified. Thus, the tax credit debate raises basic concerns about the role of the federal government in education, the viability of private schools and the quality of public schools.

At its core, the debate over tuition tax credits is a philosophical one. However, most policy issues are not resolved solely on the basis of philosophy. In a case where the flow of hundreds of millions of dollars is concerned, the characteristics of the beneficiaries of government policy become an important concern for policy makers. Some research has been done to determine who will benefit from the provision of education tax credits. Studies have examined the total cost of tax credit proposals, the distribution of credits among families of different income, racial background or religion, and the distribution of credits among different types of schools. One feature that has not received much attention is the distribution of tax credits among the states. Today, perhaps more than in the past, regional differences tend to result in variations in the benefit patterns of federal programs. The political value of these regional differences is receiving increased attention. Therefore, it is important to understand how the structure of alternative tax credit proposals affects the regional distribution of their benefits.

The purpose of this booklet is to examine how education tax credits would be distributed across the states. Using a simulation model, alternative tax credit structures are examined and their regional distribution is compared to the current distribution of federal aid for elementary/secondary schools. What is shown is that some regions benefit to a far greater extent than others, that private schools could receive more federal support, on a per pupil basis, than public schools, and that the structure of the credit affects the level and distribution of benefits.

I. Historical Overview of Tuition Tax Credits

Tuition tax credit proposals became popular during the 1960s. Over the 10-year period from 1967 to 1977, six tax credit proposals passed the U.S. Senate, all but one focusing on relief for college expenses. In 1972 the House Ways and Means Committee conducted extensive hearings on tuition tax credits, when over 100 proposals had been introduced. However, lacking the necessary support, no tax credit measure passed the House that year. One proposal, introduced in 1975 by Senator James Buckley, covered tuition for elementary/secondary education and is considered the forerunner to the flood of more recent tuition tax credit proposals.

The idea of a tuition tax credit came closest to reality in 1978 when tax credit proposals passed both the House and Senate. In February of 1978, the Senate Finance Committee passed a measure combining features of a bill introduced by Senators Packwood and Moynihan (S. 2142) and a bill introduced by Senator Roth (S. 311). The Packwood-Moynihan proposal would have provided a tax credit of up to $500 for tuition expenses at elementary, secondary, postsecondary and vocational schools. The Roth proposal would have provided a tax credit of up to $250 for tuition, fees, books and supplies. Eligibility under the Roth proposal would have been limited to families with children enrolled in postsecondary institutions. The committee bill was to be phased in over a three-year period. In phase one, the tax credit would have equaled 50 percent of tuition paid up to $250 and applied only to full-time students in college or in postsecondary vocational education programs. Two years later, the credit would have been extended to families with children enrolled in private elementary/secondary schools. The maximum amount of the credit would have increased from $250 to $500. In the final phase, graduate and part-time students were to become eligible for relief. This bill eventually passed the full Senate, but only after its provision for elementary/secondary schools was deleted.

Meanwhile, the House of Representatives had passed a similar proposal that would have provided for a tax credit of 25 percent of tuition paid up to $100 for students enrolled in private elementary/secondary schools and up to $250 for students enrolled in postsecondary institutions. A compromise on the House and Senate bills could not be reached, largely due to disagreement over whether the credit should be available only to families with students in postsecondary institutions or to all families incurring tuition expenses. Another factor that lead to the defeat of the Packwood-Moynihan proposal was the reauthorization of the student financial aid provisions of the Higher Education Act of 1972. The Middle Income Student Assistance Act expanded the provision of federal support for students attending postsecondary institutions. Thus, no final tuition tax credit measure was approved by Congress in 1978.

Renewed interest in tuition tax credits came during the first session of the 97th Congress when a series of bills were introduced in the House and Senators Packwood, Moynihan and Roth reintroduced their bill (S. 550). These proposals, like their predecessors, differed widely with respect to:

- The maximum size of the credit and the proportion of tuition cost covered
- The scope of eligibility — whether the credit covers all levels of education or only postsecondary education
- Whether the credit was refundable or nonrefundable — in other words, whether families with an income tax liability less than the amount of the credit are entitled to receive a refund for the balance

For example, one bill (H.R. 89) allowed a tax credit of 50 percent of tuition and fees paid up to $500. Families with students enrolled full-time in elementary, secondary and postsecondary schools would have been eligible for the credit. Although this proposal had no refundability provision, taxpayers could have substituted a tax deduction for the tax credit. H.R. 366 allowed a credit of 25 percent of tuition paid up to a maximum credit of $100. This bill covered only tuition paid at elementary/secondary schools. H.R. 739 covered expenses incurred at the postsecondary level and provided a maximum credit of $325 based on a sliding scale: 100 percent of the first $200 of tuition expense, 25 percent of expenses between $200 and $500, and 5 percent of tuition expenses between $500 and $1,500. Under this proposal, the credit would have been reduced by 1 percent of the amount by which the taxpayer's income exceeded $22,500.

The Senate bill (S. 550) provided for a maximum credit of $250 in the first year of implementation and $500 thereafter. Taxpayers would have received 50 percent of tuition expenses incurred at elementary/secondary and postsecondary schools. S. 550 included a refundability provision and in 1984, graduate and part-time students would have become eligible for the tax credit.

In all 26 tuition tax credit proposals were introduced in Congress. Nonetheless, a strong public education lobby prevented serious consideration of any of these proposals.

On June 23, 1982, Senator Robert Dole, principal sponsor along with Senators William V. Roth Jr. and Alfonse D'Amato introduced S. 2673, a bill to provide tuition tax credits for families paying tuition at private elementary/secondary schools. This bill would phase in over a three-year period a nonrefundable tax credit for 50 percent of tuition paid at eligible private, nonprofit elementary/secondary schools. In 1983, the maximum credit would be $100. This limit would be increased to $300 in 1984 and to $500 in subsequent years. Families with incomes greater than $75,000 would not be eligible for the credit. A phase-out provision for families with incomes between $50,000 and $75,000 per year would reduce the maximum credit by 0.4 percent of income in excess of $50,000 in 1983, 1.2 percent of that amount in 1984 and 2.0 percent of that amount in 1985 and thereafter. The credit would apply to expenses incurred for tuition and fees but would exclude expenses for books, supplies, equipment, meals, lodging, transportation or personal expenses. Students must be enrolled on a full-time basis in grades 1 through 12 in order for families to receive the tax credit.

