

## Taxpayer Support of Private Education in Iowa

State and local taxes pay for Iowa's system of free universal public education. But taxpayers also pay some of the costs of home schooling and of tuition for those who send their children to private pre-schools or private elementary and high schools, both religious and secular. These subsidies to private education amount to over \$65 million annually, mostly from the state budget.

The table at right summarizes the various programs through which taxpayers pay for private education. A description of each follows.

### **School Tuition Organization Tax Credit**

Individuals or businesses that contribute to a School Tuition Organization (STO) receive a credit against their state income taxes equal to 65 percent of the contribution. The STO funds must be used to provide scholarships to low and moderate income students attending a private school, though up to 10 percent can be used for administrative costs. About 10,500 scholarships are awarded each year to students in 139 private schools.<sup>1</sup>

The scholarship recipients must be from a family with income no higher than three times the federal poverty guideline. The average family income of grant recipients was \$44,000 in 2017. Between 2012 and 2016, 23 percent of recipients were from families below the poverty guideline, 40 percent were between one and two times the poverty level, and 37 percent were between two and three times the poverty level.<sup>2</sup>

According to the Iowa Department of Revenue, STO tax credit claims totaled \$11.3 million in 2018 and are projected to be \$11.4 million in 2019.<sup>3</sup>

### **Textbooks for Private Schools**

Over 33,000 private-school students benefit from a program whereby the state purchases certain textbooks for private schools.<sup>4</sup>

### **Iowa already supports private schools with tax dollars**

*Millions of dollars; for 2018 or 2019 unless noted*

School Tuition Organization tax credit	\$ 11.4
Textbooks for private schools	\$ 0.7
Transportation	
State funds	\$ 8.2
Local school taxes	\$ 2.1
Area Education Agencies support	\$ 4.0
Home School Assistance Program	\$ 11.1
Tuition and textbook tax credit*	\$ 4.3
Private school students in public high schools	\$ 1.6
State funds for 4-year-olds in private preschools (2015 est)	\$ 17.0
529 savings accounts for private K-12 education	\$ 5.2
	<b>\$ 65.6</b>

*\*estimate for private school tuition*

*Sources and explanation: See "Taxpayer Support of Private Education in Iowa" Iowa Fiscal Partnership backgrounder, November 2018*

### ***Transportation Assistance***

The State of Iowa reimburses local school districts for 79.5 percent of the cost of transporting students to private schools.<sup>5</sup> The remaining 20.5 percent must come from local school district budgets, and hence is covered by local property taxpayers. We include both components here.

### ***Area Education Agencies support to private schools***

The state provides some assistance to the public Area Education Agencies for services they provide to private school students.<sup>6</sup>

### ***Home School Assistance Program***

The state provides assistance to parents who are home-schooling their children.<sup>7</sup>

### ***Private school students in public high schools***

Students in private schools or who are home-schooled may take certain classes at public high schools on a part-time basis. The public school system is reimbursed for this cost, since general state aid is based only on full-time student enrollment.<sup>8</sup>

### ***Tuition and textbook tax credit***

Taxpayers may take a credit for a portion of their expenses for textbooks and other class materials, extracurricular activities, tuition or other expenses of students in public or private schools.<sup>9</sup> The maximum expense eligible for the credit is \$1,000 per student, and the credit is 25 percent of the eligible expenses. It is not a refundable credit, so many lower income families, who are likely to have children in public schools, will derive little or no benefit from the credit. Families with income of \$70,000 or more accounted for 70 percent of the credits claimed in tax year 2015.<sup>10</sup>

Since tuition at private elementary or secondary schools will generally exceed \$1,000 per year, it is safe to assume that anyone paying private school tuition will claim the maximum credit. It is also probably safe to assume that fees and out-of-pocket expenses at public schools will rarely amount to \$1,000 per year per student, so that anyone claiming the maximum credit is probably paying tuition at a private school. The Department of Revenue's 2018 report on the Tuition and Textbook Credit reported that there were in total \$4.3 million in tax credit claims in 2016 that were for the maximum credit amount.<sup>11</sup> We use this as an estimate of the T&T credit going for private school tuition.

### ***State funds supporting private preschools***

The Statewide Voluntary Preschool Program (SWVPP) provides state funding for a limited number of hours per week of quality preschool education for 4-year-olds. About 325 of the state's public school districts participate, either by providing the preschool in the public schools or through a "community partner," which is generally a private religious school, Head Start program, or other for-profit or nonprofit private preschool. There were 293 community partners in 2015 (the only time a state report on the program has been prepared) serving 7,890 children out of the total of 24,793 children in the program. Based on the average state subsidy per child, the state support of community partner preschools amounted to \$23 million in 2015. From a list of all community partners, it appears that about 81 percent are private schools. We therefore estimate conservatively that \$17 million of the SWVPP funds in 2015 went to support private schools.

