

A New Education Tax Plan for Colorado

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Executive Summary: A New Education Tax Plan for Colorado

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Arizona and Minnesota have both implemented successful education tax plans. Arizona and Minnesota differ in their approaches, but by combining the best from both states, a much more comprehensive plan can be created for Colorado. Colorado should become a leader in the arena of education tax plans by adopting its own plan that includes the following:

- Individuals would receive a nonrefundable limited tax credit for contributions to a public school.
- Individuals would receive a nonrefundable limited tax credit for individual contributions to a qualified tuition scholarship organization.
- Based on their income level, individuals with school-age children would receive either a limited refundable tax credit or limited tax deduction for education-related expenses.
- All individuals with school-age children could qualify for a limited tax deduction for non-public school tuition.

The Arizona and Minnesota Education Tax Plans:

Arizona

A resident of Arizona can take advantage of two different state education tax credits.¹ One is a tax credit up to \$200 for public school fees or for contributions to a public school. A parent with a child enrolled in a public school can receive a nonrefundable tax credit for fees paid towards extracurricular activities such as band uniforms, equipment or uniforms for varsity athletics, or use of science laboratory equipment or materials. To qualify for the tax credit, the expenses must supplement the educational program of the school.

A taxpayer who does not have a child enrolled in a public school can still take advantage of the tax credit through a contribution to a public school for the support of extracurricular activities. For an example, in Arizona a school needed lighting for a ball field. A group of employees from a particular

¹A tax credit is a reduction of tax liability. Some credits are refundable; that is the taxpayer will receive a check for any amount in excess of the tax liability. Most credits are not refundable, but some credits may be carried to other tax years.

company decided to individually contribute to a central fund established for the school. The funds were raised to pay for the lighting and the individuals donating the funds received a dollar-for-dollar tax credit, up to the limit. Another example is designating funds to help with the cost of field trips.

The second tax credit is available to those who contribute to a school tuition organization. The nonrefundable credit is a dollar-for-dollar contribution up to \$500. In Arizona a school tuition organization is a 501(c)(3) charitable organization that allocates at least ninety percent of its annual revenue for educational scholarships or tuition grants to a qualified nongovernmental school. The organization cannot limit the availability of educational scholarships or tuition grants to only students of one school. The tax credit is not allowed if the donation is designated for the direct benefit of any dependent of the taxpayer. The statute does not limit the family income of the child receiving the scholarship.

Either Arizona tax credit can only be applied to taxes owed. The balance can be carried forward for not more than five consecutive taxable years. Taxpayers who are married and file separate returns can claim only one-half of the allowable credit on each return. If a contribution to a public school or a scholarship organization exceeds the allowable amount for a tax credit, the excess may be claimed as an itemized deduction.²

Minnesota

Minnesota provides a state tax credit and/or deduction³ for families with educational expenses for children in primary or secondary school. The students can attend a public school, a non-public school or a home-based school. The tax credit is a dollar-for-dollar refundable tax credit for families with incomes under \$33,500 per year. An adjusted credit is available for families with incomes below \$37,500 per year. The maximum refund is \$1,000 per child with a family limit of \$2,000. If expenses are in excess of the tax credit limit, the additional expenses can be applied toward the tax deduction.

There is no income limit to take advantage of the income tax deduction. The maximum deduction for children in kindergarten through sixth grade is \$1,625, and for grades seventh through twelfth the deduction is \$2,500.

Qualifying expenses for both the tax credit and the tax deduction include the following: fees and tuition for enrichment or academic classes and camps; tutoring and music lessons; required school expenses such as textbooks, paper, pencils, notebooks, and rental of musical instruments; and transportation costs paid to others for transportation to school. Personal computer hardware and educational software expenses not exceeding \$200.00 for the family can also be included. Non-public school tuition cannot be claimed for the tax credit, but it can be claimed as a tax deduction.⁴

² Information on the Internet:

A brochure on Arizona's education tax plan: <http://www.revenue.state.az.us/brochure/schooltx.htm>

Arizona statute providing a tax credit for contributions to school tuition organizations:

<http://www.azleg.state.az.us/ars/43/01089.htm>

Arizona statute providing a tax credit for public school fees:

<http://www.azleg.state.az.us/ars/43/01089-01.htm>

³ A tax deduction is an amount that may be subtracted from income that is otherwise taxable.