To summarize, the idea of a tuition tax credit for families with children in private schools has been debated at the federal level since the 1960s. Between 1967 and 1977, six tuition tax credit proposals passed the Senate. Not until 1978 did a tax credit bill pass in the House. These proposals differed with respect to the maximum size of the credit, the scope of eligibility and whether a refundability provision was included. In June 1982, the Administration's tuition tax credit proposal was introduced in the Senate. In September 1982, a modified version of that proposal was passed from the Senate Finance Committee for consideration of the full Senate.

II. Alternative Tax Credit Mechanisms

A tax credit is one of several approaches that could be used if it were determined that the income tax system should be made sensitive to the expenses incurred by taxpayers in providing education services to their families. Tax credits would directly reduce the tax bills of taxpayers. As a result, they would reduce tax dollars flowing to the federal government. While some tax credits for individual taxpayers have been created, such as the residential energy tax credit, they have been used sparingly. Other approaches could be used to recognize family education expenses or to provide incentives for families to save funds so that they could be available in the future to pay for education services.

One alternative is the tax deduction. A tax deduction is any reduction in taxable income made prior to the calculation of the actual tax. This approach would only be available to those taxpayers that itemize their deductions rather than taking the standard deduction. For those itemizing deductions, an eligible deductible expense could be the tuition or related education expenses incurred by family members. Under current income tax procedures, state and local taxes are deductible. In effect, then, the amounts paid by taxpayers to support public schools reduce the federal tax liability of taxpayers who itemize deductions. Taxpayers are currently permitted to claim an exemption for their children, including eligible students over the age of 19, which also reduces taxable income and, ultimately, income tax liability. The value of the exemption, in terms of reduced taxes paid, may not be sufficient to cover the expenses associated with raising and educating children.

A second alternative is the use of tax deferrals. Under this approach, education expenses are deductible in the year they are incurred, although at some time in the future, they are subject to taxation. Such an approach has the advantages of minimizing the long-term loss of revenue to the government while providing benefits, in the form of reduced taxation, at the time when funds are needed to pay expenses.

A third approach is the provision of education savings incentives. Under this approach, taxpayers could shelter specified amounts from taxation until the time that the accrued amount is spent. This approach would not benefit families wishing to send their children to private elementary schools to as great an extent as it would benefit those who want to enroll their children in private secondary schools or postsecondary institutions.

These other approaches are not as direct and may not provide as large a benefit to taxpayers as the use of the tax credit approach. The impact of a tax credit system would depend, however, on its structure. Tax credits can be made sensitive to several factors that can alter the flow of benefits. A tax credit can be made sensitive to the income level of taxpayers. Using a maximum income cutoff, for instance, taxpayers with incomes that exceed a specified level become ineligible to receive any credit. Sliding scales can be created so that the value of the credit decreases as the income level of taxpayers increases.

A more important issue is whether a tax credit is refundable. If it is refundable, then taxpayers with no income tax liability receive a direct payment from the government in the amount of the credit. Taxpayers with an income tax liability less than the value of the credit, generally lower income families, would receive a direct payment of the difference between the amount of the credit and their income tax and would pay no income tax. If the credit is not refundable, lower income families would not receive benefits under a tax credit system. Benefits of the tax credit would flow primarily to families with relatively higher incomes.

Tax credits can also be made sensitive to the level of education expenditures. Tax credit proposals typically have maximum limits and, regardless of expenditures, the credit cannot exceed the limit. Credits typically are also limited to a proportion of the expenditures incurred. This can be accomplished by identifying a fixed percentage or by specifying a variable percentage that depends on the level of expenditures. For instance, the credit may be limited to 50 percent of expenditures or it may be limited to 50 percent of the first $200 of expenditures and 25 percent of expenditures over $200. The following table illustrates the various tax credit levels that result at different expenditure levels, assuming different limits and different percentages. (See table top of next page.)

At a low expenditure level, the value of the tax credit does not vary in the example. However, as the expenditure level increases, the value of the credit changes depending on the particular combination of absolute dollar and percentage limitations.

Cost sensitivity can be affected by defining those costs that are eligible under a tax credit proposal. Typically, only tuition is an eligible cost for tax credits. However, other costs, such as room and board, transportation, books, materials, fees, and so on could be eligible for the tax credit.

In addition to making tax credits sensitive to income and cost considerations through the arithmetic of the calculation procedure, credits can be restricted to institutions or pupils with specific char-

Tax Credit Sensitivity to Cost

Expenditure Level	Maximum Credit, $200 — Fixed Percentage (50%)	Maximum Credit, $200 — Variable Percent — 50% of Initial $200, 25% of Amount Over $200	Maximum Credit, $500 — Fixed Percentage (50%)	Maximum Credit, $500 — Variable Percent — 50% of Initial $200, 25% of Amount Over $200
$ 200	$100	$100	$100	$100
500	200	175	250	175
1,000	200	200	500	400
1,500	200	200	500	425
2,000	200	200	500	500

acteristics. For instance, the Reagan Administration proposal limits tax credit eligibility to private, nonprofit elementary/secondary schools that are nondiscriminatory in their admissions procedures and to pupils in grades 1 through 12, no more than 20 years old. Tax credits could be made available for elementary/secondary education services provided by proprietary schools, privately-sponsored preschools or for institutions offering special education services, such as tutoring or test preparation. In terms of individual/family characteristics, tax credits could be provided for all family members or only for those of specified age participating full-time in eligible programs and could be distributed on the basis of a limited amount per pupil or per family.

These variations in the tax credit mechanism affect the total cost of any proposal, its distribution among recipients and its constitutionality. Policy makers can target the allocation of tax credit benefits by carefully specifying the eligibility criteria.

III. General Impacts of Tuition Tax Credits

The cost and distributional impacts of tuition tax credits depend on the number of pupils actually enrolled in private schools and on the structure of the tax credit system. Yet, in the absence of an experiment with a tax credit system for education, little is actually known about the probable impact of a tuition tax credit. However, a general idea of the likely impact of tuition tax credits can be gleaned from data on private school enrollments.

In Table 1, the enrollments in public schools and three categories of private schools are shown. The three private school categories were selected to reflect the largest differences in tuition levels among private schools.

In 1981, there were 40.2 million pupils enrolled in public schools throughout the United States. Catholic schools, the private schools sector charging the lowest tuition, enrolled 3.3 million pupils in 1978, the latest year for which individual state data are available. Other church-related schools, charging a slightly higher tuition level than Catholic schools, enrolled 1.0 million pupils. There were 0.7 million pupils enrolled in nondenominational private schools, which had the highest tuition levels, on average, among all private schools. Across the country, approximately 11 percent of all pupils were enrolled in private schools.

