

How States Fund Education Through the Tax Code

Presented by
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Education Funding

- Education is primarily funded by property taxes at the local level.
- States also dedicate funds to education.
 - Iowa spent \$3.3 billion in FY 2011.
- Some states also have tax programs that help further fund education expenses.

Tuition and Textbook Assistance Programs

- The states of Arizona, Illinois, Iowa, Louisiana, and Minnesota have tax credits to help taxpayers with costs associated with their children's education.
- Louisiana and Minnesota also allow a reduction of income equal to a portion of certain education costs.

Details of Tuition and Textbook Assistance by State, Tax Year 2010

	Arizona	Illinois	Iowa	Louisiana	Minnesota
Types of Assistance	Credit	Credit	Credit	Credit and Adjustment to Income	Credit and Adjustment to Income
Type of Tax Credit	Nonrefundable	Nonrefundable	Nonrefundable	Nonrefundable	Refundable
Enacted	1997	1999	1987	2008	1998
State Code Citation	Sect. 43-1089	35 ILCS 5/201	Sect. 422.12	Sect. 47:297.11	Sect. 290.0674
Amount of Income Adjustment	Not Applicable	Not Applicable	Not Applicable	100% of expenses which pertain to nonpublic or public laboratory schools operated by a college or university. Otherwise, 50% of expenses.	100% of qualifying elementary and secondary expenses.
Maximum Income Adjustment	Not Applicable	Not Applicable	Not Applicable	\$5,000 per student.	\$1,625 per elementary child and \$2,500 per secondary child.
Amount of Tax Credit	100% of qualifying expenses.	25% of qualifying expenses over \$250.	25% of the first \$1,000 of qualifying expenses.	\$25 per dependent enrolled in K-12.	75% of qualifying expenses
Maximum Tax Credit	\$200 for single or head of household filers, \$400 for married filers.	\$500 per household.	\$250 per dependent.	\$25 per dependent.	\$1,000 per student or \$2,000 per family.
Income Limitations for Tax Credit	None	None	None	None	For families with one or two children, the credit begins phasing out at \$33,500 and is completely phased out at \$37,500, the phase out is extended by \$2,000 for each additional dependent.

Sources: Arizona, Illinois, Iowa, Louisiana, and Minnesota tax forms, schedules, and publications

Qualifying Tuition and Fees by State, Tax Year 2010

Arizona	Illinois	Iowa	Louisiana	Minnesota
<p>Applies only to fees for extracurricular public school activities or Character Education programs.</p>	<p>Tuition, including summer school classes required for elementary or secondary graduation requirements.</p>	<p>Tuition for any accredited elementary or secondary school in the state.</p> <p>Fees paid for extracurricular activities such as activity fees or dues, booster club dues (for dependent), admission for K-12 school events, such as athletic, academic, music, or drama events, awards banquets, fees for physical education events such as roller skating, advanced placement fees if they are paid to the high school, and fees paid for homecoming, winter formal, prom, or similar events.</p> <p>Fees paid for driver's education if paid to the K-12 school.</p>	<p>Tuition and fees for enrollment in nonpublic school.</p>	<p>Tuition paid to a private school, college, or summer school courses that are used to satisfy high school graduation requirements is only available for the income adjustment, all other listed expenses are eligible for either the income adjustment or the tax credit.</p> <p>Instructor fees and tuition for classes or lessons taken outside the regular school day, such as after school enrichment programs, summer camps that are academic in nature, driver's education, all day kindergarten, tutoring, and music lessons.</p>

