



## Frequently Asked Questions about Pennsylvania's Educational Improvement Tax Credit (EITC) and Vouchers for Private and Religious Schools

by Susan Spicka and Eugene Henninger-Voss | June 2022

### Executive Summary

Pennsylvania has two programs that give tax money to private schools: the **Educational Improvement Tax Credit (EITC)** and the **Opportunity Scholarship Tax Credit (OSTC)** programs. Each year, EITC and OSTC provide \$230 million to private scholarship organizations, or “SOs,” which award tuition vouchers to families whose children attend private and religious schools.

Because the Pennsylvania Constitution prohibits using tax dollars for religious education, the EITC and OSTC programs are workarounds designed to evade this prohibition. Instead of paying their taxes to the Commonwealth, companies direct their tax payments to an EITC or OSTC “scholarship” organization. These businesses get to take credit for making donations to private and religious schools via these EITC and OSTC programs even though all they really did was pay what they owe in taxes to an organization instead of to the Commonwealth, leaving their fellow taxpayers to fill the \$230-million hole their diverted tax dollars left behind. And since such “philanthropic” contributions are likely to lower federal taxes for those that pay them, after getting both a state and federal tax break, some businesses may not be making any net contribution at all.<sup>1</sup>

To compound the problem, there is virtually no financial or academic accountability in the EITC/OSTC programs.

Scholarship organizations that receive diverted tax dollars are allowed to keep up to 20% of the total funding they receive, the highest amount allowed by any state that has a similar program. There is no legislative or public oversight over these tax dollars and no reporting requirements for how SOs spend these dollars.

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<sup>1</sup> Stephen Herzenberg and Rachel Tabachnik, “Still No Accountability With Taxpayer-Funded Vouchers for Private and Religious School Tuition,” Keystone Research Center, April 15, 2017, 3. [https://krc-pbpc.org/research\\_publication/still-no-accountability-with-taxpayer-funded-vouchers-for-private-and-religious-school-tuition-3/](https://krc-pbpc.org/research_publication/still-no-accountability-with-taxpayer-funded-vouchers-for-private-and-religious-school-tuition-3/).

These programs aren't designed to direct funds to poor children. In Pennsylvania, the school voucher law sets the family income limit of roughly 500% of the federal poverty level, or \$130,710 for a family of four, the highest in the nation for any state with a similar program that has an income limit.<sup>2</sup> Because there are no public auditing powers associated with these programs, EITC/OSTC funds can support families whose incomes significantly exceed the limit. In addition, there is no policing of "side deals", under which wealthy families make contributions via EITC/OSTC in exchange for reduced tuition for their own children.<sup>3</sup>

A prohibition in the law against collecting data about the socio-economic status of voucher recipients means no one knows how many children need a voucher to attend a private/religious school versus how many vouchers are given to families who could send their children to a private/religious school without one. State law also prohibits collecting any information about the academic performance of students who receive vouchers.

Discrimination is a feature, not a bug, of the EITC/OSTC programs. Pennsylvania law allows private/religious schools that receive diverted tax dollars to discriminate against students for reasons including their sex, disabilities, sexual orientation, religious beliefs, socioeconomic status, and gender identity or expression.

The EITC/OSTC programs take money out of the state budget, and they serve a narrow set of special interests at the expense of everyone else.

Funding for K-12 private/religious school vouchers via the EITC/OSTC programs has increased nearly twelvefold over the past two decades, yet Pennsylvanians know virtually nothing about how \$1 billion has been spent, who has benefited from these programs or the programs' impact on student achievement.

This is news to many people, including legislators. We need to be clear about the EITC/OSTC programs—about who they help, who is harmed, and what the financial cost is. In 2022, the cost was \$230 million—this is a lot of money that could help close the funding gap for many public schools.