In 10 states, the proportion of all pupils enrolled in private schools exceeded 15 percent. Those states (Connecticut, Delaware, Hawaii, Illinois, Louisiana, New Jersey, New York, Pennsylvania, Rhode Island and Wisconsin) enrolled nearly 39 percent of all pupils enrolled in private schools. In 8 states the proportion of pupils enrolled in private schools was less than 5 percent. These states enrolled less than 2 percent of all pupils enrolled in private schools. Wide variations exist in the enrollment of pupils in private schools among the regions of the country. In the Mideastern region, nearly one of every six pupils is enrolled in a private school. In the Southwestern and Rocky Mountain regions, only 1 of every 20 to 25 pupils is enrolled in a private school. While it is unknown how many pupils would move from public to private school if a tax credit were made available, there is no reason to believe that the proportions of pupils enrolled in private schools would become similar among the regions

Table 1

Enrollments in Public and Private Elementary/Secondary Schools by State

	Public Schools 1981	Catholic Schools 1978	Other Church-Related Schools 1978	Non-denominational Schools 1978	Private Enrollment as a Percent of Enrollment 1978
ALL STATES	40,154,295	3,260,177	1,048,423	746,323	11
NEW ENGLAND	2,120,005	220,864	19,308	70,372	13
Connecticut	525,474	62,977	5,074	22,184	15
Maine	219,857	7,579	2,776	7,708	8
Massachusetts	971,453	108,920	5,989	27,933	13
New Hampshire	166,697	12,180	2,392	6,633	11
Rhode Island	142,823	25,234	1,919	2,534	17
Vermont	93,701	3,974	1,158	3,380	8
MIDEAST	6,728,583	1,078,887	194,189	134,625	17
Delaware	95,072	14,500	4,567	3,093	19
Maryland	719,396	71,042	21,068	17,923	13
New Jersey	1,200,000	197,836	14,698	20,324	16
New York	2,773,940	453,127	103,366	60,516	18
Pennsylvania	1,845,200	342,382	50,490	32,769	19

SOUTHEAST	9,661,232	352,381	277,490	297,684	9
Alabama	748,000	15,170	21,168	29,332	8
Arkansas	443,492	7,454	5,618	6,615	4
Florida	1,551,500	73,895	78,298	51,897	12
Georgia	1,066,700	13,222	26,415	44,195	7
Kentucky	660,000	53,999	9,839	7,335	10
Louisiana	775,000	110,598	14,480	32,404	17
Mississippi	466,489	11,354	10,228	29,756	10
North Carolina	1,178,172	10,251	25,782	24,098	5
South Carolina	609,160	7,844	18,084	26,662	8
Tennessee	845,175	16,245	41,715	16,742	8
Virginia	989,548	23,350	23,194	27,300	7
West Virginia	377,996	8,999	2,669	1,348	3
GREAT LAKES	7,481,852	850,820	221,840	58,959	13
Illinois	1,927,633	293,946	49,960	19,616	16
Indiana	1,026,689	68,944	28,798	7,730	9
Michigan	1,815,130	135,920	71,282	10,601	11
Ohio	1,906,400	234,394	25,275	14,864	13
Wisconsin	806,000	117,616	46,525	6,148	17
PLAINS	2,962,730	286,281	73,649	19,138	11
Iowa	494,000	48,392	12,948	238	11
Kansas	406,985	25,419	4,460	2,424	7
Minnesota	733,037	67,005	80,916	3,354	11

Table 1 (cont.)

	Public Schools 1981	Catholic Schools 1978	Other Church-Related Schools 1978	Non-denominational Schools 1978	Private Enrollment as a Percent of Enrollment 1978
PLAINS cont.					
Missouri	818,707	98,832	23,490	9,224	14
Nebraska	272,485	30,634	7,948	4,287	13
North Dakota	111,989	9,002	898	345	8
South Dakota	125,527	6,997	2,989	2,266	9
SOUTHWEST	4,270,839	115,967	68,987	39,368	5
Arizona	514,445	17,558	8,549	11,795	7
New Mexico	268,394	9,790	4,145	3,240	6
Oklahoma	574,000	7,571	5,895	2,730	3
Texas	2,914,000	81,048	50,398	21,603	5
ROCKY MOUNTAIN	1,355,750	30,071	20,937	10,526	4
Colorado	544,000	17,878	11,822	6,631	6
Idaho	204,650	2,345	3,512	249	3
Montana	151,760	5,186	2,969	1,103	6
Utah	354,540	3,057	1,099	1,749	2
Wyoming	100,800	1,605	1,535	797	4

FAR WEST	5,573,304	324,906	172,023	115,651	10
Alaska	87,700	697	2,674	441	4
California	3,959,021	262,680	127,845	94,051	11
Hawaii	162,534	15,301	8,909	10,157	17
Nevada	151,800	4,091	1,535	755	4
Oregon	463,050	14,769	9,164	2,653	5
Washington	749,199	27,368	21,896	7,594	7

Note: Data is not available from the National Center for Education Statistics for American Samoa, Guam, Puerto Rico or the Virgin Islands.

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of the country. Rather, it is likely that current patterns would continue, resulting in wide variations among the states and regions in the proportional enrollment of pupils in private schools.

With this in mind, a few researchers have attempted to analyze what the impacts would be of particular tuition tax credit schemes. These researchers have tended to focus on (1) the revenue loss to the federal treasury from specific tax credit schemes and (2) the distribution of benefits from a tax credit scheme among families of different income or race and among different types of institutions.

The Congressional Budget Office (CBO) (1982) has analyzed the potential revenue loss to the federal treasury from a tuition tax credit scheme that would allow taxpayers to claim a nonrefundable tax credit of 50 percent of tuition expenses, not to exceed $250 per child. This plan is similar to the one described in S.550, introduced by Senators Packwood and Moynihan in 1981. There are two major differences between this plan and S.550. First, the plan analyzed by the CBO covers tuition expense incurred only at the elementary/secondary levels. Second, the plan assumes that the maximum credit is initially set and remains at $250 per child and is not phased up to $500 over a three-year period.

The CBO estimates that a plan allowing a tax credit of 50 percent of tuition paid up to $250 would reduce federal income tax revenues each year by approximately $1.3 billion in 1982 dollars.[1] The CBO then estimates the impact of changing specific features of this basic plan. For example, by changing eligibility requirements to allow families with children enrolled in postsecondary schools to participate, the estimated costs to the federal government would increase to about $2.3 billion. Increasing the maximum amount of the credit from $250 to $500 would increase costs to $1.9 billion. Making the tax credit refundable would add an additional $.1 billion to the cost of the basic program. On the other hand, reducing the proportion of costs covered by the credit from 50 to 25 percent would reduce the cost of the program by about $.8 billion. Thus, key policy decisions with respect to eligibility, refundability, the proportion of costs covered and the maximum amount of the tax credit can dramatically affect the total cost and benefits of any tuition tax credit program.