Other Qualifying Expenses by State, Tax Year 2010

Qualifying Expense Category	Arizona	Illinois	Iowa	Louisiana	Minnesota
Clothing	Fees paid for the use of band uniforms and equipment and uniforms for varsity athletics.	None	Rental or purchase of costumes for a play, special clothing for a concert not suitable for everyday wear, and the rental of prom dresses or tuxedos. Football, soccer, and golf shoes or any other shoes with cleats or spikes that are not suitable for street wear for use on a team associated with the school. Band and athletic uniforms.	Purchase of school uniforms for daily use.	None
Music	None	None	Rental of musical instruments for school or band, sheet music or music books used in school, supplies for maintenance of instruments.	None	Purchase or rental of musical instruments used during the regular school day.
Supplies	Fees paid for use of scientific laboratory equipment or materials	Fees paid for use of supplies, equipment, materials, or instruments required as part of a scientific lab course in the school's curriculum.	Cost of required basic materials for classes such as shop, mechanics, agriculture, home economics, or equivalent classes.	None	None

Other Qualifying Expenses by State, Tax Year 2010 (Cont.)

Qualifying Expense Category	Arizona	Illinois	Iowa	Louisiana	Minnesota
Technology	None	None	None	None	Home computer hardware for personal use and educational software up to \$200 for the credit and an additional \$200 for the income adjustment.
Transportation & Travel	Fees paid for in-state or out-of-state trips that are solely for competitive events.	None	Fees paid for transportation to and from school if paid to the school and fees for field trips that occur during school hours.	None	Fees paid to others for transportation to and from school including field trips during the regular school day.
Textbooks	None	Fees paid for the rental of books required as part of the school's curriculum.	Fees paid for textbooks and other instructional materials, including those needed for extracurricular activities.	Textbooks, curricula, or other instructional materials required by a public or private school. Also covers textbooks and curricula necessary for home schooling.	Purchase of required educational materials for use during the regular school day.

Sources: 1. Larson, Lisa and Nina Manzi. Income Tax Deductions and Credits for Public and Nonpublic Education in Minnesota. Minnesota House of Representatives Research Department, 2011, pp. 18-31.
 2. Arizona, Illinois, Iowa, Louisiana, and Minnesota tax forms, schedules, and publications

Iowa's Tuition and Textbook Tax Credit

- Nonrefundable tax credit
- No income restrictions
- Need to use IA 1040 Long Individual Income Tax Form in order to claim credit
- Credit claims are entered on Line 48 of the 2011 IA 1040

Tuition and Textbook (TTC) Tax Credit Claims by Household AGI, Tax Year 2010

Household Adjusted Gross Income	Number of Households with TTC Tax Credit Claims	Percent of Households with Tax Credit Claims	Total Amount of Tax Credit Claims	Percent of Total Tax Credit Claims	Average Household Tax Credit Claim
NO AGI	6	0.00%	\$2,525	0.02%	\$421
\$ 1 - 9,999	14	0.01%	\$310	0.00%	\$22
\$ 10,000 - 19,999	1,618	1.34%	\$78,026	0.52%	\$48
\$ 20,000 - 29,999	9,421	7.81%	\$723,139	4.82%	\$77
\$ 30,000 - 39,999	11,473	9.51%	\$1,075,491	7.17%	\$94
\$ 40,000 - 49,999	12,084	10.01%	\$1,220,044	8.13%	\$101
\$ 50,000 - 59,999	12,645	10.48%	\$1,378,258	9.19%	\$109
\$ 60,000 - 74,999	19,144	15.87%	\$2,197,372	14.65%	\$115
\$ 75,000 - 99,999	24,579	20.37%	\$3,104,534	20.69%	\$126
\$ 100,000 - 124,999	13,694	11.35%	\$2,023,009	13.49%	\$148
\$ 125,000 - 149,999	6,436	5.33%	\$1,055,396	7.04%	\$164
\$ 150,000 - 174,999	3,273	2.71%	\$602,057	4.01%	\$184
\$ 175,000 - 199,999	1,685	1.40%	\$354,501	2.36%	\$210
\$ 200,000 - 249,999	1,765	1.46%	\$393,283	2.62%	\$223
\$ 250,000 - 499,999	2,074	1.72%	\$554,255	3.69%	\$267
\$ 500,000 - 999,999	582	0.48%	\$180,202	1.20%	\$310
\$1,000,000 or More	167	0.14%	\$59,358	0.40%	\$355
Total	120,660		\$15,001,760		\$124

