



Written by [Bob Adelman](#) on April 6, 2015

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Tax-credit Private-school Scholarship Funding Explodes in Oklahoma

Many Oklahoma taxpayers are paying less in state income taxes, thanks to contributions made to scholarship granting organizations (SGOs) last year.

It's a new wrinkle, and many of those opening envelopes from the Oklahoma Tax Commission are in for a pleasant surprise. A single taxpayer contributing \$2,000 to an SGO last year will save \$1,000 in state income taxes. A couple contributing \$4,000 will save \$2,000. These are credits, not deductions, based on one-half the contribution. Translation: Every dollar of credit saves one dollar in state taxes.



For those able to give more — think successful small business owners, lawyers, accountants, physicians, software engineers, farmers, ranchers, and other business owners operating as regular C corporations — that letter in the mail this month could generate even greater excitement. The cap on contributions to SGOs for them is \$200,000, generating a nice \$100,000 “forgiveness” from the tax commission.

It gets better. Effective January 1 this year, business owners operating “pass-thru” or Subchapter S corporations will no longer be limited to \$4,000 but will be able, if they have the means and the desire, to contribute up to \$200,000, generating \$100,000 worth of tax credits.

It gets even better. If a high-income individual promises to give the same amount to an SGO for the next three years, he'll generate a 75-percent tax credit this year, followed by 50-percent credits in each of the next two years.

If a physician contributes \$35,000 to an SGO, and promises in writing to do the same next year and the year after, he'll enjoy a reduction in his Oklahoma state income tax this year of \$26,250, plus another \$17,500 in each of the next two years.

And finally, under federal income tax rules, SGO contributors can also deduct their contributions to an SGO as a charitable contribution, taking a nice bite out of their federal income tax liability as well.

Plus, a donor can choose which of Oklahoma's 66 private schools he would like to help, or he may just leave that decision up to any of the state's three SGOs currently facilitating the program.

Adding to Educational Choice

Oklahoma is just one of the latest states to jump on the SGO bandwagon. The movement, called “school choice,” began in the mind of free-market economist Milton Friedman, who, with his wife, Rose, established a foundation in 1996 to promote his vision of school choice for all children. Operating on a modest \$5 million annual budget, that foundation — now called the Friedman Foundation for



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Educational Choice — has moved some big mountains in the field of public education. Perhaps the most important was its persuasive amicus brief in the case *Zelman v. Simmons-Harris*, which was decided by the Supreme Court in 2002 and ruled that the state of Ohio's school voucher plan did not violate the Establishment Clause of the First Amendment to the U.S. Constitution. The fact that vouchers in that case were often used to allow students to attend schools with "a religious mission" didn't matter to the majority. As Chief Justice William Rehnquist noted:

The incidental advancement of a religious mission, or the perceived endorsement of a religious message, is reasonably attributable to the individual [student] and not [to] the government, whose role ends with the disbursement of benefits.

Of course in the case of vouchers, money is first extracted from taxpayers and then redistributed back to those students — often with strings attached — whereas with tax credits the money is contributed directly by the taxpayer to the scholarship granting organization of their choice without government interference or strings.

Add in some tax benefits, allow contributors to name the school they want to help, let the recipient be a private school giving the private schools every incentive to provide superior educational experiences, reduce the pressure on the state government to fund public education, and — voilà! — school choice backed by real dollars from private taxpayers was a formula that couldn't miss.

There's also the competitive aspect absent from public schools: Private schools participating in the program are free to encourage givers to take advantage of the program who then are invited to name the school as the beneficiary. The better the educational program offered by the school, the greater the chance it will be named that beneficiary.

Wilting Opposition

Once the financial impact of such a program was explored in detail, the opposition simply melted away. Thanks once again to the Friedman Foundation, in its groundbreaking study "The Fiscal Impact of Tax-Credit Scholarships in Oklahoma," it was learned that those tax-credit scholarships were vastly more effective in putting dollars where they would do the most good.

The big fear from those opposed was that local public schools would lose enrollment, with all manner of difficulties arising as a result, to say nothing about the decreased demand for public school teachers, most of whom belong to a teachers' union.

Not according to the Friedman Foundation:

Because much of their revenue does not vary with enrollment, school districts would retain much of the funding associated with students who use [tax-credit] scholarships to transfer from public to private schools.

The overall impact on public schools would be to *increase* the financial resources available per student. [Emphasis added.]

The underlying reason for this initially counterintuitive conclusion is the reality of state-funded public education. Said the Friedman Foundation:

Oklahoma data show that every dollar of increased state aid to schools only produces an additional 32 cents of additional school spending, because local governments respond to state spending increases by



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reducing local spending....

By contrast, for every dollar spent on a tax-credit scholarship program, 90 cents goes directly to a child's scholarship and education. [In other words], every dollar of tax-credit scholarships would cost the state of Oklahoma less than one dollar [in lost tax revenues].

That made it relatively easy for Oklahoma legislators to pass a law allowing tax-credit financing of scholarships for students attending private schools. Once in place, the program virtually exploded. Starting off modestly, in 2013 just 38 students were granted scholarship assistance at their schools with funds from the state's SGOs. The big push began late in 2014, resulting in 476 students getting scholarships. And backers are saying this is just scratching the surface.

Contributions have soared as well, with a reported \$800,000 raised for scholarships last year by the state's three SGOs. This means that the program has lots of room to run before it hits the "cap" of \$3.5 million in tax credits allowed by Oklahoma's program.

The program is also being helped along by overwhelming public support, even by families where at least one breadwinner works in public education! The Tarrance Group polled Republican voters in Oklahoma (deciding to focus on them as the Republican Party virtually controls the state legislature) and found, not surprisingly, "overwhelming support for all forms of parental choice in education." The question posed was this:

Do you favor or oppose educational choice, which is giving parents the right to use the tax dollars associated with the education of their children to send their children to the public or private school of their choice?

Three out of four supported educational choice, including a surprising 61 percent of those households that included at least one public-school employee. But Oklahoma's program can be improved, according to the Friedman group:

Oklahoma's tax-credit scholarship program could be one of the most generous in the nation because of the high income limit for eligibility [\$132,369 for a family of four]. However, the \$3.5 million cap on credits [could] severely restrict the number and amount of scholarships that can be awarded. If all scholarships awarded were \$5,000, only 700 students could participate [each year].

In a perfect world, families would pay directly for the education of their children, at the school of their choice. Oklahoma comes close: Tax credits fund scholarships to the most deserving and needy of the young people, while keeping government interference at a minimum. These programs are growing ever more popular across the nation. The ultimate goal should be to let the money follow the students to whatever school their parents want them to attend.

Tax-credit scholarship programs such as the one in Oklahoma are helping to move education to that ultimate destination. As those tax-credit notices from Oklahoma's Tax Commission show up in the mail, they will add to the momentum of a good idea where everyone wins.



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