

The Invest in Kids Act Tax Credit Scholarship Program

The Invest in Kids Act (IICA) was enacted in 2018 as a five-year pilot program that offers private school scholarships to students from low-income and working-class families who cannot afford tuition. It allows Illinois taxpayers to receive a 75% state tax credit for contributions that are used to fund these scholarships. Since its inception 3.5 years ago, over \$140MM has been donated and awarded, translating into over 20,000 scholarship awards for low-income students.¹ There have been over 170,000 scholarship applications submitted so the demand is still far from being met. The most significant issue, however, is the looming sunset provision, as **the entire program is set to expire in 2023.**

Governor Pritzker's Budget Proposal

Governor Pritzker has [proposed](#) reducing the tax credit percentage to donors who support low-income students from 75% to 40%, calling it a "corporate loophole," and estimating this would save the state \$14MM in lost income tax revenues. The proposal also calls for allowing donors to claim a federal deduction so that the incentive for donors remains attractive. In reality, the program would no longer remain viable should this proposal be adopted.

Debunking the Myths

Myth: *The IICA is a corporate tax loophole.*

Fact: **Of the \$150MM donated thus far, less than \$3M was donated by corporations.** The simple truth is that the program structure is such that it doesn't work even for corporations that donate generously to similar programs.

Myth: *The IICA is a tax haven for the rich.*

Fact: **It is legally impossible to use the IICA to benefit financially.** It is always more lucrative to pay taxes than to donate. Even if the law was amended to allow federal deductions, it would remain impossible to come out ahead financially, as the IRS only allows donors to claim a deduction on the percentage for which there's no state tax credit.

Myth: *Most donors are wealthy philanthropists who are funneling their support through the IICA to save themselves a money at the State's expense.*

Fact: **Most program donors are middle-income taxpayers** who have a predictable state income tax liability and view this as a unique opportunity to donate more than they usually are able. Wealthy donors continue to give through traditional channels at similar levels, but many have used it as an opportunity to give much more than they have in the past. Our schools' traditional fundraising levels have remained stable while **contributions through the IICA have generated a 400% increase in new funding.** Nearly all program donors were new supporters, or were old supporters who significantly increased their giving.

Myth: *The IICA has created a windfall for private religious schools whose budgets are being subsidized by the State.*

Fact: **The funds go to help the student,** not the schools. The primary beneficiaries are the children and the families that struggle to pay, for or could otherwise never afford these educational opportunities. And it's not only students attending Catholic and Jewish schools. There are many children attending secular private schools on Tax Credit Scholarships.

Myth: *By allowing donors to claim a federal deduction, the Governor's proposal merely shifts a portion of the financial burden to the federal government, but the incentive for donors remains the same.*

¹ This data represents the aggregate numbers from Empower Illinois and Big Shoulders Fund, the two largest scholarship granting organizations (SGOs) in Illinois, but there are other SGOs so the actual numbers are higher.

Fact: The greatest incentive possible for a taxpayer under the Governor's proposal is 13% less than the current 75%, and much more complex.² For the majority of donors, however, the federal deduction is of little to no value, including thousands of middle-income donors who take standard deductions or are in lower tax brackets.

Myth: *Illinois has a budget crisis, and this is a painful but necessary cut.*

Fact: Even the Governor's budget analysis estimates a savings of only \$14MM, a state budget rounding error. Since the proposal was released, the IDOR released higher than expected revenues and the federal government passed a new stimulus package that will send over \$13BB to Illinois.

Myth: *This is a Republicans program that helps Republicans.*

Fact: This program was part of a bi-partisan education funding bill that was passed in 2017. **Most scholarships and funding have flowed to Democratic districts.** When ranked by total scholarship dollars per district, all the top Senate and House districts are Democratic.

Myth: *This program takes away funding needed for public education.*

Fact: This program does the opposite. It was part of a comprehensive education funding overhaul that mandates a \$350MM annual increase towards public education **and holds public schools harmless so they don't lose funding even if a student switched to a private school.** This frees up more resources for public school students. Without this program, many private schools would close and result in a significant migration to public schools **which would significantly increase the cost to state and local government.**

Myth: *The only way to advance equity in education and improve educational outcomes is to invest more in public education.*

Fact: Studies consistently show that programs such as the IKA improve educational outcomes in public education! This is usually attributed to the competition it creates. Educational outcomes can't always be improved by simply investing more money into a system. Covid-19 exposed inequities in many areas, including education. Even in the wealthiest school districts, students suffered learning loss without the benefit of having in-person instruction. Wealthy families were able to afford tutors or switch their children to private schools that offered in-person instruction. The IKA was one of the few avenues of hope for struggling low-income students to be in an environment where they could thrive.

Conclusion: The Invest in Kids Act is transforming the lives of thousands of children. Instead of seeking to undermine and decimate the program and hasten its demise, the Governor and the Legislature should be working with us to extend and enhance this program to benefit the greatest number of children who are in the greatest need.

² Currently, the out of pocket cost for donors is at least 25% of their donation. Under state law, if a donor claims a federal deduction, they are not allowed to claim any tax credit. Under Federal law, donors can only claim a deduction on the portion of the donation that they don't get a credit for. If the state tax credit was reduced to 40% and donors were allowed to take a federal deduction, even the wealthiest donors who are in the highest tax bracket would be out of pocket at least 38% of their donation.

Example: John donates \$1,000 and gets a \$400 tax refund from the state. John also claims a federal deduction for a \$600 charitable gift, which is the 60% portion not covered by the state credit. Since John is wealthy and in the highest tax bracket, he saves 37% of \$600 on his federal income tax, which is \$222. Adding this to the value of his \$400 credit equals \$622, putting his out of pocket costs at \$378. This is significantly higher than the \$250 out of pocket cost for donors under the current law.

Others who itemize their deductions but are in lower tax brackets will only reduce their out-of-pocket costs by a couple of percentage points.

Example: John donates \$1,000 and gets a \$400 refund from the state. John also claims a federal deduction for a \$600 charitable gift. Since John is a middle-income wage earner and in the 12% tax bracket, he saves 12% of \$600 on his federal income tax, which is \$72, much lower than the additional \$222 that wealthy donors are saving. Adding this to the value of his \$400 credit equals \$472, putting his out of pocket costs at \$528. This is more than double the \$250 out of pocket cost for donors under the current law.