



Tax Credits and Vouchers: Funding for Independent Schools

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Historically independent schools have maintained their independence by not accepting government funding at any level. It is a commonly held belief that government funding is accompanied by government regulation. It is the “strings attached” that create problems for independent schools as they insist on “owning their mission.”

In a number of states, efforts are being undertaken to channel tax monies into vouchers that can be used at private schools. The voucher programs to date mostly involve assistance for special needs or low socio-economic students; however, some believe that all students should be able to take state dollars with them to whichever school they choose to attend. Also, a number of states have adopted legislation creating tax credit programs to help fund students in private schools. Most of the programs I am familiar with require that the monies be sent to a Tax Credit Organization that is separate from the school for which the funds are intended. Although the statutes vary from state to state, the essence of the tax credit legislation is to allow individual citizens or corporations an opportunity to receive a dollar-for-dollar credit on their state income taxes when contributing money to a registered tax credit organization for the purpose of providing scholarships in private schools.

There are several issues of concern for independent schools as they consider taking part in a government-funded program; whether a tax credit or a voucher program. The purpose of this paper is to discuss the issues that should be considered, not to make a statement of position. At this point SAIS has not taken a formal position in favor of or opposed to any form of government funding. Therefore, it is incumbent on each school to thoroughly discuss any program that may be available for the purpose of determining if it’s mission appropriate. There is little doubt that tax credits and vouchers will lead to additional revenue that will likely assist with balancing a school’s budget or providing funds for additional programs. Although, it could be argued that in the long term taking part in government funding programs might ultimately create a situation where a school realizes less revenue because of this relationship. For the sake of this argument we will assume that at least in the short term taking part in these programs will increase revenue potential for schools.

One issue to consider with regard to public funding of independent schools is whether tax credit and voucher dollars ultimately lead to reduced funding for an already stressed public school system. This concern is indeed more ideological in nature and many independent school leaders are not willing to take part in a program that will ultimately

impact the funding of the public education system. There usually is not a direct link between the lost state revenue due to tax credits and the funds received by an independent school. Still, it is logically assumed that if a state receives less revenue due to monies being diverted into tax credit organizations, or provides a cash voucher to accompany a student at a private school, ultimately there will be less funding for the public schools. For some within the independent school world, this is not acceptable and therefore they choose not to participate in tax credit or voucher programs. Although the decision making process may be different for tax credits and vouchers because of the “middle man” nature of tax credit organizations, for those opposed to receiving public funds at the expense of public school funding, the two programs will likely impact the decision equally.

Others within the independent school world believe that any funding available to promote private education is ultimately valuable and the “best hope” for the American educational system. This argument embraces an idea that the public education system in America is irretrievably broken and a move to privatizing education is the only real answer. Following this line of thought, any funding that can be obtained to provide for more students engaging in independent school education is desirable. For these schools, the additional revenue is critical to providing greater access to low socio-economic students while maintaining a balanced budget. So, the tax credit and or voucher programs are in fact essential to the fulfillment of their school’s mission.

For schools that take part in government programs to subsidize funding, a couple of cautions are in order. An independent school should be concerned with regulations imposed on the school when accepting the tax credit or voucher money. In many states the voucher funds come in the student’s name, thus providing an “arms length” relationship with the state. However, strings attached by the state can serve as a major hindrance to the school fulfilling its mission. With independent schools being “mission driven” schools, any government intrusion into that independence could hinder the fulfillment of its mission.

Another concern for schools accepting tax credit funds is that special care should be taken to ensure that the spirit of the state legislation is not violated. For example, most states restrict the targeting of funds by the donating party. Generally the intent of the tax credit programs is not to provide a method for families to contribute to their own child’s tuition and receive a tax credit for doing so. Schools should avoid at all costs the pressure to direct funds given to the tax credit organizations to families or friends of the donor, unless explicitly allowed by the state statute.

In the spirit of tax credit legislation, the intent generally is to help students needing financial assistance “choose” a private school; not to provide a tax credit for families capable of paying tuition. Of course a careful understanding of the state legislation that pertains to a given school is essential. It is possible that a state might develop tax credit legislation to benefit a school’s current families; however, at this point the intent has been to assist schools in making their programs more accessible to students who might not otherwise be able to attend.

Above all an independent school should do everything in its power to preserve its independence. It is from this independence that a school derives its strength and ability to fulfill its mission. The temptation to accept government funding may cause a school to compromise its mission; thus a school should move cautiously as it explores these options. Independent schools are advised to default on the side of caution and not assume that just because funds may be available to your school from these government programs that they are automatically appropriate. Guard your school's mission and deliberate appropriately when determining if such programs assist in the fulfillment of your mission.