Executive Summary

Research Findings

In 1997, the Arizona legislature enacted an education tax credit with two components: a private school tuition tax credit and a public school extracurricular activity tax credit. The law grants state taxpayers a dollar-for-dollar credit against their state income tax liability for contributions to School Tuition Organizations (STOs), which in turn, award tuition grants to students to use at private primary or secondary schools. Under the law STOs are to grant 90% or more of their revenue in the form of private school tuition grants. A similar provision provides a $250 tax credit for donations to public schools for extracurricular activities that require a student fee.

Arizona’s private school tuition tax credit program is expensive and does relatively little to help poor students. The primary recipients of private school tuition tax credit money are families whose children are already enrolled in private schools. The financial and non-financial barriers to private schooling and price effects associated with private school tuition makes it unlikely that many poor students move from public to private schools because of assistance from the private school tuition tax credit program. Over the three years of the public school extracurricular activity tax credit, the wealthiest 25% of public schools received more than five times as much money from the program as the poorest 25% of public schools.

Recommendations

- Legislators should consider repealing the Arizona education tax credit law altogether—both the private school tuition tax credit and the public school extracurricular tax credit.

- The information and reporting requirements for school tuition organizations should be strengthened (for example, whether a student receiving a tuition grant is switching from a public to a private school, what public school the student is transferring from, family income, etc.).

- Legislators should amend the Arizona private school tuition tax credit to make eligibility for a tuition grant dependent on level of income.