The Educational Tax Credit program in Act 4 of 2001 introduced taxpayer-funded school vouchers to Pennsylvania. This program, which originally received \$20 million in funding for private / religious school vouchers, has expanded to include the current Educational Improvement Tax Credit (EITC) and Opportunity Scholarship Tax Credit (OSTC) programs, which today receive a combined \$280 million each year, \$230 million for taxpayer-funded vouchers to attend K-12 private and religious schools. Funding is distributed in this way:

- EITC scholarship organizations for private/religious schools: \$175 million
- EITC funding for educational improvement organizations (EIOs): \$37.5 million
- EITC funding for pre-K scholarship organizations: \$12.5 million
- OSTC scholarship organizations for private/religious schools: \$55 million

This "frequently asked questions" document focuses only on the \$230 million in funding for EITC and OSTC programs that provide vouchers to students who attend private/religious schools.

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<sup>2</sup> Independent Fiscal Office, "Educational Tax Credits: an Evaluation of Program Performance," Commonwealth of Pennsylvania, January 2022, 1.

[http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/TC\\_2022\\_Educational\\_Tax\\_Credits.pdf](http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/TC_2022_Educational_Tax_Credits.pdf).

<sup>3</sup>Herzenberg and Tabachnik, "Still No Accountability With Taxpayer-Funded Vouchers for Private and Religious School Tuition," 3.

## **How do the EITC and OSTC programs work?**

The **Educational Improvement Tax Credit (EITC)** and **Opportunity Scholarship Tax Credit (OSTC)** are programs administered by the Pennsylvania Department of Community and Economic Development (DCED).

EITC and OSTC work by reducing taxes paid by businesses to the state when they contribute to scholarship organizations that provide vouchers for children to attend a private or religious school.

EITC vouchers are available to all students who meet program requirements. OSTC vouchers are available to students who meet the program requirements and live within the attendance boundaries of a low-achieving school as determined by the Pennsylvania Department of Education.

Tax credits may be used to reduce Pennsylvania personal income taxes, corporate net income taxes, bank and trust company shares, title insurance shares, insurance premiums, mutual thrift institutions, malt beverage tax, and surplus lines taxes in the taxable year in which the credit is issued.<sup>4</sup>

The reduction in taxes that businesses receive for their participation in the programs is equal to 75% of the contribution for a one-year commitment to the program or 90% of the contribution if it is part of a two-year commitment. Effectively, the state is funding 75% or 90% of the contribution, and the business is funding 25% or 10% of the contribution—in fact, it could be even less in some circumstances because the contributions may also lower federal taxes.

In sum, businesses in Pennsylvania divert 75% or 90% of their tax dollars out of the state Treasury and into EITC/OSTC scholarship organizations to fund vouchers for private/religious school students, leaving less money available in the state budget to fund public schools, human services, environmental protections, and other things that benefit our communities.

## **What are the requirements for scholarship organizations?**

Organizations that wish to be included in the Department of Community and Economic Development list of Scholarship Organizations must be a 501(C)(3) nonprofit entity and contribute at least 80% of the EITC funding they receive to an approved scholarship program.

## **How much EITC/OSTC funding are scholarship organizations required to distribute as scholarships?**

Scholarship organizations are required to distribute 80% of the funding they receive as scholarships. They are allowed to keep the rest—up to 20% of the contributions they receive, or up to a total of \$46 million each year. Pennsylvania is an outlier in allowing scholarship organizations to keep such a high percentage of funding. Other states with similar programs typically allow scholarship organizations to keep 5%-10% of the funding they receive. Florida allows organizations to keep just 3%.<sup>5</sup>

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<sup>4</sup> Independent Fiscal Office, “Educational Tax Credits: an Evaluation of Program Performance,” 6.

<sup>5</sup> Independent Fiscal Office, “Educational Tax Credits: an Evaluation of Program Performance,” 19.