Source: Iowa Department of Revenue Income Tax Returns

Utilization of TTC in Iowa

- Using IRS data on dependent dates of birth, identified households in Iowa with likely eligible children making no claim
- Statewide utilization only 33.8 percent
 - Lack of eligible expenses at low incomes? (school fees cannot be charged for free lunch students)
 - Lack of awareness about the credit? (potentially \$19.3 million in unclaimed credits)

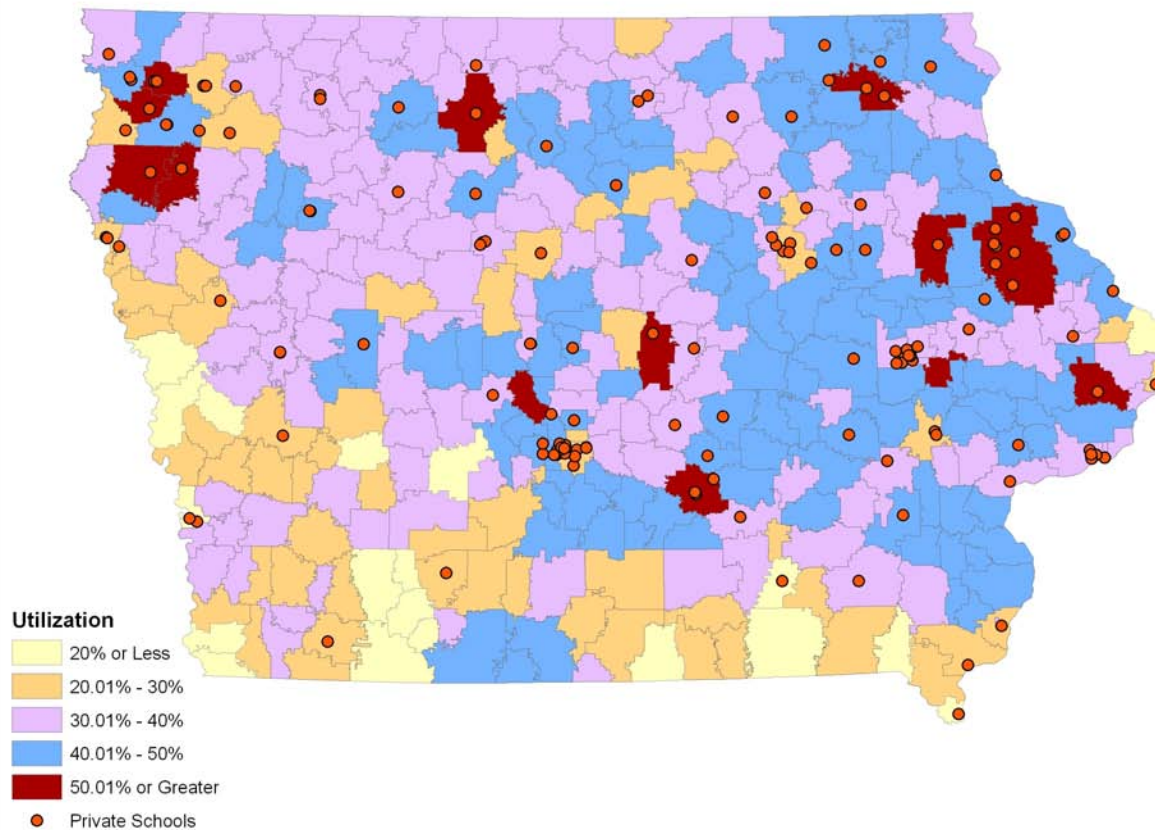
Utilization of Tuition Textbook Tax Credit by Household AGI

