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TUITION TAX CREDITS: Rx FOR AMERICAN EDUCATION

INTRODUCTION

The American educational system is a shambles. This is the verdict of three independent panels of experts who recently released their findings. Test scores have plummeted over the past twenty years, and despite huge increases in spending on education and the creation of a new federal department, 13 percent of the nation's 17 year-olds are considered functionally illiterate. Excellence in education has been difficult to achieve in great part because of the public school system's virtual monopoly of elementary and secondary education. This gives teachers and administrators little incentive to maintain quality. In higher education, however, healthy competition has turned many public universities into institutions that challenge the very best private schools.

Private elementary and secondary education are accessible only to upper income groups and those families willing to make a tremendous financial sacrifice in the hope of buying a better education for their children. Since families with children in private schools also would have to pay state and local taxes to support public schools, many find the alternative of private schooling out of financial reach. To alleviate this unfair double burden, parents should receive some tax credit for the cost of educating their children. This tuition tax credit would enable average and low income Americans to choose the best schools for their children, whether public or private.¹ More important, perhaps, it would create the long-overdue pressure on the public schools that will force them to improve.

¹ For a detailed analysis, see E. G. West, The Economics of Education Tax Credits (Washington, D.C.: The Heritage Foundation, 1981).

BACKGROUND

Strong lobbying by the public education bureaucracy-- especially by the National Education Association (NEA)--so far has defeated proposals for tuition tax credits. But President Ronald Reagan supports the concept and new legislation is before Congress. Senate bill S.528, introduced by Robert Dole (R-Kansas), has cleared the Finance Committee; a similar bill before the House (H.R.1730) sponsored by Representative Willis Gradison (R-Ohio), however, faces hostile Democratic opposition in the Ways and Means Committee. The Administration supports both bills.

Tuition tax credits are simple to administer. Parents who choose to place their children in non-public schools would receive a tax credit to offset partially the cost of tuition. Most proposals, including those before Congress, allow a credit of one-half of each child's tuition, up to a maximum of \$300 per child.

Tuition tax credits would give middle and lower-income parents financial help to choose the type of education most suitable for their children. High tuition costs for many private schools and escalating state and local school taxes deny many lower and middle income parents the opportunity to choose between public and private schools. The wealthy, by comparison, do not find cost a significant obstacle to giving their children quality private education. Tuition tax credits, therefore, are not a boon to the rich or to "elite" private schools but to middle and lower income families. Of families with children in non-public schools, 62 percent have incomes below \$25,000 a year.²

Under the proposed legislation, only families with incomes below \$50,000 a year would be eligible for tuition tax credits. Since the credit would not rise with income, those in the lower income groups would benefit the most: \$300 means more to a family with a yearly income of \$10,000 than to a family making \$50,000.

Proponents plan to include provisions making tuition tax credits "refundable." This means that the credit would even benefit those with little or no income who are not required to pay taxes. Typically, a tax credit is of no use to such a family. It is suggested, however, that they should receive a check from the IRS for one-half of the tuition, up to \$300 per child. This is fair and reasonable, for the aim of tuition tax credits is to give lower and middle income Americans a choice by reducing the enormous financial disincentive now imposed by choosing private education.

Tuition tax credits introduce a vital factor sorely lacking in education--competition. Because public educators have a

² "Tuition Tax Credits: The Administration Proposal," Family Policy Insights (Washington, D.C.: Free Congress Foundation, August 4, 1982), p. 7.

monopoly position, they can combine higher wages with lower teaching standards than teachers and administrators in private schools who must compete with other schools for students. Competition in any profession tends to lower costs and improve quality. Education is no different. Introducing real competition between schools would benefit both private and public schools. It is because public universities always have had to compete with private schools for students that many state-run institutions rank with the best private colleges. Elementary and secondary schools would benefit from the same competition.

The alternative to tax credits is to spend more money on public education while doing nothing to foster competition. This has not worked in the past and cannot be expected to work now. The cost of educating a child in a public school nearly tripled between 1970 and 1980, while bellweather indicators such as SAT scores steadily declined. Verbal scores declined from 460 to 423 between the 1969-70 and 1979-80 school years, and math scores dropped from 488 to 467.

