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Summary

House Bill 2754 would create two education tax credits, one for families' own out-of-pocket education expenses and another for donations to scholarship-granting organizations for low-income or disabled students. According to a fiscal analysis by Dr. Eric Fruits, HB 2754's tax credits have potential to save money for the state of Oregon.

Word Count 911

"...[A]ccording to the recent fiscal analysis by Dr. Eric Fruits, an expert with Economics International Corporation, HB 2754's tax credits are unique in that they actually could save the state money."

4850 SW Scholls Ferry Road
Suite 103
Portland, Oregon 97225

t: 503.242.0900
f: 503.242.3822
info@cascadepolicy.org
www.cascadepolicy.org

Education Tax Credits Can Save Oregon Money

By Christina Martin

Cascade's education tax credit bill, the [Rose Friedman Educational Opportunity Act](#), HB 2754, is up for a hearing before the House Committee on Education on March 25, at 1 p.m. in Hearing Room E. This bill would create two Oregon income tax credits: a \$1,000 credit (per child) to help pay education expenses such as tuition, supplies, or tutoring; and a credit of \$1,000 per taxpayer, or up to \$8,000 per business, for donations to scholarship programs for low-income kids. For example, a tax credit of \$1,000 would allow an individual who owes \$2,500 in taxes to pay only \$1,500 in taxes. These education tax credits would grant more families the ability to choose where to send their children to school.

Of course, with the sickly economy and the projected budget deficit, any proposed tax credit likely will be met with skepticism. But according to the [recent fiscal analysis by Dr. Eric Fruits](#), an expert with Economics International Corporation, HB 2754's tax credits are unique in that they actually could save the state money.

The Opportunity Scholarship Tax Credit, which would give a tax credit for donations made to scholarship programs for low-income students or students with disabilities, should save Oregon money. How can this be? The state will save enough from students transferring out of public schools to cover the cost of the tax credits.

The average annual cost for K-12 private schools in Oregon is around \$7,200, according to Dr. Fruits's report. In contrast, Oregonians spend much more per student for public education. Oregon's School Board Association admitted spending \$8,560 per student, plus \$1,700 for capital construction in the 2003-04 school year, amounting to more than \$10,200 per child. Dr. Fruits estimated that the state would save \$9,170 per student who transfers from public to private school. The state would save money through this program if it allows enough new students to leave public school.

This tax credit for low-income children would make it possible for many children to attend private school who could not afford to attend otherwise. As students transfer from public school to private school, the state typically will save money, since the average private school costs considerably less than what the state spends on public school students. By looking at similar programs in other states, Dr. Fruits estimated that individual participation in this tax credit program would cost the state \$63 million in personal tax credits. With 25-75% corporate participation, the program could attract between \$91.6 and \$148.8 million in scholarship funds, amounting to \$85.9-131.7 million in tax credits claimed (since only the first \$2,000 is 100% deductible, with the rest only being 80% deductible). Under these



scenarios, the scholarships would have to attract 9,400 to 14,400 children from public schools into private schools.

These numbers would provide enough to pay the average tuition cost for transferring students, with much left over to cover low-income students currently attending private school. Only 4.8-7.4% of eligible students would have to transfer. According to a recent scientific poll conducted by the Friedman Foundation for Educational Choice, almost 9 out of 10 Oregon parents would prefer to put their children in a school other than a traditional public school (with half of parents naming private school as their top choice). Therefore, it is not unrealistic to assume that many low-income families would jump at the opportunity to transfer to non-public schools if they could afford it.

At the “break even” point, the state could make money when it comes time to pay “Kicker” refunds. Under Oregon law, the state is required to refund excess tax revenues when they are 2% higher than the forecast at the time the budget was adopted. Starting this year, corporate kicker will be calculated based on tax liability *after* credits. Thus, corporate donations under this program would not be eligible for Kicker refunds. Accordingly, the program would increase the amount of corporate expenditures in the state.

The Oregon Family Education Tax Credit would give a personal tax credit of up to \$1,000 (per child) for any educational expense, including tuition, tutoring, testing fees, and educational materials like books. Dr. Fruit’s analysis determined that adoption of this tax credit could cost the state money, but if a sufficient number of students transferred to private schools, then it could save the state money or increase per-student spending by \$90 to \$730.

This analysis does not calculate the resources that families save the state when they choose alternatives to public school. Currently, over 54,000 children in private school and the 20,000 homeschooled children save the state hundreds of millions of dollars every year. Many of these families make serious sacrifices to place their children in the right schools for them. It wouldn’t hurt to give these families a little credit.

The legislature cannot hide behind the budget gap when faced with HB 2754: The Opportunity Scholarship portion should not cost the state money and could even save the state money. The Family Education Tax Credit would buy Oregon a better education and more freedom and, with enough transfers, could increase per-child spending.

If you want to help all Oregon children receive the best education possible, tell your legislator that you support HB 2754, and join us at the bill’s hearing in Salem on March 25 to support this important legislation. We can preach the logic of school choice forever, but it’s your support that makes the difference.

Christina Martin is Director of the Asset Ownership Project and a policy analyst for the School Choice Project at Cascade Policy Institute, Oregon’s free market public policy research organization.

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Please contact:

Nancy Wheaton
Cascade Policy Institute
4850 SW Scholls Ferry Rd.
Suite 103
Portland, Oregon 97225

Phone: (503) 242-0900
Fax: (503) 242-3822

www.cascadepolicy.org
nancy@cascadepolicy.org