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The Poverty of Preschool Promises
Saving Children and Money with the Early Education Tax Credit

by Adam B. Schaeffer

Executive Summary

The political momentum behind state-level preschool programs is tremendous, but existing proposals are often flawed and expensive. Preschool can provide small but statistically significant short-term gains for low-income children; however, these gains usually fade quickly in later grades. There is little evidence to support the belief that large-scale government preschool programs are effective, by themselves, in improving long-term student outcomes. Reform of the existing K–12 system should therefore remain the primary focus of those interested in sustainable improvement in student outcomes.

Given that many states have already instituted pre-K programs, or are committed to doing so, this paper proposes model early education legislation aimed at maximizing their chances for long-term success. The Early Education Tax Credit aims to sustain any potential preschool benefits and establish a solid academic foundation for later success. The program would improve the quality and efficiency of preschool options by harnessing market forces and would pay for itself by using savings generated from the migration of students from public to private schools in grades K–4.

The Early Education Tax Credit approach is unique in meeting the demands of activists for expanded access to high-quality preschool, meeting the needs of children and the preferences of their parents, and meeting the goal of increased educational freedom—all while keeping the budgetary impact low or positive.

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The growing popularity of state-run preschool programs rests on a remarkably thin foundation.

Introduction

Government preschool programs are widespread and expanding rapidly. A total of 38 states now fund preschool for more than 1 million children, most of whom attend government-run preschools.[1] More than 30 governors have called for additional preschool funding; Oklahoma, Georgia, and Florida now offer preschool for all four-year-olds; Illinois, New York, and West Virginia have multi-year plans to eventually offer preschool for all four-year-olds; and California, New Jersey, and Kansas, among others, have targeted preschool initiatives for low-income children. President Obama has declared his intention to "give all Americans a complete and competitive education from the cradle up through a career," devoting $5 billion of the American Recovery and Reinvestment Act to an expansion of Early Head Start, Head Start, and other early childhood initiatives, with a promise of more to come.[2] Funding at the state and federal levels is at an all-time high.[3]

The growing popularity of state-run preschool programs and the glowing portrayals of them by the media, politicians, and some policy institutes rest on a remarkably thin foundation. Most of the pro-preschool claims have their roots in just three major programs, none of which are still operating: the High/Scope Perry Preschool Project, the Carolina Abecedarian Project, and the Chicago Child-Parent Centers.[4] But the Chicago and Perry programs were drastically different from those that pre-school advocates promote. The Chicago and Perry programs involved intensive and full-family intervention rather than simply preschool. The Abecedarian project involved intensive, individualized educational and social intervention from infancy through year five. In contrast, more conventional preschool programs have shown some positive effects, but these have generally faded by middle school and been limited to low-income students. The next section discusses these and other concerns with conventional preschool proposals.

Although there is little reason to believe that conventional preschool programs can deliver on their advocates' promises, adoption of some sort of preschool program seems inevitable in many states. Given that reality, this paper proposes an early education tax credit program that would deliver preschool services in the context of a broader parental choice program capable of improving the early education options available to all families.

Preschool Is No Silver Bullet

Here is an education mystery that gets far too little attention: if proponents are correct that attending preschool dramatically improves the academic and social development of all children when they enter kindergarten and grade school, why don't we see higher graduation rates and test scores later on? Proponents claim that a dollar invested in early education returns anywhere from $2 to almost $14 to society.[5] If that's true, why haven't we already seen evidence of this return on the massive increase in preschool investment that has occurred over the past 20 years?

The answer is straightforward: proponents often base their claims on studies of high-intensity family intervention programs that look nothing like the preschool programs that have already passed and that are now being debated in legislatures around the country. In addition, quality preschool has generally been shown to improve the school readiness of only low-income children, and these effects usually fade quickly when the children enter the K–12 public education system.

Problematic Claims of Huge Preschool Returns

Three programs—the High/Scope Perry Preschool Project, the Carolina Abecedarian Project, and the Chicago Child-Parent Centers —provide the foundation for claims of huge preschool benefits and provide most of the weight behind the push for massive expansions in state-run preschool.[6] The Pew Charitable Trusts, for instance, is a leading advocate of universal preschool and provides substantial funds to many of the organizations researching preschool and lobbying for its expansion. Project directors at both the Pew Trusts and the Joyce Foundation "refer to the triumvirate of impact studies from Perry Preschool, Abecedarian, and the Chicago Child-Parent Center Program as very compelling for getting boards to support [universal preschool]."[7]

These studies do not provide reliable evidence that current and proposed large-scale preschool programs are cost-effective. However, since studies analyzing the effects of these three programs constitute the core of the preschool movement, it is worth carefully reviewing them before moving on to what should be a more prominent part of the preschool discussion: analyses of real-world, large-scale preschool programs.[8]

The Perry Preschool Project was an early-education intervention "experiment" initiated by researchers at the High/Scope Educational Research Foundation in 1962 and concluded in 1965. Project researchers analyzed the effect of home visits and preschool on outcomes for an unusual sample of 58 low-income children with IQs between 70 and 85 compared to a control group of 65 other children who did not attend the preschool program or receive home visits.[9]

Researchers concluded that the positive effects of the program on outcomes such as future earnings and crime rates far outweighed the costs, giving taxpayers a return of $7.16 for every dollar invested. However, there are a number of problems with the Perry Preschool Program and the associated analyses that render them unreliable and unsuitable for estimating the effects of the large-scale, conventional preschool programs currently under consideration in state legislatures:

- **Methodological problems:** Yale psychologist Edward Zigler, among others, notes that "the Perry Project poses a number of methodological difficulties" that call into question any conclusions about the effects of the program, positive or negative. Assignment to the preschool treatment and control groups was not completely random—an absolute requirement for an ostensibly randomized experiment. And the children in the preschool program had to have parents home during the day—a requirement "resulting in a significant difference between control and intervention groups on the variable of maternal employment" that also calls the project's results into question.[10]
- **Statistical lipstick:** Program researchers find statistically significant results primarily at the 90 percent confidence interval rather than at the more stringent 95 percent confidence level typically used in this kind of research. Researchers also "cherry-pick" by highlighting the small percentage of significant findings while largely ignoring the vast majority of null findings on an array of other dependent variables that were similar or even equivalent.[11]
- **More than preschool:** The program included *home visitations* in addition to preschool, making it impossible to determine whether the preschooling alone had significant positive effects.

The Abecedarian Project was an intensive early-intervention program begun in 1972 that placed 57 (out of 111) participating infants, who were on average 4.4 *months* old, "in an eight-hour-a-day, five-day-per-week, year-round educational day care center" where they "received free medical care, dietary supplements, and social service support for their families."[12] The project assigned one caregiver for every three infants, with the ratio increasing as the children became older to one caregiver for every six children. This intensive infant intervention program lasted until they entered kindergarten at age 5. Half of the children in the program received three more years of educational assistance, as did half of the children in the control group who did not participate in the intervention program as infants and toddlers.

Project researchers found that the infants who received the intensive early intervention scored higher than the control children on cognitive and academic tests at ages 12 and 21.[13] As with the Perry Project, the Abecedarian Project and the associated analyses do not provide

Advocates refer to "the triumvirate of impact studies" when compelling boards to support universal preschool.

convincing evidence of what preschool supporters claim. Two problems in particular stand out:

- ***Much* more than preschool.** The most obvious and serious problem with generalizing from this project is that it was nothing like the large-scale preschool programs currently being considered or already operating. The Abecedarian Project was an intensive, long-term intervention beginning in infancy, and it can therefore shed little if any light on the effects of conventional preschool on three- or four-year-olds.
- **Methodological problems.** Studies reporting effects from the Abecedarian Project generally focus on the differences between the treatment and control groups at later ages. But Herman H. Spitz, a well-respected academic psychologist specializing in measuring intelligence among those with developmental disability, notes that the project's effect appeared by the time the children were just six months old. Spitzer rightly observes that "we need to understand why an additional 4.5 years of intensive intervention had so little effect that, at six years of age (and older), the difference between the intervention and control groups was not appreciably different than it had been at six months of age."[14]

  This means that the actual preschool component appears to have had no effect whatsoever. Since current preschool programs and proposals do not begin within a child's first year, this study actually suggests that preschool programs are *ineffectual*, and hence should be neither passed nor expanded.[15]

The most serious problem with generalizing from the Abecedarian Project is that it was nothing like the large-scale preschool programs currently being considered or already operating.

The Chicago Child-Parent Center Program was an early education and family intervention initiative begun in 1985 involving 989 low-income children in Chicago. Researchers concluded that, compared to the 550 children who did not receive the intervention, children in the program had a "higher rate of high school completion; more years of completed education; and lower rates of juvenile arrest, violent arrests, and school dropout."[16] This study has been used in recent years by a RAND analysis that claims a universal preschool program would return $2.62 for every dollar invested.[17] Again, however, there are a number of problems with the Chicago Child-Parent Center Program and the associated analyses that make their use as evidence in support of large-scale state preschool programs problematic:

- **More than preschool—parenting.** As the name of the program implies, the Chicago Child-Parent Center Program involved extensive interventions with parents that involved "a multifaceted parent program that includes participating in activities in the parent resource room with other parents (e.g., educational workshops, reading groups, and craft projects); volunteering in the classroom; attending school events and field trips, and completing high school; outreach activities including resource mobilization, home visitation, and enrollment of children."[18]
- **More than preschool—tutoring.** The intervention continued through third grade for some students, and involved tutoring, speech therapy, and medical services that are not a part of current preschool proposals and would dramatically raise the costs and difficulties of expanding such a program statewide.[19]
- **Weak research design and suspect results.** The research design simply matched children whose parents chose to participate in the CPC program with those who did not.[20] It was not a random-assignment study, which means that subtle differences between the two groups—which can go undetected by survey responses, income data, and other rough measures—might explain differences between the two populations.[21] There is no way to determine if the program had an impact or if the families who participated were simply different from those who did not participate.

- **Unjustifiable extrapolations:** The RAND study does not consider these important concerns regarding the Chicago Child-Parent Center Program. Instead, it uncritically overgeneralizes the findings from this intensive family intervention program to a statewide, universal preschool-only program. The researchers also arbitrarily assign middle- and upper-income children benefits from preschool that no study of the Chicago Child-Parent Center Program suggests they receive.[22] This means that the authors massively overestimate the overall benefits to the public, since low-income families—the only ones shown to benefit from the program—constitute only a small percentage of all families.

It seems reasonable to expect that small-scale, intensive, high-quality, early interventions in the education and family life of low-income children, administered under the strict control of committed academic researchers, can improve outcomes for the short-term and possibly even long-term on the margin. But there is no evidence that such programs can be effectively scaled up by federal or state governments to operate on a universal basis. Indeed, scaling up is what causes most curriculum reforms to falter at the K–12 level. They work when the originators can oversee them directly, but getting similar levels of attentiveness and understanding of the methods on a vast scale is usually impossible within the public school system.[23]

The studies relied upon by preschool activists show that even these conclusions are often tenuous and always more complex than they are made out to be. When we examine the programs that have demonstrated some long-term benefits, we find that they have little in common with large-scale, conventional preschool programs. All of the programs currently being considered for adoption or expansion are extensions of the government K–12 school system that has failed at-risk students for decades, and they bear little resemblance to the specialized, small-scale early intervention programs used to promote them.[24]

In a quest for evidence that is genuinely relevant to real-world preschool programs, the next section reviews the two most recent studies to examine whether positive differences in the early childcare environment impart lasting benefits.

Academic Research Suggests Early Childcare Differences Have Negligible Impact

Academic studies of early childcare show, in general, small but statistically significant short-term academic and social improvements for low-income children who attend a good preschool. But those small effects begin to fade very quickly and become insignificant in later grades.[25] Very few studies analyze the magnitude and duration of impacts from attending preschool programs in a real-world, large-scale setting. Those that have find a complicated mix of positive and negative effects that are small in size.