Household Adjusted Gross Income	Number of Households with TTC Tax Credit Claims	Number of Eligible Households ¹	Utilization Rate
\$0 or less	6	2,524	0.2%
\$1 - \$4,999	0	5,412	0.0%
\$5,000 - \$9,999	14	11,160	0.1%
\$10,000 - \$19,999	1,618	36,278	4.5%
\$20,000 - \$29,999	9,421	40,859	23.1%
\$30,000 - \$39,999	11,473	36,169	31.7%
\$40,000 - \$49,999	12,084	31,414	38.5%
\$50,000 - \$59,999	12,645	29,694	42.6%
\$60,000 - \$74,999	19,144	41,652	46.0%
\$75,000 - \$99,999	24,579	52,379	46.9%
\$100,000 - 124,999	13,694	29,403	46.6%
\$125,000 - \$149,999	6,436	14,253	45.2%
\$150,000 - \$199,999	4,958	11,795	42.0%
\$200,000 - \$249,999	1,765	4,498	39.2%
\$250,000 - \$499,999	2,074	6,058	34.2%
\$500,000 - \$999,999	580	2,043	28.4%
\$1,000,000 and over	167	861	19.4%
Total	120,658	356,452	33.8%

Source: Iowa individual income tax returns

¹ An eligible household is defined as having at least one dependent between the ages of 5 and 21.

Utilization by School District



Tax Credit Scholarship Programs Across States

- 11 States with Programs
 - Arizona, Florida, Georgia, Indiana, Iowa, Louisiana, New Hampshire, Oklahoma, Pennsylvania, Rhode Island, Virginia
- Annual Program Caps
 - Most states have an overall program cap.
 - Caps range from \$1M (RI) to \$229M (FL).
 - Some states also have taxpayer caps.

Tax Credit Scholarship Programs Across States (Cont.)

- Amount of credit varies
 - 4 states offer 100% eligible contribution, but may limit size of tax credit.
 - Lowest rate is 50% of eligible contribution.
 - 3 states will increase the percentage eligible contribution that qualifies for the tax credit if the taxpayer commits to donate the amount in the subsequent year.
- Most states issue credits on first-come, first-served basis, OK collects applications and then issues on a pro rata basis.

Tax Credit Scholarship Programs Across States (Cont.)

- Only Louisiana has a refundable tax credit.
- All other states' tax credits are nonrefundable, but most of those credits do have 5 year carry forward
- Most states require at least 90% of donations to be issued as scholarships each year.
- Qualifying Tax Types
 - Individual Income Tax (7 states)
 - Corporate Income Tax (10 states)
 - Insurance Premium Tax (1 state)
 - Other Tax Types (2 states)

Iowa School Tuition Organization Tax Credit

- Tax credit was enacted in 2006.
- Tax credit is equal to 65% of eligible contribution.
- Nonrefundable tax credit with 5 year carry forward.
- No per taxpayer claim/award cap.
- Program cap raised to \$8.75 million in tax year 2012 (up from first year cap of \$2.5 million).

Iowa School Tuition Organization Tax Credit (Cont.)

- Credits are issued on a first-come, first-served basis by the STOs.
- Credit can be claimed against individual income and corporate income taxes.
- Must complete an IA 148 Tax Credits Schedule in order to claim tax credit

Iowa School Tuition Organization Scholarships

- The purpose of soliciting the donations to the STOs is to provide scholarships for children to attend private schools.
- In order to qualify for a scholarship the family income must be below 300% of federal poverty guidelines.
- Taxpayers making donations to an STO cannot designate who receives the scholarship from their donation.

Iowa School Tuition Organization Tax Credit Awards

- No more than 25% of all STO tax credits can be issued to corporations (actual awards were less than 3% of all awards in 2010).
- Because the majority of Iowa STO tax credits are issued to individual income taxpayers, the following analysis looks only at claims made against the individual state income tax.