Another consideration concerning the cost and benefits of a tuition tax credit program is the response of parents and schools to the tax credit. If the credit is set high enough to induce a significant number of parents to transfer their children to nonpublic schools,

[1]These estimates are based on the Census Bureau's 1976 Survey of Income and Education, which has been updated to reflect current and projected economic, demographic and enrollment conditions.

the cost of the program would increase considerably with a concomitant increase in benefits to the new consumers of a private education. For example, if private school enrollments increased by 20 percent, the cost and benefits of the program could increase by about the same amount, depending on the structure of the tax credit. However, it is not known whether a tuition tax credit will lead to a significant increase in private school enrollments.[2] The CBO report, moreover, argues that tuition tax credits would produce strong incentives for existing private schools to raise tuition levels. It speculates that the larger the tax credit, the larger would be the price-response of private schools, since these schools would be able to raise tuitions without adversely affecting the net tuition cost to parents. In this case, the benefit from the tax credit would be absorbed — completely or partially, depending on the price-response — by schools instead of parents.

In terms of the distributional impacts associated with a particular tuition tax credit program, much depends on the characteristics of the recipient population: their income, race, where children attend school and what type of schooling they receive. Again, the maximum amount of the credit and specific limitations on its receipt are also important.

Martha Jacobs (1980) has analyzed two different tax credit proposals using 1978 Current Population Survey data that include information on private school enrollments and tuition by geographic region, family income, race and level of schooling. Plan A would provide a tax credit of 35 percent of tuition paid up to $100 per student. Plan B would provide a credit of 50 percent of tuition paid up to a maximum of $500. Both proposals include provisions for refundability, and both exclude expenses incurred for books, supplies and equipment.

Jacobs finds that even with reports of recent shifts in private school enrollments, they remain predominantly more Northern, white and wealthier than the general school population. From this she concludes that the benefits under recently proposed tax credit schemes would be proportional to current private school attendance rates.

[2] It is another research question to determine the elasticity of private school enrollments with respect to changes in tuition prices. The CBO addressed the issue of shifts in private school enrollments resulting from tuition tax credits by assuming specific elasticities, but it did not attempt to estimate what the price sensitivity of private school enrollments is for families of different income levels. Thus, the CBO was unable to draw firm conclusions about the impact of enrollment shifts on costs. The important point is that both families and schools will respond in some way to an education tax credit.

By level of schooling, elementary students are likely to receive a substantial share of the benefits, since their enrollment in private schools is more than double that at the secondary level. This is especially true under plan A where Jacobs estimates that 70 percent of the total amount distributed would flow to the elementary grades. Under plan B, however, with the higher tuitions paid at the secondary level and the higher credit ceiling, high school students would be expected to receive about 50 percent of the total dollars available.

By region, Jacobs finds patterns of distribution to be pretty much as expected — a greater proportion of total benefits flowing to the Northeastern and Northcentral parts of the country, since these regions currently enroll nearly 61 percent of total private school students. However, due to higher median tuition charges at the elementary level in the South and West, plan B would channel approximately 60 percent of the available funds for elementary students to these regions.

Finally, according to Jacobs, tuition tax credits are likely to be regressive across family income categories. Under plan A, families with annual incomes in excess of $25,000 receive 24 percent of the benefits at the elementary level and 37 percent at the secondary level. The corresponding figures for plan B are 33 and 41 percent, respectively.[3] On the other hand, the percent of the total going to families with incomes of less than $10,000 at the elementary level is 5 percent under both plans. At the high school level, the figures are 3 and 2 percent, respectively. Jacobs points out that these figures may overstate the actual shares for low income families as both plans assume that a family with no tax liability would receive a refund rather than a credit. But the fact that many of the tax credit schemes proposed to date have no refundability provision means that a tax credit would be of no benefit to many low income families.

An additional impact of tuition tax credits has not been discussed: the effect of tuition tax credits on the public schools. On this particular issue, there is a great deal of speculation. Supporters of tax credits believe that by establishing a system that provides parents with greater choice in selecting education alternatives, an atmosphere of competition between public and private schools will develop, resulting in improvement in the quality of public school programs. That is, the availability of tuition tax credits would serve as the catalyst for improvements in public schools.

Opponents believe, to the contrary, that tuition tax credits would lead to the withdrawal from the public schools of the more moti-

[3]The data analyzed by Jacobs indicate that 12 percent of the total enrollment in private schools at the elementary level is from families with incomes of $10,000 or less. The corresponding figure for the high school level is 10 percent.

vated pupils and those parents who otherwise might take the greatest interest in the schools. The absence of these pupils and parents, it is argued, will surely lessen the potential for improvements in the public schools by removing the public school constituencies most likely to push for quality school programs.

Both arguments hinge on the response of parents to tuition tax credits, something about which little is known. Gemello and Osman (Institute for Finance and Governance, 1982) have examined the variations that exist in public/private school attendance rates in an attempt to identify the factors that account for these variations. What they find is that family income is the most important determinant of private school enrollment. They estimate that public policies to increase family income (e.g., education vouchers or tuition tax credits) would increase private school attendance rates by about two-tenths of one percent for every percent increase in family income.*

This suggests a rather high elasticity of demand for private schooling with respect to income. It is doubtful, however, that tuition tax credit plans, like the ones commonly discussed, will lead to the income adjustments necessary to produce significant shifting in enrollments from public to private schools. Complicating the picture is the unknown reaction of private schools. If private schools were to raise their tuitions in response to the availability of a tax credit, the income benefit to parents would be reduced. Thus, the effect on the public schools from a tuition tax credit program, insofar as enrollment shifts are concerned, remains an open question.

In summary, little is known about the likely impacts of tuition tax credits. Researchers have examined specific tax credit proposals to determine (1) the revenue loss to the federal treasury and (2) the distributional impacts among regions, schools and individuals. A tax credit providing a nonrefundable maximum credit of $250 for elementary/secondary tuition expenses would cost about $1.4 billion. Altering provisions of the program, such as making students enrolled in postsecondary schools eligible, or including a refundability provision would change the total cost of the program. While there is new evidence suggesting recent shifts in the composition of private school enrollments, they remain predominantly more Northern, white and wealthier than the general school population. It is believed that the distribution of tuition tax credit benefits would be proportional to current private school attendance rates.

