

Pennsylvania's Educational Improvement Tax Credit (EITC) and Opportunity Scholarship Tax Credit (OSTC) school voucher programs

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

The 2022-2023 state budget included \$405 million in tax credits for the EITC/OSTC programs in this way:

- EITC scholarship organizations for private and religious schools: \$275 million
- EITC funding for educational improvement organizations (EIOs)¹: \$44.5 million
- EITC funding for pre-K scholarship organizations: \$20.5 million
- OSTC scholarship organizations for private and religious schools: \$65 million

This brief examines ONLY the \$340 million in annual EITC/OSTC funding that is used to provide vouchers to private and religious schools.

Problems with the EITC/OSTC Voucher Programs

- **Funds are NOT targeted to low-income students.**
 - State 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.²
- **Discrimination is a feature, not a bug, of the EITC/OSTC programs.**
 - Pennsylvania law allows private and 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. Scholarship organizations and schools are also allowed to discriminate when hiring employees.
- **No evidence that vouchers improve student achievement.**
 - Despite more than \$2 billion flowing through EITC/OSTC since the programs' inception, there is no evidence that private/religious school vouchers contribute to improved educational achievement in Pennsylvania.
- **No information about who benefits from the vouchers.**
 - PA law explicitly prohibits the collection of data that would provide demographic information about students who receive vouchers. As a result, no one knows how many low-income students actually benefit from these programs versus how much funding subsidizes the tuition payments of well-off families whose children were already enrolled in private or religious schools.

¹ Pennsylvania Department of Community and Economic Development, "Educational Improvement Organizations," Commonwealth of Pennsylvania, n.d. <https://dced.pa.gov/educational-improvement-organizations/>.

² Independent Fiscal Office, "Educational Tax Credits: an Evaluation of Program Performance," Commonwealth of Pennsylvania, January 2022, p. 1. http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/TC_2022_Educational_Tax_Credits.pdf.



- **No public scrutiny over the use of \$340 million in tax dollars.**
 - The EITC/OSTC programs divert tax dollars into private organizations that have no public budgets, no public check registers, no public meetings, no Sunshine laws, no right-to-know laws, and no standardized tests.
- **Inadequate reporting and a lack of auditing create enormous opportunities for the misuse of funding.**
 - DCED is prohibited from collecting information about how scholarship organizations spend up to 20%, or \$68 million, in funding they are allowed to keep, leaving these dollars wildly susceptible to misuse. There is no auditing process to ensure that EITC/OSTC income limits are enforced. There is also no policing of side deals, where families could make contributions to EITC/OSTC in exchange for reduced tuition for their own children at a private or religious school.

Recommendations

Pennsylvania's EITC and OSTC school voucher programs have received more than \$2 billion since 2001, yet Pennsylvanians know virtually nothing about who has benefitted from these vouchers or the educational outcomes of students who receive them.

Before any policy discussions occur to expand funding for the EITC/OSTC school voucher programs or the implementation of a new voucher program, the commonwealth must conduct a thorough examination of Pennsylvania's existing EITC/OSTC voucher programs. Taxpayers must know, based on data, that the current funds are producing positive outcomes. Further, the following student-focused taxpayer reforms should be adopted to ensure forgone state revenues in the form of tax credit vouchers are demonstrating positive results:

1. Require private and religious schools that accept funding from the EITC or OSTC programs to comply with state and federal anti-discrimination laws in their hiring and admissions processes.
2. Reduce family income limits for eligibility to no more than 200% of the federal poverty level to ensure funding will be directed to middle and low-income families.
3. Require all private and religious schools that accept funding from the EITC and OSTC programs to administer the same standardized tests to students as public schools to allow for an evaluation of the effectiveness of the program and to enable families to make an accurate comparison between all public and private options.
4. Require scholarship organizations to use at least 95% of the funding they receive to provide scholarships to students.
5. Require regular audits of scholarship organizations to ensure that family income limits are being enforced and scholarship organizations are using funds for appropriate purposes.
6. Implement the recommendations of the Independent Fiscal Office to collect critical data to allow for meaningful evaluation of the effectiveness of the programs.



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