Iowa Department of
REVENUE

Iowa's School Tuition Organization Tax Credit Tax Credits Program Evaluation Study

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Preface

Iowa Code Section 2.48 requires certain state agencies, including the Department of Revenue, to review a schedule of tax expenditures each year and file a report with the legislature. Each review is required to assess the tax expenditure's equity, simplicity, competitiveness, public purpose, adequacy, and extent of conformance with the original purpose of the enacting legislation. A review may also include recommendations for better aligning a tax expenditure with the original intent of the enacting legislation. The School Tuition Organization Tax Credit is scheduled for review in 2022.

As part of the evaluation, an advisory panel was convened to provide input and advice on the study's scope and analysis. We wish to thank the members of the panel:

Jean Black	North Central Iowa School Tuition Organization
Kassandra Cline	Iowa Department of Education
Dave Frisvold	University of Iowa
Jan Miller-Hook	Iowa Association of School Boards
Thomas Mayes	Iowa Department of Education
Jay Pennington	Iowa Department of Education
Trish Wilger	Iowa Alliance for Choice in Education

The assistance of an advisory panel implies no responsibility on the part of its members for the content and conclusions of the evaluation study. This study and other evaluations of Iowa tax credits can be found in the evaluation study web page on the Iowa Department of Revenue website.

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Executive Summary

A School Tuition Organization Tax Credit is available in Iowa, equal to 75.0 percent of the amount of a voluntary cash or noncash contribution made by a taxpayer to a School Tuition Organization (STO). The STO Tax Credit was enacted in 2006 in order to incentivize non-public contributions to fund tuition grants for low- and middle-income students in Iowa to attend accredited, nonpublic schools in the state.

This is the third evaluation of the School Tuition Organization Tax Credit. The major findings of the study are these:

Education Scholarship Tax Credit Programs Across the States

- Twenty-one states currently have 26 types of a scholarship tax credit program. Since the last evaluation of the Iowa STO tax credit, Utah, Ohio, and Arkansas have added new scholarship tax credit programs.

- As of the 2021 tax year, Indiana, Oklahoma, Kansas, and Virginia have lower credit rates than Iowa's 75.0 percent. Twelve states: Alabama, Arizona, Arkansas, Florida, Georgia, Louisiana, Montana, Nevada, Ohio, South Dakota, South Carolina, and Utah offer credit rates of 100.0 percent of qualifying contributions.

- Most states require that the scholarships generated by the contributions donated to STO programs go to low-income families. States that do not have these requirements often give priority to low-income families or specific populations, such as those with certain disabilities, special needs, or life circumstances. Income thresholds differ among states, but are almost always based on a percentage of the Federal Poverty Level (FPL) guidelines or the federal National School Lunch Program (NSLP) income eligibility guidelines.

Descriptive Statistics of Iowa STO Tax Credit Awards, Claims, and Recipients

- The STO Tax Credit cap has increased over time from $2.5 million in 2006 to $15.0 million in 2021. As of the 2022 tax year, which is still in progress, the program cap has been increased to $20.0 million.

- With the exception of 2016 when one of the STOs went inactive for a year, there have been 12 active school tuition organizations since 2010. The total number of students enrolled in schools that participate in the STO program has held relatively steady between 33,000 and 35,000 across approximately 139 schools.

- During award years of 2006 through 2021, $152.3 million in tax credits were awarded for $231.9 million in contributions. Preliminary numbers through tax year 2021 indicate that nearly $1.1 million of STO Tax Credits have expired during the course of the Program's existence, which means less than 1.0 percent of all tax credits awarded go unclaimed. With no cap on the award issued to any taxpayer, the largest tax credit issued is approximately $350,000 in 2021.

- On a student-weighted basis, average tuition among schools represented from STO provided data files has increased steadily since 2017, from $3,577 in that year to $4,596 in 2021. The average tuition grant has increased modestly, from $1,690 in

2018 to $1,763 in 2021.

- On average, between 2018 and 2021, tuition grants met between 49.0 percent and 42.0 percent of tuition costs facing tuition grant recipients. Students from families with annual income of less than $80,000 accounted for 83.0 percent of tuition grant recipients and 85.3 percent of financial aid needed.

Evaluation of the School Tuition Organization Tax Credit

- The net fiscal impact of the STO tax credit compares the reduction in State spending on public schools to the reduction in tax liability resulting from STO Tax Credit awards. It is calculated using the fiscal cost of the tax credit, the average cost to educate a student in a public school in the state, the number of tuition grant recipients, and the share of tuition grants given to students who would otherwise attend public schools.

- Assuming that 30.0 percent of tuition grants in any year are issued to students who otherwise would attend public school (the substitution rate), then $31.7 million in the 2021-2022 school year was saved by the State in lower public education expenditures. Given that the cost of the STO Tax Credit was $12.6 million, the net positive fiscal impact of the tuition grants in that year is estimated to equal $19.1 million.

- The breakeven substitution rate is the value of the substitution rate when the net fiscal impact of the STO Tax Credit is estimated to equal zero. In the 2021-22 school year, the breakeven substitution rate is estimated to have been 11.9 percent, meaning that the net fiscal cost of the tax credit was positive as long as it resulted in at least 11.9 percent of tuition grant recipients attending a nonpublic school.

I. Introduction

The purpose of this study is to analyze tax data and other pertinent information to evaluate the School Tuition Organization (STO) Tax Credit. This study will focus on its utilization, economic impact, equity, simplicity, competitiveness, adequacy, and extent of conformance with the original intent of its enacting legislation. This is the third evaluation of the STO Tax Credit.

The School Tuition Organization (STO) Tax Credit commenced on January 1, 2006, as defined in Iowa Code Section 422.11S. The credit was intended to incentivize private contributions to fund tuition grants for low- and middle-income students in Iowa to attend accredited, nonpublic schools in the State. Since its initial enactment, the program has been altered in various forms. The most significant program modifications have included student eligibility increasing from three times to four times the most recent Federal Poverty Level (FLP) guidelines published by the U.S. Department of Health and Human Services, raising the tax credit allowed from 65.0 percent to 75.0 percent of voluntary cash and non-cash contributions for eligible taxpayers, and the expansion from individual income claimants to include corporate, partnership, limited liability company, S corporation, estate, or trust claimants. In addition, there were several incremental annual Program tax certificate award cap increases starting from $2.5 million in CY 2006 to $20.0 million for CY 2022. (See Appendix 1. A Brief History of the Iowa's School Tuition Organization Tax Credit by Effective Date)

Section III of the study describes the Iowa School Tuition Organization Tax Credit and discusses similar tax credits in other states. Section IV provides a review of relevant research literature. Section V describes tuition grant recipients in terms of financial characteristics and geography, including family income and level of financial aid need-based on an analysis of student-level data provided by STOs. Further, it presents descriptive statistics regarding characteristics of STO operations, contributors, and tax credit utilization, including the timing of claims and the amount of credits carried forward each year. Section VI provides an economic analysis of the net fiscal impact of the STO Tax Credit, accounting for both its costs and fiscal impacts. The study is concluded in Section VII.

II. Tax Credit Programs for Education Scholarships in Iowa and the United States

Across the United States (U.S.), School Tuition Organizations (STO) are charitable organizations exempt from federal taxation under Section 501(c)(3) of the federal Internal Revenue Services (IRS) Code. These STO's provide scholarships to students in an amount up to but not exceeding the cost of tuition at a qualified non-public school. STOs must allocate at least 90.0 percent of their annual revenue for scholarships, should not limit the availability of scholarships to students from only one school, and must allow scholarship recipients to attend any qualified school of their parent's choice.

A. The Iowa School Tuition Organization Tax Credit

Iowa based-STOs must raise tuition grant funding for students who reside only in Iowa to allow them to enroll in an accredited, nonpublic, Iowa-based, elementary or secondary school of their parents' choice. It is a requirement that an STO represents more than one school, provides tuition grants to students without limiting availability to only students of one school, and annually allocates at least 90.0 percent of tuition grant funding raised to eligible

students to cover all or part of tuition. To be eligible for STO tuition grant funding, a student's family income must be no more than 400.0 percent of the Federal Poverty Level (FPL) guidelines from the U.S. Department of Health and Human Services. In 2022, 400.0 percent of the FPL was equal to $111,000 for a family of four. (See Table 2. 2022 Federal Poverty Guidelines)

An STO must initially register with the Iowa Department of Revenue (IDR), which includes providing verification of 501(c)(3) status, a list of schools the STO serves, and the names and addresses of the board of directors of the STO. Once the STO has registered, the STO is not required to subsequently re-register unless the schools it serves changes. A school can be represented by only one STO. How schools elect to be represented by one STO over another is based on a particular school's affiliations and preferences, not geographic areas or any other base population service area requirements. Each school served by an STO must annually submit a participation form to the IDR by November 1 that provides the school's certified enrollment as of October 1 and the STO that represents the school. Additional performance monitoring requirements are reported to the IDR by January 12 of each year. (See Tables 1A and 1B Allocation of Tax Credits to STOs by Year)

The STO Tax Credit is available for corporation income tax, individual income tax, or the pro rata share of an individual's earnings for a partnership, limited liability company, S corporation, estate, or trust electing to have the income taxed directly to the individual for 75.0 percent of the amount of a voluntary cash or noncash contribution[1] made by a taxpayer to an STO to reduce a taxpayer's Iowa tax liability. The contribution cannot be used for the direct benefit of any dependent of the taxpayer or any other student designated by the taxpayer.

This tax credit is nonrefundable and non-transferable. If a taxpayer does not have any Iowa tax liability (or enough to fully utilize the credit) any remaining credit can be carried forward for up to five future tax years or until depleted within that timeframe, whichever is the earlier. Non-residents and part-year residents of Iowa can be awarded credits, but the tax credit claim must be prorated based on the ratio of Iowa-source income divided by total income. For example, if a nonresident is awarded a $650 STO Tax Credit based on an $867 donation to an STO, but Iowa-source income comprises 10.0 percent of total income, the claim is limited to $65. In order for a taxpayer to claim the credit, a tax credit certificate issued by the STO to which the contribution was made must be included with the person's tax return.

B. Education Scholarship Tax Credit Programs in Other States

In total, 21 states currently have 26 types of scholarship tax credit programs with similar legal structures and authorities as the Iowa STO tax credit. (See Table 3. STO Programs in Other States Comparison) Of these states, the program in place the longest is the Individual Income School Tuition Organization Tax Credit in Arizona, which was enacted in 1997. Since the last evaluation of the Iowa STO tax credit, Utah (Special Needs Opportunity Scholarship Program, 2020), Ohio (Tax Credit Scholarship Program, 2021), and Arkansas (Philanthropic Investment in Arkansas Kids Scholarship Program, 2021) have added scholarship tax credit programs.

[1] Pursuant to administrative rules, the value of a non-cash contribution is appraised by the IDR Director.

The largest STO tax credit program currently available is Florida's Tax Credit Scholarship Program. The program cap was $873.6 million in state fiscal year 2021. The credit is equal to 100.0 percent of the eligible contribution. Unlike most states, where credits can only be taken against corporate and/or individual income taxes, Florida allows credits to be claimed against the corporate income tax, insurance premium tax, oil and gas production tax and the liquor, wine, and malt beverage excise tax. Florida does not have an individual income tax. Similarly, Pennsylvania's Educational Improvement Tax Credit Program has a program cap of $175.0 million for state fiscal year 2021. Pennsylvania allows credits to be claimed against corporate net income tax, personal income tax for shareholders of S corporations or partnerships, capital stock franchise tax, bank and trust company shares tax, title insurance companies shares tax, insurance premiums tax, and mutual thrift institutions tax.

Arizona's Low-Income Corporate Income Tax Credit Scholarship Program has the third largest program cap, but is only claimed against corporate income tax. Outside of these three states, scholarship tax credit programs more commonly have program caps ranging from none to $1.5 million to $30.0 million a fiscal year. Claims are almost exclusively against individual income tax, corporate income tax, and various other business-related tax liabilities.

With the exception of the scholarship tax credit program in Louisiana, all of the other state scholarship tax credits currently offered are nonrefundable. This means that the taxpayer must have tax liability in order to utilize the tax credit. Most of the states that have nonrefundable credits offer a carry forward that allows taxpayers to claim the balance of the tax credit in subsequent tax years. In most cases, states do not allow an eligible donation to also be taken as a charitable deduction. However, in Georgia, taxpayers can deduct any portion of their donation for which they did not receive a tax credit. Another common practice across states is that the taxpayer making the donation cannot designate which student receives a scholarship financed by their donation. There is an exception to this in Louisiana if the designated student is disabled. Most states also require that a minimum percentage of donations received be distributed as scholarships. That percent varies, usually between 90.0 and 95.0 percent.