*Gemello and Osman provide the following example. In a community with an average family income of $15,000 and where 20 percent of the children attend private schools, an increase in income of 10 percent (to [illegible]) would lead to a private school attendance rate of approximately [illegible] percent.

IV. The Flow of Tax Credits to the States Under President Reagan's Proposal

Based on the number of pupils enrolled in private schools at different tuition levels, the average tuition levels for those sectors and the proportion of families with children 5 to 17 years old in different income classes, it is possible to simulate the flow of tax credits under the President's tax credit proposal to the states. In Table 2, the simulated flow of tax credits under the Reagan proposal (assuming a $500 limit, which would be implemented in 1985) is compared with the current (1981) flow of federal education aid to the states.

It should be noted that it is difficult to compare dollar flows of tax credits with dollar flows of current federal support. Tax credits are allocated to taxpayers and are not distributed directly to schools. To the extent that private schools raise their tuition levels above current levels, tax credits would represent an unrestricted revenue source for the schools. The figures in the table represent the total volume of tax credits, some of which would flow to schools and some of which would be used by families.

Current federal funds are allocated through numerous programs, some of which provide funds directly to schools and others of which flow through states. A large portion of federal funds are restricted in use, such as those provided through Chapter I, which are subject to regulations regarding their use. On the other hand, other funds, such as Impact Aid, are unrestricted in how they can be used. Thus, federal aid per pupil does not represent an amount of funds available to every school for the benefit of every pupil but rather an average amount of support. The purpose of comparing flows of tax credits with flows of current federal revenues is to indicate relative magnitudes of federal support for pupils attending public and private schools.

If the Reagan proposal were implemented fully, the total cost would be about $1.3 billion. On average, parents of pupils attending private schools would receive a tax benefit of about $249 per pupil. Currently, the federal government distributes approximately $8.9 billion, or about $221 per public school pupil. In total, tax credits would provide to private school parents about 14 percent of the benefits flowing to pupils enrolled in public schools; but on a per

Table 2

Comparison of the Actual Flow of Federal Revenues to Public Schools and the Anticipated Flow of Federal Tax Credit Benefits by State

	Federal Revenues to Public Schools 1981			Tax Credit Flow*		Tax Credit Flow as a Percent of Federal Revenues to Public Schools 1981	
	TOTAL (Millions)	Per Pupil	Percent of All Revenues	TOTAL (Millions)	Per Pupil	TOTAL	Per Pupil
ALL STATES	$8,887	$221	8.1	$1,258	$249	14	112
NEW ENGLAND	473	223	7.1	93	299	20	134
Connecticut	97	184	6.0	27	299	28	163
Maine	51	232	9.9	6	332	12	143
Massachusetts	271	279	7.8	40	280	15	101
New Hampshire	17	99	3.9	7	330	42	334
Rhode Island	23	159	5.3	7	236	31	148
Vermont	16	170	6.9	3	352	19	208
MIDEAST	1,227	182	5.2	331	235	27	129
Delaware	36	373	10.5	6	271	17	73
Maryland	156	217	6.8	29	264	19	121
New Jersey	163	136	3.6	53	228	33	168
New York	378	136	3.8	142	230	38	169
Pennsylvania	450	244	7.6	101	237	22	97

SOUTHEAST	2,501	259	11.8	247	266	10	103
Alabama	160	214	14.8	19	289	12	135
Arkansas	114	258	13.9	5	254	4	98
Florida	350	226	8.2	53	260	15	115
Georgia	253	237	10.9	25	298	10	126
Kentucky	160	242	11.9	14	197	9	81
Louisiana	180	232	10.9	35	222	19	96
Mississippi	228	489	24.5	14	273	6	56
North Carolina	325	288	13.7	18	299	6	104
South Carolina	175	287	13.6	16	304	9	106
Tennessee	273	323	16.2	22	295	8	91
Virginia	194	196	7.8	23	311	12	159
West Virginia	88	234	9.9	3	230	3	99
GREAT LAKES	1,622	217	7.8	265	234	16	108
Illinois	500	259	8.6	82	226	16	87
Indiana	141	137	6.0	27	256	19	186
Michigan	437	241	8.1	56	257	13	107
Ohio	393	206	8.2	62	226	16	109
Wisconsin	151	188	6.2	38	223	25	119

**The flow of tax credits is based on a $500 maximum credit, a limit on the credit of 50 percent of cost and no refundability (Reagan's 1985 proposal).*

Table 2 (cont.)

	Federal Revenues to Public Schools 1981			Tax Credit Flow*		Tax Credit Flow as a Percent of Federal Revenues to Public Schools 1981	
	TOTAL (Millions)	Per Pupil	Percent of All Revenues	TOTAL (Millions)	Per Pupil	TOTAL	Per Pupil
PLAINS	$588	$198	6.8	$89	$235	15	119
Iowa	85	172	6.0	15	244	18	142
Kansas	80	188	6.4	8	248	10	131
Minnesota	137	187	5.2	20	219	15	117
Missouri	175	214	8.7	31	235	18	110
Nebraska	57	208	7.6	10	251	18	121
North Dakota	21	184	7.7	2	195	10	106
South Dakota	34	271	11.8	3	245	9	90
SOUTHWEST	1,170	274	10.4	56	250	5	91
Arizona	162	314	11.4	10	264	6	84
New Mexico	90	335	12.0	4	233	4	70
Oklahoma	173	302	11.5	5	309	3	102
Texas	745	256	9.8	37	242	5	95
ROCKY MOUNTAIN	250	184	7.0	17	276	7	150
Colorado	112	207	6.8	10	275	9	133
Idaho	35	171	8.5	2	328	6	192

Montana	38	251	8.3	2	216	5	86
Utah	45	127	6.1	2	339	4	268
Wyoming	19	195	6.6	1	254	5	130
FAR WEST	1,056	189	7.3	159	259	15	137
Alaska	23	263	4.1	1	262	4	100
California	642	162	6.8	123	254	19	157
Hawaii	50	308	10.4	10	291	20	95
Nevada	26	172	8.0	2	313	8	183
Oregon	136	294	9.0	7	263	5	89
Washington	178	238	8.5	16	281	9	118

***The flow of tax credits is based on a $500 maximum credit, a limit on the credit of 50 percent of cost and no refundability (Reagan's 1985 proposal).**

Note:* *Data is not available from the National Center for Education Statistics for American Samoa, Guam, Puerto Rico or the Virgin Islands.