The first study to analyze the longer-term impact of preschool while controlling for subsequent classroom experiences found little remaining effect by the second grade.[26] The authors note that "whereas long-term effects of preschool experiences have been established for a variety of early intervention programs, much less is known about the long-term effects" on children "enrolled in typical community child-care programs."[27] When the impact of preschool is studied in a realistic setting, rather than a small-scale, intensive whole-family intervention program, academic achievement effects evaporate by the second grade. The single exception is a modest lasting impact on math performance, but the study does not have the data to determine whether that impact lasts through the middle-school years when more complicated math skills are introduced.

A 2007 study published in the journal *Child Development* analyzed the correlations between the characteristics of early childcare arrangements, including center-based preschool, and student outcomes in the fifth and sixth grades. The study "breaks new ground by tracking American children to ages 11–12 and examining how variation in the type, quality, and quan-

When the impact of preschool is studied in a realistic setting, rather than as part of an intensive whole-family intervention program, academic achievement effects evaporate by the second grade.

Family characteristics and parenting quality have a greater lasting impact on a child's education than large-scale preschool programs.

tity of care of the kind typically experienced in communities across this country is associated with cognitive development, achievement, and socioemotional functioning."[28]

The study found just two lasting correlations that suggest an impact from a child's early childcare environment. One lasting correlation was *positive and unrelated to attending formal preschool*: "Children who experienced higher quality early child care (of any kind) displayed somewhat better vocabulary scores in fifth grade than did children who experienced poorer quality care."[29] One lasting correlation was *negative and specific to attending a center-based childcare program*: "Children with more experience in center settings continued to manifest somewhat more problem behaviors through sixth grade."[30] Both of these effects were very small in size. There were no lasting effects at all on reading, math, or work habits. Not surprisingly, differences in parenting had by far the most consistent and largest impacts on student outcomes in the fifth and sixth grades:

> In marked contrast to the childcare effects just described, parenting quality significantly predicted all the developmental outcomes and much more strongly than did any of the childcare predictors. Higher levels of parenting quality . . . predicted greater tested reading, math, and vocabulary achievement in fifth grade and lower levels of teacher-rated externalizing problems and conflict and higher levels of social skills, social-emotional functioning, and work habits in sixth grade.[31]

The longest running and perhaps most-studied early education program is the federal government's Head Start program, begun in 1965. The vast majority of papers analyzing Head Start effects find that the academic performance of participating children increases briefly and then fades to insignificance in later years. Out of hundreds of analyses, one shows significant, if small, lasting positive effects.[32] An analysis by Grace, Thomas, and Currie that finds long-term effects uses as its comparison or control group siblings of Head Start attendees who did not participate in the program.[33] This comparison is rife with potential problems and biases. As one positive review of the study notes, in an understated admission of this fact, "there necessarily remains some uncertainty about why some children within a family but not others participate in Head Start and whether whatever is responsible for this within-family variation in program enrollment might also be relevant for children's outcomes."[34] This is an understated description of the problem; the absence of random assignment and strict control of Head Start treatment in the context of very small impacts means that any effects could well have resulted from undetected bias in the self-selection process.

The Department of Health and Human Services conducted an exhaustive literature review of Head Start studies in 1985 that concluded, despite immediate gains from the program, "in the long run, however, cognitive and socioemotional test scores of former Head Start students do not remain superior to those of disadvantaged children who did not attend Head Start."[35] Clearly this is consistent with the research literature on childcare effects in general.

The academic research suggests that how and where children are cared for in their early years is a negligible factor in determining their later academic performance and adjustment in grade school. Obviously an abusive environment can cause lasting damage. But within the broad general range of current childcare arrangements, the differences between them are of little consequence. A child's family environment and later educational environment are the most important factors for the simple and commonsense reason that they are more pervasive and extensive.

Real-world, large-scale preschool programs demonstrate little if any lasting impact from differences in a child's early environment outside of the most obvious and important: family characteristics and parenting quality. Childcare characteristics—whether a child is cared for by a relative or attends a preschool, and even whether that setting is "high quality" or not—have a negligible impact on student behavior and academic performance later in grade school.

Academic studies, however, can tell us only so much. As the authors themselves are quick to acknowledge, they can only point to correlations, not causation. Because they can control for only so many variables and do not have experimental data to work with, any correlations remain at best speculative "effects" of the childcare environment.

We will therefore turn in the next section to aggregate data from states that have made massive long-term investments in what preschool proponents describe as "high-quality" preschool. Has student performance risen or fallen since these investments were begun? This evidence, like the academic research discussed above, is not definitive. But if preschool produces the very large impact on student outcomes that its proponents believe it does, we should see some evidence of it in these states.

Real-World Evidence Demonstrates No Lasting Preschool Effect

Preschool activists consider Georgia and Oklahoma model states because they have long-running, fully implemented, universal preschool programs that proponents consider to be high quality. Georgia's program has been open to at-risk children since 1993 and became universal in 1995. Oklahoma's program began serving low-income children in 1990 and went universal in 1998. The National Institute for Early Education Research, the leading activist organization promoting universal, government-directed preschool, ranks the quality of Georgia's preschool program an 8 and Oklahoma a 9 on their 10-point quality scale. The same organization also ranks Oklahoma and Georgia first and third, respectively, in access to preschool for four-year-olds. Georgia has 53.3 percent of all four-year-olds enrolled in state preschool and Oklahoma has a stunning 68.4 percent enrolled.[36] Georgia and Oklahoma, in other words, provide a solid real-world test case for the claims of preschool activists.

If preschool does positively impact student outcomes, we should see evidence of increasing test scores compared with the national average over time as these programs matured and preschool access and attendance increased dramatically in the 1990s. What we see instead is that the performance of these two model preschool states is either static or degrades over time compared with the national average.

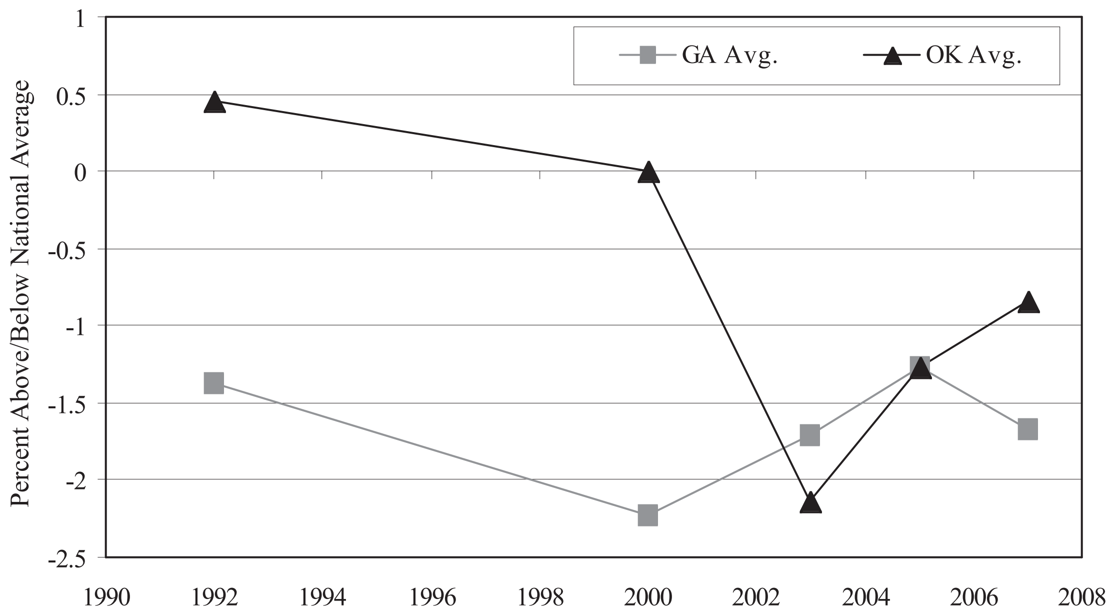
Georgia's achievement scores on the National Assessment of Educational Progress (also known as "the nation's report card") have consistently tracked below the national average in math and reading in the fourth grade before, during, and after the state massively expanded access to, enrollment in, and spending on its universal preschool program. The gap between Georgia and the nation has expanded slightly for fourth-grade math (see Figure 1), and diminished somewhat for fourth-grade reading (see Figure 2), and the oscillation in these gaps shows no strong general trend. There is no evidence of the significant and sustained improvements promised by preschool advocates.

The most surprising results come from the poster child of the preschool program for quality and access: Oklahoma. Oklahoma's achievement scores on NAEP suggest that the state's universal preschool program is at best ineffective and, at worst, harmful to student achievement. Oklahoma, where state-funded and largely government-provided preschool has been open to low-income children for 18 years and all children for almost a decade, has slipped below the national average on math and reading scores for the fourth grade since it began expanding its government preschool program in the 1990s.

As shown in Figure 1, Oklahoma fell from .5 percent *above* the national average in fourth-grade math in 1992 to .8 percent *behind* in 2007. In reading, the story is the same (see Figure 2): the state's fourth-grade reading scores plummeted during the 1990s at the very time the state was aggressively expanding preschool access, increasing attendance, and building their highly regarded system. Examining changes in poverty rates and per capita income (see Figures 3 and 4) reveals no trend that could explain this drop and subsequent stagnation.

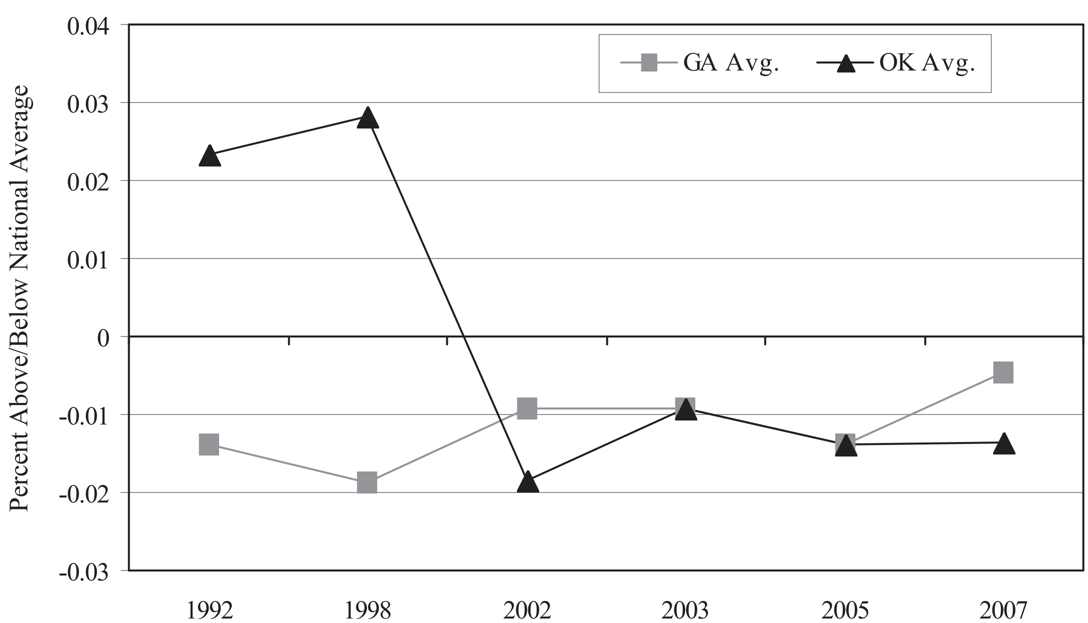
Oklahoma's achievement scores on NAEP suggest that the state's universal preschool program is at best ineffective and at worst harmful to student achievement.