School Tuition Organization (STO) Tax Credit Claims by Household AGI, Tax Year 2010

Household Adjusted Gross Income	Number of Households with STO Tax Credit Claims	Percent of Households with Tax Credit Claims	Total Amount of Tax Credit Claims	Percent of Total Tax Credit Claims	Average Household Tax Credit Claim
NO AGI	2	0.07%	\$11,983	0.17%	\$5,992
\$ 1 - 9,999	2	0.07%	\$65	0.00%	\$33
\$ 10,000 - 19,999	36	1.34%	\$6,995	0.10%	\$194
\$ 20,000 - 29,999	136	5.07%	\$48,235	0.68%	\$355
\$ 30,000 - 39,999	191	7.12%	\$99,536	1.41%	\$521
\$ 40,000 - 49,999	170	6.33%	\$107,040	1.51%	\$630
\$ 50,000 - 59,999	178	6.63%	\$139,308	1.97%	\$783
\$ 60,000 - 74,999	220	8.20%	\$179,174	2.53%	\$814
\$ 75,000 - 99,999	320	11.92%	\$326,314	4.61%	\$1,020
\$ 100,000 - 124,999	281	10.47%	\$377,214	5.33%	\$1,342
\$ 125,000 - 149,999	186	6.93%	\$278,294	3.93%	\$1,496
\$ 150,000 - 174,999	149	5.55%	\$314,118	4.44%	\$2,108
\$ 175,000 - 199,999	113	4.21%	\$239,125	3.38%	\$2,116
\$ 200,000 - 249,999	170	6.33%	\$538,928	7.61%	\$3,170
\$ 250,000 - 499,999	310	11.55%	\$1,706,488	24.09%	\$5,505
\$ 500,000 - 999,999	151	5.63%	\$1,561,151	22.04%	\$10,339
\$1,000,000 or More	69	2.57%	\$1,148,432	16.22%	\$16,644
Total	2,684		\$7,082,400		\$2,639

Source: Iowa Department of Revenue Income Tax Returns

Additional Tax Benefits of STO Tax Credits

- Contributions to non-profit are deductible from federal taxable income.
 - Taxpayers can only claim the tax credit or the itemized deduction for Iowa
- Credits reduce Iowa liability by 65 cents on the dollar.
 - Nonrefundable credit also reduces tax base for school surtax levy.

Average After-Tax Cost of STO Contribution

Household Adjusted Gross Income	After-Tax Cost of \$1,000 Donation in TY 2010 ¹
Less than \$20,000	\$971
\$20,001 to 30,000	\$716
\$30,001 to 40,000	\$568
\$40,001 to 50,000	\$499
\$50,001 to 60,000	\$492
\$60,001 to 70,000	\$455
\$70,001 to 80,000	\$449
\$80,001 to 90,000	\$254
\$90,001 to 100,000	\$450
\$100,001 to 125,000	\$357
\$125,001 to 150,000	\$182
\$150,001 to 175,000	\$153
\$175,001 to 200,000	\$125
\$200,001 to 250,000	\$145
\$250,001 to 500,000	\$96
\$500,001 to 1,000,000	\$84
\$1,000,001 or more	\$44

Source: Iowa Individual Income Tax Model

¹Calculation is based on tax year 2010 when the maximum federal marginal tax rate was 35%

- Lower income households do not have as much tax liability to utilize as much of the credit.
- Higher income households have more tax liability and higher tax rate, so more benefit from charitable contribution itemized deduction.

Other STO Claimant Characteristics

- Over 66% of STO claimants awarded 58% of credits report no dependents.
- Suggests not overwhelming attempt by parents to fund education of own children through tax-favored contributions.

Household Tax Credit Claims

- 120,660 Households claimed the Tuition and Textbook Tax Credit in TY 2010.
- 2,684 Households claimed the STO Tax Credit in TY 2010.
- Only 544 households claimed both tax credits.

