

State Senate OKs new tax credit for private school scholarships

Feb. 22, 2005

The Associated Press

PHOENIX - School-choice advocates scored a narrow victory Tuesday as the Senate voted to give companies a dollar-for-dollar tax break for donations for private school scholarships.

The Senate's 16-13 vote on the bill (SB1176) was nearly along party lines, with only 16 Republicans voting for it and two Republicans joining 11 Democrats in voting against it.

Efforts to win approval of a corporate income tax credit have failed at the Legislature in recent years, but results of the 2004 elections increased the ranks of conservatives who favor school-choice measures.

Identical legislation is pending in the House.

The legislation has backing from school-choice groups and the Roman Catholic Church, which operates numerous private schools. The Arizona Education Association and the Arizona Civil Liberties Union oppose it.

The Legislature establish an individual income tax credit in 1998, and the bill approved by the Senate would establish one under the corporate income tax.

Credits let taxpayers reduce bottom-line taxes they owe.

Supporters of the current and proposed credits argue that they create new educational options for students and that the state actually saves money because of money saved on educating children in public schools.

Critics say tax credits drain money needed for public education and other priorities and that the legality of credits for private school scholarships remains in doubt.

A legal challenge is pending in federal court, but the Arizona Supreme Court in 1999 upheld the individual credit for private school scholarship donations.

Because the dollars involved never reached the state treasury, the credit did not violate state constitutional prohibitions against spending public money on private education, the state high court said.

The Senate-approved bill would require that most of the scholarships funded by company donations go to children from low-income families. In their first year of receiving a scholarship, students must either be in kindergarten or have attended public school the previous year.

It would limit the maximum grant or scholarship to \$4,200 for kindergartners through eighth-graders and to \$5,500 for students in Grades 9-12.

The tax credit would start in 2006, with the state's cost that year capped at \$10 million but rising \$5 million annually after that.

Companies would have to get the Department of Revenue's permission to donate \$10,000 or more.