

# Fiscal Services Division Legislative Services Agency Fiscal Note

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SF 2295 - Tuition Tax Credit (LSB 6013 SV)

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Fiscal Note Version - New

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## **Description**

Senate File 2295 creates a dollar-for-dollar tax credit of up to \$500 per single taxpayer and \$625 per married couple for donations to a School Tuition Organization. The School Tuition Organization is required to use the donations for student scholarships to attend a qualified nonpublic elementary or secondary school in Iowa. The Bill requires at least one-third of the contributed dollars to be used by the organizations for scholarships for persons who did not attend private school the prior year. The tax credit is not refundable, but unused portions may be carried forward to future tax years.

## **Background**

Senate File 2295 is identical in all relevant aspects to a program established in Arizona beginning tax year 1998. One change from the Arizona law requires at least one-third of the money be utilized by students who did not attend private school the previous year. The Arizona law does not have a percentage requirement. An extensive study by the Goldwater Institute released in December 2003 reviewed the first five years of the Arizona experience and presented projections for the future. This Fiscal Note is based on the Arizona history and projections as presented by that Study.

## **Assumptions**

1. Iowa's experience with the tax credit will be similar to that of Arizona, with adjustments for Assumptions 2 & 3.
2. Due to Iowa's smaller population base, Iowa contributions eligible for the tax credit will equal 80.0% of the Arizona level each year.
3. The Goldwater Study concluded 10.0% to 20.0% of Arizona scholarship recipients would have attended public school without the scholarship. The amendment requires that Iowa organizations average at least 33.0%.
4. The State School Aid savings due to a reduction in the number of public school students will equal 87.5% of the statewide average cost per student.
5. The School Aid portion of the average cost per public student in school year 2005/2006 (FY 2006) will be \$5,242.
6. The savings due to a student population reduction will occur one year after the student leaves the public school system.
7. The average cost per public school student and the average tuition scholarship will increase 2.5% per year.
8. The Bill will allow contributions to the Program as of the effective date. However, a tax credit would not be allowed until tax year 2006 and the tax credits claimed for previous contributions would still be limited to \$500/\$625 for that tax year.

## **Fiscal Impact**

The School Tuition Organization tax credit created in SF 2295 will reduce General Fund revenues and reduce General Fund expenditures. The net impact on the General Fund will result in a reduction of \$1.5 million in FY 2006 and a reduction of \$10.5 million for FY 2007.

After FY 2008, the projected net General Fund impact is projected to be positive. The following table provides a nine-year projection of the proposed credit.

**Private School Tuition Tax Credit**

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Tax Credits Claimed (\$ in millions)	\$ 1.5	\$ 11.0	\$ 14.1	\$ 19.9	\$ 21.0	\$ 22.1	\$ 23.2	\$ 23.9	\$ 24.3
Scholarship Funds (\$ in millions)	\$ 0.1	\$ 1.9	\$ 10.9	\$ 12.9	\$ 16.0	\$ 19.8	\$ 22.0	\$ 23.9	\$ 24.9
Average Scholarship	\$ 514	\$ 638	\$ 885	\$ 893	\$ 1,031	\$ 1,140	\$ 1,186	\$ 1,216	\$ 1,246
Scholarships Funded	261	2,981	12,302	14,446	15,498	17,411	18,549	19,615	20,013
Public Student Transfers	86	984	4,060	4,767	5,114	5,746	6,121	6,473	6,604
State School Aid Savings (\$ in millions)	\$ 0.0	\$ 0.5	\$ 5.4	\$ 22.9	\$ 27.6	\$ 30.3	\$ 34.9	\$ 38.1	\$ 41.3
Net GF Impact	<u>\$ -1.5</u>	<u>\$ -10.5</u>	<u>\$ -8.7</u>	<u>\$ 3.0</u>	<u>\$ 6.6</u>	<u>\$ 8.2</u>	<u>\$ 11.7</u>	<u>\$ 14.2</u>	<u>\$ 17.0</u>

Net General Fund (GF) impact equals the credits claimed in a year minus the school aid savings that year.

A tax credit that reduces the number of students in Iowa's public school system will also impact the local school finance system. How the changes impact the system will depend on the particular financial circumstances of the school districts losing students. Some of the financial considerations include:

1. A reduction in expenditures due to fewer students.
2. A reduction in local option income tax receipts due to reduced State income tax receipts. Use of the new tax credit by a taxpayer in a school district with a local option income tax will reduce the revenue raised by the local option tax.
3. A reduction in students in a particular district will cause a redistribution of local option sales tax revenues. Schools with reduced student populations will lose through the per-student tax distribution and those that do not lose students will gain.
4. A reduction in any federal funding distributed on a student population basis.
5. A reduction in State School Aid revenue to the public schools as provided above.

**Sources**

Goldwater Policy Report, December 11, 2003 (No. 186)  
Iowa Department of Education student and financial information

Dennis C Prouty

March 31, 2004

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

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