As of the 2021 tax year, Indiana, Oklahoma, Kansas, and Virginia have lower credit rates than Iowa's 75.0 percent rate. Kansas's rate is 70.0 percent, Virginia's rate is 65.0 percent, and Indiana's rate is 50.0 percent of qualifying contributions. Oklahoma's rate is also 50.0 percent, but it can be increased to 75.0 percent if the taxpayer commits to the same donation amount for two consecutive years. Illinois, Pennsylvania, and Rhode Island have the same tax credit rate as Iowa's 75.0 percent, but with additional stipulations. For example, in Illinois, any amount of the scholarship tax credit claimed cannot exceed $1.0 million per taxpayer, per year. In Rhode Island and Pennsylvania, the scholarship tax credit is equal to 75.0 percent of the qualified contributions, but 90.0 percent if the taxpayer commits to donate for two consecutive years. Donors for both states are limited to only a total number of tax credits each year, with $100,000 in Rhode Island and $750,000 in Pennsylvania.

Twelve states: Alabama, Arizona, Arkansas, Florida, Georgia, Louisiana, Montana, Nevada, Ohio, South Dakota, South Carolina, and Utah offer credit rates of 100.0 percent

of qualifying contributions. However, some of those states also have other ways of limiting the fiscal impact of their tax credit. For example, in Arizona the maximum qualifying donation is $1,221 per tax scholarship tax credit program. In Alabama the credit cannot reduce the taxpayer's tax liability by more than 50.0 percent and individuals are limited to $50,000 in tax credits per year. In South Carolina, the taxpayer can only claim the tax credit up to 60.0 percent of their tax liability. In states that have no scholarship tax credit cap, such as Ohio or certain Arizona programs, 100.0 percent of qualifying contributions can be claimed, but contributions have fiscal limits to meet eligibility requirements. For example, Ohio's Tax Credit Scholarship Program Credit is equal to 100.0 percent of the eligible contributions up to the $750 cap per taxpayer.

Most states require that the scholarships generated by STO contributions collected go to low-income families. States that do not have these requirements often give priority to low-income families or specific populations, such as those with certain disabilities, special needs, or life circumstances. Income thresholds differ among states, but are almost always based on a percentage of the FPL guidelines or the federal National School Lunch Program (NSLP) income eligibility guidelines. NSLP eligibility is 130.0 percent and 185.0 percent of the FPL guidelines. Only Pennsylvania has sent specific family income guidelines in code for families of that state.

C. Federal Tax Incentives

Contributions to STOs subsidize educational assistance to families other than those who directly receive the tax credit. Therefore, there is no federal tax incentive for these recipient families of the scholarship tax credit. In the last 25 years, there have been many presidential and congressional proposals to create a federal-level tax credit program for scholarship tax credits, but the closest related federal tax incentive for families is the federal Coverdell Education Savings Account 2001 expansion of the Education IRA component[2]. This program offers tax-free investment growth and tax-free withdrawals when funds are spent on K-12 expenses (*Huerta,* 2007). Most recently, the federal American Rescue Plan Act of 2021 allowed a refundable tax credit for eligible families help to pay for the care of eligible students and other dependents for public and non-public day-care and pre-school, but it is restricted to these pre-kindergarten programs.

For taxpayers who do not receive the benefits of a scholarship or tuition related tax credit, the greatest related federal incentive is outlined in a 2011 federal Internal Revenue Services (IRS) memo. This indicates that taxpayers can claim a federal charitable deduction for non-public school scholarship donations even when those donations are also subsidized with a state STO tax credit. A study by Davis (2016) explained, high-income taxpayers can use a scholarship donation as a total tax reduction that exceeds the original donation's size. For Iowa taxpayers, 25.0 percent of an STO donation (this means the original donation, not the tax credit amount awarded at the State level) is partially deductible as a charitable contribution on federal tax forms unless utilizing the IRA Rollover program. If an Iowa taxpayer does not itemize their taxes, a federal deduction cannot be claimed.

[2] A Coverdell Education Savings Account or Coverdell ESA* (formerly known as an Education IRA) is a custodial saving account used for paying educational expenses. Taxpayers may make nondeductible cash contributions of up to $2000 a year for each child under age 18 (or for a special needs beneficiary). Unlike a 529 plan, the sum in an education IRA must be distributed to a child if not used for college.

III. Literature Review

Research on school tuition organizations is part of a broader literature concerning public support for non-public education that can include tax-based assistance or voucher programs for higher education, elementary, and secondary schooling. Although tax credits for contributions to STOs are unique among policy approaches, the research on related areas of tax policy can help to inform the present study.

A. School Options

Dinerstein and Smith (2021) outline the schooling options for U.S. families, which include traditional public schools, home schooling, charter schools, and non-public schools. These authors note that these options have been increasingly exercised in the last ten years. These changes have been even more significant during the COVID-19 pandemic as many families managed daily K-12 education during and beyond the stay-at-home limitations imposed. In general, the school choice options shift across distinct education sectors that oscillate between non-public and public schools (p. 2). However, Trivitt and DeAngelis (2016), stress that, before a specific school market is selected by a family, parents in all states have a form of parental school choice by choosing a housing location in a local district or school zone. While this is true, in theory, many families' school choice based on location is significantly constrained by economic barriers, such as a parents' income and education. As Gottlob (2010) explains, higher-quality schools are frequently found in localities with higher housing prices. Thus, this form of school choice becomes unaffordable to many families. Especially in larger metropolitan areas, Ferreyra (2007) places emphasis on the choice families must make regarding costs between non-public and public-school options related to local districts that is built into choosing where one lives. He notes that, while public schools have no direct tuition, in areas where public schools have residence requirements, households must choose public schools and residences as bundles. This creates costs that are determined by housing prices and property taxes. Thus, to gain access to a preferred public school, households might choose to live in places they might not have selected in the absence of this bundling.

Currently, the State of Iowa allows for public school open enrollment. Open enrollment is a cost-free option by which parents or guardians residing in an Iowa district may request to enroll their students into another Iowa school district at any point in the year. The "resident district," which is where a student requesting enrollment in another district lives, must initially pay the "receiving district," or where a student wants to open enroll, the first initial year of enrollment transfer parents are responsible for transporting students open enrolled to another district. This applies to all students, including those with an individualized educational program (IEP). Requesting a change of school district does not guarantee the request will be granted. (Iowa State Board of Education, 2022)

B. Education Tax Credits and Student Participant Usage

According to Kafer (2009), the concept of school voucher programs first emerged in 1955 as a suggestion of Nobel Prize Economist Milton Friedman. Such programs are considered to be predecessors of current day state-level education tax credit programs, but with significant differences. As Davis (2016) explains, vouchers are meant to facilitate a form of non-public school scholarship, while education tax credits act as an offset for non-public school expenses (tuition or otherwise). As this evaluation pertains to education tax credits, emphasis is placed on the tax credit's structure and usage as outlined by Welner (2010).

This author stresses that the largest structural difference is the removal of direct funding related to a specific school or family from a state. Further, tax credit programs almost always have a low-income eligibility requirement in contrast to traditional education voucher programs. Thus, lower-income families are more likely to be the majority of families electing to use this tax credit to switch to non-public schools. As he explains, for families that can afford and want a non-public K-12 education, the choice has already been made to take on the expense. In a traditional voucher policy option, they will just receive the tuition scholarship as an added bonus. However, for a lower income family wanting to choose a non-public school, a low to mid-income eligibility-based education tax credit policy option only sees a shift in the school choice for those that would not be able to afford non-public school without a scholarship, and therefore, would attend public school in absence of the program.

Figlio, Hart, & Metzger (2010) have observed that education scholarship tax credit grant recipients use scholarships at a wide variety of non-public schools with religious, non-religious, and other philosophical or structural emphasis. Further, they generally find students of various races and ethnicities choose schools that have a higher level of white students than any other specific ethnicity. They do note that, it is not clear if this is due to a school's admission selection patterns or a family's personal choice (p. 16).

As discussed above, because the majority of education scholarship tax credit programs have income eligibility requirements, student participants are more economically disadvantaged than their peers. This was demonstrated by a survey data from the authors' which revealed the majority of participants qualified for free or reduced lunch through the federal National School Lunch Program (NSLP) (p. 5). Murnane & Reardon (2018) observed these above conclusions are part of larger national non-public school admissions trends. There has been a decline in middle-income families attending non-public schools since 1968, while being supplanted by lower income and high-income students. They cited the trend as a possibility due to higher income families residing in metropolitan areas where more non-public schools exist and programs, such as an education scholarship tax policy discussed here and other non-public and public financial aid measures, to assist lower-income families in subsidizing the expenses of non-public education. Gottlob (2010) built upon these theories by observing higher-income families are less price sensitive to non-public tuition and suggests that, in the absence of income-eligibility requirements for financial assistance programs and policies, non-public schools would be predominantly populated by only students from high-income families.

IV. Descriptive Statistics of Iowa STO Tax Credit Awards, Claims, and Recipients

A. School Tuition Organization Tax Credit Awards

The STO Tax Credit cap has increased over time from $2.5 million in 2006 to $15.0 million in 2021. As of the 2022 tax year, which is still in progress, the program cap has been increased to $20.0 million. With the exception of 2016, when one of the STOs went inactive for a year, there have been 12 active STOs since 2010. The total number of students enrolled in schools that participate in the STO program has held relatively steady between 33,000 and 35,000 a year. On average, the smallest STO has covered just over 100 students in almost every year and the largest STO has covered approximately 10,000 students each year. (See Table 4. Enrollment and School Tuition Organization Tax Credit Statistics by Program Year)

Since 2010, when the number of STOs increased to 12, the number of schools covered by STOs has been approximately 139 schools across Iowa. (See Table 5. School Tuition Organization Enrollment and Tuition Grant Statistics by Program Year) In that same period, the number of tuition grants issued each year has grown from an average of 10,600 in 2011 to approximately 13,000 in 2021. (See Table 6. Tuition Grant Awards 2006-2021) There is a one-year lag between when the program cap is increased and when an increase is seen in the amount of tuition grants issued. This is due to the timing of when contributions are made versus the timing of when tuition grants are issued. For example, contributions that were received during the 2019 calendar year were used for tuition grants issued for the 2020-2021 school year. (See Table 6. Tuition Grant Awards 2006-2021)

During award years of 2006 through 2021, $152.3 million in tax credits were awarded for $231.9 million in contributions. (See Table 6. Tuition Grant Awards 2006-2021) With no cap on the award issued to any taxpayer, the largest tax credit issued was approximately $350,000 in 2021. However, the Program also generates small donations, with the most recent smallest award of just $3 for a $5 donation in 2017. In 2006, when the tax credit cap was $2.5 million, there were 1,125 tax credit awards issued. The most STO Tax Credit awards were issued in 2021, when the number reached 3,367. After 2020, when the tax credit cap increased to $15.0 million, the average number of awards each year reached $4,455 in 2021. (See Table 7. STO Tax Credit Awards) These are not necessarily the number of individuals or households, but the number of tax credit certificates issued. It should be noted that contributions to the STO Tax Credit always increase to meet the program cap every year the cap is increased. Following a program cap increase year, contributions continue to meet the program cap limit amount in ongoing years.

An individual or household can receive multiple tax credit certificates in a single year for several reasons. One reason is that some taxpayers choose to make several donations to one STO, which can generate multiple certificates. Some individuals also choose to donate to more than one STO, in which case each STO must issue the taxpayer a separate tax credit certificate. It is also possible that both spouses in a household make donations to one or more qualified STO and each spouse receives one or more tax credit certificate. In addition, it is possible that more donations are made than certificates issued because a taxpayer can make multiple donations throughout the year and the amounts of those donations can be aggregated on one certificate.

B. School Tuition Organization Tax Credit Awards

As the tax credit cap has increased, so have STO Tax Credit claims. In 2006, the first year of the program, tax credit claims were nearly $2.2 million dollars. In 2021, tax credit claims exceeded $10.4 million. Since the inception of the STO Tax Credit Program, over $137.5 million tax credits have been claimed to date. The nonrefundable tax credit can be carried forward for five additional tax years, but after that time, any unused tax credits expire. Preliminary numbers through tax year 2021 indicate that nearly $1.1 million of STO Tax Credits have expired during the course of the program's existence, which means less than 1.0 percent of all tax credits awarded go unclaimed. Further, as demonstrated by the low carryforward balance from year to year, the majority of tax credit awards are claimed in the first fiscal year following the award. (See Table 8. STO Tax Credit Claims by Tax Year)

C. School Tuition Organization Scholarship Grant Recipients

The following section describes tuition grant recipients in terms of financial characteristics including family income and level of financial aid needed based on an analysis of student-level data provided by STOs on a voluntary basis in response to a request by the Iowa Department of Revenue.

The Department requested information pertaining to tuition grant recipients for the following 12 data elements for school years 2017-2018 through 2021-2022: school year, grade attended, household zip code of residence, family income, household size, number of working parents in a household, school of attendance, school tuition, financial aid need, amount of tuition grant, if a recipient participated in the free or reduced lunch from the federal National School Lunch Program (NSLP)[3], if a recipient attended non-public school the previous year, and if a recipient received an STO scholarship grant the previous year.