**Do scholarship organizations have to report how they spend the 20% of EITC/OSTC funding they are allowed to keep?**

No. The only reporting requirement for scholarships is a 2-page document that includes information about the number of scholarships awarded, the total dollar amount awarded, the average scholarship amount, and the number of scholarships awarded to each county.<sup>6</sup> There are also no guidelines for how these organizations should spend their 20% cut of the funding.

Lax reporting standards and an absence of public auditing mean that there is no safeguard against the misuse of tax dollars by scholarship organizations that receive EITC/OSTC funding.

**Are private/religious schools that receive EITC/OSTC voucher funding allowed to discriminate against students by refusing to enroll them?**

Yes. Pennsylvania law allows private/religious schools that receive diverted tax dollars to discriminate against students for almost any reason, including their sex, disabilities, sexual orientation, religious beliefs, socioeconomic status, and gender identity or expression.

**Are the EITC and OSTC programs designed to benefit poor students?**

No. Families with a household income of \$96,676 plus \$17,017 per dependent child (\$130,710 for a family of four) are eligible to receive vouchers. This amount is roughly 500% of the federal poverty level for a family of four, higher than all other states that have an income limitation in their school voucher program.<sup>7</sup> An annual family income of more than \$130,000 would put a family in the top 17% of families by income, according to a Keystone Research Center analysis of 2019 and 2020 American Community Survey data.

**How many low-income students receive EITC/OSTC vouchers?**

No one knows. State law prohibits the collection of this information.

A 2019 analysis of 151 schools that administer their own tax credit scholarship programs showed 57 schools reported enrolling no low-income students at all. Another 15 schools reported fewer than 5% low-income enrollment.<sup>8</sup> (WHYY, June 26, 2019)

**Do elite private schools benefit from the EITC/OSTC programs?**

Yes. Please see Appendix A in this report for an analysis of the \$13.8 million in EITC/OSTC contributions to Pennsylvania's 25 most expensive and elite private schools in 2019-20.

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<sup>6</sup> Pennsylvania Dept. of Community and Economic Development, "Educational Improvement Tax Credit Program: Organization Guidelines and Application for Scholarship and Educational Improvement Organizations," Commonwealth of Pennsylvania, October 2021, <https://dced.pa.gov/download/eitc-organization-guidelines/?wpdmdl=84187> Appendix V.

<sup>7</sup> Independent Fiscal Office, "Educational Tax Credits: an Evaluation of Program Performance."

<sup>8</sup> Avi Wolfman-Arent, "'Trapped' on the Main Line: Expensive private schools benefit from Pa. tax credits but report zero low-income students," WHYY, June 26, 2019, <https://whyy.org/articles/trapped-on-the-main-line-expensive-private-schools-that-benefit-from-pa-tax-credits-report-zero-low-income-students/>.

Among the findings, there is the Episcopal Academy with annual tuition of \$39,000 for grades 9-12. This preK-12 school received \$4 million in EITC and OSTC contributions in 2019-2020. According to Niche.com, of the Episcopal Academy's 1,288 students, 24% (or about 309 students) received financial aid.<sup>9</sup> The state funds these students between \$9.6K and \$11.6K per student each year. \$9.6K per student is more state dollars per student than 66.2% of all public school districts, which educate 83% of public school district students, received in the same year. \$11.6K per student is more state dollars per student than 84.6% of public school districts, which educate 95% of school district students, received in the same year.

AIM Academy has even more eye-popping numbers. Using the same method, in 2020-21 AIM Academy's self-reported \$1.3 million revenue from EITC and OSTC contributions went to 96 students, for \$13.5K per student.<sup>10</sup> The state, then, was funding these students at a rate of between \$10.1K and \$12.2K in 2020-21. *The upper end of state funds going to each of the 96 AIM Academy students benefiting from EITC and OSTC is \$12,188 for the year, higher than state per-student funding of 97% for all students who attend public school districts in Pennsylvania.*

**Are there safeguards in place to prevent scholarship organizations from giving EITC/OSTC vouchers to students whose family income exceeds program limits?**

No. Because there are no public auditing powers associated with these programs, EITC/OSTC funds can support families whose incomes significantly exceed the limit. In addition, there is also no way to police side deals, under which wealthy families make contributions via the EITC/OSTC in exchange for reduced tuition for their own children.<sup>11</sup>

**Are students who are already attending a private school eligible for EITC/OSTC vouchers?**

Yes. Scholarship organizations may use EITC/OSTC dollars to provide scholarships to students who are ALREADY attending private/religious schools.