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pupil basis, the aid to pupils enrolled in private schools would exceed that of pupils enrolled in public schools. If the loss to the government of providing tax credits had to be made up in a reduction of aid to public schools, federal aid to education would need to be reduced by about 14 percent. If the provision of tax credits did not come at the expense of federal education support, the parents of a pupil attending private school would receive 12 percent more in tax benefits than the amount currently available for pupils attending public schools. If tax credits were funded by reducing federal aid to public schools, the parents of a pupil attending private school would receive 31 percent more in tax benefits than the average parents of a pupil attending public school.

The levels of tax credit benefits and their relation to current federal aid would vary dramatically among the states. Over half of all credits, 53 percent, would flow to eight states (California, Florida, Illinois, Michigan, New Jersey, New York, Ohio, Pennsylvania).[1] These eight states currently receive 37 percent of federal education support. While the proportional distribution of tax credits and current federal aid would be similar for many regions of the country, there are regions where the proportions would differ. The Mideastern region receives about 14 percent of federal aid for education; it would receive about 26 percent of all tax credits. The Southeastern region receives about 28 percent of all federal education aid; it would receive about 20 percent of all tax credits. The Southwestern region receives 13 percent of federal education aid; it would receive less than 5 percent of the tax credits.

In 22 states, the total value of tax credits would be less than 10 percent of the total federal support to public schools. However, in 7 states, tax credits would exceed 20 percent of the value of federal support currently flowing to public schools. For example, in New York, federal aid is currently $378 million, accounting for 3.8 percent of the revenues received by public schools. Under Reagan's tax credit proposal, fully implemented, parents of pupils enrolled in private schools in New York would receive $230 million; 62 percent of the amount now flowing to public schools.

While no state would receive more in tax credit benefits to families than it currently receives in federal aid to schools, parents of pupils attending private schools in many states would receive more in tax benefits per pupil than is currently provided, on average, in per pupil federal aid to those enrolled in public schools. In 18 states, the average value of the tax credit would be less than the average amount of per pupil federal support. In 12 states, the average tax

[1]This assumes no institutional response in the short run.

credit would be between 100 and 125 percent of the average per pupil level of federal support. In 9 states, tax credits would, on average, be between 125 and 150 percent of the amount of per pupil federal aid. In 11 states, the average tax credit would exceed 150 percent of the average federal aid currently available to each pupil in public schools.

If federal aid to public schools were reduced in order to make up the loss incurred in providing tax credits, the balance would change more dramatically. Assuming that all states would lose 14 percent of their current federal support in order to pay for tax credits, there would be wide variations among the states in the relationship between the flow of tax credits and the flow of federal aid. For instance, in New Hampshire, the average amount of federal aid per public school pupil would decrease from $99 to $85. The average tax credit, $330 per pupil in private schools, would be 288 percent greater than the value of federal aid. In Tennessee, where federal aid currently provides 16.2 percent of all support for public schools, federal aid per pupil would decrease from $323 to $278. The average tax credit benefit, $295 per pupil in private schools, would be 6 percent higher than the average per pupil amount of federal aid to public schools. Even in Montana, which would receive a small amount of tax credits, the value of the average credit, $216, would be equal to the value of the average per pupil support currently provided by federal aid to public school students, $215.

In summary, if President Reagan's tax credit proposal were implemented, it would cost $1.3 billion, about 14 percent of the level of federal aid to public schools. In some states, there would be a significant flow of tax credits, resulting in an average tax credit that would exceed the per pupil amount of federal aid currently flowing to the state. In other states, the value of the average tax credit would be less than the average level of federal support to pupils in public school. If the revenue loss due to tax credits were made up by reducing federal aid to public schools, the average value of the credit would equal or exceed the average value of federal aid to public school pupils in almost every state.

V. The Flow of Tax Credits to the States Under Alternative Tax Credit Mechanisms

The purpose of this chapter is to examine the flow of credits to the states under the Reagan proposal as it will operate in 1983, 1984 and 1985 and as it could operate if modifications were made in some of its characteristics. In order to accomplish this objective, a computer simulation model was designed that was sensitive to (1) enrollment levels in private schools (only 1978 data were available, and no attempt was made to project how many pupils would switch from public to private schools); (2) tuition level (based on national average tuition levels for different types of schools and state enrollments in those schools); and (3) family income levels (based on the distribution of families with children 5 to 17 years old in each state in 1980). The following tax credit approaches were simulated:

Approach 1. The Reagan proposal for 1983

Approach 2. The Reagan proposal for 1984

Approach 3. The Reagan proposal for 1985

Approach 4. The 1985 Reagan proposal with refundability

Approach 5. The 1985 Reagan proposal without an income ceiling

Approach 6. The 1985 Reagan proposal with a 33 percent, rather than a 50 percent, limitation

The characteristics of these alternatives are summarized in the following table:

	Credit Limit	Percent of Tuition Limit	Income Ceiling	Refundability
Approach 1	$100	50%	Yes	No
Approach 2	300	50	Yes	No
Approach 3	500	50	Yes	No
Approach 4	500	50	Yes	Yes
Approach 5	500	50	No	No
Approach 6	500	33	Yes	No

Table 3

Revenue Flow Under Alternative Tuition Tax Credit Systems
(Millions of dollars)

	Approach 1	Approach 2	Approach 3	Approach 4	Approach 5	Approach 6
	Reagan First Year	Reagan Second Year	Reagan Fully Implemented	Reagan Fully Implemented With Refundability	Reagan Fully Implemented With No Income Ceiling	Reagan Fully Implemented With 33 Percent Limit
ALL STATES	$401	$1,068	$1,258	$1,558	$1,280	$927
NEW ENGLAND	25	75	93	109	92	69
Connecticut	7	22	27	32	28	21
Maine	1	4	6	8	6	5
Massachusetts	12	35	40	48	41	30
New Hampshire	2	5	7	8	7	6
Rhode Island	2	7	7	9	7	5
Vermont	1	2	3	4	3	2
MIDEAST	114	296	331	406	339	238
Delaware	2	5	6	7	6	5
Maryland	9	24	29	34	30	22
New Jersey	19	49	53	64	55	38
New York	49	126	142	177	146	102
Pennsylvania	35	92	101	122	102	71

SOUTHEAST	65	185	247	335	250	201
Alabama	5	14	19	25	19	16
Arkansas	1	3	5	7	5	4
Florida	15	41	53	72	54	42
Georgia	6	17	25	35	25	22
Kentucky	5	13	14	21	15	10
Louisiana	11	29	35	47	35	27
Mississippi	3	10	14	21	14	13
North Carolina	4	13	18	23	18	15
South Carolina	4	11	16	21	16	14
Tennessee	5	16	22	31	23	17
Virginia	6	17	23	28	23	19
West Virginia	1	3	3	4	3	2
GREAT LAKES	94	240	265	315	270	184
Illinois	30	75	82	100	84	57
Indiana	9	23	27	31	27	19
Michigan	18	49	56	66	57	39
Ohio	23	58	62	74	63	43
Wisconsin	14	35	38	44	39	26
PLAINS	32	81	89	105	90	61
Iowa	5	14	15	17	15	10
Kansas	3	7	8	9	8	5
Minnesota	8	19	20	24	21	14

Table 3 (cont.)