Iowa Code does not require STOs to retain or report this information and, for non-respondent STOs, records pertaining to the requested information may not have been collected or available. For those submitting partial data elements, limited record keeping resources that align with the requested information formats and staffing limitations are often cited barriers to participation. Most respondent STOs provided data for the 2017 through 2021 school years and the analysis in this section concerns these years only.[4] Ten of the 12 STOs provided student-level information concerning one or more of the requested information, though not necessarily all, of these data elements. Of those ten STOs, one STO provided data for all requested information for all school years. Seven STOs provided data for the 2017-2018 school year, eight provided data for the 2019-2020 school year, and nine provided data for the 2018-2019, 2020-2021, and 2021-2022 school years. For these nine STOs, the data provided in each requested category within a school year varies between full, partial, or no data sets. Thus, the number of STOs for which data is available varies by year, with data from no more than four to ten STOs represented for any year's specific data set depending on that specific data set.

Therefore, this analysis is thus limited to only a portion of the tax credit's history, both with respect to the number of school years it covers and with respect to the share of total tuition grant recipients. Records represent no more than 79.7 percent to 86.6 percent of the total number of tuition grants issued for the 2017 through 2021 school years.[5] (See Table 9. Overview of Tuition Grant STO-Reported Student-Level Data File) In addition, some records have missing data for some variables; for example, the previous percentages regarding number of schools represent only those records for which school information is not missing.

Because the following analysis pertains to only a nonrandom share of the data underlying the total program, it may not be representative of the entire program. The analysis is undertaken with these limitations in mind.

[3] Note: Due to the COVID-19 pandemic, all public and private school students qualified for free lunches from the federal NSLP during the 2021-2022 school year without any income or other eligibility requirements.

[4] For this discussion, school year refers to the calendar year in which the school year begins. For example, the 2021 school year means the 2021-2022 school year.

[5] Schools are identified in the data file by name only. The number of schools represents the number of unique school names. Because more than one school can have the same name and because a single school might be listed under more than one (similar) name, the number of schools is only approximate.

- **STO Tuition Scholarship Grants:** On a student-weighted basis, average tuition among schools represented from STO provided data files has increased steadily since 2017, from $3,577 in that year to $4,596 in 2021. (See Table 10. Non-public School Tuition as Reported in Student-Level Data File by School Year) Tuition data reflects all school levels represented in the data, including tuition for pre-K, K-8, and high school as well as both regular and special education, if different, as reported by an STO. Trends in tuition, as with other variables in the analysis file, partly reflect the changing composition of the data from year to year. In addition, for some schools more than one value for full tuition is reported in a single year. As with all data in the file, tuition is reported on a student-by-student basis and it is not possible in all cases to determine the tuition and fee structure by grade for each school.

  The minimum value for tuition in the 2017-2018 school year was $450. Between 2018 and 2021, this varies by year, with the lowest being $134, but never exceeds $450. It is likely these minimum tuition amounts reflect only the tuition associated with attending only one class at the school. Conversely, the maximum tuition represented in the data file has ranged from $16,450 in 2017 to $11,044 in 2021.[6] This rise and fall largely reflects changes in the sample of students for whom data is reported rather dramatic fluctuations in the tuition charged by schools. (See Table 10. Non-public School Tuition as Reported in Student-Level Data File by School Year)

- **Financial Aid Needed:** The Iowa Code that established the STO Tax Credit includes neither regulations nor guidelines for the determination of financial aid needed among tuition grant applicants. Rather, procedures for calculating financial aid needs are determined by each STO. Since 2018, income of tuition grant recipient families has, on average, increased modestly. Correspondingly, tuition at schools participating in the STO program and financial aid needed among tuition grant recipients in the data analysis file has fairly steadily increased. The average need increased from $2,818 in the 2018 school year to $3,485 by 2021. (See Table 11. Income, Financial Aid Need, and Tuition Grant Amounts for Tuition Grant Recipients)

- **Amount of Tuition Grant:** Among recipients in the analysis data file, the average tuition grant has increased modestly, from $1,690 in 2018 to $1,763 in 2021. In 2021, the median tuition grant increased slightly to $1,594 from $1,563 in 2019, corresponding to the increase in the program tax credit award cap from $13.0 million to $15.0 million. Many students receive tuition grants of modest amounts, consistent with the low amounts of calculated need among some recipients noted above. (See Table 11. Non-public School Tuition as Reported in Student-Level Data File by School Year)

- **Percent of Need and Percent of Tuition Met by Tuition Grants:** Over time, as tuition grant amounts have increased, the percentage of need met by tuition grants has also increased. However, since 2018, the average share of need met by tuition grants decreased from 64.0 percent to 56.0 percent in 2021. The median percentage

[6] Tuition is self-reported by each STO. Tuition reported can include room and board when applicable. It can also vary between individual students due to grade discount, parishioner discounts, family size discounts, financial needs incorporated from non-STO sources, and other factors before arriving at what is due for any particular individual.

of need met has ranged from 70.0 percent, in 2018, to 53.0 percent in 2021. (See Table 11. Non-public School Tuition as Reported in Student-Level Data File by School Year)

For this study, tuition is understood to encompass the price of schooling that is presented to a student's family. That is, it could not include the full cost of schooling that might be subsidized by other sources, such as an affiliated parish or school foundation. Because need is defined as the gap between tuition and a family's calculated ability to pay it, need cannot exceed tuition. In general, tuition grant-recipient families are expected to contribute to the cost of schooling and tuition exceeds calculated need. On average, between 2018 and 2021, tuition grants met between 49.0 percent and 42.0 percent of tuition costs facing tuition grant recipients. (See Table 11. Non-public School Tuition as Reported in Student-Level Data File by School Year)

For the five-year period between 2017 and 2021, data pertinent to family income and financial aid need is available for 36,189 tuition grant recipients. For this period, students from families with annual income of less than $80,000 accounted for 83.0 percent of tuition grant recipients and 85.3 percent of financial aid needed. Financial aid needed was inversely correlated with family income, such that those students from lower income families accounted for a somewhat higher percentage of financial aid needed than their higher-income counterparts. More significantly, the distribution of tuition grant dollars was highly proportionate to financial aid needed. (See Table 12. Distribution of Tuition Grants and Financial Aid Need by Family Income, School Years 2017-18 through 2021-22 Combined)

- **Percent of Need Met, by Income Level:** The tuition grant data indicates that students with greater need levels receive tuition grants that address a higher percentage of need. Considering only those students with calculated need, during the period there were 1,438 students whose family income was reported as $0 or less. For students in this income group, tuition grants met 68.0 percent of aggregate financial need. In general, for the whole group of tuition grant recipients, as family income increases, the percentage of need met by tuition grants decreases. (See Table 13. Percent of Financial Aid Need Met by Tuition Grants, by Family Income, School Years 2017-18 through 2021-22 Combined)

- **Number and Amount of Tuition Grants by Poverty Level Grouping:** As noted above, STO Tax Credit tuition grants are limited to families whose income is no more than three times the most recently published FPL guidelines for 2017 to 2019 and four times for 2020 to present. The guidelines vary by family size; for 2022 they vary from $13,590 for a single person to $46,630 for a family of eight and increase by $4,720 for each additional person thereafter. (See Table 2. 2022 Poverty Guidelines) With information about family size, students can be grouped in terms of the ratio of their family income to the applicable poverty guideline.

  In 2018, 23.0 percent of tuition grants were made to students whose family income was below the FPL guideline. This amount changed from 17.0 to 20.0 between 2019 and 2021. This decrease corresponds with the significant increase in tuition grants

made to students whose family income was 300.0 percent or more than the FPL guidelines, from 5.0 percent in 2017 to 23.0 percent in 2021. The increase in this category is due to the financial need policy change that allowed students with a higher income to qualify for the tuition grant, which took place during the second half of the 2019-2020 school year. Similarly, between 2018 and 2021, those students with a family income between 100.0 to 200.0 percent of the FPL guideline and 200.0 percent and 300.0 percent of the FPL guideline declined as the new FPL guideline policy was implemented in the middle of 2019-2020 school year. Of these two groups, the most impacted was the 100.0 to 200.0 percent of the FPL guideline, whose share declined by 10.0 percentage points, 38.0 percent of tuition grants in 2018 to 28.0 percent of tuition grants in 2021. (See Figure 1. Share of Tuition Grants by Family Income Category for School Years)

Over the period evaluated, students from families with incomes below the poverty guideline and between one and two times the poverty guideline consistently account for the largest share of the dollar amount of tuition grants among the four groups. The percentage of tuition grant award dollars granted to these students ranged from a high of 67.0 percent in 2018 to 58.0 percent in the 2021 school years. Students from the lowest income group accounted for between 29.0 percent and 28.0 percent of tuition grant dollars while students from the highest income group received between 4.0 percent and 14.0 percent of tuition grant dollars. This latter group has experienced the same increase in tuition dollars as they have in the number of tuition grants received due to the previously discussed policy changes which increased the financial need threshold in the second half of the 2019-2020 school year. (See Figure 2. Share of Tuition Grant Dollars by Family Income Category for School Years)

- **Scholarship Tuition Grant Recipients Statewide Distribution:** As discussed in Section III, a school cannot be represented by more than one STO. How schools elect to be represented is based on a particular school's affiliations and preferences, not geographic areas or any other base population service area requirements. Therefore, while some STOs focus on schools in a particular region of the State, others may have a statewide presence based on various school locations. A school's location does not necessarily correspond to where an STO grant recipient family resides because STO schools do not have location-based admission requirements. However, it could be assumed that most STO grant recipient families would reside within a reasonable daily travel distance to a particular STO participating school if they are not also participating in room and board options when available.

  On a combined basis for reported home zip codes of STO grant recipient families available through STO provided data files for 2017-2021, the seven most populous home counties of STO grant recipient students corresponds with five of the most populous overall counties in the State with populations that range between 105,000 to 500,000 (Woodbury, Polk, Blackhawk, Linn, and Scott). The two remaining most populous home counties of STO students are located in Carroll County, population 20,200, and Dubuque County, population 97,350.[7] In general, reporting STO grant recipient families predominately live in the Northwest, Upper and central Middle, and East sides of the State. (See Figure 3. STO Grant Recipients Home Addresses

[7] Population estimates by county are rounded and based on the most recently available data from the federal U.S. Census Bureau.

School Years 2017-18 through 2021-22 Combined)

V. Evaluation of the School Tuition Organization Tax Credit

The evaluation of the STO Tax Credit addresses the question of what is the net fiscal impact of the STO tax credit. The analysis of the net fiscal impact of the STO Tax Credit assesses the fiscal benefit of the tax credit comparing its costs to its positive fiscal impacts. While this question is crucial to the analysis of any tax credit, the STO Tax Credit is particularly well-suited to analysis on these terms. This is because key metrics used in the analysis are either readily available or can be estimated in an informed and straightforward way. The fiscal impact of tax credits like the STO Tax Credit can be calculated on the basis of four data elements, as follows:

- cost of the tax credit
- the average cost to educate a student in a public school in the State
- the number of tuition grant recipients
- the share of tuition grants given to students who would otherwise attend a public school

The present study builds on this previous work, employing these data elements to evaluate the net fiscal impact of the STO Tax Credit. Data elements, their sources, and the calculation procedures used for this study are described below.

A. Cost of the Tax Credit

Information about the aggregate cost of the STO Tax Credit for each full year since its inception is provided in Section IV of this evaluation study. As noted in that section, there is a lag of one year between when qualifying contributions are made and when the tuition grants associated with those contributions are issued; contributions received during a given calendar year fund tuition grants issued for the school year beginning in the subsequent calendar year. For example, contributions received during calendar year 2020 are used for tuition grants issued for the 2021-2022 school year. For this analysis, the cost of the tax credit in a school year is the total amount of tax credit awards issued for the prior year.[8] The aggregate cost of the tax credit is less than the total amount of tuition grants awarded because the cost to the State is no more than a percentage of the tuition grant given the year it was granted. If tax credits expire before the taxpayers are able to claim them, this would lower the cost below the percentage tax credit rate.[9]

As initially noted in Table 5. Enrollment and School Tuition Organization Tax Credit Statistics by Program Year, the volume of tuition grants issued in each year has increased in nearly every year since 2007, paralleling increases in the program award cap. Based on tax credit Program information, the cost of the tax credit has ranged from $2.5 million in the 2007 school year to $15.0 million for the 2020 school year where it has stayed until the current 2022 school year (still in progress) when it was increased to $20.0 million.

The average tax credit award per tuition grant by school year factors in both the total cost of the tax credits as well as the number of tuition grant recipients. The average tax credit award per tuition grant is *not* equal to the average tuition grant amount discussed in Table

[8] This approach slightly overstates the cost of the tax credit because it does not exclude expired tax credits. Over the entire history of the program, about 3.0 percent of awarded credits expire each year.

[9] The impact of the tax credit on school district surtax revenues is not estimated here.