Figure 1
Fourth-Grade Math NAEP Scores for Oklahoma and Georgia, as a Percentage Above or Below the National Average



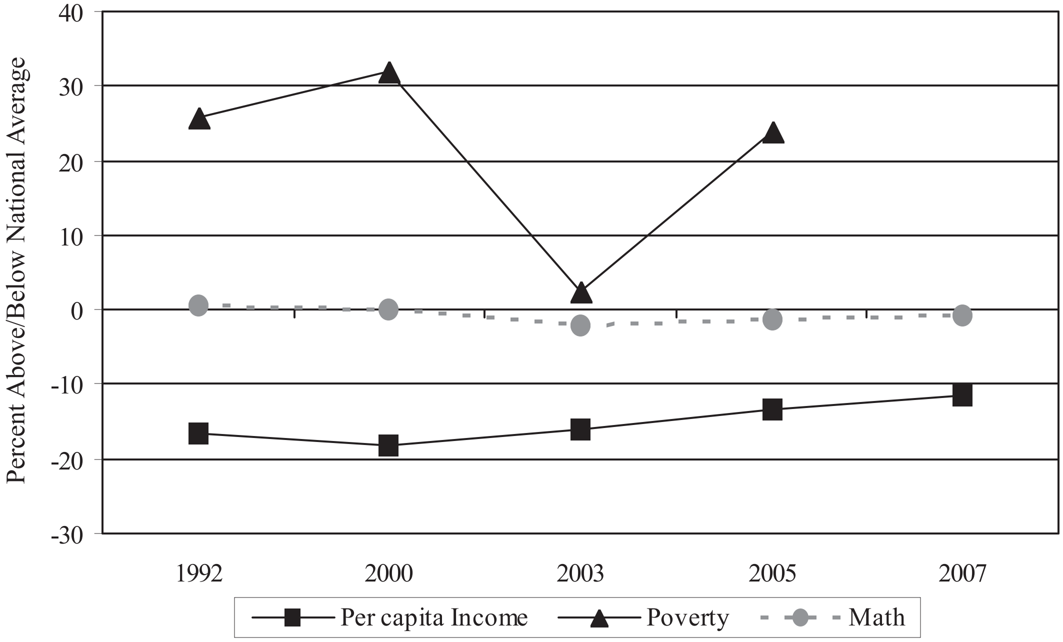
Source: NCES State Profiles.

Figure 2
Fourth-Grade Reading NAEP Scores for Oklahoma and Georgia, as a Percentage Above or Below the National Average



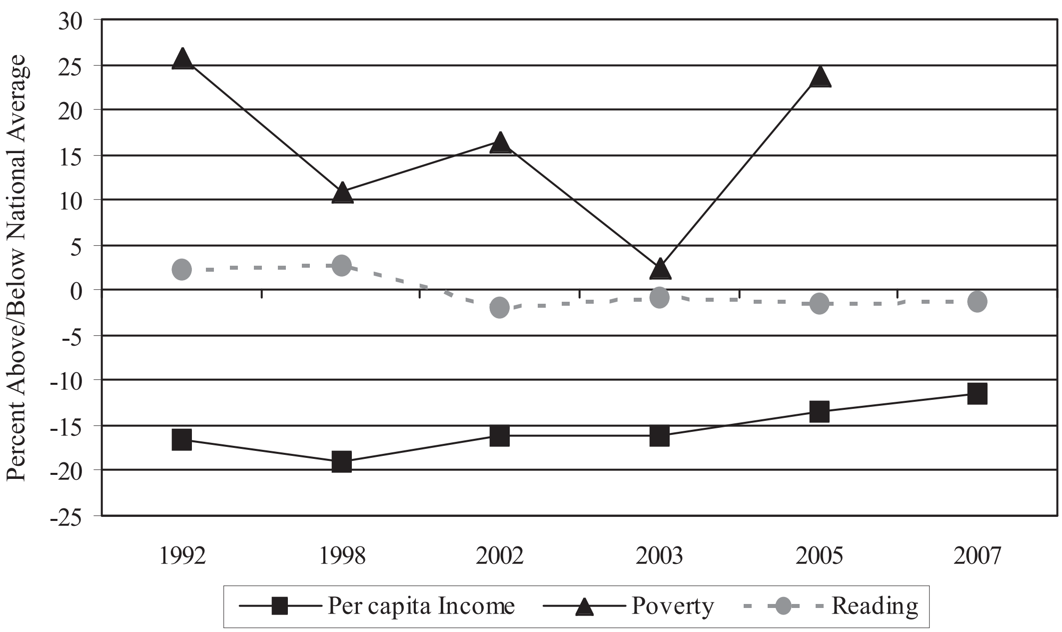
Source: NCES State Profiles.

Figure 3
Income, Poverty, and Fourth-Grade Math NAEP Scores for Oklahoma, as a Percentage Above or Below the National Average



Sources: NCES State Profiles; U.S. Bureau of Economic Analysis.

Figure 4
Income, Poverty, and Fourth-Grade Reading NAEP Scores for Oklahoma, as a Percentage Above or Below the National Average



Sources: NCES State Profiles; U.S. Bureau of Economic Analysis.

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There is little evidence in the research that these kinds of preschool programs impart lasting gains to low-income students and no evidence that they benefit middle-class children. The real-world evidence demonstrates that, at the same time preschool programs have been massively expanded and the quality of those programs has supposedly improved, the test scores of children in Oklahoma have eroded significantly compared to the national average. And while Georgia's reading gap narrowed, its math gap stagnated or widened. Importantly, even the modest national gains in NAEP scores we have seen at the fourth- and eighth-grade levels have historically failed to persist through the end of high school. The scores of U.S. 17-year-olds have been stagnant on the NAEP since they were first administered in the late 1960s and early 1970s.[37] What these data imply is that no additional learning is taking place over the course of children's public schooling, but that some learning has merely shifted to lower grades.

Even worse, while Georgia and Oklahoma have been standing still or losing ground with respect to the nation as a whole, American performance on international tests has stagnated or declined relative to other nations. U.S. investment in preschool has soared over the past decade.[38] Preschool access and funding have expanded dramatically and the quality has purportedly improved, yet U.S. performance has failed to significantly improve relative to other countries.[39] One international test, Trends in International Mathematics and Science Study, shows a 2 percent increase in fourth-grade math scores and a 3-percent increase in eighth-grade math scores between 1995 and 2007.[40] If we include only nations among the top 30 in terms of gross national income per capita, we see that the U.S. places 7th out of 16 in fourth-grade math and 6th out of 11 in eighth-grade math.

Two other sets of international tests, the Program on International Student Assessment and the Program on International Reading Literacy Survey, demonstrate notable declines in test scores. In every subject—on both tests—the scores of American students have declined.[41] In the PISA mathematics and science tests, the declines are large enough to be statistically significant; that is, we can be confident (and disappointed) that they reveal real deterioration in U.S. student performance. In mathematics, our score has dropped from 493 to 474, causing us to slip from 18th out of 27 participating countries in 2000 down to 25th out of 30 countries in 2006. In science, our score fell from 499 to 489, dropping us from 14th in 2000 to 21st in 2006. In reading, our score essentially stagnated while other countries improved, with the U.S. score falling from 542 to 540, dropping us from 9th out of 35 countries in 2000 to 15th out of 41 countries in 2003. When we compare aggregate student performance for the United States, as a whole, to other nations, we see the same lack of any preschool effect.

There is no evidence—from either academic studies tracking preschool students or aggregate performance data—that real-world, large-scale, government-directed preschool programs that activists are pursuing have any lasting positive effect on student performance. The clear pattern from multiple sources and levels of analysis strongly suggests that preschool does little or nothing to improve long-term student outcomes.

Maximize Educational and Financial Returns through Choice in Early Education

We know a few things about early education and education reform. We know that high-quality preschool can significantly boost school readiness and skills in the very short-term, and that these effects primarily apply to low-income children. We know from the few long-term studies that these preschool effects usually fade quickly to insignificance. And we know that a massive expansion of preschool access and quality over the past 20 years has not improved the performance of pioneering preschool states compared with the national average, nor has the performance of the nation as a whole improved relative to the rest of the world.

The obvious conclusion to be drawn from these facts is that government preschool programs are no substitute for fixing our K–12 education system. American student achievement is already fairly comparable to that in other wealthy nations in the early years. But as our children spend more time in our inadequate public school system, they fall behind. The problem is not that we lack *preschool* options, but that children do not gain a good enough educational foundation during the crucial *grade-school* period.

If we want to improve life outcomes for all children, and for poor children in particular, we need to make sure that their early grade-school years build solid academic skills that will allow them to advance in later grades. School choice though tax credits in grades K–4 could help moderate the fade-out of the benefits that some low-income children might enjoy from targeted preschool and ensure that all children are able to attend the best schools for them.

We have solid evidence that school choice improves academic outcomes. Indeed, there is perhaps more evidence in support of the efficacy of school choice as a mechanism for increasing academic achievement in a real-world setting than for any other education reform.

Coming to conclusions in social science is more difficult and uncertain than it is in the natural sciences for one fundamental reason: experiments where test subjects are randomly assigned to either treatment or control groups are rarely performed. The random-assignment methodology is the surest way to ascertain if a treatment (a drug or educational reform), rather than some unknown factor, has had a real and significant impact on the outcome of interest (health or educational achievement). That's why medical researchers always run random-assignment drug trials before a drug is released to the public.

Fortunately for education researchers, though unfortunately for families, there are currently many more children who want to use vouchers than there are scholarships to go around. Many programs, both privately and publicly financed, deal with this shortage by holding a lottery; in other words, they randomly assign kids to either a voucher "treatment" group or the no-voucher "control" group. This produces extremely powerful data from multiple programs and populations that researchers have analyzed for more than a decade. The results are clear: 9 out of 10 of these studies show statistically significant academic achievement gains for at least some groups of students. None of the studies show a negative impact.[42] The school choice programs studied are small and highly restricted, so we should expect even larger effects from a large and unfettered program that allows for a high level of competition and unrestricted parental choice.

That is indeed what we find when looking at large-scale education markets. In addition to the random-assignment research just discussed, scores of studies have been conducted all over the world comparing the outcomes of different kinds of school systems. A comprehensive review of that international literature finds the evidence to overwhelmingly favor minimally regulated and highly competitive education marketplaces. The author of this forthcoming peer-reviewed study, Cato Institute researcher Andrew J. Coulson, finds that the "private sector outperforms the public sector in the overwhelming majority of cases," and the "margin of superiority is greatest when the freest and most market-like private schools are compared to the least open and least competitive government systems."[43]

The best way to ensure that our early education system is strengthened is to expand school choice and competition in that system. Since we know that the gains low-income children obtain from preschool fade out quickly in kindergarten and early grade school, it makes sense to set our eyes on grade K–4 for an expansion of educational freedom. We can try to combat and offset the typical drop in student achievement by improving early education through school choice.

For states that decide to ease access to preschool—despite the paucity of supporting evidence for such a policy—there are better policy solutions than direct state provision or funding. These states could instead offer tax credits for donations to non-profit preschool scholar-

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School choice not only saves children from inadequate schools, it saves huge amounts of money.

ship funds. Education tax credits reduce the amount a taxpayer owes the government for each dollar he spends on his own child's education or on scholarships for children who need them. Tax credits for donations to scholarship organizations help support school choice for lower-income families, and are already operating and popular in Florida, Pennsylvania, and several other states.

This funding mechanism would in turn preserve and expand educational choice in preschool and therefore expand preschool access with a proven and effective education reform policy.

Significantly expanding school choice in grades K–4 would also generate significant savings that could offset some of the cost of expanding access to preschool for low-income families. School choice not only saves children from inadequate schools, it saves huge amounts of money. The median full tuition paid at U.S. private schools is just $4,800, compared to an average of about $13,000 per student in public schools.[44] Public school costs are even greater in some areas, for instance, Washington, DC spends around $26,000 per student; New York $20,000; New Jersey $18,000; and Virginia $14,000 per student.[45]

States are spending much more on K–12 education than on Medicaid—a program that is continually singled out as a budget-buster. At 25 percent of all state-derived expenditures, education expenses are almost double Medicaid's 13 percent share. State spending on K–12 education dwarfs any other category—and it's the biggest item on the local level, too. And since education is such a big budget item, increased efficiency in education spending brings huge savings.

A fiscal analysis of the Cato Institute's broad-based education tax-credit program demonstrates that it can save states billions of dollars. New York could save more than $6 billion over the first five years alone, while Illinois could save more than $3 billion and South Carolina more than $400 million.[46] And even the small programs already up and running have saved taxpayers more than $444 million between 1990 and 2006, even though most of the programs only began at the end of the 1990s (or later) and were small and restricted.[47] Most recently, Florida's Office of Program Policy Analysis and Government Accountability found that taxpayers saved about $39 million—close to 50 cents for every dollar donated through Florida's education tax credit program last year.

