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### School Tax Credits

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# *It's Elementary*

A Monthly Column by EFAP Director John Yinger  
February 2006

## **School Tax Credits**

In his 2006-2007 executive budget, Governor George Pataki of New York calls for an income tax credit to support families living in school districts with under-performing schools. This “Education Tax Credit” would have a maximum value of \$500 and it would be refundable, which means that taxpayers could receive it even if they did not owe any income tax. The credit, which would be limited to families with incomes below \$90,000, could be used to help pay for private school, tutoring, after-school programs, and other educational activities approved by the state.

For three reasons, this education tax credit should not be implemented.

First, this tax credit would not contribute in any way to making the education finance reforms mandated by New York’s highest court in *Campaign for Fiscal Equity vs. New York*, but it would claim \$400 million that could be used to help resolve that case. Until an education finance system that satisfies the court is found, it is unconscionable to devote so much money to a tangential education program.

Second, few parents other than those already sending their children to private school are likely to participate in this program. Scholars have shown that participation in re-distributive tax credit programs is remarkably low. Even in the case of the federal Earned Income Tax Credit, which involves significant sums of money, the participation rate is only about 33 percent for households that do not otherwise have to file an income tax.<sup>1</sup> In the case of the proposed Education Tax Credit, parents with children currently in private school could receive \$500 per child from the state without any change in their children’s educational situation. Moreover, a \$500 subsidy obviously would not be sufficient to enable other parents to afford private school tuition. The most likely outcome of the program, therefore,

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<sup>1</sup> See Marsha Blumenthal, Brian Erard, and Chih-Chin Ho, “Participation and Compliance with the Earned Income Tax Credit,” *National Tax Journal*, June 2005.

is that parents with children already in private schools would receive a subsidy and a few other parents would participate by claiming a credit for a tutoring or after-school program.

Third, even if some parents do participate, there is no reason to believe that the credit will have a significant impact on educational outcomes. Neither tutoring nor after-school programs nor any other type of program that the credit is likely to cover has been shown to have a significant impact on student performance. Moreover, it is not clear how the state would monitor the activities selected by the parents, so that some of the programs they select may provide little educational benefit at all. I find it ironic that a Governor who has placed so much emphasis on holding schools accountable for their students' performance would propose a tax credit plan that would, at best, encourage a few parents to participate in educational activities that are almost certain to be ineffective.

Some people may find this proposal appealing because it is similar to a school voucher. This similarity should not give anyone comfort. Although some scholars have found that some large-scale voucher programs that allow students to attend private schools have small positive impacts on student performance, this evidence is controversial and no consensus has been reached on the performance impacts of voucher programs. Moreover, there is no evidence whatsoever that a small voucher disguised as a tax credit and covering a wide range of educational activities would have any impact on student performance at all.

The New York Assembly and the New York Senate have proposed alternatives to the Governor's Education Tax Credit. Both of these alternatives take the form of an income tax credit for every child, with a maximum amount that varies by income. The most recent versions would cost between \$430 million (Senate) and \$600 million (Assembly) per year. Although these proposals have nothing to do with education, they would still claim funds that could be used to address the state's obligations in the *CFE* case.

Overall, Governor Pataki's proposed Education Tax Credit, like his STAR Plus proposal, represents a move away from education finance reform. This Education Tax Credit claims resources that could be used to help address the weaknesses in the state's education finance system and spends them in a way that would have no significant impact on educational outcomes for students in low-performing districts. This Education Tax Credit proposal should be rejected.