Expand Educational Choice with Tax Credit Scholarships

Background

In 2001, Pennsylvania enacted the Educational Improvement Tax Credit (EITC), allowing businesses to donate funds to provide scholarships to students attending K-12 private schools. A Pre-K scholarship component was added in 2004. In 2012, the Opportunity Scholarship Tax Credit (OSTC) was created, targeting students in the lowest-performing schools. Combined, these programs provided more than 55,000 scholarships in 2016-17.

Expansion is Urgently Needed

- The state currently caps tax credits at $172.5 million for contributions to scholarship organizations.

<table>
<thead>
<tr>
<th>Year</th>
<th>EITC K-12 Scholarships</th>
<th>Pre-K Scholarships</th>
<th>OSTC Scholarships</th>
<th>Total Scholarships</th>
<th>Scholarships Awarded</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-17</td>
<td>$75 million</td>
<td>$12.5 million</td>
<td>$50 million</td>
<td>$137.5 million</td>
<td>55,471</td>
</tr>
<tr>
<td>2017-18</td>
<td>$85 million</td>
<td>$12.5 million</td>
<td>$50 million</td>
<td>$147.5 million</td>
<td>N/A</td>
</tr>
<tr>
<td>2018-19</td>
<td>$110 million</td>
<td>$12.5 million</td>
<td>$50 million</td>
<td>$172.5 million</td>
<td>N/A</td>
</tr>
</tbody>
</table>

- In 2016-17, the most recent year with scholarship data available, 52,857 K-12 scholarship applications were denied—that’s 52 percent of all K-12 applications. While substantial, helping tens of thousands of students, the $25 million EITC increase in 2018-19 EITC falls far short of filling the demand for scholarships.
- In contrast, Florida utilizes an automatic escalator, which increases available tax credits by 25 percent whenever 90 percent of credits are used in a given year.
  - While Florida and Pennsylvania had similarly sized tax credit programs in 2011, Florida’s cap is now $874 million, and the program serves 100,000 students compared to Pennsylvania’s approximately 50,000.
- According to the latest estimates from DCED, businesses have applied for $180 million in EITC and OSTC tax credits beyond the current cap, meaning program funding could more than double to meet student demand. That includes $80 million for EITC K-12 scholarships and $60 million for OSTC.
Speaker Turzai Proposal Details

Speaker of the House Mike Turzai has introduced **HB 800**, along with a number of bipartisan cosponsors. The bill would:

- *Increase the tax credit cap for EITC K-12 scholarships by $100 million next year*. This would be the largest one-year increase in the program since its inception.
- *Enact an automatic annual escalator for the EITC K-12 scholarship cap*. Beginning July 1, 2019, the amount of available tax credits would increase by 10 percent if 90 percent of tax credits were used.
- *Raise the maximum family income eligibility by $10,000 (to a base of $95,000)*. This base family income is adjusted based on the number of dependent children. Scholarship recipients will be grandfathered in, ensuring those receiving scholarships will remain eligible even if their family income rises.

Sen. Regan Proposal Details

Senator Mike Regan has introduced **SB 299**, which would create an automatic escalator for both EITC and OSTC program caps. Beginning in 2019-20, the tax credits for each program would increase by 25 percent if 90 percent of the respective available credits were claimed the previous year.

Source: DCED update, as of January 2019
Commonwealth Foundation Recommendations

- Like Florida, Pennsylvania should have an escalator of 25 percent for scholarship tax credits.
  - Florida and Pennsylvania both enacted tax credit scholarships in 2001. The two states followed similar paths until 2011, when Florida adopted an automatic escalator that increases the tax credit cap by 25 percent when at least 90 percent of available credits are used the previous year.
  - Florida’s tax credit cap is now four times Pennsylvania’s.
Increase the amount available for the OSTC as well as EITC. The OSTC has not been increased since inception. Last year, 26,000 student applications for OSTC were denied. The latest updates show businesses on the wait list for OSTC tax credits wanted to donate more than $60 million, meaning the OSTC cap could double from $50 million to $100 million and still not meet current donation demand.

Tie OSTC eligibility to school districts rather than school boundaries for simplicity of implementation and consider expanding beyond the lowest-performing 15 percent.

Double the individual business tax credit limit from $750,000 to $1.5 million. Dozens of businesses donate the maximum. Raising the limit would allow more students to be served by EITC and OSTC scholarships.