The Early Education Tax Credit

The Early Education Tax Credit Act allows individual and corporate taxpayers to claim credits for direct payment of educational expenses and for contributions to scholarship organizations serving lower-income families. This money comes straight off a person's tax liability: a taxpayer can either pay it to the government or direct it to particular scholarship programs or students. For instance, if a business owes the state $4,000 and donates $4,000 to a scholarship-granting organization, it would pay nothing in taxes. The same kind of benefits can be applied to individuals for their donations or for money they spend on their own child's education. Tax credits for donations to scholarship organizations help support school choice for lower-income families, and personal-use credits help middle-class families.

Although preschool support is aimed solely at low-income families for the reasons described in this paper, all but the wealthiest families would be eligible for tax credits in kindergarten through fourth grade. Taxpayers can claim these credits against their state income, sales, and local property taxes where applicable. Families with a tax liability, in other words, will be able to claim a credit on their tax returns for money they spend on their children's education in grades K–4. If a family's tax liability is low, they would also be eligible to receive scholarships derived from donation tax credits. All taxpayers will be allowed to claim credits against their tax liability for donations they make to Scholarship Organizations that provide school choice to lower-income families.

The most effective and least costly way of delivering access to quality preschool is through education tax credits that put parents in charge of their children's education.

Donation tax credits ensure that education funds will be spent wisely because taxpayers, scholarship organizations and parents will have control rather than unaccountable and inefficient government bureaucracies.

We know from research on the effects of preschool, however, that any benefits to low-income children almost always fade away in early grade school. It is essential to provide these children with a wide array of good educational options in the vital early years of education when a foundation for lifetime learning could be laid. The Early Education Tax Credit therefore extends full freedom of choice to low-income children from preschool through grade four.

Although children from higher-income families do not show significant gains from attending preschool, the early educational years are nonetheless a vital foundation for them. The EETC Act therefore ensures access to school choice for all families with children in kindergarten through fourth grade. This is accomplished by allowing families to use funds derived from personal-use and/or donation tax credits up to a limit determined by the family's income.

This broad-based tax credit for kindergarten through fourth grade will ensure a robust system of educational choice for all children in the crucial foundational years of education. In addition, it will offset the cost of the preschool tax credit system targeted at low-income families. Because the amount of the K–4 tax credit is less than what is spent per pupil in public schools, each child who switches from the public system to the private system in K–4 will save taxpayers money. The EETC, in other words, is likely to be largely self-financing or may even save money on balance.

Although this model tax credit legislation combines aspects of previous proposals, it is different from many of them in five crucial respects:

1. Taxpayers are allowed to take credits against all three primary sources of nonfederal government revenue: state income taxes, state sales taxes, and property taxes. This will ensure that the tax liabilities against which credits are applicable are sufficient to meaningfully expand educational freedom.

2. The program is not capped at an arbitrary dollar amount. Each child is eligible to receive tax-credit-derived funds up to an amount that is less than current per-pupil spending in government schools. Taxpayers may donate all of their tax liability for education; the total value of these donations will be limited by the actual needs of each scholarship organization, which must use the money for need-based scholarships (funds in excess of a 25-percent reserve must be returned to the donating taxpayers for remittance to the state). Therefore, the school system will save money—as is the case in current choice programs—with each student's switch from the government system to the tax credit system.

3. Scholarship eligibility is not capped at an arbitrary, fixed income level. Families can secure scholarship assistance on a sliding scale relative to their tax liability. As family income increases, so does the tax liability against which it can claim personal-use credits. And as this personal-use credit increases, the amount of scholarship funds for which they are eligible decreases correspondingly.

Every family will have a "child credit cap" for each child, with the amount varying by family income. For example, say one family's child credit cap is $3,000 and they have one child. If that family pays enough taxes to claim $1,000 in personal-use credits, then it is eligible to use up to $2,000 in scholarship funds derived from donation tax credits. If it can claim $2,000 in personal-use credits, it can use only $1,000 in scholarship funds.

This formula will ensure that there is no coverage gap or unfair penalty for middle-class families who are able to pay for a significant portion of their education expenses but still need assistance.

4. The tax credits cover all education expenses, not just tuition. This aspect of the legislation ensures that parents have the greatest flexibility in choosing the best education possible for their child. It will enable the use and encourage the development of educational services such as Internet-based distance learning, tutoring,

Donation tax credits ensure that education funds will be spent wisely because taxpayers, scholarship organizations, and parents will be in control.

Adopting a broad-based education tax credit system for K–4 will ensure a robust and diverse range of educational options for all children.

and education support networks such as those for home schooling. The result will be to provide families with access to the most diverse possible education marketplace.

5. Anyone can directly donate money for the education of a child. Grandparents, uncles and aunts, other relatives or friends, and even businesses can all pitch in together to help educate a child. This provision will ensure that friends and families take responsibility for a child's education before strangers do, helping to strengthen family and community bonds.

Although the concepts presented here are similar to ones contained in other model legislation and existing law, a number of innovations may require additional explanation. The extensive endnotes explain important provisions in the model legislation and are crucial to understanding the legislation.

Model legislation for the Early Education Tax Credit Act is presented in Appendix A, available on the Cato Institute website at http://www.cato.org/pubs/early_education_tax_credit-appendix-a.pdf. Appendix B presents concrete examples of how such a policy would work for specific families and is available at http://www.cato.org/pubs/early_education_tax_credit-appendix-b.pdf.

Conclusion

The evidence suggests that the benefits of preschool are limited primarily to low-income children and are likely transitory. States that decide to ease access to preschool in spite of the apparent absence of lasting effects should thus limit their focus to ensuring that low-income students have access to a wide range of preschool options. This can be accomplished most effectively and efficiently by establishing a system of donation tax credits to fund nonprofit preschool scholarship programs.

Donation tax credit programs that fund K–12 educational choice have proven popular in the six states that have adopted them. Indeed, these programs have not only opened access to good schools for low-income families, they have actually saved large amounts of money. Donation tax credits therefore offer the most cost-effective solution for funding low-income preschool access.[48] States with substantial existing preschool programs can save money and broaden educational options by transitioning from direct school payments to a tax-credit-funded system of nonprofit scholarship organizations.

The academic improvements low-income students enjoy from preschool typically fade to insignificance in early primary school. Public policy should therefore focus on cost-effectively improving the performance of our early education system to sustain these gains and ensure a solid foundation for later academic achievement.

Adopting a broad-based education tax credit system for K–4 will ensure a robust and diverse range of educational options for all children. Low-income children, who currently have the fewest options, would stand to benefit the most from such a program. A broad early-education marketplace will ensure that there is a large and engaged customer base to drive innovation and contain costs. And a K–4 education tax-credit system will save substantial sums of money that can be used to offset the cost of expanding access to good preschool options for low-income children in states that choose to follow that course. A targeted preschool tax credit combined with a broad-based K–4 tax-credit system would give all low-income children access to preschool while remaining revenue-neutral or even saving money in the long-term. It is a more fiscally responsible and empirically supported alternative to the universal preschool programs that are growing in popularity around the nation.

Notes

1. See H. Schulman, H. Blank, and D. Ewen, *Seeds of Success: State Prekindergarten Initiatives 1998–1999* (Washington: Children's Defense Fund, 1999); T. Smith, A. Kleiner, B. Parsad, E. Farris, and B. Green, *Prekindergarten in U.S. Public Schools* (Washington: National Center for Education Statistics, 2003).

2. Barack Obama, "A Complete and Competitive American Education," (speech to The Hispanic Chamber of Commerce, Washington Marriott

Metro Center, March 10, 2009), http://www.realclearpolitics.com/articles/2009/03/a_complete_and_competitive_ame.html.

3. In the 2006–2007 school year, state government preschool spending alone set a record at over $3.7 billion and supported around 22 percent of all four-year olds.

4. See Lawrence J. Schweinhart, Jeanne Montie, Xiang Zongping, W. Steven Barnett, Clive Belfield, and Milagros Nores, *Lifetime Effects: The High/Scope Perry Preschool Study Through Age 40* (Ypsilanti, MI: High/Scope Educational Research Foundation, 2005); Leonard N. Masse and W. Steven Barnett, "A Benefit Cost Analysis of the Abecedarian Early Childhood Intervention," National Institute for Early Education Research (January 25, 2008), http://nieer.org/resources/research/AbecedarianStudy.pdf; Arthur Reynolds, Judy Temple, Dylan Robertson, and Emily Mann, "Age 21 Cost-Benefit Analysis of the Title 1 Chicago Child-Parent Centers," Educational Evaluation and Policy Analysis 24, no. 4 (Winter 2002): 267–303.

5. Lynn A. Karoly and James H. Bigelow, "The Economics of Investing in Universal Preschool Education in California," RAND Corporation monograph, 2005. See also http://blogs.preknow.org/insideprek/2008/10/dollars-and-s-1.html.

6. Schweinhart et al.; Masse et al.; Reynolds et al.

7. Lisa Klein, "Private Foundations and the Move toward Universal Preschool," *The Evaluation Exchange* 10, no. 2 (Summer 2004), http://www.hfrp.org/evaluation/the-evaluation-exchange/issue-archive/early-childhood-programs-and-evaluation/private-foundations-and-the-move-toward-universal-preschool.

8. Much of this review relies on an excellent and more extensive critique of the preschool literature in Darcy Olsen and Lisa Snell, "Assessing Proposals for Preschool and Kindergarten," Reason Foundation, May 2006.

9. Schweinhart et al.

10. Edward F. Zigler, "Formal Schooling for Four-Year-Olds? No," in *Early Schooling: The National Debate*, ed. Sharon L. Kagan and Edward F. Zigler (New Haven, CT: Yale University Press, 1987), pp. 30–31.

11. Charles Locurto, "Beyond IQ in Preschool Programs?" *Intelligence* 15 (1991): 299–305.

12. Olsen and Snell, p. 23.

13. Frances A. Campbell, Elizabeth P. Pungello, Shari Miller-Johnson, Margaret Burchinal, and Craig T. Ramey, "The Development of Cognitive and Academic Abilities: Growth Curves from an Early Childhood Educational Experiment," *Developmental Psychology* (March 2001): 231–42.

14. Herman H. Spitz, "Some Questions about the Results of the Abecedarian Early Intervention Project Cited by the APA Task Force on Intelligence," *American Psychologist* 52, no. 1 (January 1997): 72.

15. President Obama consistently conflates early childcare, parenting services, prenatal care, preschool, early education, and more. These are obviously very different programs—a program to subsidize prenatal care and parenting classes is not an early education initiative, although this is often included in proposals. State programs tend to focus on preschool alone. The research suggests a tentative long-term benefit to small-scale, intensive early family interventions, but there is little evidence of success on a larger scale or when run through a government program. The research on Early Head Start, for instance, suggests only short-term and very small benefits but large costs. No long-term studies through adulthood have been conducted. See U.S. Department of Health and Human Services, Administration for Children and Families, *Research to Practice: Preliminary Findings from the Early Head Start Prekindergarten Followup* (Washington: U.S. Department of Health and Human Services, 2006), http://www.acf.hhs.gov/programs/opre/ehs/ehs_resrch/reports/prekindergarten_followup/prekindergarten_followup.pdf.

16. Arthur J. Reynolds et al., "Long-term Effects of an Early Childhood Intervention on Educational Achievement and Juvenile Arrest," *Journal of American Medical Association* 285, no. 18, (May 9, 2001): 2339, http://www.ccfc.ca.gov/pdf/help/chicago_cpc_jama.pdf.

17. Lynn A. Karoly and James H. Bigelow, "The Economics of Investing in Universal Preschool Education in California," RAND Corporation monograph, 2005.

18. Arthur J. Reynolds et al., p. 2342.

19. Ibid.

20. Arthur J. Reynolds, "The Chicago Longitudinal Study: A Study of Children in the Chicago Public Schools," August 1999, http://www.waisman.wisc.edu/cls/CLSWEB.PDF.