	Approach 1	Approach 2	Approach 3	Approach 4	Approach 5	Approach 6
	Reagan First Year	Reagan Second Year	Reagan Fully Implemented	Reagan Fully Implemented With Refundability	Reagan Fully Implemented With No Income Ceiling	Reagan Fully Implemented With 33 Percent Limit
PLAINS cont.						
Missouri	$11	$27	$31	$38	$31	$21
Nebraska	3	9	10	11	10	7
North Dakota	1	2	2	2	2	1
South Dakota	1	3	3	4	3	3
SOUTHWEST	17	48	56	72	57	41
Arizona	3	8	10	13	10	8
New Mexico	1	3	4	5	4	3
Oklahoma	1	6	5	6	5	3
Texas	12	31	37	48	38	27
ROCKY MOUNTAIN	6	14	17	20	17	14
Colorado	3	8	10	12	10	8
Idaho	1	1	2	2	2	1
Montana	1	2	2	3	3	2
Utah	1	2	2	2	2	2
Wyoming	0	1	1	1	1	1

FAR WEST	52	129	159	198	164	119
Alaska	0	1	1	1	1	1
California	37	100	123	156	127	93
Hawaii	3	8	10	12	11	8
Nevada	0	1	2	2	2	1
Oregon	2	6	7	9	7	5
Washington	5	13	16	18	16	11

Note. Data is not available from the National Center for Education Statistics for American Samoa, Guam, Puerto Rico or the Virgin Islands.

Prepared by the Education Finance Center, Education Commission of the States.

The flow of tax credits to families in the 50 states is shown in Table 3. As discussed previously, full implementation of the Reagan proposal in 1985 is estimated to cost and provide tax relief of $1.3 billion. In 1983, the total cost would be about $400 million. In 1984, the total cost would be nearly $1.1 billion. Thus, even though the tax credit limits increase by a factor of five (from $100 to $500), the total cost of the program only triples. This reflects the fact that current tuition levels, particularly in Catholic schools, are relatively low. If tuition levels increased, or if enrollments increased due to the availability of tax credits, the program would cost even more than $1.3 billion in 1985. The addition of refundability to the characteristics of the program would add approximately $300 million in additional total cost; that is, with refundability, the Reagan tax credit program would result in reduced revenues to the federal treasury of $1.6 billion and in the provision of $300 million in additional benefits to families (refundability is assumed to apply to all families with an income less than $10,000). Apparently, the inclusion of an income ceiling has very little impact on the total cost and benefits of the program. If all families were eligible to receive tax credits regardless of income, the additional cost is estimated to be $20 million. Finally, if a 33 percent, rather than a 50 percent, limitation were used, the program would cost about $330 million less. The use of a lower percentage ceiling would not affect those families sending their children to private schools with tuition levels exceeding $1,500; for families sending their children to private schools charging $600 in tuition, the credit would decline from $300 to $200, however.

In general, the different approaches to tax credits would not result in significantly different allocations of credits to the regions of the country. Under the fully implemented Reagan proposal, the regions would receive the following proportions of all credits provided, which are compared with their proportions of pupils enrolled in private schools:

Region	Proportion of All Credits	Proportion of All Pupils in Private Schools
New England	7.4%	6.1%
Mideast	26.3	27.8
Southeast	19.6	18.3
Great Lakes	21.1	22.5
Plains	7.1	7.5
Southwest	4.5	4.4
Rocky Mountain	1.4	1.3
Far West	12.6	12.1

As indicated, the flow of tax credits matches the enrollments of pupils well. States in the New England, Southeastern, Southwestern, Rocky Mountain and Far West regions would receive a slightly higher proportion of tax credits as compared to enrollments. The proportion of all credits flowing to some regions changes slightly under different tax credit approaches. Using a $100 maximum, the proportion of all credits flowing to New England states would decline to 6.1 percent, more in line with their share of enrollments. Under the same approach, states in the Mideastern region would receive 28.3 percent of all credits. If the percentage ceiling were reduced to 33 percent, states in the Mideastern region would receive 25.7 percent of all credits. The same situation occurs in the Southeastern states. With a $100 maximum, states in that region would receive 18.1 percent of all credits; with a 33 percent limitation, those same states would receive 21.5 percent of all credits. Similar situations arise in the Great Lakes and Plains regions.

In Table 4, the average per pupil flow of tax credits is shown under the different tax credit approaches. Also shown is the percentage relationship between the average tax credit and the average per pupil amount of federal funds provided to public schools. The size of the average credit would change as the approach used to distribute the credits changes. The variation in the size of the average credit also changes as the approach changes. Using a $100 maximum and the basic characteristics of the Reagan proposal, the average credit would be $79, and among the states, the average would vary from $65 to $86. Using a $300 maximum, the average credit would increase to $211, and the variation among the states would increase from a low of $180 to a high of $258. While the average tax credit would increase somewhat under the fully implemented Reagan proposal, to $249, the variation among the states would increase significantly, from a low of $195 to a high of $352. The addition of refundability to the Reagan proposal would increase the variability among states slightly. The elimination of the income ceiling would not significantly change the distribution of credits among the states. Finally, a reduction in the percentage limitation from 50 to 33 percent results in a decrease in the average tax credit and in the variation on the average credit among states.