Households with both TTC and STO Tax Credit Claims by AGI, Tax Year 2010

Household Adjusted Gross Income	Number of Households with Both TTC and STO Tax Credit Claims	Percent of Households with Tax Credits	Total Amount of TTC Tax Credit Claims	Average Household TTC Tax Credit Claim	Total Amount of STO Tax Credit Claims	Average Household STO Tax Credit Claim
NO AGI	0	0.00%	\$0	\$0	\$0	\$0
\$ 1 - 9,999	0	0.00%	\$0	\$0	\$0	\$0
\$ 10,000 - 19,999	0	0.00%	\$0	\$0	\$0	\$0
\$ 20,000 - 29,999	2	0.37%	\$422	\$211	\$199	\$100
\$ 30,000 - 39,999	4	0.74%	\$1,348	\$337	\$1,346	\$337
\$ 40,000 - 49,999	2	0.37%	\$1,424	\$712	\$835	\$418
\$ 50,000 - 59,999	13	2.39%	\$4,404	\$339	\$6,687	\$514
\$ 60,000 - 74,999	25	4.60%	\$8,610	\$344	\$13,762	\$550
\$ 75,000 - 99,999	59	10.85%	\$18,644	\$316	\$40,444	\$685
\$ 100,000 - 124,999	68	12.50%	\$28,469	\$419	\$71,929	\$1,058
\$ 125,000 - 149,999	50	9.19%	\$24,169	\$483	\$82,391	\$1,648
\$ 150,000 - 174,999	37	6.80%	\$16,082	\$435	\$86,865	\$2,348
\$ 175,000 - 199,999	38	6.99%	\$12,983	\$342	\$64,871	\$1,707
\$ 200,000 - 249,999	64	11.76%	\$25,664	\$401	\$210,192	\$3,284
\$ 250,000 - 499,999	108	19.85%	\$55,979	\$518	\$553,382	\$5,124
\$ 500,000 - 999,999	56	10.29%	\$27,534	\$492	\$486,274	\$8,683
\$1,000,000 or More	18	3.31%	\$8,117	\$451	\$352,054	\$19,559
Total	544		\$233,849	\$430	\$1,971,231	\$3,624

Source: Iowa Department of Revenue Income Tax Returns

Comparison of Claims By Households with TTC or STO Claims to Claims by Households with Both TTC and STO Claims by AGI

Household Adjusted Gross Income	Average Household TTC Claim for Households Claiming Only TTC	Average Household TTC Claim for All Households Claiming TTC & STO	Average Household STO Claim for Households Claiming Only STO	Average Household STO Claim for All Households Claiming TTC & STO
NO AGI	\$171	\$0	\$5,992	\$0
\$ 1 - 9,999	\$88	\$0	\$33	\$0
\$ 10,000 - 19,999	\$61	\$0	\$194	\$0
\$ 20,000 - 29,999	\$80	\$211	\$358	\$100
\$ 30,000 - 39,999	\$95	\$337	\$525	\$337
\$ 40,000 - 49,999	\$102	\$712	\$632	\$418
\$ 50,000 - 59,999	\$109	\$339	\$804	\$514
\$ 60,000 - 74,999	\$115	\$344	\$848	\$550
\$ 75,000 - 99,999	\$126	\$316	\$1,095	\$685
\$ 100,000 - 124,999	\$146	\$419	\$1,433	\$1,058
\$ 125,000 - 149,999	\$162	\$483	\$1,440	\$1,648
\$ 150,000 - 174,999	\$181	\$435	\$2,029	\$2,348
\$ 175,000 - 199,999	\$207	\$342	\$2,323	\$1,707
\$ 200,000 - 249,999	\$217	\$401	\$3,101	\$3,284
\$ 250,000 - 499,999	\$254	\$518	\$5,708	\$5,124
\$ 500,000 - 999,999	\$292	\$492	\$11,314	\$8,683
\$1,000,000 or More	\$344	\$451	\$15,615	\$19,559
Total	\$123	\$430	\$2,388	\$3,624

Source: Iowa Department of Revenue Income Tax Returns

General Comparison of Household Tax Credit Claims

- TTC claims by households with both credit claims are **HIGHER** than the average claim made by households with the same AGI, but only a TTC claim.
- STO claims by households with both credit claims are **LOWER** than the average claim made by households with the same AGI, but only an STO claim.

Conclusion

- In FY 2011, Iowa spent \$3.3 billion on education directly.
- Tax credits resulted in an additional \$21 million in indirect spending on education.
- Because both tax credits are nonrefundable, households with higher income benefit more from tax credits than households with lower incomes.
- Regressivity was not likely policymakers' goal for these credits.

Questions???

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