21. Arthur J. Reynolds et al., "Long-term Effects of an Early Childhood Intervention."

22. Olsen and Snell, pp. 21–22.

23. See James Traub, "Better By Design? A Con-

sumer's Guide to Schoolwide Reform," The Thomas B. Fordham Foundation, December 1999, http://www.edexcellence.net/library/bbd/better_by_design.html; Adam Tucker, "A Response to: An Educators' Guide to Schoolwide Reform," Coalition of Essential Schools, Inc. (undated), http://www.aasa.org/reform/Appendix/letter13.htm; Lynn Olson, "Following the Plan," Education Week, April 14, 1999, http://www.edweek.org/ew/ewstory.cfm?slug=31implem.h18&keywords=coalition%20of%20essential% 20schools.

24. Although President Obama does propose more funding for early family intervention programs, there is little evidence of lasting impact when these types of interventions are on a larger scale or when run through a government program.

25. For evidence of quick fade-out, see Katherine A. Magnuson, Marcia K. Meyers, Christopher J. Ruhm, and Jane Waldfogel, "Inequality in Preschool Education and School Readiness," *American Educational Research Journal* 41, no. 1 (Spring, 2004): 115–57. For review of effects fading to insignificance, see Bettye M. Caldwell, "Sustaining Intervention Effects," in *The Malleability of Children*, ed. J. J. Gallagher and C. T. Ramey (Baltimore: Paul H. Brooks, 1987).

26. Ellen S. Peisner-Feinberg, Margaret R. Burchinal, Richard M. Clifford, Mary L. Culkin, Carollee Howes, Sharon Lynn Kagan, and Noreen Yazejian, "The Relation of Preschool Child-Care Quality to Children's Cognitive and Social Developmental Trajectories through Second Grade," *Child Development* 72, no. 5, (September–October 2001): 1534–53.

27. Ibid., p. 1549.

28. Jay Belsky, Margaret Burchinal, Kathleen McCartney, Deborah Lowe Vandell, K. Alison Clarke-Stewart, and Margaret Tresch Owen, "Are There Long-Term Effects of Early Child Care?" *Child Development* 78, no. 2 (March/April 2007): 683.

29. Ibid, p. 696.

30. Ibid, p. 697.

31. Ibid, p. 693.

32. One other study finds a significant impact on child mortality rates for the 300 poorest counties in 1960, which were targeted by Head Start in its initial years. See Jens Ludwig and Douglas L. Miller, "Does Head Start Improve Children's Life Chances? Evidence from a Regression Discontinuity Design," *Quarterly Journal of Economics* 122 (2007): 159–208. These aggregate data and an analysis that fails to control for the impact of other Great Society–era spending and health campaigns make the conclusions highly questionable. No significant effects were found for educational and other life outcomes.

33. Eliana Garces, Duncan Thomas and Janet Currie, "Longer Term Effects of Head Start," *American Economic Review* 92 (2002): 999–1012.

34. Jens Ludwig and Deborah A. Phillips, "Long-Term Effects of Head Start on Low-Income Children," *Annals of the New York Academy of Sciences* 1136 (2008): 257–68.

35. *Ruth Hubbell McKey et al., The Impact of Head Start on Children, Families, and Communities* (Washington: United States Department of Health and Human Services, 2005), http://eric.ed.gov/ERICDocs/data/ericdocs2sql/content_storage_01/0000019b/80/14/89/74.pdf.

36. W. Steven Barnett, Jason T. Hustedt, Allison H. Friedman, Judi Stevenson Boyd, and Pat Ainsworth, "The State of Preschool 2007," National Institute for Early Education Research, 2007.

37. NAEP Trend Scores: 1973–2004 for math and 1971–2004 for reading.

38. State preschool spending alone reached $2.4 billion in 2001 and increased $1.3 billion in the next five years, hitting 3.7 billion during 2006–2007. For detailed spending and quality figures, see the National Institute for Early Education's State Preschool Yearbooks, http://nieer.org/docs/index.php?DocID=131.

39. W. Steven Barnett, Jason T. Hustedt, Allison H. Friedman, Judi Stevenson Boyd, Pat Ainsworth, "The State of Preschool 2007," The National Institute for Early Education Research, 2007.

40. See TIMSS data, http://nces.ed.gov/timss/index.asp.

41. Ina V. S. Mullis, Michael O. Martin, Ann M. Kennedy, and Pierre Foy, *PIRLS 2006 International Report* (Boston: International Study Center, Lynch School of Education, Boston College, 2007): 44; OECD, *PISA 2006, Science Competencies for Tomorrow's World—Volume 1: Analysis* (Paris: OECD Publications, 2007): 319, 370; and *OECD, Learning for Tomorrow's World—First Results from PISA 2003* (Paris: OECD Publications, 2004): 282.

42. The following list of citations was compiled by Jay P. Greene, http://jaypgreene.com/2009/04/27/voucher-participant-effects-updated-42609/. For studies concluding that all participants experienced reading or math achievement gains from vouchers, see Joshua M. Cowen, "School Choice as a Latent Variable: Estimating the 'Complier Average Causal Effect' of Vouchers in Charlotte," *Policy Studies Journal* 36, no. 2 (2008); Jay P. Greene, "Vouchers in Charlotte," *Education Matters* 1, no. 2 (2001): 55–60; Jay P. Greene, Paul E. Peterson, and Jiangtao Du, "Effectiveness of

School Choice: The Milwaukee Experiment," *Education and Urban Society* 31 (January 2008): 190–213; William G. Howell, Patrick J. Wolf, David E. Campbell, and Paul E. Peterson, "School Vouchers and Academic Performance: Results from Three Randomized Field Trials," *Journal of Policy Analysis and Management* 21 (April 2002): 191–217 (gains for all participants; almost all were African Americans); Cecilia E. Rouse, "Private School Vouchers and Student Achievement: An Evaluation of the Milwaukee Parental Choice Program," *Quarterly Journal of Economics* 113, no. 2 (1998): 553–602; Patrick Wolf, et al., *Evaluation of the DC Opportunity Scholarship Program: Impacts after Three Years*, U.S. Department of Education, Institute of Education Sciences (Washington: U.S. Government Printing Office, March 2009). For studies that conclude that at least one important subgroup of student participants experienced achievement gains, see John Barnard, et al., "Principal Stratification Approach to Broken Randomized Experiments: A Case Study of School Choice Vouchers in New York City," *Journal of the American Statistical Association* 98, no. 462 (2003): 299–323 (gains for African Americans); William G. Howell, Patrick J. Wolf, David E. Campbell, and Paul E. Peterson, "School Vouchers and Academic Performance: Results from Three Randomized Field Trials," *Journal of Policy Analysis and Management* 21 (April 2002): 191–217 (Dayton, Ohio; gains for African Americans); Paul E. Peterson, and William G. Howell, "Efficiency, Bias, and Classification Schemes: A Response to Alan B. Krueger and Pei Zhu," *American Behavioral Scientist* 47, no. 5 (2004): 699–717 (New York City: gains for African Americans). For the single study that concludes no subgroup of student participants experienced achievement gains from the voucher, see Alan B. Krueger and Pei Zhu, "Another Look at the New York City School Voucher Experiment," *The American Behavioral Scientist* 47, no. 5 (2004): 658–98.

43. Andrew J. Coulson, "Comparing Public, Private, and Market Schools: The International Evidence," *Journal of School Choice* 3, no. 1 (2009).

44. For data on median private tuition see National Center for Education Statistics (NCES) Schools and Staffing Survey, *National Median Highest Tuition Paid in Private Schools 2003–2004*, http://nces.ed.gov/surveys/sass/tables/affil_2004_whs.asp. For data on total K–12 education expenditures, see *State and Local Government Finances by Level of Government and by State: 2005–2006*, http://www.census. gov/govs/estimate/0600ussl_1.html. All figures are updated for inflation using the CPI calculator, and the private tuition figure has been adjusted to an estimate of the trend increase by 2005–2006 for comparison with the public school data from that same year. Estimates used were developed in Andrew J. Coulson, "Choosing to Save: The Fiscal Impact of Education Tax Credits on the State of Nevada," Nevada Policy Research Institute, January 12, 2009. Two years of $346 increases were added to the inflation-adjusted tuition figure from 2003–2004.

45. The author's calculations were derived from published state and local spending figures. For the Washington, DC, figure, see Andrew Coulson, http://www.cato-at-liberty.org/2009/03/06/vouchers-vs-the-district-with-more-money-than-god/.

46. Andrew Coulson, "The Fiscal Impact of a Large-Scale Education Tax Credit Program," Cato Institute Policy Analysis no. 618, July 1, 2008, http://www.cato.org/pub_display.php?pub_id=9515.

47. Susan Aud, "Education by the Numbers: The Fiscal Effect of School Choice Programs, 1990–2006," Friedman Foundation, May 09, 2007, http://www.friedmanfoundation.org/friedman/downloadFile.do?id=243.

48. See Pennsylvania's donation tax credit system for an example of an education tax credit with a preschool component.

APPENDIX A: THE EARLY EDUCATION TAX CREDIT ACT (DONATION AND FAMILY-USE EDUCATION TAX CREDITS)

Summary: This legislation creates an education tax credit for direct payment of early education expenses and for contributions to organizations that provide early education scholarships to eligible students in order to allow all parents to choose the best education for their children. Appendix B provides examples illustrating how the Act would function in practice.

Section 1: Title

The Early Education Tax Credit Act[1]

Section 2: Definitions

A) “Program” means the program established by the Early Education Tax Credit Act.

B) “Department” means the state Department of Revenue.

C) “Educational expenses” means tuition at a qualifying school; transportation related to educational activities; tutoring services; educational association membership or testing fees; and educational materials such as books, school supplies, and academic lessons and curricula. Educational expenses for students taught in a nonpublic home-based program do not include expenses for tutoring or academic lessons if the parent conducts them. Educational expenses for a student who is enrolled in a public elementary and/or secondary school in our state, but who is not a resident of that school district include only transportation and out-of-district tuition expenses. Educational expenses do not include athletic fees or expenses.[2]

D) “Preschool (preschool) eligible student” means a student who:

1) is a resident of the state no less than age 3, is no more than age 5; and

2) is not enrolled in a public preschool program; or

3) is not a resident of the school district of the public preschool in which the student is enrolled.

4) is a dependent in a family determined to be living under the poverty threshold according to the U.S. Census Bureau.

The eligible student must otherwise be in compliance with state education law.

E) “K-4 (Kindergarten though Fourth) eligible student” means a student who:

1) is a resident of the state no less than age 5, is no more than age 11; and

2) was eligible to attend a government school in a preceding semester or is starting school for the first time, and is not enrolled in a public elementary or secondary school;[3] or

3) is not a resident of the school district of the public school in which the student is enrolled.

The eligible student must otherwise be in compliance with state education law.[4]

Notwithstanding the above, the student for whom someone is claiming a credit against property taxes must be a resident of the school district in which that person is claiming the credit.[5]

F) “Scholarship organization” means a non-profit organization that receives donations from taxpayers and gives educational scholarships to eligible students.

G) “Parent” includes a guardian, custodian, or other person with authority to act on behalf of the student.

H) “Educational scholarships” means grants to students to cover part or all of the educational expenses of an eligible student.

J) “Funding benchmark” means the dollar amount equal to the average per-pupil expenditures for public schools from both all government sources during the year of enactment, with this amount adjusted each year in the same manner that brackets are adjusted in Section 1(f) of the Internal Revenue Code.

K) “Child credit cap” means the percentage of the funding benchmark a family is eligible to use for each preschool or K-4 eligible student as determined in Section 5.

L) “Government school” means a public government school as defined in Section *X* of state law.

Section 3: Basic Elements of the Early Education Tax Credit Act[6]

A) Individuals and corporations may claim an Early Education (donation) Tax Credit against relevant taxes detailed in Section 4 by contributing to scholarship organizations or by contributing directly to the payment of an eligible student’s educational expenses.[7]

B) Parents may claim a separate Early Education (personal use) Tax Credit for the educational expenses of each child who is an eligible preschool or K-4 student.

C) Early Education Tax Credits are nonrefundable.[8]

D) Scholarship organizations may solicit contributions from individuals and corporations and provide educational scholarships to eligible students.