5. Enrollment and School Tuition Organization Tax Credit Statistics by Program Year because each tax credit dollar funds $1.60 of tuition grants.[10] This is because the tax credit rate is a percentage given the year it was granted. The average tax credit award per tuition grant is simply tax credit awards issued divided by the number of tuition grants. It is employed here because it more directly reflects the per-student cost to the State of providing tuition grants than average tuition grant amount.

As the total amount of tuition grants issued has increased, the number of tuition grants issued has remained steady; thus, the average tax credit issued per tuition grant has increased over time. In 2008, the average tax credit award per tuition grant was $567. The size of the average tax credit award per tuition grant surpassed $1,100 in 2015-16, when it reached $1,106, and then reduced to an average of $934 to $992 between the 2019-22 school years when the base of eligible students was expanded. (See Table 14. Estimated Net Fiscal Impact of the STO Tax Credit)

B. Estimated Cost Per Student in Public Schools

Whereas the previous subsection discusses the State's average cost per student associated with the STO tuition grants, this subsection is concerned with the average cost of educating each student in the public schools in Iowa. Note that both of these metrics concern costs borne by the State and by public school districts.

In the most general terms, the average cost of any kind of production effort is simply the total cost of production divided by the number of units produced; as applicable to public schooling, the average cost per student is the total cost of education averaged over the number of students in question. Marginal cost, by contrast, is the additional cost associated with a single additional unit of output at various levels of total output; in the case of public schooling, it is the change in total costs of education associated with a change in the number of students in the school system under consideration at a given level of enrollment. This project is concerned with the impact of the STO Tax Credit on public school enrollment and the effect of this change on the total cost of educating students in public schools in Iowa. For this analysis it is stipulated that average costs approximate marginal costs.[11]

In the Iowa school finance formula, Iowa law provides a mechanism for establishing public school funding levels.[12] The purposes of this formula include providing sufficient funding for education, equalizing both educational opportunity and taxation, and providing districts with as much control of spending as possible (Iowa Code Section 257). Importantly for the purposes of this analysis, the formula is also student-driven, with funding based on the number of students a district serves (Legislative Services Agency [LSA], 2022).[13] Spending is authorized on the basis of costs calculated on a per pupil basis; thus, the formula provides a suitable and straightforward point of reference for understanding educational costs per pupil in the state.

[10] Note: Tax credit rate as a percentage of tuition grant given in a year is calculated by averaging the five most recent years of the percent increase in tax credit award per tuition grant.

[11] Marginal cost=change in total education costs/change in enrollment. Marginal cost equals average cost when average cost does not rise or fall with a change in quantity produced.

[12] This discussion is based on information provided in the Iowa Legislative Services Agency (2014) Updated Issue Review School Finance Formula – Aid and Levy Worksheet: https://www.legis.iowa.gov/docs/publications/K12OI/402108.pdf

[13] Legislative Services Agency (2022). School Aid Presentation. Retrieved November 7, 2022, from https://www.legis.iowa.gov/publications/fiscal/k12/other

Under the school aid formula, the amount of spending authorized is termed the combined district cost. The formula grants maximum spending per student that cannot, in general, be exceeded except that districts may authorize an additional instructional support levy of up to an additional ten percent of the regular program district cost and adjustment. Thus, the combined district cost incorporates the State aid portion of per pupil costs as well as district-level sources. Sometimes referred to as the district's "controlled budget," the combined district cost is the basis of budgeting education costs at the district and State levels. It covers regular program costs, State categorical supplements for teacher salaries, professional development, and early intervention, as well as special education program costs, other school programs such as dropout prevention, and Area Education Agency programs (LSA, 2014).[14] In addition, the formula accounts for variations in aggregate property valuations and is designed to minimize funding differences across property-rich and property-poor districts; that is, its calculation of educational costs is neutral to districts' ability to pay. The combined district cost is funded from both State aid and school district levies. The State aid portion consists of approximately two-thirds of foundation formula funding.

Although the combined district cost per pupil varies somewhat across districts, it may not be less than the State cost per pupil plus categorical supplements. For this analysis, it is assumed that the per pupil cost of education in the State is equivalent to the regular program cost per pupil plus State categorical supplements. These include the categorical supplements for teacher compensation, professional development, and early intervention for all school years since the Program's start and the teacher leadership supplement beginning with the 2016 school year.[15] In 2021-22, this cost per pupil was $8,343. Table 14. Estimated Net Fiscal Impact of the STO Tax Credit presents the State cost per pupil for 2007 through 2022.

C. Number of Tuition Grant Recipients

As noted in Section VI, the number of tuition grant recipients has averaged about 10,500 12,675 between 2010 and 2021. Thus, this average has remained steady with slight increases as the program award cap increased over the same period. Rather than a dramatic increase in the number of tuition grants, the increased award cap and related increases in contributions led to an increase in the average tax credit award per tuition grant (as well as the average tuition grant).

Between 2007 and 2021, the average tax credit award per tuition grant increased from about $332 to approximately $1000. This upward trend, if not its exact magnitude, corresponds to the upward trend in the costs of education over this period. Because each student recipient of a tuition grant receives only one tuition grant, the number of tuition grants is equivalent to the number of students who receive tuition grants. During the five years between 2017 and 2022, the number of tuition grants has averaged 11,765. The number of tuition grants issued in a single year ranged from 10,752 in 2017 to 12,673 in 2021. (See Table 14. Estimated Net Fiscal Impact of the STO Tax Credit)

D. Substitution Rate

[14] Note: The combined district cost does not include the instructional support levy, miscellaneous income, nor any unspent balance.

[15] Information about State education costs per pupil is published by the Iowa Department of Management. Data for fiscal year 2022 is published at https://dom.iowa.gov/document/all-school-district-data-and-reports-fy2022

Central to the analysis of the fiscal impact of the STO Tax Credit is a measure of the extent to which it allows students who otherwise would attend public school to attend non-public school. While some tuition grant recipients would attend non-public school regardless, it is assumed that a percentage of students would not attend non-public school but for the tuition grant they receive. This percentage is referred to as the substitution rate.

Although numerous considerations factor into a decision to attend non-public school, the financial assistance provided by the tuition grant presumably results in some families switching from sending their students to free public school to non-public school. The percentage of tuition grant recipients who otherwise would attend public school is estimated from information about the financial need of tuition grant recipients. Because this analysis can use administrative data from students' family income, measured need, and the extent that the tuition grant meets students' financial need, the present study improves on previous studies.

During the 15 full years since the establishment of the STO Tax Credit, total enrollment at schools served by STOs has ranged from a low of 32,570 to a high of 35,082, varying overall during this period by just 7.0 percent. See Table 4. Enrollment and School Tuition Organization Tax Credit Statistics by Program Year. In the STO Tax Credit program's first full year, the number of students receiving tuition grants was 7,527; this number increased to 12,673 students in 2021

Section IV provides information about the family financial characteristics of tuition grant recipients. As noted there, among families that receive tuition grants, the average percentage of financial aid need met by tuition grants has ranged from 55.0 percent to 64.0 percent between 2018 and 2022. According to the 2022 Private School Review, the average Iowa family can expect to afford 9.1 percent of their annual income for non-public school tuition.[16] Based on data required for Table 12, for 35.0 percent of STO grant recipient families between 2018 and 2022, financial need represented 10.0 percent or more of annual income. Because need represents the full price of attendance for these students, it might be assumed that 35.0 percent of tuition grant recipients would attend public school in the absence of the tuition grant. For this analysis, a somewhat more cautious estimate of the substitution rate is employed; it is assumed that 30.0 percent of tuition grant recipients would have attended public school in the absence of the tuition grant. STOs have an incentive to identify need and to maximize the amount of aid allocated to those families who need it most and to minimize the amount of financial assistance allocated to those who do not. That is, STOs presumably seek to optimize assistance in terms the number of students for whom tuition grants are issued in order to maximize both school enrollment and met need.

E. Net Fiscal Impact

As described above, the net fiscal impact of the STO Tax Credit can be understood simply as the difference between the reduction in public education costs resulting from students receiving tuitions grants shifting to non-public schools and, the total amount of tax credit awards issued to finance the tuition grants. A net positive impact equates to a net fiscal savings to the State and a negative impact reflects a net fiscal cost. The formula can be expressed as follows:

[16] 2022-2023 Private School Review: https://www.privateschoolreview.com/tuition-stats/private-school-cost-by-state

Net Fiscal Impact = (**E** *x* **G** *x* **P**) - **C**

Where
E = per pupil cost of public education
G = total number of tuition grant recipients
P = estimated percentage of tuition grant recipients who otherwise would attend public school (i.e., *substitution rate*)
C = cost of the tax credit (i.e., total awards)

Following the pervious study of this tax credit's methodology, the reduction in public education costs can be calculated as the average cost to educate a student in a public school (E) times the total number of tuition grant recipients (G) times the percentage of tuition grant recipients who, without the tuition grant, would attend public school (P). Subtracting the cost of the tax credit from the result yields the estimated net fiscal impact of the tax credit. It is worth reiterating that costs to educate are average costs, not marginal costs.

The values for each of these elements are described above. For the 2021-22 school year, the average cost to educate a pupil in Iowa public schools was $8,343. With 12,673 tuition grants issued to students attending non-public schools in the state with the total tax credit awards of $12.6 million. As noted above, the substitution rate is assumed to be 30.0 percent; in other words, it is assumed that 30.0 percent of the number of tuition grants, or 3,802, were issued to students who otherwise would have attended public school. Given the average cost of educating a student in public schools, it is estimated that it would have cost the State (including both General Fund and district-level funds) $31.7 million to educate these students in Iowa public schools. According to this analysis, then, the net fiscal impact of the STO program equals the reduced expenditures associated with public education, $31.7 million, minus the cost of the tuition grants, $12.6 million, or the total STO Tax Credit awards issued. The net positive fiscal impact of the tuition grant in 2021-22 school year is thus estimated to equal $19.1 million. (See Table 14. Estimated Net Fiscal Impact of the STO Tax Credit.) It is important to note that this net positive fiscal impact is based on current year data that calculates an impact while holding behavior constant and does not acknowledge additional costs or savings that might occur at the local level and/or beyond the scope of this study at all government levels. Further, this net fiscal cost does not account for the long-term benefits/costs to the State of the gains/losses from non-public schooling compared to public schooling.

Estimates of the STO Tax Credit's fiscal impact for each year since 2007, the first full year of the tax credit's availability, are all positive, under the assumption of a 30.0 percent substitution rate. In the first year, the estimated net fiscal impact of the tax credit was $10.4 million. Over subsequent years, the estimated net fiscal impact rises and falls slightly as a result of the interplay between trends in the State cost per pupil and the average tax credit award per tuition grant; the estimated net fiscal impact rises with increases in the State cost per pupil, and ebbs when these are overtaken by increases in the average tax credit award per tuition grant. The estimated net fiscal impact increases in nine of the 15 fiscal years through 2021 when it reaches the $19.1 million level noted above. Under alternately provided assumptions provided in Table 15 and Table 16 of 40.0 percent and

20.0 percent substitution rates, net positive fiscal impact follow similar trends.

F. Breakeven Substitution Rate

The formula used to calculate the net fiscal impact can be rearranged to calculate a breakeven substitution rate. This is the value of the substitution rate when, all other factors of the equation held equal, the net fiscal impact of the STO Tax Credit is zero.

As described above, there were 12,637 tuition grant recipients in 2021. Given the State cost per pupil of $8,343 in that year, it would have cost $105.7 million to educate all of these students in the state's public schools. If the substitution rate were assumed to be 100.0 percent, wherein all tuition grant recipients would attend public school if not for the tuition grant, then the net fiscal impact of the tax credit program would equal that total less cost of the tax credits awards, a gain of $93.2 million.

While it is assumed that some tuition grant recipients would attend non-public school even if they did not receive the tuition grant, the exact percentage of recipients who would attend public school but for a tuition grant is unknown. Whereas the estimated fiscal impact described above is a useful approximation, the breakeven substitution rate provides a lower bound for the point at which the program can be said to be cost effective from a fiscal perspective.

For 2021, the breakeven substitution rate is that which would yield a reduction in costs to public education of $12.6 million such that the reduction would exactly equal the maximum cost of the STO Tax Credit for the 2021 program year such that the net fiscal impact of the tax credit would be zero. Mathematically, given the elements defined above, the breakeven substitution rate can be calculated by multiplying the number of tuition grants by the State cost per pupil and dividing the result by the total cost of the tax credit. The historical annual breakeven substitution rate was only 5.8 percent for 2007-08. Note that these calculations do not account for the expiration of any tax credits. For 2021-22, the breakeven substitution rate is 11.9 percent. See final column in Table 14. Estimated Net Fiscal Impact of the STO Tax Credit. This means that, given the assumptions outlined for this analysis, the net fiscal impact of the STO Tax Credit would be zero if the percentage of tuition grant recipients who would attend public school but for the tuition grant was only 11.9 percent, half of the rate estimated in the above analysis. The net fiscal impact would be negative—i.e., would result in a net loss to taxpayers—if the substitution rate were any lower than this percentage.

