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Backdoor 'Neovouchers' Allow Wealthy to Profit off Public Funds for Schools

WASHINGTON—Ten U.S. states are blatantly circumventing public opposition or constitutional obstacles to publicly funded private school vouchers by allowing wealthy taxpayers to turn a profit on "charitable" contributions to private schools, a report released this week by the Institute on Taxation and Economic Policy reveals.

The ITEP report, "State Tax Subsidies for Private K-12 Education," examines tax policies in states that have used "neovouchers" or "backdoor vouchers" either to encourage donations to private school scholarship funds or to offset the cost of private school tuition. Of the 20 states reviewed, ITEP found that half make a mockery of charitable contributions by allowing tax filers to reap more from combined state and federal credits and deductions than they give.

The report's author notes the schemes are more akin to money laundering than philanthropy. Most or all of the money going to private schools is ultimately coming from state governments at no cost to the individual who "donated" those funds.

AFT President Randi Weingarten said: "A thriving public education system relies on public investment. That's why publicly funded vouchers pauperize schools; they drain cash away from public school districts, particularly those that serve disadvantaged kids who can least afford it.

"Now, ITEP has revealed that the so-called education tax credits are actually being used by the rich to profit from tax breaks and incentives generated by supposed charitable donations to private schools.

"ITEP found that in many states, including Pennsylvania and South Carolina, the wealthy can reap millions, while public schools continue to face deep cuts. This isn't a bug, it's a feature. And while it's not surprising that Donald Trump is championing tax credits as the centerpiece of his education agenda, it's another piece of evidence that he intends to decimate public schools.

“The ITEP report exposes the ugly truth hidden in plain view. It’s well past time that state legislatures stop lining the pockets of the rich for zero public benefit and restore funds to the struggling schools that need it most.”

ITEP shows that in Alabama, Arizona, Georgia, Louisiana, Montana, Oklahoma, Pennsylvania, Rhode Island, South Carolina and Virginia, state tax credits can be paired with federal charitable deductions to realize a profit.

For example, South Carolina grants taxpayers a dollar-for-dollar credit for donations made to certain nonprofit scholarship funding organizations. A dollar-for-dollar credit means the taxpayer is fully reimbursed for “donating” to the scholarship program.

But due to provisions in the U.S. tax code, South Carolinians who donate to state scholarship programs can also take a charitable deduction on their federal taxes if they itemize. Under the right circumstances, this dual benefit can generate up to $1.35 in tax cuts for every $1 donated to a scholarship fund, effectively offering a 35 percent risk-free rate of return, ITEP found.

See ITEP’s report for further details on how these schemes work.

Follow AFT President Randi Weingarten: http://twitter.com/rweingarten

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