E) A corporate taxpayer, an individual taxpayer, or a married couple filing jointly may carry forward unused Early Education Tax Credits (for donation and personal use) for three years.[9]

F) For corporations, the amount of the Early Education Tax Credit (donation) shall equal any contributions to scholarship organizations during the taxable year for which the credit is claimed, up to 100 percent of the taxpayer's tax liability.[10]

G) For parents, the total amount of the Early Education Tax Credit (personal use) claimed for their preschool and/or K-4 eligible children shall equal no more than their total direct payments for educational expenses for all of their dependent preschool and/or K-4 eligible children, up to the child credit cap for each child or their total applicable tax liability, whichever is less, during the taxable year for which the credit is claimed.

H) For parents, the total amount of the funds used for their preschool and/or K-4 eligible children which is derived from scholarship organizations cannot exceed the total amount of their child credit caps minus their total tax liability against which an Early Education Tax Credit can apply (total amount available for personal use).

I) For an individual taxpayer or a married couple filing jointly, the amount of the Early Education Tax Credit claimed shall equal the total direct payments for educational expenses of preschool and/or K-4 eligible students (personal use credit) plus any contributions to scholarship organizations (donation credit) during the taxable year for which the credit is claimed, up to 100 percent of the taxpayer's tax liability.[11]

Section 4: Application of Tax Credits to Income, Sales, and Property Taxes[12]

A) Tax credits may be claimed against a taxpayer's full income tax liability in accordance with Sections 3 and 5.

B) Tax credits may be claimed against a person's full sales tax liability in accordance with Sections 3 and 5. The state sales tax liabilities against which individuals may claim credits will be determined according to tables produced by the Internal Revenue Service in accordance with the Tax Relief and Health Care Act of 2006, *Publication 600, State and Local General Sales Taxes* for the most recent year available, or by itemized receipts demonstrating actual sales taxes paid.[13]

C) Tax credits may be claimed against a taxpayer's full property tax liability,[14] in accordance with Sections 3 and 5, to the extent that it derives from property taxes imposed for school operating purposes but not from property taxes levied for bonded indebtedness or payments pursuant to lease-purchase agreements for capital construction.[15] The preschool or K-4 eligible student for whom the person is claiming the credit must be a resident of the school district in which the person is claiming the credit. There are no residency restrictions regarding the credits benefiting preschool eligible students.

> 1) The department shall develop forms for administering and claiming the credit for property tax purposes. The person or person's agent must use these forms to claim the credit. Tax collecting entities shall make the forms available at offices and locations where tax information is distributed.

2) The person shall claim the credit for property tax purposes at the time payment is made and shall furnish the collecting entity a completed form, a copy of the receipt, and payment for the amount due, if any, after application of the credit.

Section 5: Determining the Child Credit Cap[16]

A) A preschool or K-4 eligible student's family can use a combination of Early Education Tax Credits up to the total amount of the child credit cap for each dependent preschool or K-4 eligible student.[17]

B) Notwithstanding the above, a preschool or K-4 eligible student's family can use educational scholarships derived from Early Education Tax Credit donations that amount to no more than the total of all child credit caps for all dependent preschool or K-4 eligible students minus the family's total tax liability for which a tax credit is available during the taxable year in which the scholarship is claimed.[18]

C) The preschool child credit cap is:[19]

1) Equal to the median private school tuition according to the latest data from National Center for Education Statistics, updated for inflation and adjusted for state per-capita income, or according to the most accurate and reliable data available for the state, for each dependent preschool eligible student. The median private school tuition for 2003-2004, the most recent year available from the NCES, is $3,500.

C) The K-4 child credit cap is:[20]

1) 70 percent of the funding benchmark for each dependent K-4 eligible student in a family with a current-year taxable income less than $50,000 in 2008 dollars.

2) 60 percent of the funding benchmark for each dependent K-4 eligible student in a family with a current-year taxable income less than $75,000 in 2008 dollars.

3) 50 percent of the funding benchmark for each dependent K-4 eligible student in a family with a current-year taxable income less than $100,000 in 2008 dollars.[21]

4) 40 percent of the funding benchmark for each dependent K-4 eligible student in a family with a current-year taxable income less than $150,000 in 2008 dollars.

5) 25 percent of the funding benchmark for each dependent K-4 eligible student in a family with a current-year taxable income that equal to or greater than $150,000 in 2008 dollars.[22]

D) Notwithstanding the above, each family that makes use of a combination of both donation and personal use credits must ensure that the total used does not exceed the total in child credit caps for which they are eligible according to the guidelines in section 5C above. If a family overestimates the scholarship funds for which they are eligible, the taxpayer must adjust downward the personal tax credit claimed on their income tax return for the current year.

Section 6: Responsibilities of Parents Claiming or Using Early Education Tax Credits[23]

A) Parents may claim the Early Education Tax Credit only for expenses they actually paid.

B) On a form prescribed by the department, parents will provide a detailed listing of the educational expenses for each child for whom they claim or have used a tax credit. They will attach to the form all receipts necessary to document these expenses.

C) On a form prescribed by the department, parents will provide a detailed listing of all taxpayers claiming tax credits for the educational expenses of the parents' dependent children and/or all scholarship organizations providing funds for the educational expenses for each dependent child. For each taxpayer and/or scholarship organization, parents will list the full name, address, total funds provided, and date of funding.[24]

Section 7: Responsibilities of Taxpayers Claiming Donation Tax Credits

A) On a form prescribed by the department, taxpayers will provide a detailed listing of the scholarship organization(s), child or children, and family or families to which they provided funds. In each case, taxpayers will list the full name, address, total funds provided, and date of funding.

Section 8: Responsibilities of Scholarship Organizations[25]

A) Each scholarship organization shall:[26]

1) notify the department of its intent to provide educational scholarships to eligible students;

2) demonstrate to the department that it has been granted exemption from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code;

3) distribute periodic scholarship payments to parents or education providers serving specified parents for the specified educational expenses;

4) provide a department-approved receipt to taxpayers for contributions made to the organization;

5) ensure that at least 85 percent of revenue from donations is spent on educational scholarships, and that all revenue from interest or investments is spent on educational scholarships;

6) verify annually by written and signed statement from each family or guardian the total scholarship amount for which each child is eligible according to Section 5;

7) demonstrate its financial accountability by:

a. submitting a financial information report for the organization, conducted by the certified public accountant, that complies with uniform financial accounting standards established by the department; and

b. having the auditor certify that the report is free of material misstatements.

8) file with the department prior to the start of the school year financial information that demonstrates the financial viability of the scholarship organization if it is to receive donations of $50,000 or more during the school year.[27]

B) Notwithstanding the above, each scholarship organization may keep no more than 25 percent of total revenue from the previous fiscal year unused in a reserve fund. Any unused revenue in excess of this amount must be remitted to the taxpayer on or before a date one month prior to the tax filing deadline.[28]

Section 9: Responsibilities of the Department of Revenue[29]

A) The department shall develop a standardized form for education service providers to document the amount paid by a parent for qualified educational expenses.

B) The department shall ensure that parents are aware of the Early Education Tax Credit and that all procedures for claiming the credit are easy to follow.

C) The department shall establish guidelines for parents to easily assign their tax credit to their student's qualifying school and to easily adjust their state income tax withholding to reflect tax credit claims.[30]

D) The department shall require all scholarship organizations to register and annually report the information the department needs to carry out its responsibilities.

E) The department shall adopt rules and procedures consistent with this act as necessary to implement the Early Education Tax Credit Act.

F) The department shall annually report to the legislature on the number of parents claiming the tax credit, the dollar amount of the credits claimed by parents, the number of schools accepting eligible students who received a tax credit or educational scholarship, the number of scholarship organizations, the number and dollar amount of contributions to a scholarship organization, and the number and dollar amount of educational scholarships given to eligible students.

G) The department shall have the authority to conduct either a financial review or audit of a scholarship organization if possessing evidence of fraud.

H) The department may bar a scholarship organization from participating in the program if the department establishes that the organization has intentionally and substantially failed to comply with the requirements in Section 8.

I) If the department decides to bar a scholarship organization from the program, it shall notify affected scholarship students and their parents of this decision as quickly as possible.

J) The department shall allow a taxpayer to divert a prorated amount of state income tax withholdings to a scholarship organization of the taxpayer's choice up to the maximum credit allowed by law, including carry-over credits. The department shall have the authority to develop a procedure to facilitate this process.[31]

K) A qualifying school is autonomous and not an agent of the state or federal government. Neither the department nor any other state agency may regulate the educational program of a provider of educational services that accepts payments from eligible students under this program. The creation of the Early Education Tax Credit program does not expand the regulatory authority of the state, its officers, or any local school district to impose any additional regulation on education service providers.

Section 10: Effective Date

The Early Education Tax Credit may first be claimed in the next calendar year.[32]

NOTES ON THE EARLY EDUCATION TAX CREDIT ACT

These notes are intended to provide guidance to legislators on some of the key policy questions they will encounter in drafting and debating school choice tax credit legislation.

[1] The model legislation has been drafted to make the tax credits for tuition and scholarship assistance immediately available in the next tax year. This may represent too great a transition for the state to make at one time. To increase competitive density and help maintain fiscal neutrality, both the personal use and donation credits can be phased in by age group, starting with the youngest children. It is important to use students' age rather than school grade as a phase-in metric, since some schools do not use a rigid age-based grading system.

[2] The definition of "educational expenses" has been left intentionally broad. Parents should be allowed to choose the combination of educational products and services that best serves their children. Limiting education tax credits to tuition at a traditional brick-and-mortar school significantly compromises consumer freedom, inhibiting the use of alternative educational services and the development of a truly innovative education market. It is particularly important to allow room for, rather than to discourage, the further development of educational services such as distance learning, tutoring, and education support networks such as those for home schooling. Legislators should clearly define categories of expenses that they wish to allow because experience has shown that some hostile revenue agencies have disallowed legitimate homeschooling expenses such as music and language lessons. When enumerating such legitimate expenditure categories, the legislation should note that such lists are not meant to be exclusive, using language such as "eligible expenses include, but are not limited to, the following…."

This model legislation allows students to use a scholarship to attend a government school outside their district as well as a nongovernment school. Parents should have the widest possible array of choices so that they can choose the school that best meets their child's needs. Making sure parents can choose either a public or nongovernment school is not only the right policy but also the best legal strategy. The U.S. Supreme Court and various state courts have all cited this broad array of choices as an important part of the reason they have found school choice programs constitutional. In addition to ruling that tax credits are not "public money," the courts have reasoned that these tax credit and scholarship programs are not an inappropriate subsidy of religious institutions because the purpose was secular (the education of children) and the parents were given many options including government schools, charter schools, nonpublic secular schools, and nonpublic religious schools. If a state already has open enrollment or some other form of government school choice, then this legislation should be made consistent with the existing program. In fact, if a state already has a broad array of school choice options available to parents, then a state may be able to add an option for nongovernment schools without encountering constitutional questions.

[3] Provisions that allow tax credit donations to government schools are typically viewed as a political compromise necessary for passing school choice legislation, but it is a counter-productive policy feature. Adding additional private funding streams to the government system through tax credits reduces the beneficial competition between the sectors, exacerbates the existing financial discrimination against independent schooling, and thereby reduces the benefits of the program to the educational system.

If a government school compromise must be made, it could include a provision allowing parents of children in government schools to opt for tutoring services provided *outside* the government system *in place of* class time for the particular subject and claim tax credits for those expenses. In other words, parents would be authorized by the legislation to have their children opt out of a subject, such as mathematics, and provide for their education in math through an independent school or tutoring service such as the increasingly popular Kumon chain. This approach expands options for children in government schools without sending additional funds directly to those schools. The schools will, of course, benefit from reduced class sizes in those subjects with which parents are dissatisfied. Parents in turn will be introduced to the services offered by independent education providers and to the concept of being education consumers with expanded options.