As the tax credit approach changes, the relationship between the average credit flowing to parents of pupils in private schools and the average federal aid to pupils in public schools changes. Using a $100 maximum credit, the average credit in every state would be less than the average per pupil federal support. When the credit is increased to $300, the average credit is less than per pupil federal support in 28 states. However, in 17 states, the average credit is up to 50 percent higher than federal support, and in 5 states, the aver-

Table 4

Average Tax Credit and Its Relationship to Current Federal Support Under Alternative Tuition Tax Credit Systems

	Approach 1		Approach 2		Approach 3		Approach 4		Approach 5		Approach 6	
	Reagan First Year		Reagan Second Year		Reagan Fully Implemented		Reagan Fully Implemented With Refundability		Reagan Fully Implemented With No Income Ceiling		Reagan Fully Implemented With 33 Percent Cutoff	
	Average Credit	Percent of Federal Aid	Average Credit	Percent of Federal Aid	Average Credit	Percent of Federal Aid	Average Credit	Percent of Federal Aid	Average Credit	Percent of Federal Aid	Average Credit	Percent of Federal Aid
ALL STATES	$79	36	$211	95	$249	112	$308	139	$253	114	$183	83
NEW ENGLAND	82	37	242	109	299	134	351	158	296	133	222	100
Connecticut	82	45	245	133	299	163	349	190	311	169	230	125
Maine	76	33	228	98	332	143	426	184	330	142	271	117
Massachusetts	82	29	242	87	280	101	333	119	285	102	211	76
New Hampshire	84	85	253	256	330	334	394	398	339	342	266	269
Rhode Island	83	52	226	142	236	148	293	184	249	157	174	109
Vermont	74	44	222	131	352	208	435	256	335	197	268	158
MIDEAST	81	45	210	115	235	129	288	158	241	132	169	93
Delaware	83	22	236	63	271	73	330	38	284	76	204	55

Maryland	83	38	222	102	264	121	310	143	271	125	196	90
New Jersey	81	60	211	155	228	168	274	201	237	174	163	120
New York	79	58	204	150	230	169	286	210	236	174	165	121
Pennsylvania	82	34	215	88	237	97	286	117	241	99	167	68
SOUTHEAST	70	27	199	77	266	103	361	139	270	104	217	84
Alabama	75	35	210	98	289	135	386	180	290	136	248	116
Arkansas	70	27	181	70	254	98	356	138	254	98	203	79
Florida	73	32	203	90	260	115	352	156	264	117	203	90
Georgia	72	30	208	88	298	126	412	174	303	128	261	110
Kentucky	69	29	180	74	197	81	290	120	205	85	146	60
Louisiana	73	31	185	80	222	96	299	129	225	97	171	74
Mississippi	65	13	188	38	273	56	417	85	277	57	245	50
North Carolina	74	26	213	74	299	104	387	134	294	102	242	84
South Carolina	75	26	214	75	304	106	403	140	305	106	264	93
Tennessee	71	22	212	66	295	91	419	130	304	94	225	70
Virginia	80	41	225	115	311	159	377	192	313	160	252	129
West Virginia	77	33	202	86	230	99	299	128	234	100	166	71
GREAT LAKES	83	38	212	98	234	108	278	128	239	110	163	75
Illinois	80	31	206	80	226	87	274	106	230	89	156	60
Indiana	84	61	221	161	256	186	295	215	257	188	176	128
Michigan	84	35	225	93	257	107	305	127	262	109	177	73

Table 4 (cont.)

	Approach 1: Reagan First Year — Average Credit	Approach 1: Reagan First Year — Percent of Federal Aid	Approach 2: Reagan Second Year — Average Credit	Approach 2: Reagan Second Year — Percent of Federal Aid	Approach 3: Reagan Fully Implemented — Average Credit	Approach 3: Reagan Fully Implemented — Percent of Federal Aid	Approach 4: Reagan Fully Implemented With Refundability — Average Credit	Approach 4: Reagan Fully Implemented With Refundability — Percent of Federal Aid	Approach 5: Reagan Fully Implemented With No Income Ceiling — Average Credit	Approach 5: Reagan Fully Implemented With No Income Ceiling — Percent of Federal Aid	Approach 6: Reagan Fully Implemented With 33 Percent Cutoff — Average Credit	Approach 6: Reagan Fully Implemented With 33 Percent Cutoff — Percent of Federal Aid
GREAT LAKES cont.												
Ohio	$83	40	$211	102	$226	109	$270	131	$230	112	$157	76
Wisconsin	85	45	206	110	223	119	260	138	228	121	153	81
PLAINS	84	42	214	108	235	119	277	140	237	120	161	81
Iowa	85	49	225	130	244	142	281	163	247	144	161	94
Kansas	83	44	212	113	248	131	276	147	240	128	165	88
Minnesota	83	44	206	110	219	117	265	142	230	123	154	82
Missouri	80	37	209	98	235	110	286	134	236	110	163	76
Nebraska	82	39	220	106	251	121	288	138	249	120	164	79
North Dakota	81	44	192	104	195	106	243	132	209	114	138	75
South Dakota	81	30	229	85	245	90	347	128	280	103	211	78
SOUTHWEST	76	28	214	78	250	91	321	117	254	93	183	67
Arizona	76	24	202	64	264	84	328	104	267	85	212	68

New Mexico	71	21	181	54	233	70	302	90	222	66	167	50
Oklahoma	77	25	220	73	309	102	354	117	283	94	206	68
Texas	76	30	202	79	242	95	314	123	247	96	178	70
ROCKY MOUNTAIN	84	46	228	124	276	150	325	177	276	150	228	124
Colorado	84	41	225	109	275	133	319	154	281	136	207	100
Idaho	82	48	224	131	328	192	323	189	269	157	182	106
Montana	80	32	220	88	216	86	324	129	272	108	190	76
Utah	86	68	258	203	339	268	402	317	359	283	274	215
Wyoming	84	43	211	108	254	130	290	150	257	149	193	100
FAR WEST	85	45	211	111	259	137	323	171	268	142	194	103
Alaska	81	31	231	88	262	100	312	119	331	126	205	78
California	77	48	207	128	254	157	321	198	263	162	193	119
Hawaii	84	27	235	76	291	95	353	115	311	101	243	79
Nevada	77	45	205	119	313	183	299	174	246	143	172	100
Oregon	83	28	229	78	263	89	327	111	278	95	195	66
Washington	84	35	228	96	281	118	322	135	281	118	200	84

Note: Data is not available from the National Center for Education Statistics for American Samoa, Guam, Puerto Rico or the Virgin Islands.

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age credit is more than 50 percent greater than federal aid. Under the fully implemented Reagan proposal, the credit in 32 states would exceed per pupil federal aid; in 11 of those states, the credit would be more than 50 percent greater than federal support. Adding refundability or eliminating the income ceiling increases the number of states in which the average credit exceeds current average federal aid. However, reducing the percentage limitation from 50 percent to 33 percent results in the average credit being less than or equal to average current federal support in 33 states.

In summary, changing the tax credit approach can alter the distribution of tax credit benefits among the states. A lower absolute credit ceiling or a lower percentage limitation results in lower total cost and in more states having average credits that are less than average per pupil federal support. The inclusion of a refundability provision increases the cost of the tax credit proposal substantially. Also, a high income ceiling does not change the cost of the tax credit proposal significantly.

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