⁴ Information on the Internet:

A Comparison:

Non-public Tuition Assistance Indirectly Through the Tax Plans

The Arizona tax credit has increased contributions to tuition scholarship organizations that provide tuition assistance to students who choose to attend a private school. Most low-income children, without this assistance, would not have the opportunity to attend a private school. The number of students benefiting from the scholarships is dependent on the amount of private dollars contributed to scholarship tuition organizations. As the result of the tax credit, millions of dollars in Arizona are contributed to tuition scholarship organizations, and therefore more money is available for scholarships. According to a study compiled by the Arizona Department of Revenue in 1999, \$13.7 million was contributed to Arizona scholarship tuition organizations.⁵

In Minnesota, a limited tax deduction can be taken for non-public school tuition. Any family can take the deduction, but of course the family must have the personal funds available to pay the tuition costs and a tax deduction only benefits those who pay taxes. This limited tax deduction gives some relief to low-income and middle class families who may sacrifice other needs so they can pay for non-public school tuition. The Minnesota tax credit does not include a credit for non-public school tuition; if it did include a credit many low-income children could escape from failing public schools.

Private Contributions to the Public Schools

Public school contributions through the Arizona tax credit program amounted to \$14.6 million. The study did not distinguish between the dollar amount for fees and the dollar amount for donations. In 1998, the first year the program was implemented, the public schools reported receiving \$8.2 million.⁶ This was a dramatic increase from the year before and it could be assumed that the increase was the result of contributions to the schools rather than parents paying more fees. The tax credit obviously resulted in an increase in the revenue going into the public schools. One could say that the state could have also directed those funds to the schools. The beauty of this program is that parents receive a credit for money they spend on their children's extracurricular activities, and any taxpayer has the opportunity to choose how to spend up to \$200 of his tax dollars --such as the lighted ball field.

Family Tax Relief for School Related Expenses

Arizona parents receive some tax relief for expenses incurred when their children are involved in extracurricular activities. Parents whose children are not involved with extracurricular activities receive no credit towards expenses. Low-income families who do not pay taxes, but who do pay for extracurricular activities, receive no benefit from the Arizona tax credit.

All Minnesota parents of school age children can receive either a refundable tax credit or tax deduction for a broad range of educational expenses. A low-income family who does not pay taxes can receive a

Minnesota's tax credit and tax deduction plan: <http://cfl.state.mn.us/tax/credits.html>

Minnesota statute providing a tax credit: <http://www.revisor.leg.state.mn.us/stats/290/0674.html>

⁵ Arizona Department of Revenue, Office of Economic Research and Analysis, *Arizona's Individual Income Tax Credits for Schools*, Final Report of 1998 Credits (October 2000).

⁶ Ibid.

refund for qualifying expenses. Arizona's plan limits the tax credit to extracurricular expenses and only to those who owe taxes. Minnesota's plan is helpful to all families because it includes a much broader range of educational expenses including school supplies. School supplies are expensive. For an example, many high schools require a graphing calculator costing at least \$100. Parents are expected to pay for art fees, activity fees, technology fees, the cost of consumable workbooks, and supplemental reading books, just to name a few.

Minnesota does not allow a tax credit or tax deduction for expenses toward most extracurricular activities that are not considered academic or part of the core curriculum. An exception would be music lessons and rental of a musical instrument.

A New Education Tax Plan for Colorado:

Those who are avid believers in the parental right to choose the best education for one's child, believe that in an ideal world tax dollars would follow every child to any school the parent feels would best educate his child. However, differences in political philosophies, the public school financial structure, and the restrictions set forth in the Colorado Constitution for public aid to religious schools make it very difficult for such a lofty dream to come to pass.