[4] This provision is meant to allow the greatest flexibility possible in a child's education while requiring that parents adhere to state laws regarding compulsory education and homeschooling. The definition for an eligible student in this model legislation includes students already enrolled in government schools outside their districts and in nongovernment schools. As a result, some families presently sending their children to schools of their choice will qualify for Early Education Tax Credits. This may reduce initial savings from the program. As more former or prospective public-school students opt for private education services, however, the program will become a large source of net savings to taxpayers. A fiscal analysis demonstrating these savings is forthcoming.

[5] Note that this requires that the property tax credit *claimed* must go to a child who *resides* in the school district where the property tax credit is claimed. This will ensure that the district that forgoes the tax revenue will be the same one that benefits from a student transfer out of the government system. The child using the credit funds can attend school at any location.

[6] Government school spending should be tied to enrollment and calculated on a per-pupil basis so that government schools are funded only for the children they actually enroll. In states where this is not the case, legislators should consider passing legislation for this purpose first or incorporating such changes into the Early Education Tax Credit Act. This will prevent what could become a rapid build-up of per-pupil funding to astronomical levels in the government system as kids leave for the private sector, which would put independent schools at an even greater disadvantage. In the event of such a process, however, the rapidly building independent education sector and the scandal of massively increased funding for decreasing student populations should provide political leverage for changes to the education funding formula.

[7] To create the most robust education market possible, all taxpayers must be allowed to pay for a student's education directly. Extended family members, friends, and employers may thereby assist parents by directly paying for some or all of the student's educational expenses rather than routing such funds through scholarship organizations. This flexibility in funding streams will ensure a strong, personal network of support for education and foster widespread community involvement in education. Organizations such as community groups and churches will be able to act as scholarship organizations, and individual members will be able to support fellow members directly as well.

[8] Tax credit refundability is a tempting method of providing more education funds to low-income families who lack a tax liability sufficient to cover their educational costs, but this mechanism makes a tax credit bill vulnerable to the same kinds of legal challenges that have successfully been used to overturn many voucher programs. A key legal strength of education tax credits is their legal status as private, rather than public funds. Numerous state and federal court decisions have ruled that tax credits do not constitute

“public funds” and therefore cannot violate any of the numerous state constitutional provisions prohibiting the use of government funds at religious schools. This bill provides for the support of low-income children through tax credits donated to scholarship organizations as well as for direct support of children by family members, friends, and employers.

[9] Individual incomes and corporate profits are often quite volatile. As a result, taxpayers may not have a liability against which to claim a credit in certain years. Yet a student’s need for tuition payments or scholarship assistance is likely to be relatively constant. Therefore, taxpayers should be allowed to carry forward unused tax credits into other tax years to ensure that parents eventually receive the financial assistance for their child’s tuition and that contributors have an incentive to continue contributing to scholarship organizations even in years when they have no tax liability.

[10] Some tax credit proposals cap the total spending for the program at a dollar amount, and others limit the percentage of tax liability that can be claimed. However, because some taxpayers will be eager to participate in the education tax credit program and some will not wish to participate at all, it is essential to allow those who are interested in participating to claim all of their tax liability in order to provide a ready and reliable flow of funds. The total cost of the program will instead be controlled through the child credit cap defined in Section 5(C), as well as by the stipulation that scholarship organizations may not carry a reserve account larger than 25 percent of the scholarships awarded in the past year.

[11] If a family has an income tax liability greater than the amount they claim for any dependent children, they may claim the balance in donation tax credits to scholarship organizations or in direct payment of education expenses for eligible students who are not claimed as dependents. This allows higher-income families to support their own child’s education and still support lower-income children through donation tax credits. See note 10 above for fiscal and other concerns.

[12] There is often a wide range of additional state taxes specific to businesses. These taxes should be added to the bill language in each state to allow businesses to claim credits against them.

[13] See http://www.irs.gov/publications/p600/index.html for the main site and for the 2006 tables see http://www.irs.gov/pub/irs-pdf/p600.pdf

[14] Property taxes can be complicated and vary greatly across the country and within states. An alternative approach to instituting a state property tax credit is to pass state legislation allowing municipalities to enact property tax credits of their own. This would allow local and county governments to control revenue that is raised locally, and thus reduce the complexity that can compound at the state level.

[15] In some states, most notably Pennsylvania where the courts have prohibited tax breaks for any subset of taxpayers, “uniformity” clauses in the state constitution can make

constructing a viable tax credit program more difficult. Such interpretations require that all individual taxpayers be taxed at the same rate, not simply that they are all able to take advantage of a tax benefit. This means that tax credits and deductions for individuals are prohibited. In Pennsylvania, the state Supreme Court has ruled that tax credits and deductions for any subset of taxpayers are unconstitutional but allows these for corporations (Pennsylvania has a thriving corporate donation tax credit program). Other states have similar restrictions on the taxation of property, thus making property tax credits more difficult to implement.

One way to address these "uniformity" restrictions is to provide automatic tax credits to all individual taxpayers, at the same rate, for education expenses. The tax credit can be claimed by tax filers who submit receipts of their education expenses. The credit allocated to taxpayers who do not claim the credit for expenditures listed in their tax return will be automatically deposited by the state into an "Education Trust Fund," created by the same statute, dedicated to funding the government education system. A check box might be used on state tax forms requiring the taxpayer to check either "Education Trust Fund" or "Other Educational Expenses," with the latter requiring the submission of receipts for donations or tuition against which to claim the credit. A similar system could be established to avoid uniformity problems with property tax credits.

Choice provisions with solid court precedent in support of their constitutionality are often challenged as a matter of course by choice opponents. Any program like the one described here will likely be challenged on the grounds of uniformity and other provisions. This approach has not been tried in any state, and its constitutionality under a strict "uniformity" precedent therefore remains an open question. Its constitutionality does, however, appear probable under such restrictive rulings.

[16] This legislation addresses variations in family need only in terms of income. Many school choice bills in recent years have addressed the more complicated, personal, and specific requirements of special-needs students. The programs, such as Florida's John M. McKay Scholarship for Students with Disabilities (Title XVI, Chapter 229.05371), require that the special-needs student have an Individualized Education Plan and have been enrolled in government school in the prior year. Because of these additional complications and the special character of the targeted student population, we recommend drafting separate legislation to address the needs of students with disabilities.

[17] This provision ensures that a family can claim no more than the child credit cap allowed under the program, regardless of any combination of scholarships or personal use tax credits.

[18] This provision ensures that families will only be able to use scholarships to fill the gap between what they can pay through their own funds and the total allowed child credit cap. This will prevent unwarranted "double-dipping" by families claiming tax credits on their own liabilities and also using scholarships. Because families are the consumers of educational services and the unit that qualifies for the benefits of various tax credits, it is most efficient and effective for each family to determine and document its own eligibility. A family's eligibility is determined by family income. Family income

determines the level of the child credit cap and, therefore, the dollar amount they are able to use for each dependent eligible student. Any amount left between their own tax liability and the total child credit cap is the scholarship amount for which they are eligible.

The goal of this legislation is to give all parents the opportunity to send their children to the schools that best meet their needs, regardless of family income. The need for scholarship assistance is obviously greatest among low-income families. This requirement ensures that scholarship assistance is targeted to the families who need it. Direct payment of educational costs by parents is the ideal funding mechanism, associated with greater school efficiency and responsiveness, and so third party payment should be limited to an as-needed basis.

[19] Most tax credit legislation uses a total dollar cap on the donations that can be made. In contrast, this model legislation caps the total benefit on a per-child basis, using a means-tested percentage of per-pupil spending in government schools. This is more equitable because it adjusts the cap according to both family need and state budget considerations, allows all taxpayers the opportunity to donate as much of their tax liability as they desire, and eliminates the need for an arbitrary cap on the dollar amount of the tax credit program. Because the credit cap is always less than per-pupil spending in government schools, it also ensures that taxpayers are saving money on education whenever parents use tax credits to switch their child from public to independent education. Using a percentage of per-pupil spending in government schools as the basis of the credit cap also helps reveal the falsehood of claims that choice programs drain money from government schools.

The exact amount of the tax benefit and the income cut-offs given here is a best estimate of how to balance the concern with eliminating the tax penalty incurred when a family sends their child to an independent school and the concern with ensuring that parents directly support their child’s education with the minimum tax benefit possible. Many choice supporters will come to different conclusions depending on their concerns and political necessities.

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[21] In the interest of keeping costs down and encouraging direct, non-tax-credit parental financial contributions to their child's education, and also in recognition of the lower average cost of private education, middle-class families are limited by a child credit cap of only 60, 50, or 40 percent of the funding benchmark. Individuals take the most care with decisions that involve personal direct payments. The relatively modest child credit cap will therefore strengthen consumer responsibility. The child credit cap for family use is phased down at higher income levels. In recognition of the greater needs of children in lower-income families, the larger child credit cap of 70 percent is warranted. Determining the credit cap through a single function of income that would produce a continuous and decreasing curve would provide a more concise but potentially more difficult approach to means-testing.

Concern over the fiscal impact of tax credits used for children already in independent schools should be addressed first by reducing the credit cap amount across the board rather than excluding families already in the private sector. This is first a matter of fairness, as these families deserve education tax benefits as much as anyone. It is also a matter of coalitional politics, as families already in the independent education sector are the strongest base of support for school choice and will help ensure the program's success and defense in early years. Cost could also be minimized and adjustment time maximized by phasing in the program according to the age of the child, as discussed in note 1.

[22] This legislation allows for a small personal-use credit for higher-income families in recognition of their higher share of the overall tax burden and in the interest of additional savings from high-income switchers who cause substantial savings to state and local governments. However, this credit could be phased out entirely for higher-income families in order to prevent unnecessary and possibly counterproductive subsidization of education. As noted above, individuals take the most care with their own money and any government tax benefit can be subjected to political pressure for expansion.

[23] Unlawful behavior is an unfortunate but inevitable problem, and all laws are subject to some level of abuse. To discredit the program, choice opponents often portray abuse as peculiar to the school choice program, rather than as an unavoidable problem in a free society (and in conventional government schooling). The simple record keeping required here will reduce the temptation among criminals to abuse the program and will provide schools, taxpayers, and government officials with an easy method for resolving many questions and conflicts without the need for a full audit. Although ideally, it would be preferable to have no government-imposed record-keeping requirements, the real-world potential for abuse makes necessary some mechanism for dissuading and discovering such abuse. Record keeping that allows quick and comprehensive follow-up to any complaints will help preempt calls for tighter restrictions on consumer and producer freedom and help prevent the accumulation of burdensome regulations that are portrayed as attempts to eliminate program abuses.

[24] Because families are the consumers of educational services and the unit that qualifies for the various tax credits, it is most efficient for each family to determine and document its own eligibility. Requiring families to list identifying information for any scholarships and donations for which tax credits were claimed will ensure that a simple and easily cross-referenced record is available in the event that fraud is alleged.

[25] The model legislation requires the establishment of scholarship organizations to protect and inform scholarship recipients, frustrate attempts at fraud, and measure the effect of the program without heavy government regulation of private contributions and independent schools. Incentives for rigorous self-regulation are preferable to intrusive and often counterproductive government regulation.

[26] Legislators and the public generally seek more regulation of programs directly funded by the government than of tax credit programs because, according to legal precedent and common perception, tax credits are private funds kept by taxpayers rather than public funds expended by governments. Markets are most effective when they can operate freely; however, insufficient accountability can produce situations that undermine public and legislative support for a program. Thus, this proposal recommends minimal state regulations for scholarship organizations and individual participants in the tax credit program. These regulations should, at most, reflect general state standards for nonprofits and the requirements for claiming other tax credits or deductions. These regulations should rely to the greatest extent possible on basic record keeping for reference in the event that fraud is suspected.

Some critics of school choice programs will demand that participating schools comply with all of the regulations placed on government schools in order to ensure "academic accountability" for taxpayers. The effect of such restrictions would be to either kill the program by diminishing school participation rates, or to eliminate its ability to produce market benefits by stifling specialization and the division of labor. Parental and taxpayer accountability and transparency are the most effective accountability provisions and these are ensured in the legislation—to a far greater extent than exists under current government monopoly school systems.

[27] Surety bonds can be expensive or intrusive for some institutions, so the legislation allows these organizations to demonstrate by some other means that they have the financial wherewithal to fulfill their scholarship obligations. This might include personal guarantees, reserve accounts, or escrow accounts.