And because of the high income limit, families who have already enrolled their children in a private/religious school and can afford to pay tuition bills without taxpayer assistance are beneficiaries of this program.

**How many students use EITC/OSTC vouchers to leave low-achieving school districts to attend private schools?**

No one knows. Pennsylvania law explicitly prohibits the collection of data that would provide information demonstrating the number of students from low-achieving schools who receive tuition scholarships to attend a private school.

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<sup>9</sup> Niche.com, Best Private High Schools in Pennsylvania list, The Episcopal Academy, <https://www.niche.com/k12/the-episcopal-academy-newtown-square-pa/>.

<sup>10</sup> AIM Academy, "Pennsylvania EITC/OSTC Program – Use Your Business or Individual State Taxes to Give a Gift of Fearless Learning," <https://www.aimpa.org/supporting-aim/eitcostc>.

<sup>11</sup> Herzenberg and Tabachnik, "Still No Accountability With Taxpayer-Funded Vouchers for Private and Religious School Tuition," 3.

### What do we know about EITC/OSTC voucher recipients?

Very little.

State law explicitly prohibits the Department of Community and Economic Development (DCED) from collecting the following information<sup>12</sup>:

- The number of scholarship awards by household income
- The share of tuition offset by the school voucher
- The school district where the voucher recipient lives
- Whether students who do not receive a voucher attend a private school anyway
- Documentation of how scholarship organizations spend the funding they receive from organizations— up to 20% of the total amount.

### What do we know about educational outcomes for students who receive EITC/OSTC vouchers?

Nothing. The current law explicitly prohibits the collection of data regarding student academic achievement before and after transfer to a private school.

### How many students are unable to attend a private school because there is not enough funding in the EITC/OSTC programs?

No one knows. It is unclear how many EITC/OSTC recipients actually need a voucher to attend a private/religious school.<sup>13</sup>

A recent report from the Independent Fiscal Office (IFO) states, “Data are not available that would allow the analysis to quantify students denied scholarships solely due to lack of funds available through the tax credit program. **Therefore, the difference between the number of applications processed and number of scholarships awarded should not be used as a proxy for scholarships denied due to lack of contributions supplied through the tax credit.** Moreover, some students denied scholarships likely attended a private school regardless of the denied scholarship application.”<sup>14</sup>

The IFO report cites the following circumstances that make it impossible to quantify the number of students who are unable to attend a private/religious school because there is not adequate EITC/OSTC funding:

- The same family can file multiple applications with different schools.
- A family may file but ultimately decide to send their child to another school.
- A student may be denied admission to the school.
- A student may be denied a scholarship due to not meeting program criteria.
- A student could be denied a scholarship because of inadequate program funding.

### Is EITC/OSTC voucher funding distributed evenly in communities throughout the Commonwealth?

No. Scholarship organizations in a small number of counties receive most of the funding.

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<sup>12</sup> Independent Fiscal Office, “Educational Tax Credits: an Evaluation of Program Performance,” 30.

<sup>13</sup> Ibid, 1.

<sup>14</sup> Ibid, 16.