Strong public school advocates speak out loudly for equity for all children and believe that for a strong public school system to exist tax dollars must stay within that system. Public school advocates often use the separation of church and state argument when there is discussion of any government support of religious schools in any form, even a tax credit for tuition expenses.

Those involved in public policy must ask if both sides can give a little and come up with a workable plan. First, four facts need to be acknowledged:

- 1. The passage of Amendment 23 is evidence that the public trusts the public school system with their tax dollars and they want their schools to be financially strong.**
- 2. Many low-income children are trapped in failing public schools.**
- 3. Long waiting lists for charter and other alternative schools, as well as an increase in the number of parents home schooling or enrolling their children in non-public schools, expresses a growing dissatisfaction with the public school system among a large fraction of the public.**
- 4. School fees, supplies, tutoring services, and other educational expenses are high.**

If Colorado takes the best from Arizona and Minnesota, making it palatable for those on both sides of the issue, families and children will benefit. The plan described below does not include discussion of family income restrictions nor does it suggest maximum tax credits or deductions.

Four Main Components

The nonrefundable tax credit plan in Arizona benefits the public schools. In Colorado, and probably in other states, a contribution to public schools is already an allowable tax deduction, but a limited tax

credit would encourage an increase in contributions, resulting in an increase of revenue for individual public schools. The contributions should not be limited for only extracurricular activities. Academic programs could be supported as well. Caution should be taken that the school administration does not rely on the funds for basic school needs or replace current funding with the public contributions.

- **Individuals would receive a nonrefundable limited tax credit for contributions to a public school.**

Currently in Colorado many low-income children are well served with tuition scholarships, but the number of scholarships available are very limited. A nonrefundable tax credit for contributions to such a tuition scholarship organization would be good for Colorado children, as it has benefited children in Arizona by increasing the contributions, and therefore increasing the number of children who can take advantage of the opportunity to attend a private school. As in Arizona, Colorado should not put restrictions on the income level of families receiving the scholarships. The organization should have the freedom to make its own income limits. The organization should be a 501(c)(3) and should be required to provide scholarships to students at more than one school. The tax credit would not be allowed if the taxpayer designates the contribution for the direct benefit of one of his dependents.

- **Individuals would receive a nonrefundable limited tax credit for individual contributions to a qualified tuition scholarship organization.**

The Minnesota plan could be implemented in Colorado by allowing for a limited refundable state tax credit for qualifying families and a limited state tax deduction for all families. Non-public school tuition would only be allowed towards the tax deduction. A family receiving a partial tuition scholarship would be able to use the tax deduction for the remainder of the tuition up to the limit allowed. Parents dissatisfied with the public school system would have some tax relief to help with the costs of non-public school tuition or home-based educational materials and expenses. The list of qualifying expenses in Minnesota should be expanded to include the extracurricular expenses in Arizona.

- **Based on their income level, individuals with school-age children would receive either a limited refundable tax credit or limited tax deduction for education related expenses.**
- **All individuals with school-age children could qualify for a limited tax deduction for non-public school tuition.**

Conclusion

The plan set forth above would make Colorado public schools stronger, not only through financial gain, but also through the community joining together to show support for the public schools. Businesses could run campaigns encouraging their employees to contribute to a school in need of extra support. This involvement might strike up an unofficial system of adopting a school. The employees might be led to volunteer their time to the school or contribute money beyond the amount of the tax credit they would receive.

Thousands of low-income children would have the opportunity to attend a private school, an opportunity now only guaranteed for the wealthy. Lives would be changed and the cycle of poverty for many families broken.

Parents who choose a non-public school or a home-based education for their children would receive some tax relief. All families would benefit from a tax credit or tax deduction for educational expenses.

Colorado would continue to be a front-runner in education reform. If adopted, this education tax plan would become a model for other states. Families and children across the nation would eventually benefit from Colorado's bold steps. Let us put aside our differences and make a difference in Colorado and ultimately the nation.

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