[28] Because tax credits can be carried forward for up to three years, a person filing taxes early who is refunded a donation by a scholarship organization that is over its limit may attempt to donate the credit again the next year or include the amount in the total tax liability owed in the next year.

[29] One major component of other model bills has been left out of this legislation: mandated external program evaluation. Additional evidence that school choice results in greater student achievement and parental satisfaction at a lower cost per pupil is

potentially helpful for encouraging program support. But such additional evidence will not likely prove decisive in expanding or reducing support after passage. The cost of the program will be easily determined through the state Department of Revenue. A mandate for studying program effectiveness imposes additional costs on the program while providing little or no data to support the effectiveness of the program during the crucial first years of implementation.

In addition, school choice programs need time for schools and market mechanisms to mature before the full benefits are seen. Premature evaluation may result in premature judgments of the program's effectiveness. The furor over the general absence of statistically significant academic gains in the Washington, D.C., voucher program after children had been enrolled in schools of choice for an average of only seven months is a case in point. (See Amit R. Paley and Theola Labbé, "Voucher Students Show Few Gains in First Year," *Washington Post*, June 22, 2007, B1.)

Furthermore, by requiring such studies the government would be imposing a de facto standardized test on the independent schools by defining the parameters of success rather than relying on the judgment of parents, taxpayers, and scholarship organizations. That is a dangerous precedent with which to begin a school choice program.

More important to the long-term survival of the program is the diverse and widespread participation of individuals, families, community associations, scholarship organizations, and businesses. Any additional state money would be better spent on advertising the existence of the program and publishing brief guides to individual and organizational involvement in the tax credit program. Academic institutions, state policy organizations, and other interested parties are likely to study the effects of the tax credit program without a state-mandated project.

[30] Parents may wish to assign their anticipated Early Education Tax Credit to their child's qualifying school, which allows them to effectively pay part or all of their tuition in the fall by promising the tax credit to the school. The cash flow challenge is thus shifted from the family to the school (and, if necessary, schools would be able to borrow funds using the assigned tax credits as collateral). The department will therefore facilitate any such arrangements by providing the necessary guidelines and documentation.

[31] The legislation allows the department to establish a mechanism that facilitates regular contributions from a taxpayer's income tax withholdings to a scholarship organization in anticipation of the taxpayer claiming a tax credit. This would likely encourage greater contributions to scholarship organizations.

[32] It is fairly common for legislators to consider including severability clauses in new legislation. Legislators should make sure that if such clauses are included and exercised, the remaining legislation produces a program that is workable and achieves the original intent of the bill.

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APPENDIX B: THE EETC IN ACTION

The legislation to establish and Early Education Tax Credit can appear more complicated than it is, and the need to spell out all provisions in technical detail can make it difficult to see the big picture. The examples below show how the act would work for a variety of families and businesses. Two short scenarios and a few longer examples highlight the flexibility and comprehensive coverage of the EETC Act.

- **Lower-Income Family—Short Example**

  Nancy Williams just moved to a new city to look for work. She found a job right away but isn't earning much money, doesn't have a partner, and has no family in the area. The biggest worry for Nancy is her 4-year-old daughter, Sophie. Right now a neighbor is looking after Sophie while she works, but that won't last very long. Nancy needs to find good daycare or preschool for her daughter in order to keep her job, but she can't afford any of the programs on her salary.

  On top of her childcare problems, Nancy's sixth-grade son John is getting in trouble at school and falling behind academically. Nancy knows she needs to get John out of the failing school he's assigned to but can't imagine how she would pay for tuition. The Catholic school down the street only costs $2,500 for preschool and grade school, but that's still far beyond what Nancy can pay and the school is struggling to maintain the scholarships they already give out to neighborhood kids.

Luckily, Nancy's neighbor tells her about a scholarship organization that helps out with his own daughter's tuition and will fund preschool for Sophie and grade school for John.

Nancy calls the school the next day at lunch, and they tell her that she clearly qualifies to get John and Sophie scholarships. The scholarship organization will cover $2,340—all but $160 for the year for each child. She knows that saving even that small portion of the tuition will take an effort, but the scholarship organization promises to help her with financial planning. Nancy is relieved to know that John will be in a safe, disciplined environment next year with a solid academic reputation and her daughter Sophie will be engaged in a rigorous preschool.

- **Middle-Income Family—Short Example**

Mr. and Mrs. Jones have an 8-year-old daughter, Emily, and an income of $60,000. They have been thinking about switching her to a private school down the street that is great in math and science, which she enjoys, but the $4,800 tuition is out of their price range.

The Joneses started asking some friends with older kids about their options, and one couple told them that they should take a look at the state education tax credit program, which lets them keep their money to spend on education instead of sending it to the state in taxes. It sounded too good to be true, but Mr. Jones looked at an information page online and saw that they could use the $4,000 they owed in combined state income, sales, and local property taxes to help pay for the Montessori school.

That weekend, the Joneses took a look at their budget and saw that they could pay the $1,000 left on the tuition after claiming their tax credits if they made some changes to their budget. The Joneses quickly signed Emily up for the next year and started telling all of their friends about the great tax credit program that let them control their own education funds.

- **Lower-Income Family**

Mr. and Mrs. Smith have one child, Joe, and a family income of $30,000. They live in a state that spends $10,000 per student in the government system (the national average is over 12,500).[1] Because their income is less than $50,000, they can use Early Education Tax Credits worth 70 percent of government school per-student spending, which means $7,500 (that limit is called the "child credit cap").

During the summer, the Smiths aren't sure what they are going to do, but they know they need to get Joe into a better school. The one he's assigned to just isn't working for him. They've talked to friends and neighbors and have heard about a state program to help parents do exactly what they want to: choose another school for Joe. When they ask friends from their church, they discover that it actually runs a scholarship program to help parents choose a school. The church established its own scholarship organization a few years back by filing an application with the state, an easy process since it was already a registered nonprofit. The Smiths get some pamphlets the next Sunday and set up an appointment with an administrator to talk about their options.

[1] Figure derived from most recent Census figures on combined expenditures on education, updated for inflation using the CPI. http://www.census.gov/govs/estimate/0600ussl_1.html

At the meeting, Sue, from the church's scholarship organization, explains the program and gets them started. The Smiths have a small state sales tax credit that they can claim for education expenses. But that only comes to about $500 for the year. They are going to need a lot of help to get Joe into a better school.

Sue tells the Smiths that they can use up to $7,500 total under the tax credit program. Of that amount, they can get $7,000 in scholarships and claim the remaining $500 in credits from their own tax liability. Sue says that the church will be happy to give Joe scholarship money to go to a good school, but she reminds them to ask relatives if they can help out too. She explains that Joe's grandparents or uncle, or even a family friend or employer, can help pay and claim tax credits for Joe's education expenses (thanks to the credit, their contributions may cost them little or nothing).

Sue gives the Smiths a few forms and helps fill them out. She also gives them a list of private schools in their area to investigate. Then she sets up another meeting so they can see how much scholarship money Joe will need to go to the school his parents choose.

At their next meeting, the Smiths tell Sue that Apple Elementary looked great, and that Joe's grandparents filled out their form to claim $1,000 in tax credits on their taxes that year and write a check to the school. Since Apple Elementary costs $3,000, Sue files the church scholarship application for $1,500, along with a $500 loan that will let Mr. and Mrs. Smith pay their share up front, and tells them that they will have their confirmation letter in a week. The Smiths file their application with Apple Elementary and hear back in a few weeks that Joe has been accepted for the fall.

- **Middle-Income Family**

Mr. and Mrs. Johnson have two children, Jack and Jill, and a family income of $58,000. They live in a state that spends $10,000 per student in the government system. Because their income is less than $75,000, they can use Early Education Tax Credits worth 60 percent of government school per-student spending, which means $6,500 for Jack and $6,500 for Jill (the child credit cap).

During the summer, the Johnsons made a tough decision. Their daughter Jill is doing well at the government school she's assigned to, but Jack is really struggling. They know Jack needs to go to a school that has more structure and discipline but don't know how they can pay for tuition at Maple Middle School, a school they know has done wonders with a boy who used to play soccer with Jack.

Mrs. Johnson remembers reading something in the newspaper about a state program that gives parents a tax break to help pay for education expenses, just like their mortgage tax deduction helps them with house payments. Mrs. Johnson calls Maple Middle School to ask about applying to the school and to find out more about the education tax break. She sets up a meeting for the next week. In the meantime, Mrs. Johnson looks at the Early Education Tax Credit information website the man at the school recommended.

The Johnsons find that they can claim a sizeable amount of money in tax credits. Between their property taxes that fund local schools, sales taxes, and income taxes, they can claim $3,000. Mrs. Johnson also finds out that her employer has an employee donation policy and will pay $2,500 for each child of every employee—because they can adjust their tax payments and claim a tax credit for the donation, it only costs them a little paperwork. Also, Mr. and Mrs. Johnson discover they can adjust their state income tax withholding according to the state sales and income tax credits they will claim at the end of the year. That way they won't have to pay everything out-of-pocket before they file their return.

The Johnsons are excited but still a bit concerned because Maple Middle School costs $6,500 and they only have $5,500 in credits so far. They speak with the school admissions advisor, and he informs them that the school has a scholarship fund supported by former students and community businesses that can be used to help fill the gap. The Johnsons are eligible for up to $3,500 in scholarship funds, because their tax liability is only $3,000 and their child credit cap for each child is $6,500. Since Mrs. Johnson's employer gave them $2,500, they can use $1000 in scholarship funds. The Johnsons and the admissions advisor work out a plan whereby the school scholarship fund will give Jack $500 and the Johnsons will pay the last $500 out of their own pocket without a credit.

The school advisor gives them a few papers to fill out, and the Johnsons rest easy knowing that Jack will be in a school that's a better fit this year. And they now know they can get more help for Jill if she needs to switch schools later on. Mrs. Johnson's employer would donate another $2,500 in credits if Jill needed to find another school, and they would be eligible to get Jill another $4,000 in scholarship funds since they used all of their personal tax credits on Jack. The school advisor assures them that they can work out a combination of scholarships and payments if they find that Maple Middle School or Oak High School is where Jill would do best.

- **Upper-Income Family**

Mr. and Mrs. Garcia have one child, Isabel, and a family income of $200,000. They live in a state that spends $10,000 per student in the government system. Because their income is more than $150,000, they can use Early Education Tax Credits in the amount of $2,500 for Isabel. But they can claim credits on 100 percent of their eligible tax liability for donating money directly to another family or to a scholarship fund.

Mr. Garcia heard about the state education tax credit program on a radio news program and talked about it with a friend and business colleague over lunch. His friend said he'd learned about it through his accountant and business manager, who recommended it as a good option for his business and for him personally—it's a great way to help people and donate money instead of letting it be wasted by the government school bureaucracy, he said.

Mr. and Mrs. Garcia spoke about it that night, and the next day Mr. Garcia met with his accountant. The Garcias can claim credits on $24,500 of sales taxes, property taxes that fund local schools, and income taxes. They use $2,500 to help pay for Isabel's tuition and decided they want to divide the rest of their available credits among a few different scholarship organizations: $15,000 would go to a scholarship organization that works with schools that have tremendous success raising achievement levels of children from lower-income families in the city; $5,000 would go to a scholarship organization at a school that specializes in science and math (since

Mr. Garcia is an architect and Mrs. Garcia is a biologist); and $2,000 would go to the scholarship organization to help families at the school where Isabel is enrolled.

The Garcias are excited to be able to spend their money directly on schools that work and the kinds of education that they personally find important.

- **Business**

The scenario for businesses is much the same as the example for a high-income family, because most businesses are S-Corps or LLCs, where business income is treated in many ways like individual income. All corporations would be allowed to claim tax credits for donations to scholarship organizations and expenses incurred in support of a qualifying student's education expenses.

The Early Education Tax Credit Act is model legislation that doesn't address each state's specific taxes. Businesses should, however, be allowed to claim tax credits against any state business taxes in addition to property and income taxes. In addition, businesses could donate directly to employees or other parents needing aid for the education of their eligible children.

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