Over time, the breakeven substitution rate has paralleled trends in average tax credit award per tuition grant and State cost per pupil. The rate peaked at 15.5 percent in 2015-16, the year in which the tax credit program cap was first increased to $12.0 million. It fell in the subsequent year when the average tax credit award per tuition grant leveled off but the State cost per pupil increased.

VI. Conclusion

This evaluation study provides an overview and analysis of the STO Tax Credit. Enacted in 2006 to incentivize funding of tuition grants for students of low- and middle- income Iowa families to attend accredited schools in the state, the tax credit is equal to 65.0 to 75.0 percent given the year of the amount of a voluntary financial contribution to an STO.

Iowa is one of 21 states that offers some form of education scholarship tax credit. Since the program's beginning in 2006, $152.3 million in tax credits have been awarded on the basis of contributions of $231.9 million. Of awarded tax credits, $137.5 million has been claimed. The twelve STOs operating in the state in 2021 represented schools with total enrollment of 33,624.

This study provides a description of tuition grant recipients in terms of financial characteristics including family income and level of financial aid need. The percentage of tuition grant award dollars granted to students in families with income between 100.0 and 300.0 percent of the federal poverty guideline averaged 58.0 percent over the 2018-19 and 2021-22 school years. Students in families with income below poverty guidelines accounted for between 20.0 and 25.0 percent of tuition grant dollars while students in families with income between 200.0 and 300.0 percent of poverty guidelines (the program income limit) received 5.0 to 24.0 percent.

Following estimates in the literature, an analysis of the net fiscal impact of the STO Tax Credit suggests the program results in net gains for the State. For the most current year, the program is estimated to have resulted in a $19.1 million positive fiscal impact, under the assumption that 30.0 percent of tuition grant recipients would have otherwise attended public school. That rate is based on the observation that financial aid need represented 100.0 percent of the full cost of tuition for at least 30.0 percent of tuition grant recipients, tuition represented at least 10.0 percent of family income for 30.0 percent of recipient families, and tuition grants met at least 70.0 percent of the price of tuition for 30.0 percent of tuition grant recipients. The estimated net fiscal impact would be zero if the breakeven rate was only 11.9 percent that year.

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Iowa's School Tuition Organization Tax Credit Tax Credits Program Evaluation Study

Appendixes, Tables, and Figures

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Appendix 1. A Brief History of the Iowa's School Tuition Organization Tax Credit by Effective Date

January 1, 2006	The School Tuition Organization Tax Credit is first available retroactively for tax years beginning on or after January 1, 2006, due to the enactment of 2006 Senate File 2409 on June 2, 2006, for individual income taxpayers (Iowa Code 422.12) who make voluntary cash contributions to a qualifying School Tuition Organization (STO). An initial annual program tax certificate award cap of $2.5 million for 2006 and $5.0 million for 2007 is established.
January 1, 2007	2007 House File 923 allows for the School Tuition Organization Tax Credit to include voluntary non-cash contributions to a qualifying STO for individual income taxpayers.
January 1, 2008	2007 Senate File 601 increases the annual program tax certificate award cap from $5.0 million in 2007 to $7.5 million for each tax year beginning on or after January 1, 2008.
July 1, 2009	2009 Senate File 470 allows the School Tuition Organization Tax Credit to also be claimed for corporation income tax (Iowa Code 422.33). The maximum amount tax credits available for corporation income tax equals 25.0 percent of the tax credits allocated to each STO.
January 1, 2012	2011 Senate File 533 increases the annual program tax certificate award cap from $7.5 million for each tax year for 2008-2011 to $8.75 million for each tax year beginning on or after January 1, 2012.
January 1, 2013	2013 House File 625 allows the School Tuition Organization Tax Credit to also be claimed for the pro rata share of an individual's earnings for a partnership, limited liability company, S corporation, estate, or trust electing to have the income taxed directly to the individual.
January 1, 2014	2013 House File 625 increases the annual program tax certificate award cap from $8.75 million for each tax year for 2012 and 2013 to $12.0 million for each tax year beginning on or after January 1, 2014.
January 1, 2019	2018 Senate File 2417 changes the definition of an "eligible student" for the School Tuition Organization Tax Credit to mean a student who is a member of a household whose annual income does not exceed an amount equal to four times (previously three times) the most recent federal poverty guidelines published by the federal U.S. Department of Health and Human Services. It also increases the annual program tax certificate award cap from $12.0 million for each tax year for 2014-2018 to $13.0 million for each tax year beginning on or after January 1, 2019. **(Continued on the next page)**

January 1, 2020	2019 House File 779 increases the annual program tax certificate award cap from $13.0 million for 2019 to $15.0 million for each tax year beginning on or after January 1, 2020. Further, 2020 House File 2641 removes the 25.0 percent of the tax credits allocated to each STO limitation for School Tuition Organization Tax Credits claimed for corporation income tax.
January 1, 2021	2021 House File 847 raises the School Tuition Organization Tax Credit allowed from 65.0 percent to 75.0 percent of voluntary cash and non-cash contributions for eligible taxpayers.
January 1, 2022	2021 House File 847 increases the annual program tax certificate award cap from $15.0 million for 2020 and 2021 to $20.0 million for each tax year beginning on or after January 1, 2022.

Table 1A. Allocation of Tax Credits to School Tuition Organization by Year, 2012 - 2016

School Tuition Organization	Location	2012	2013	2014	2015	2016
Catholic Tuition Organization, Diocese of Des Moines	Des Moines	$1,536,068	$1,530,184	$2,091,898	$2,122,728	$2,095,921
Heart of Iowa STO	Des Moines	$519,683	$510,062	$689,506	$778,477	$773,823
Legacy of Grace STO	Pella	$255,663	$260,129	$365,795	$371,064	$384,043
Mississippi Valley STO	Davenport	$483,906	$495,421	$707,850	$721,612	$716,809
Monsignor Lafferty Tuition Foundation	Sioux City	$1,431,609	$1,443,649	$1,954,141	$1,979,125	$1,910,892
North Central Iowa STO	Fort Dodge	$26,376	$25,359	$38,126	$43,549	$44,464
Northwest Iowa Christian STO	Sioux Center	$631,977	$648,100	$894,524	$923,880	$979,292
Our Faith, Our Children, Our Future STO	Dubuque	$2,772,601	$2,727,300	$3,703,264	$3,561,634	$3,532,766
STO of Southeast Iowa	Clinton	$590,976	$557,120	$808,920	$789,275	$803,944
Iowa Lutheran STO	Waterloo	$365,867	$389,801	$530,528	$513,946	$534,648
Iowa Independent STO	Fairfield	$104,981	$127,058	$173,006	$146,842	$223,398
Independent School Association of Eastern Iowa STO	Cedar Rapids	$30,293	$35,817	$42,442	$47,868	$0
Total		$8,750,000	$8,750,000	$12,000,000	$12,000,000	$12,000,000
Percent Issued		100.0%	100.0%	99.3%	100.0%	100.0%
Total Issued		$8,749,999	$8,749,980	$11,914,395	$11,999,999	$12,000,001

Source: Iowa Department of Revenue Tax Credit Awards Database

Table 1B. Allocation of Tax Credits to School Tuition Organization by Year, 2017 - 2021

School Tuition Organization	Location	2017	2018	2019	2020	2021
Catholic Tuition Organization, Diocese of Des Moines	Des Moines	$2,036,636	$2,020,154	$2,201,182	$2,165,822	$2,577,679
Heart of Iowa STO	Des Moines	$861,939	$1,117,131	$897,205	$1,306,452	$1,615,137
Legacy of Grace STO	Pella	$386,618	$255,009	$202,733	$318,338	$309,948
Mississippi Valley STO	Davenport	$699,376	$696,028	$741,787	$860,693	$830,365
Monsignor Lafferty Tuition Foundation	Sioux City	$1,881,494	$1,866,153	$1,806,938	$1,998,372	$2,214,768
North Central Iowa STO	Fort Dodge	$37,814	$36,277	$42,510	$56,682	$52,963
Northwest Iowa Christian STO	Sioux Center	$992,343	$1,008,804	$1,127,501	$1,330,208	$1,376,574
Our Faith, Our Children, Our Future STO	Dubuque	$3,490,517	$3,431,061	$2,939,354	$2,954,241	$4,043,598
STO of Southeast Iowa	Clinton	$821,298	$814,819	$865,419	$998,549	$1,062,481
Iowa Lutheran STO	Waterloo	$531,511	$492,832	$330,632	$464,940	$611,145
Iowa Independent STO	Fairfield	$222,288	$171,803	$113,296	$93,681	$248,695
Independent School Association of Eastern Iowa STO	Cedar Rapids	$38,167	$36,989	$3,250	$28,647	$56,647
Total		$12,000,001	$11,947,060	$11,271,807	$12,576,625	$15,000,000
Percent Issued		100.0%	100.0%	100.0%	100.0%	100.0%
Total Issued		$12,000,206	$11,947,058	$11,271,807	$12,576,625	$15,000,000

Source: Iowa Department of Revenue Tax Credit Awards Database

Table 2. 2022 Federal Poverty Level Guidelines

Number of Persons in Family/ Household	2022 Poverty Guideline	2022 Poverty Guideline Multiplied by 4
1	$13,590	$54,360
2	$18,310	$73,240
3	$23,030	$92,120
4	$27,750	$111,000
5	$32,470	$129,880
6	$37,190	$148,760
7	$41,910	$167,640
8	$46,630	$186,520
9	$51,350	$205,400
10	$56,070	$224,280
For each additional person, add:	$4,720	$18,880

Source: U.S. Department of Health and Human Services, https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines

Table 3. Scholarship Tax Credit Programs in Other States as of June 1, 2022

State	Program	Enacted	Annual Program Cap	Amount of Tax Credit	Qualifying Tax Types	Refundable	Carry Forward	State Itemized Deduction	Income Limit	Grade Range
Alabama	Education Scholarship Program	2013	$30.0 million	100% of qualified contributions up to 50% of tax liability for both businesses and individuals, however individuals are limited to $50,000 per year.	Individual Income Tax Taxable C corporations, S corporations, LLCs, partnerships, and pass through entities	No	3 Years	No	100% x Fed Poverty Guildlines	K-12
Arizona	Individual Income School Tuition Organization Tax Credit	1997	None	100% up to $611 for single and head of household filers or $1,221 for joint filers in tax year 2017.	Individual Income Tax	No	5 Years	No	No	K-12
	Lexie's Law for Disabled and Displaced Students Tax Credit Scholarship Program	2009	$6.0 million	Credit is equal to 100% of the eligible contribution.	Corporate Income Tax	No	5 Years	No	No, but only for children with speical needs or in foster care	K-12
Arizona	Low-Income Corporate Income Tax Credit Scholarship Program	2006	$135.0 million	Credit is equal to 100% of the eligible contribution.	Corporate Income Tax	No	5 Years	No	Income equal to or below 185% x Fed free and reduced-price lunch program guidelines	K-12
Arizona	Switcher Individual Income School Tuition Organization Tax Credit*	2012	None	100% up to $608 for single and head of household filers or $1,214 for joint filers in tax year 2017.	Individual Income Tax	No	5 Years	No	No, but limited to only recent public school transfers	K-12

Table 3. (continued) Scholarship Tax Credit Programs in Other States as of June 1, 2022

State	Program	Enacted	Annual Program Cap	Amount of Tax Credit	Qualifying Tax Types	Refundable	Carry Forward	State Itemized Deduction	Income Limit	Grade Range
Arkansas	Philanthropic Investment in Arkansas Kids Scholarship Program	2021	$2.0 million	Credit is equal to 100% of the eligible contribution.	Individual & Corporate Income Tax	No	3 Years	No	200% x Fed Poverty Guildlines	K-8
Florida	Tax Credit Scholarship Program	2001	$873.6 million	Credit is equal to 100% of the eligible contribution.	Corporate Income Tax, Insurance Premium Tax, Oil and Gas Production Tax, and Liquor, Wine, and Malt Beverage Excise Tax	No	5 Years	No	375% x Fed Poverty Guildlines	K-12
	Hope Scholarship Program	2018	None	Credit is equal to 100% of the eligible contribution.	Purchasers of motor vehicles in FL may direct up to $105 per vehicle	No	No	No	No, but only for children who are victims of bullying	K-12
Georgia	Qualified Education Expense Tax Credit	2008	$100.0 million	100% up to $1,000 for single or head of household filers and $2,500 for married filing a joint return. The lesser of 75% of a corporation or trust's income tax liability or the actual amount donated.	Individual & Corporate Income Tax	No	5 Years	No, but can take deduction for any portion of a donation that does not receive a credit.	No	K-12
Illinois	Invest in Kids Program	2017	$75.0 million	Credit is equal to 75% of eligible contributions. Credits cannot exceed $1 million per taxpayer, per year.	Individual Income Tax and Corporate Income Tax	No	5 Years	No	300% x Fed Poverty Guildlines	K-12
Indiana	School Scholarship Tax Credit	2009	$17.5 million	Credit is equal to 50% of eligible contribution.	Individual Income Tax and Corporate Income Tax	No	No	No	Income equal to or below 300% x Fed free and reduced-price lunch program guidelines	K-12