In 2019-2020, scholarship organizations in six counties—Philadelphia, Allegheny, Dauphin, Montgomery, Blair, and Lancaster—received 70% of EITC funding. In the same year, scholarship organizations in Delaware, Philadelphia, Blair, Allegheny, Montgomery, and Chester Counties received 87% of OSTC funding.<sup>15</sup>

## **Conclusion**

Funding for K-12 private school vouchers via the EITC/OSTC programs has increased nearly twelvefold over the past two decades, yet Pennsylvania taxpayers know virtually nothing about who has benefited from these programs or that more than \$1 billion in diverted tax dollars have been spent on K-12 private/religious school vouchers since 2001. They also know nothing about the academic outcomes of students who have received these vouchers.

It is a reasonable expectation that state lawmakers would reform the law to require the collection of information that would allow for an assessment of the effectiveness of the EITC/OSTC programs before allocating any additional funding to the programs.

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<sup>15</sup> Ibid, 12.

## Appendix

### The top 25 private schools in Pennsylvania received \$13.8 million dollars in EITC and OSTC contributions in 2019-20.

Broadly, the EITC and OSTC work by reducing taxes that businesses pay the state when they donate to scholarships for eligible students. The reduction is equal to 75% of the donation if it is a one-year commitment or 90% of the donation if it is part of a two-year commitment. Effectively the state is funding 75% or 90% of the donation and the business is only funding 25% or 10% of the donation. Since contributions are likely to lower federal taxes for businesses that pay them, after getting both a state and federal tax break, some businesses may not be making any net contribution at all.

To look at an example, consider the Episcopal Academy, an elite private school outside of Philadelphia with tuition of \$39K a year for high schoolers. In 2019-20, the Episcopal Academy directly received almost \$4 million dollars in EITC/OSTC contributions. That means their donors contributed \$4 million dollars to the Episcopal Academy, but the state then reduced the donors' taxes by between \$3 million (\$4 million \* 75%) and \$3.6 million (\$4 million \* 90%) dollars, so the donors only really gave up between \$1 million and \$0.4 million dollars. The state of Pennsylvania, however, lost revenue and so was down between \$3 million and \$3.6 million dollars. This lost revenue is effectively state funding of the Episcopal Academy.

According to Niche.com, of the Episcopal Academy's 1,288 students, 24%, or about 309 students, received financial aid. All of the state funds directed at the Episcopal Academy through EITC and OSTC must go to these 309 students, meaning the state funds these students between \$9.6K and \$11.6K each year. \$9.6K per student is more state dollars per student than 66.2% of all public school districts, which educate 83% of public school district students, received in the same year. \$11.6K per student is more state dollars per student than 84.6% of public school districts, which educate 95% of school district students, received.

AIM Academy has even more eye-popping numbers. Using the same method, AIM Academy's self-reported \$1.3 million revenue from EITC and OSTC contributions in 2020-21 went to 96 students, or \$13.5K per student.<sup>16</sup> The State, then, was funding these students at a rate between \$10.1K and \$12.2K in 2020-21. The upper end of state funds going to each of the 96 AIM Academy students benefiting from EITC and OSTC is \$12,188 for the year, higher than state funding of 97% of all students who attend public school districts in Pennsylvania.<sup>17</sup> According to Niche.com's data on AIM Academy and state data on 2019-20 EITC / OSTC, 26% of AIM Academy's 385 students received financial aid,<sup>18</sup> and AIM Academy received \$1.47 million dollars in EITC and OSTC contributions in 2019-20, for a total of \$14.7K per financial aid student. That means each financial aid student received between \$11K and \$13.2K in 2019-20, which is more than 90% and 98% of students in PA public school districts received, respectively.

In these two examples, we are assuming all of the contributions are given in scholarships and none is kept by the scholarship organization because both the Episcopal Academy and AIM Academy have their own scholarship organizations.

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<sup>16</sup> AIM Academy, "Pennsylvania EITC/OSTC Program."

<sup>17</sup> Chartiers-Houston SD did not report revenue data for 2019-20, so it was removed from the analysis.