OBJECTIONS TO CREDITS

Mass Exodus: Opponents of tuition tax credits charge that credits would destroy public schools. They claim that the result would be a mass exodus of better students to private schools, leaving public educators to cope with slow learners and "problem" students. Yet, if overall quality of education improves because of the competition triggered by tax credits, academically sound public schools would have no problem keeping their students. Schools neglecting quality and standards, on the other hand, would have to improve radically or close. In any case, a disruptive mass migration from public to private schools seems highly unlikely. An NBC News/Associated Press survey of October 1981 found that only 30 percent of adults with school-age children would be more likely to enroll their children in private schools if tuition tax credits were available.

Unconstitutional: The First Amendment states "Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof...." Tuition tax credits do exactly that, complain the critics, since the majority of private schools are church-affiliated. Yet, tuition tax credits would not aid any institution, religious or otherwise, since the credit would benefit the individuals who would be free to choose any private institution. After all, the charitable income tax deduction is not unconstitutional simply because donations are made to religious organizations. The credits do not favor any religion over another, and in no way serve to establish a state religion.

Discrimination: Critics charge that some private schools discriminate against minorities and could become indirect recipients of federal money through tuition tax credits. All evidence refutes this. The recent Supreme Court ruling on the Bob Jones

case means that schools which discriminate are likely to lose their tax-exempt status. Since the tax credit proposals would restrict credits to tuition for tax-exempt schools, institutions practicing discrimination would be excluded. Roman Catholic schools, which educate two-thirds of all private schoolchildren, have substantial and growing minority enrollment, particularly in the inner cities. And a CBS News exit poll in 1978 found that black and Hispanic Americans favored tuition tax by a 72 and 84 percent majority, respectively--outpacing white support. The minorities themselves apparently disagree with the critics of the proposals. Finally, the legislation before Congress explicitly bars using tuition tax credits at institutions that discriminate. In fact, of the Senate bill's 28 pages, 20 impose safeguards against discrimination.

Cost: Opponents argue that at a time of huge federal deficits, it would be unwise to spend federal money to help support private schools. This complaint ignores the fact that students in private schools save taxpayers over \$12 billion by not being in public schools. There are over five million students enrolled in private schools across the country; their parents continue to pay state and local taxes for public schools even though their children do not attend them. Since it now costs, on average, over \$2500 to educate one child in the public school, the five million youngsters in private schools are saving the taxpayers over \$12 billion a year. Even if all five million children in private schools received the maximum \$300 tax credit, the tax loss would only be \$1.5 billion. And because families with incomes above \$50,000 could not receive tuition tax credits, the loss to the Treasury would be even less. For each public school student that transfers to a private school, the "cost" to the Treasury is only \$300 a year, at most, while the saving to the public school system could be many times that figure--money which could be spent on the remaining students.

Regulation: A number of private schools are cool to the idea of tuition tax credits, fearing that a host of federal regulations would follow. Private schools have been largely left alone by the government, and naturally would like to stay that way. But since the tuition tax credits would be given to individuals, not institutions, the regulation of each private school should be left to the parents--other than for the rules applying to any tax-exempt institution. Obviously parents place their children in a private school for a reason, and would not allow their child to remain in a school that was not performing to their satisfaction. Nevertheless, any tuition tax credit legislation should contain provisions that would prevent unnecessary intervention in the affairs of the private schools by federal agencies.

CONCLUSION

Many lower and middle class Americans have been shut out of the private education system because of its high direct cost

combined with the fact that they must still pay state and local school taxes for the public system. Tuition tax credits are an effective way of giving these citizens a real choice. While most parents undoubtedly would continue to choose to send their children to public schools, some would opt to place their children in private schools if costs were less prohibitive.

Parents who are able to send their children to private schools after using the credits will directly benefit from them. Tuition tax credits would give middle and low income Americans and their children an opportunity denied them for much too long. The indirect benefits are even greater. The competition between public and private schools would mostly help to reintroduce quality and effective standards back into the public system.

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