Table 3. (continued) Scholarship Tax Credit Programs in Other States as of June 1, 2022

State	Program	Enacted	Annual Program Cap	Amount of Tax Credit	Qualifying Tax Types	Refundable	Carry Forward	State Itemized Deduction	Income Limit	Grade Range
Iowa	School Tuition Organization Tax Credit	2006	$15.0 million	Credit is equal to 75% of eligible contribution.	Individual Income Tax and Corporate Income Tax	No	5 Years	No	400% x Fed Poverty Guildlines	K-12
Kansas	Tax Credit for Low Income Students Scholarship Program	2014	$10.0 million	Credit is equal to 70% of eligible contribution with a $500,000 donor cap.	Corporate Income Tax	No	Until credits can be utilized	No	185% x Fed Poverty Guildlines	K-12
Louisiana	Tuition Donation Rebate Program	2012	None	Credit is equal to 100% of eligible contribution.	Individual Income Tax, Corporate Income Tax, and Franchise Tax	Yes	No	No	250% x Fed Poverty Guildlines	K-12
Montana	Tax Credits for Contributions to Student Scholarship Organizations	2015	$2.0 million	Credit is equal to 100% of eligible contribution up to $200,000 cap.	Individual & Corporate Income Tax	No	No	No	No	K-12
New Hampshire	Education Tax Credit Program	2012	$5.1 million	Credit is equal to 85% of eligible contribution. One taxpayer cannot receive more than 10% of the aggregate tax credits available.	Business Profits Tax and Business Enterprise Tax	No	No	No	300% x Fed Poverty Guildlines	K-12
Nevada	Educational Choice Scholarship Program	2015	$14.2 million	Credit is equal to 100% of the eligible contribution.	Modified Business Tax	No	No	No	300% x Fed Poverty Guildlines	K-12
Ohio	Tax Credit Scholarship Program	2021	None	Credit is equal to 100% of the eligible contribution to $750 cap.	Individual Income Tax	No	No	No	No, but priority is given to low income	K-12
Oklahoma	Oklahoma Equal Opportunity Education Scholarships	2011	$25.0 million	Credit is equal to 50% of eligible contribution (75% if the taxpayer commits to the same amount for two consecutive years). Up to $1,000 for single taxpayers, $2,000 for married couples, and $100,000 for corporations.	Individual Income Tax and Corporate Income Tax	No	3 Years	No	300% x Fed Poverty Guildlines	K-12

State	Program	Enacted	Annual Program Cap	Amount of Tax Credit	Qualifying Tax Types	Refundable	Carry Forward	State Itemized Deduction	Income Limit	Grade Range
Pennsylvania	Opportunity Scholarship Tax Credit Program	2012	$55.0 million	For donations to a Educational Opportunity Organization the credit is equal to 75% of qualified contribution (90% if the taxpayer commits to the same amount for two consecutive years). Credits per taxpayer are limited to $400,000 in the first year, $750,000 in the second year, and is eliminated after that.	Corporate Net Income Tax, Capital Stock Franchise Tax, Bank and Trust Company Shares Tax, Title Insurance Companies Shares Tax, Insurance Premiums Tax, and Mutual Thrift Institutions Tax, Personal Income Tax for shareholders of S corporations.	No	No	No	$96,676 plus $17,017 per child (higher for students with special needs)	K-12
Pennsylvania	Educational Improvement Tax Credit Program	2001	$175.0 Million	For donations to a Scholarship Organization or an Educational Improvement Organization the credit is equal to 75% of qualified contribution (90% if the taxpayer commits to the same amount for two consecutive years). Credit is limited to $750,000 each year per taxpayer, however, this cap will be lifted from October 1 through November 30 if credits go unclaimed.	Corporate Net Income Tax, Capital Stock Franchise Tax, Bank and Trust Company Shares Tax, Title Insurance Companies Shares Tax, Insurance Premiums Tax, and Mutual Thrift Institutions Tax, Personal Income Tax for shareholders of S corporations.	No	No	No	$96,676 plus $17,017 per child (higher for students with special needs)	K-12
Rhode Island	Tax Credits for Contributions to Scholarship Organizations	2006	$1.5 million	Credit is equal to 75% of the qualified contribution (90% if the taxpayer commits to donate for two consecutive years and the second year's donation is equal to at least 80% of the first year's donation). Donors are limited to $100,000 in tax credits each year.	Corporate Income Tax	No	No	No	250% x Fed Poverty Guildlines	K-12

Table 3. (continued) Scholarship Tax Credit Programs in Other States as of June 1, 2022

Table 3. (continued) Scholarship Tax Credit Programs in Other States as of June 1, 2022

State	Program	Enacted	Annual Program Cap	Amount of Tax Credit	Qualifying Tax Types	Refundable	Carry Forward	State Itemized Deduction	Income Limit	Grade Range
South Carolina	Educational Credit for Exceptional Needs Children	2013	$12.0 million	Credit is equal to 100% of eligible contributions, but taxpayer can only claim tax credits up to 60% of their tax liability.	Individual Income Tax and Corporate Income Tax	No	Yes	No	No	K-12
South Dakota	Partners in Education Tax Credit Program	2016	$2.0 million	The credit is equal to 100% of eligible contributions.	Insurance Premium Tax	No	No	No	150% x Fed Poverty Guildlines	K-12
Utah	Special Needs Opportunity Scholarship Program	2020	$5.9 million	The credit is equal to 100% of eligible contributions.	Individual Income Tax	No	No	No	No, but limited to children with special needs	K-12
Virginia	Education Improvement Scholarships Tax Credits Program	2012	$25.0 million	The credit is equal to 65% of eligible contributions. An individual must donate at least $500 and may not donate more than $125,000 per year. There is no limit on the size of business donations.	Individual Income Tax and Corporate Income Tax	No	5 Years	No	300% x Fed Poverty Guildlines	K-12

Sources: The Friedman Foundation for Educational Choice Web site: www.edchoice.org
Various state Revenue Web sites

*Cannot claim this credit without making the maximum donation to the original STO credit

Table 4. School Tuition Organization Enrollment Statistics by Program Year

Program Year	School Tuition Organization Program Award Cap	Number of Active School Tuition Organizations	Enrollment of Participating Schools	Smallest STO Enrollment	Largest STO Enrollment	Average STO Enrollment
2006	$2,500,000	9	33,230	147	12,238	3,692
2007	$5,000,000	10	34,697	141	12,007	3,470
2008	$7,500,000	11	35,082	120	11,693	3,189
2009	$7,500,000	11	34,537	119	11,353	3,140
2010	$7,500,000	12	33,987	105	10,991	2,832
2011	$7,500,000	12	33,563	110	10,666	2,797
2012	$8,750,000	12	33,506	101	10,617	2,792
2013	$8,750,000	12	33,469	97	10,432	2,789
2014	$12,000,000	12	33,363	106	10,296	2,780
2015	$12,000,000	12	33,342	121	9,896	2,779
2016	$12,000,000	11	33,465	124	9,852	3,042
2017	$12,000,000	12	33,956	107	9,877	2,830
2018	$12,000,000	12	34,275	100	9,362	2,856
2019	$13,000,000	12	33,078	96	9,193	2,757
2020	$15,000,000	12	32,570	115	8,780	2,714
2021	$15,000,000	12	33,624	127	8,841	2,802
Average			33,734	115	10,381	2,954

Source: Annual Reports from School Tuition Organizations

Table 5. Enrollment and School Tuition Organization Tax Credit Statistics by Program Year

Program Year	Number of Active School Tuition Organizations	Enrollment of STO Schools	Number of Schools Covered by STOs	Average Enrollment	Number of Tuition Grants Issued*	Amount of Tuition Grants Issued	Average Tuition Grant
2006	9	33,230	127	262	487	$296,867	$610
2007	10	34,697	137	253	7,527	$3,977,969	$528
2008	11	35,082	136	258	8,623	$7,369,576	$855
2009	11	34,537	136	254	9,411	$9,109,979	$968
2010	12	33,987	140	243	10,279	$10,938,484	$1,064
2011	12	33,563	140	240	10,600	$10,933,806	$1,031
2012	12	33,506	138	243	10,446	$11,326,286	$1,084
2013	12	33,469	138	243	10,388	$12,662,735	$1,219
2014	12	33,363	139	240	10,494	$13,505,269	$1,287
2015	12	33,342	140	238	10,848	$17,611,871	$1,624
2016	11	33,465	138	243	10,792	$17,120,251	$1,586
2017	12	33,956	144	236	10,752	$17,686,369	$1,645
2018	12	34,075	148	230	10,791	$17,413,350	$1,614
2019	12	33,078	143	231	12,538	$18,351,386	$1,464
2020	12	32,570	143	228	12,071	$17,657,157	$1,463
2021	12	33,624	143	235	12,673	$18,563,648	$1,465

* Only three school tuition organizations issued tuition grants in the 2006-2007 school year, most STOs waited until the second year of the program to start issuing tuition grants.

Source: Annual Reports from School Tuition Organizations

Table 6. Tuition Grant Awards 2006-2021

	Total					
	Scholarship Counts	Scholarships	Contributions	Credits	Number of Certificates Issued	90% Threshold
2006	487	$296,867	$3,846,436	$2,499,906	1,125	
2007	7,527	$3,977,969	$7,439,827	$4,873,876	1,850	103.4%
2008	8,699	$7,369,576	$9,539,022	$6,200,378	2,829	99.1%
2009	9,524	$9,109,979	$11,390,228	$7,402,023	3,161	95.5%
2010	10,222	$10,938,484	$11,538,122	$7,499,991	3,027	96.0%
2011	10,588	$10,933,806	$11,537,561	$7,499,415	2,834	94.8%
2012	10,471	$11,326,286	$13,461,567	$8,749,999	3,105	98.2%
2013	10,388	$12,662,735	$13,461,507	$8,749,980	2,996	94.1%
2014	10,494	$13,505,269	$18,458,723	$11,997,889	3,708	100.3%
2015	10,848	$17,611,871	$18,461,535	$11,999,999	3,396	95.4%
2016	10,792	$17,120,251	$18,461,534	$12,000,001	3,484	92.7%
2017	10,752	$17,686,369	$18,461,866	$12,000,206	3,054	95.8%
2018	10,791	$17,413,350	$18,380,090	$11,947,058	2,576	94.3%
2019	12,538	$18,351,386	$17,607,458	$11,271,807	3,291	99.8%
2020	12,071	$17,657,157	$19,573,018	$12,576,625	4,072	100.3%
2021	12,673	$18,563,648	$20,270,045	$15,000,000	3,367	94.8%
Overall Total	158,865	$204,525,003	$231,888,540	$152,269,152	47,875	
Overall Average	10,559	$13,615,209	$15,202,807	$9,984,616	2,992	

Source: Annual Reports from School Tuition Organizations

Table 7. School Tuition Organization Tax Credit Awards

Program Year	Total Contributions	Total Awards Issued	Number of Awards Issued	Smallest Award Issued	Largest Award Issued	Average Award Issued	Median Award Issued
2006	$3,846,436	$2,499,904	1,125	$13	$113,750	$2,222	$650
2007	$7,439,827	$4,886,880	1,850	$10	$97,500	$2,642	$650
2008	$9,538,522	$6,200,378	2,830	$12	$97,500	$2,191	$650
2009	$11,394,228	$7,402,023	3,160	$13	$124,865	$2,342	$650
2010	$11,538,862	$7,499,992	3,029	$5	$113,750	$2,476	$650
2011	$11,536,961	$7,499,413	2,835	$10	$325,000	$2,645	$650
2012	$13,461,567	$8,749,061	3,103	$3	$266,500	$2,820	$650
2013	$13,461,507	$8,749,980	2,996	$7	$260,000	$2,921	$650
2014	$18,329,839	$11,997,890	3,708	$7	$260,000	$3,236	$975
2015	$18,461,535	$12,000,000	3,396	$4	$130,000	$3,534	$975
2016	$18,461,534	$12,006,500	3,484	$7	$195,000	$3,446	$976
2017	$18,461,856	$12,000,206	3,054	$3	$260,000	$3,929	$1,300
2018	$18,380,089	$11,947,807	2,576	$7	$212,290	$4,638	$1,300
2019	$17,341,242	$11,271,807	3,289	$7	$213,308	$3,427	$975
2020	$19,573,018	$12,576,625	4,072	$9	$220,488	$3,089	$975
2021	$20,270,045	$15,000,000	3,367	$1	$342,727	$4,455	$1,500
Total	$231,497,069	$152,288,466	47,874				