<sup>18</sup> AIM Academy, "Financial Aid," [https://www.aimpa.org/admissions/financial-aid#:~:text=Approximately%2026%25%20of%20our%20students,and%20 Student%20Services%20\(SSS\).](https://www.aimpa.org/admissions/financial-aid#:~:text=Approximately%2026%25%20of%20our%20students,and%20 Student%20Services%20(SSS).)



**Best Private High Schools in Pennsylvania****Tax Credits for Vouchers Received in 2019-20**

Rank	School	Town	EITC	OSTC	EITC + OSTC	Tuition	% receiving financial aid
1	Germantown Friends School	Philadelphia	\$26,000	\$106,450	\$132,450	\$40,350	33%
2	Mercersburg Academy	Mercersburg	\$447,900	\$0	\$447,900	\$38,025	48%
3	The Baldwin School	Bryn Mawr	\$577,593	\$234,500	\$812,093	\$37,250	32%
4	The Episcopal Academy	Newton Square	\$3,774,390	\$195,340	\$3,969,730	\$38,700	24%
5	The Hill School	Pottstown	\$116,900	\$97,950	\$214,850	\$61,410	38%
6	Shady Side Academy	Pittsburgh	\$421,767	\$88,000	\$509,767	\$32,975	21%
7	George School	Newtown	\$34,500	\$29,500	\$64,000	\$43,900	58%
8	Linden Hall	Lititz	\$29,500	\$49,250	\$78,750	\$26,800	53%
9	Grier School	Birmingham	\$115,000	\$0	\$115,000	\$57,900	*
10	The Haverford School	Haverford	\$942,907	\$440,225	\$1,383,132	\$40,400	39%
11	Winchester Thurston School	Pittsburgh	\$68,000	\$29,300	\$97,300	\$30,900	*
12	Westtown School	West Chester	\$148,000	\$0	\$148,000	\$39,720	44%
13	Sewickley Academy	Sewickley	\$74,000	\$0	\$74,000	\$32,035	27%
14	The Shipley School	Bryn Mawr	\$101,200	\$261,700	\$362,900	\$40,750	35%
15	Moravian Academy	Bethlehem	\$120,000	\$107,399	\$227,399	\$27,330	31%
16	Germantown Academy	Fort Washington	\$760,700	\$198,500	\$959,200	\$37,680	33%
17	Friends' Central School	Wynnewood	\$16,000	\$58,950	\$74,950	\$39,990	41%
18	The Agnes Irwin School	Rosemont	\$1,097,489	\$200,033	\$1,297,522	\$41,750	37%
19	William Penn Charter School	Philadelphia	\$438,000	\$143,750	\$581,750	\$38,650	40%
20	Friends Select School	Philadelphia	\$16,000	\$81,450	\$97,450	\$34,035	34%
21	Abington Friends School	Jenkintown	\$52,078	\$23,950	\$76,028	\$36,000	55%
22	Wyoming Seminary College Preparatory School	Kingston	\$122,000	\$277,989	\$399,989	\$24,980	63%
23	Springside Chestnut Hill Academy	Philadelphia	\$308,500	\$471,500	\$780,000	\$43,100	40%
24	Lancaster Country Day School	Lancaster	\$645,500	\$104,950	\$750,450	*	43%
25	Malvern Preparatory School	Malvern	\$104,000	\$14,500	\$118,500	\$36,400	*
<b>Total</b>			<b>\$10,557,924</b>	<b>\$3,215,186</b>	<b>\$13,773,110</b>		

Sources: PBPC analysis of EITC and OSTC data provided by the state: [FY 19-20 EITC Business Participants by County](#), [FY 19-20 OSTC Business Participants by County](#), [FY 19-20 EITC Org. Contributions Received](#), [FY 19-20 OSTC Contributions Received](#)  
Ranking from Niche.com, retrieved on January 31, 2022, from <https://www.niche.com/k12/search/best-private-schools/s/pennsylvania/>.

\* Data not available on Niche.com.