## 529 Savings Accounts

The federal government and the State of Iowa have for a number of years provided tax incentives for parents to save for their children's college education. They do this by exempting the earnings from income tax; in addition, the state of Iowa allows taxpayers to deduct the amount of the contribution to the savings account, up to \$3,239 per contributor per student each year. The 2017 federal tax bill extended the federal tax benefit by allowing 529 accounts to be used for tuition at private elementary and secondary schools. In the 2018 session of the Iowa Legislature, the tax bill adopted this change for contributions to Iowa 529 accounts, including the ability to deduct contributions.

The deduction for contributions to a 529 account is allowed even though no actual savings occurs. For example, a parent may deposit \$3,000 in a 529 account for their first-grader in August and then withdraw the entire \$3,000 in September to pay fall tuition at a religious school. When they file their income taxes the next spring, they can deduct that \$3,000 from income, saving Iowa income taxes on the entire amount paid for tuition. It thus amounts to a deduction for private school tuition more than a savings incentive program, since parents have little chance to actually save in advance for private elementary school. The Department of Revenue estimated that 71 percent of the benefit from the extension of the 529 tax credit would go to the 20 percent of taxpayers with incomes of \$100,000 or more.

The Legislative Services Agency estimated that this tax provision extending 529 plans to K-12 education would cost \$5.2 million a year.<sup>12</sup> The State Treasurer's office, which administers the Iowa 529 plans, estimated the cost at \$7.5 million.<sup>13</sup> We use the more conservative estimate.

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<sup>1</sup> Anthony Girardi and Angela Gullickson. *Iowa's School Tuition Organization Tax Credit. Tax Credits Program Evaluation Study*. Tax Research and Program Analysis Section, Iowa Department of Revenue, December 2017, p. 6. <https://tax.iowa.gov/sites/files/idr/2017%20STO%20Tax%20Credit%20Evaluation%20Study%20%281%29.pdf>

<sup>2</sup> Girardi and Gullickson, *Iowa's School Tuition Organization Tax Credit*. p. 7.

<sup>3</sup> Iowa Dept. of Revenue, *Tax Credits Contingent Liability Report*, October 16, 2018. <https://tax.iowa.gov/sites/files/idr/ContingentLiabilitiesReport1018.pdf>

<sup>4</sup> Mackenzie Ryan, "How much public money goes to support private schools in Iowa?" *Des Moines Register*, July 17, 2018. <https://www.desmoinesregister.com/story/news/education/2018/07/17/iowa-public-money-private-school-home-schooling-2008-2018-education-school-choice-millions-funding/715596002/>

<sup>5</sup> Mackenzie Ryan, "How much public money goes to support private schools in Iowa?"

<sup>6</sup> Mackenzie Ryan, "How much public money goes to support private schools in Iowa?"

<sup>7</sup> Iowa Department of Education, "2018-19 Sources for Local Projects", Property Tax and State Aid Financed Home School Assistance Program (HSAP) and SBRC Supplemental Amount for HSAP. [https://educateiowa.gov/sites/files/ed/documents/1819\\_sfin\\_local\\_projects.xlsx](https://educateiowa.gov/sites/files/ed/documents/1819_sfin_local_projects.xlsx)

<sup>8</sup> Mackenzie Ryan, "How much public money goes to support private schools in Iowa?"

<sup>9</sup> "Eligible expenses include costs for personnel, buildings, equipment, textbooks, and other expenses for subjects legally and commonly taught in Iowa's public elementary and secondary schools as well as books and materials for extracurricular activities, such as sporting events, music, drama or speech events, driver's education, or programs of a similar nature." John Good. *Iowa's Tuition and Textbook Tax Credit. Tax Credits Program Evaluation Study*. Tax Research and Program Analysis Section, Iowa Department of Revenue, March 2018, page 4. <https://tax.iowa.gov/sites/files/idr/Tuition%20and%20Textbook%20Tax%20Credit%20Evaluation%20Study%202017.pdf>

<sup>10</sup> John Good. *Iowa's Tuition and Textbook Tax Credit. Tax Credits Program Evaluation Study*. Table 7.

<sup>11</sup> John Good. *Iowa's Tuition and Textbook Tax Credit. Tax Credits Program Evaluation Study*. Table 4.

<sup>12</sup> Letter from the Iowa Department of Revenue, Research and Analysis Division, to the Legislative Services Agency, January 17, 2018.

<sup>13</sup> State Treasurer's Office: "Expanding 529 State Tax Treatment to K-12." January 19, 2018.

**The Iowa Fiscal Partnership is a joint public policy analysis initiative of two nonpartisan, nonprofit Iowa-based organizations, the Iowa Policy Project and the Child & Family Policy Center. Reports are at [www.iowafiscal.org](http://www.iowafiscal.org).**