Source: Iowa Department of Revenue CACTAS database

Table 8. School Tuition Organization Tax Credit Claims by Tax Year

Tax Year	Amount of Claims Carried Forward from Prior Year	Amount of New Tax Credits	Total Amount of Tax Credits Available	Amount of Tax Credits Claimed	Amount of Tax Credits Expired	Amount of Tax Credits Carried Forward to Next Tax Year
2006	$0	$2,462,998	$2,462,998	$2,225,442	$0	$255,631
2007	$241,877	$4,851,137	$5,093,014	$4,498,181	$0	$596,131
2008	$574,279	$6,118,398	$6,692,677	$5,631,723	$0	$1,068,358
2009	$1,018,055	$7,324,252	$8,342,307	$6,888,984	$0	$1,458,279
2010	$1,391,754	$7,460,163	$8,851,917	$7,263,222	$0	$1,590,968
2011	$1,533,560	$7,514,134	$9,047,694	$6,714,221	$10,007	$2,330,495
2012	$2,071,904	$8,709,958	$10,781,992	$8,437,169	$35,953	$2,316,716
2013	$2,183,578	$8,581,834	$10,765,412	$8,239,660	$63,606	$2,495,508
2014	$2,406,958	$11,835,424	$14,244,032	$11,247,049	$79,063	$2,946,855
2015	$2,223,028	$11,242,266	$13,464,186	$10,788,441	$141,375	$2,535,677
2016	$2,298,443	$11,306,007	$13,603,995	$10,717,803	$35,039	$2,849,270
2017	$3,146,850	$11,802,706	$14,948,148	$11,360,107	$157,840	$3,494,253
2018	$2,844,988	$11,475,549	$14,319,942	$10,897,647	$96,917	$3,397,001
2019	$3,198,990	$10,945,692	$14,146,578	$10,537,316	$113,264	$3,608,070
2020	$3,682,010	$11,871,457	$15,546,721	$11,574,362	$125,885	$4,148,501
2021	$3,082,704	$10,635,674	$13,698,490	$10,488,073	$256,193	$3,326,195
Total				$137,509,400	$1,115,142	

Source: Iowa Department of Revenue CACTAS database

Table 9. Overview of Tuition Grant STO-Reported Student-Level Data File

	Tax Credit Program Administrative Data			STO-Reported Student-Level Data				
School Year	Number of School Tuition Organizations	Number of Schools Covered by STOs	Number of Tuition Grants Issued	Number of STOs reporting Student-Level Data	Number of Schools	Number of Tuition Grants	Share of STO-Covered Schools in File	Share of Total Tuition Grants in File
2017-2018	12	144	10,752	7	101	8,567	70.1%	79.7%
2018-2019	12	148	10,791	9	112	9,127	75.7%	84.6%
2019-2020	12	143	12,538	8	107	10,477	74.8%	83.6%
2020-2021	12	143	12,071	9	110	10,302	76.9%	85.3%
2021-2022	12	143	12,673	9	123	10,972	86.0%	86.6%
Total			**58,825**			**49,445**		**84.1%**

Source: Iowa Department of Revenue analysis of School Tuition Organization data.

Table 10. Non-public School Tuition as Reported in Student-Level Data File by School Year

	School Year									
	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Tuition										
Average	$2,710	$2,871	$3,226	$3,307	$3,658	$3,577	$3,842	$3,981	$4,188	$4,596
Minimum	$591	$546	$295	$205	$226	$450	$450	$245	$134	$150
Maximum	$20,020	$15,900	$16,900	$18,700	$24,000	$16,450	$11,044	$11,044	$11,044	$11,044

Source: Iowa Department of Revenue analysis of School Tuition Organization data.
Note: Average tuition is calculated on a student-weighted basis; i.e., it represents the average among students in the file and not necessarily the average tuition price among represented schools. Further, tuition is self-reported by each STO. Tuition reported can include room and board. It can also vary between individual students due to grade discount, parishioner discounts, family size discounts, financial needs incorporated from non-STO sources, and other factors before arriving at what is due for any particular individual.

Table 11. Income, Financial Aid Need, and Tuition Grant Amounts for Tuition Grant Recipients

	School Year			
	2018-2019	2019-2020	2020-2021	2021-2022
Tuition Grant Recipients*	6,136	8,016	7,553	7,064
Family Income				
Average	$45,198	$51,975	$54,485	$53,224
Lower Quartile	$28,831	$31,312	$32,264	$29,602
Median	$46,068	$50,509	$52,652	$52,929
Upper Quartile	$66,571	$73,863	$77,186	$79,839
Financial Aid Need				
Average	$2,818	$3,225	$3,398	$3,485
Lower Quartile	$1,496	$1,856	$1,997	$1,975
Median	$2,437	$2,973	$3,174	$3,212
Upper Quartile	$3,749	$4,000	$4,287	$4,475
Amount of Tuition Grant				
Average	$1,690	$1,669	$1,712	$1,763
Lower Quartile	$970	$984	$920	$935
Median	$1,521	$1,563	$1,542	$1,594
Upper Quartile	$2,204	$2,129	$2,220	$2,331
Percent of Need Met by Tuition Grant				
Average	64%	58%	55%	56%
Lower Quartile	50%	40%	35%	38%
Median	70%	55%	50%	53%
Upper Quartile	86%	70%	70%	70%
Percent of Tuition Met by Tuition Grant				
Average	49%	44%	43%	42%
Lower Quartile	27%	24%	22%	22%
Median	50%	42%	41%	40%
Upper Quartile	69%	60%	60%	57%

Source: Iowa Department of Revenue analysis of School Tuition Organization data
* The data in this table concerns only those tuition grant recipients for whom STOs provided complete data regarding household income, financial aid need, and tuition grant amount.

Table 12. Distribution of Tuition Grants and Financial Aid Need by Family Income, School Years 2017-18 through 2021-22 Combined

Family Income Group	Number of Tuition Grants	Share of Tuition Grants	Financial Aid Need	Share of Financial Aid Need	Amount of Tuition Grant	Share of Tuition Grant Amount
$0 or less	1,438	4.0%	$4,784,232	4.1%	$3,240,145	5.1%
$1 - $19,999	4,354	12.0%	$15,423,004	13.3%	$9,718,480	15.3%
$20,000 - $39,999	8,670	24.0%	$30,710,953	26.4%	$17,897,538	28.2%
$40,000 - $59,999	8,880	24.5%	$29,097,526	25.0%	$15,930,943	25.1%
$60,000 - $79,999	6,702	18.5%	$19,139,317	16.5%	$9,633,546	15.2%
$80,000 - $99,999	4,128	11.4%	$11,377,091	9.8%	$5,059,315	8.0%
$100,000 - $119,999	1,565	4.3%	$4,380,224	3.8%	$1,611,506	2.5%
Greater than $120,000	452	1.2%	$1,322,141	1.1%	$426,650	0.7%
Total	**36,189**	**100.0%**	**$116,234,488**	**100.0%**	**$63,518,123**	**100.0%**

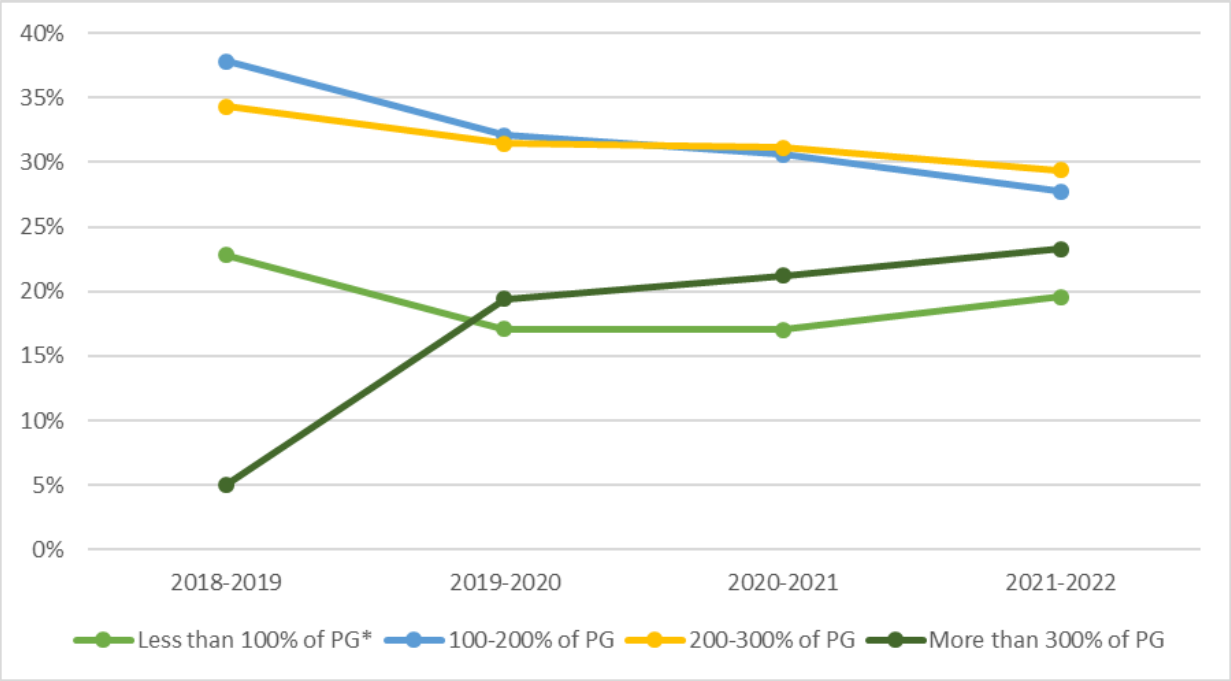
Source: Iowa Department of Revenue analysis of School Tuition Organization data.
Note: Income is expressed in current year (non-inflation-adjusted) dollars.

Table 13. Percent of Financial Aid Need Met by Tuition Grants, by Family Income, School Years 2017-18 through 2021-22 Combined

Family Income Group	Tuition Grants	Financial Aid Need	Amount of Tuition Grant	Percent of Need Met
$0 or less	1,438	$4,784,232	$3,240,145	68%
$1 - $19,999	4,354	$15,423,004	$9,718,480	63%
$20,000 - $39,999	8,670	$30,710,953	$17,897,538	58%
$40,000 - $59,999	8,880	$29,097,526	$15,930,943	55%
$60,000 - $79,999	6,702	$19,139,317	$9,633,546	50%
$80,000 - $99,999	4,128	$11,377,091	$5,059,315	44%
$100,000 - $119,999	1,565	$4,380,224	$1,611,506	37%
Greater than $120,000	452	$1,322,141	$426,650	32%
Total	**36,189**	**$116,234,488**	**$63,518,123**	**55%**

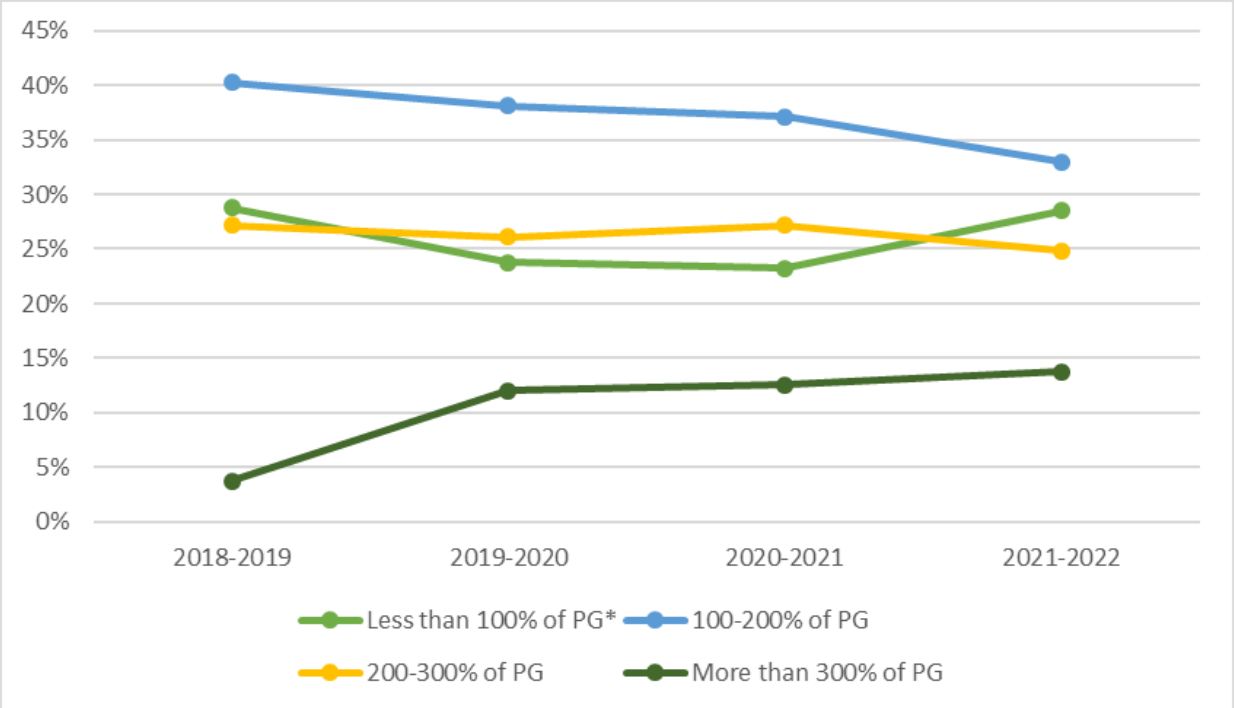
Source: Iowa Department of Revenue analysis of School Tuition Organization data.
Note: Income is expressed in current year (non-inflation-adjusted) dollars. The table excludes families who did not have full data reported for each data point.

Figure 1. Share of Tuition Grants by Family Income Category for School Years 2018-19 through 2021-22



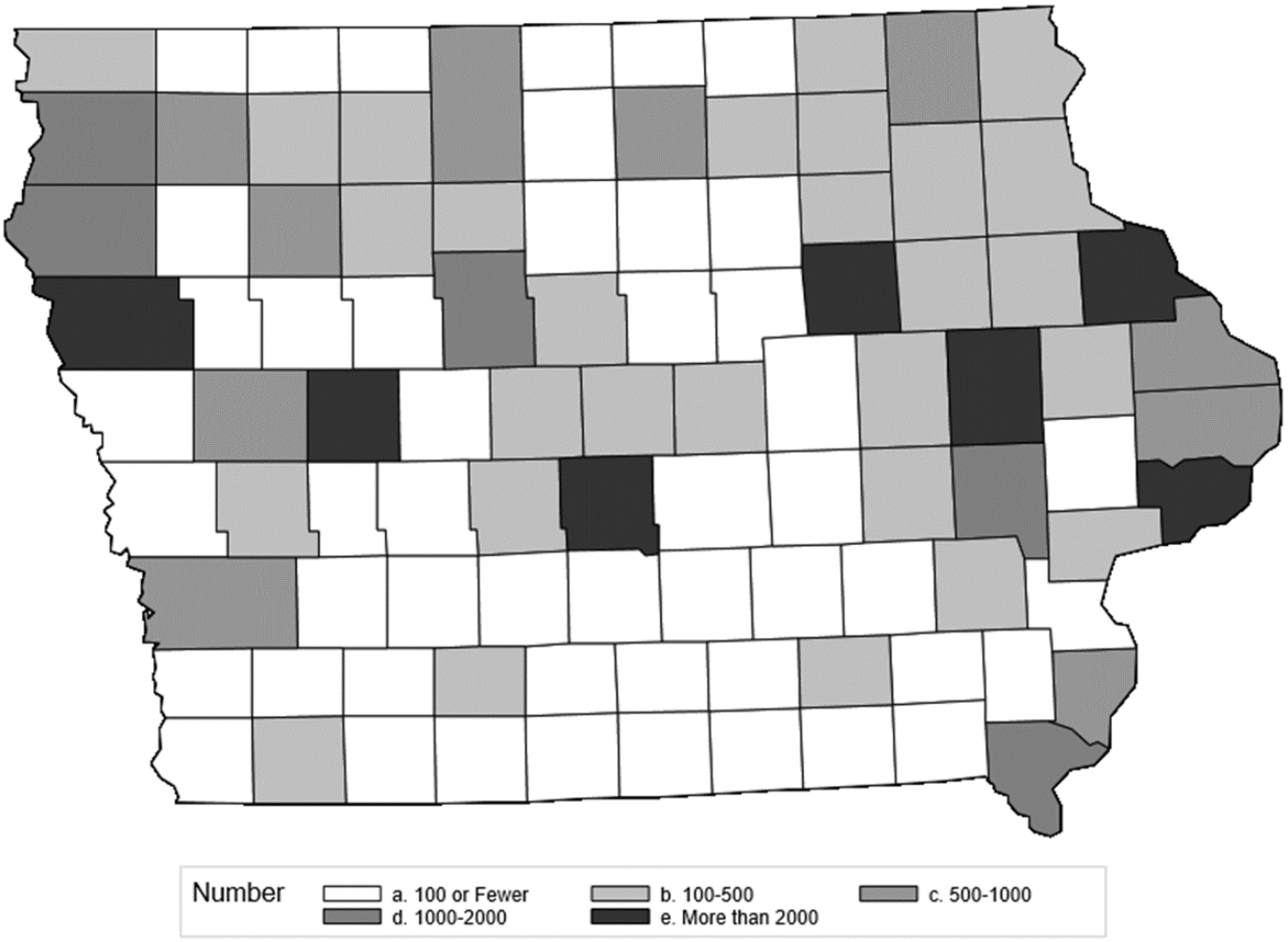
Source: Iowa Department of Revenue analysis of School Tuition Organization data
* PG stands for Poverty Guidelines

Figure 2. Share of Tuition Grant Dollars by Family Income Category for School Years 2018-19 through 2021-22



Source: Iowa Department of Revenue analysis of School Tuition Organization data
* PG stands for Poverty Guidelines

Figure 3. STO Grant Recipients Home Addresses School Years 2017-18 through 2021-22 Combined



Source: Iowa Department of Revenue analysis of School Tuition Organization data.
Note: “Number” represents STO data files for individual student zip code locations organized by county.

Table 14. Estimated Net Fiscal Impact of the STO Tax Credit; 30.0 Percent Substitution Rate

School Year	Cost of STO Tax Credit	Number of Tuition Grants	Average Tax Credit Award per Tuition Grant	Public Schooling Cost per Pupil*	Number of Tuition Grants x Public Schooling Cost per Pupil	Assumed Substitution Rate	Estimated Public School Cost Associated with Substitution	Estimated Net Fiscal Impact	Estimated Breakeven Substitution Rate
2007-08	$2,499,904	7,527	$332	$5,708	$42,962,310	30.0%	$12,888,693	$10,388,789	5.8%
2008-09	$4,886,880	8,623	$567	$6,074	$52,379,982	30.0%	$15,713,995	$10,827,115	9.3%
2009-10	$6,200,378	9,411	$659	$6,383	$60,067,590	30.0%	$18,020,277	$11,819,899	10.3%
2010-11	$7,402,023	10,279	$720	$6,510	$66,916,290	30.0%	$20,074,887	$12,672,864	11.1%
2011-12	$7,499,992	10,600	$708	$6,510	$69,006,000	30.0%	$20,701,800	$13,201,808	10.9%
2012-13	$7,499,413	10,446	$718	$6,641	$69,367,081	30.0%	$20,810,124	$13,310,711	10.8%
2013-14	$8,749,061	10,388	$842	$6,773	$70,361,352	30.0%	$21,108,406	$12,359,345	12.4%
2014-15	$8,749,980	10,494	$834	$7,044	$73,924,143	30.0%	$22,177,243	$13,427,263	11.8%
2015-16	$11,997,890	10,848	$1,106	$7,133	$77,377,808	30.0%	$23,213,342	$11,215,452	15.5%
2016-17	$12,000,000	10,771	$1,112	$7,613	$82,160,467	30.0%	$24,600,178	$12,600,178	14.6%
2017-18	$12,000,000	10,752	$1,116	$7,697	$82,762,767	30.0%	$24,828,830	$12,828,830	14.5%
2018-19	$12,000,001	10,791	$1,112	$7,780	$83,953,980	30.0%	$25,186,194	$13,186,193	14.3%
2019-20	$11,947,060	12,538	$953	$7,945	$99,614,410	30.0%	$29,884,323	$17,937,263	12.0%
2020-21	$11,271,807	12,071	$934	$8,138	$98,230,901	30.0%	$29,469,270	$18,197,463	11.5%
2021-22	$12,576,625	12,673	$992	$8,343	$105,730,839	30.0%	$31,719,252	$19,142,627	11.9%

Source: Iowa Department of Revenue analysis of School Tuition Organization data

* The public schooling cost per pupil is the regular program cost plus State categorical supplements.

Table 15. Estimated Net Fiscal Impact of the STO Tax Credit; 40.0 Percent Substitution Rate

School Year	Cost of STO Tax Credit	Number of Tuition Grants	Average Tax Credit Award per Tuition Grant	Public Schooling Cost per Pupil*	Number of Tuition Grants x Public Schooling Cost per Pupil	Assumed Substitution Rate	Estimated Public School Cost Associated with Substitution	Estimated Net Fiscal Impact
2007-08	$2,499,904	7,527	$332	$5,708	$42,962,310	40.0%	$17,184,924	$14,685,020
2008-09	$4,886,880	8,623	$567	$6,074	$52,379,982	40.0%	$20,951,993	$16,065,113
2009-10	$6,200,378	9,411	$659	$6,383	$60,067,590	40.0%	$24,027,036	$17,826,658
2010-11	$7,402,023	10,279	$720	$6,510	$66,916,290	40.0%	$26,766,516	$19,364,493
2011-12	$7,499,992	10,600	$708	$6,510	$69,006,000	40.0%	$27,602,400	$20,102,408
2012-13	$7,499,413	10,446	$718	$6,641	$69,367,081	40.0%	$27,746,832	$20,247,419
2013-14	$8,749,061	10,388	$842	$6,773	$70,361,352	40.0%	$28,144,541	$19,395,480
2014-15	$8,749,980	10,494	$834	$7,044	$73,924,143	40.0%	$29,569,657	$20,819,677
2015-16	$11,997,890	10,848	$1,106	$7,133	$77,377,808	40.0%	$30,951,123	$18,953,233
2016-17	$12,000,000	10,771	$1,112	$7,613	$82,160,467	40.0%	$32,800,237	$20,800,237
2017-18	$12,000,000	10,752	$1,116	$7,697	$82,762,767	40.0%	$33,105,107	$21,105,107
2018-19	$12,000,001	10,791	$1,112	$7,780	$83,953,980	40.0%	$33,581,592	$21,581,591
2019-20	$11,947,060	12,538	$953	$7,945	$99,614,410	40.0%	$39,845,764	$27,898,704
2020-21	$11,271,807	12,071	$934	$8,138	$98,230,901	40.0%	$39,292,360	$28,020,553
2021-22	$12,576,625	12,673	$992	$8,343	$105,730,839	40.0%	$42,292,336	$29,715,711

Source: Iowa Department of Revenue analysis of School Tuition Organization data

* The public schooling cost per pupil is the regular program cost plus State categorical supplements.

Table 16. Estimated Net Fiscal Impact of the STO Tax Credit; 20.0 Percent Substitution Rate

School Year	Cost of STO Tax Credit	Number of Tuition Grants	Average Tax Credit Award per Tuition Grant	Public Schooling Cost per Pupil*	Number of Tuition Grants x Public Schooling Cost per Pupil	Assumed Substitution Rate	Estimated Public School Cost Associated with Substitution	Estimated Net Fiscal Impact
2007-08	$2,499,904	7,527	$332	$5,708	$42,962,310	20.0%	$8,592,462	$6,092,558
2008-09	$4,886,880	8,623	$567	$6,074	$52,379,982	20.0%	$10,475,996	$5,589,116
2009-10	$6,200,378	9,411	$659	$6,383	$60,067,590	20.0%	$12,013,518	$5,813,140
2010-11	$7,402,023	10,279	$720	$6,510	$66,916,290	20.0%	$13,383,258	$5,981,235
2011-12	$7,499,992	10,600	$708	$6,510	$69,006,000	20.0%	$13,801,200	$6,301,208
2012-13	$7,499,413	10,446	$718	$6,641	$69,367,081	20.0%	$13,873,416	$6,374,003
2013-14	$8,749,061	10,388	$842	$6,773	$70,361,352	20.0%	$14,072,270	$5,323,209
2014-15	$8,749,980	10,494	$834	$7,044	$73,924,143	20.0%	$14,784,829	$6,034,849
2015-16	$11,997,890	10,848	$1,106	$7,133	$77,377,808	20.0%	$15,475,562	$3,477,672
2016-17	$12,000,000	10,771	$1,112	$7,613	$82,160,467	20.0%	$16,400,118	$4,400,118
2017-18	$12,000,000	10,752	$1,116	$7,697	$82,762,767	20.0%	$16,552,553	$4,552,553
2018-19	$12,000,001	10,791	$1,112	$7,780	$83,953,980	20.0%	$16,790,796	$4,790,795
2019-20	$11,947,060	12,538	$953	$7,945	$99,614,410	20.0%	$19,922,882	$7,975,822
2020-21	$11,271,807	12,071	$934	$8,138	$98,230,901	20.0%	$19,646,180	$8,374,373
2021-22	$12,576,625	12,673	$992	$8,343	$105,730,839	20.0%	$21,146,168	$8,569,543

Source: Iowa Department of Revenue analysis of School Tuition Organization data

* The public schooling cost per pupil is the regular program cost plus State categorical supplements.