



MODEL LEGISLATION

THE GREAT SCHOOLS TAX CREDIT PROGRAM ACT

Section 1. {Title} The Great Schools Tax Credit Program Act

Section 2. {Definitions}

(A) “Program” means the Great Schools Tax Credit Program.

(B) “Eligible student” means a student who:

(1) is a member of a household whose total annual income the year before he or she receives an educational scholarship under this program does not exceed the income standard used to qualify for a free or reduced-price lunch under the national free or reduced-price lunch program established under 42 USC Section 1751 et seq. Once a student receives a scholarship under this program, the student will remain eligible regardless of household income until the student graduates high school or reaches 21 years of age;¹

(2) was eligible to attend a public school in the preceding semester or is starting school in [state] for the first time;²

(3) Resides in [state] while receiving an educational scholarship.

(C) “Low-income student” means a student who qualifies for a free or reduced-price lunch under the national free or reduced-price lunch program established under 42 USC Section 1751 et seq.³

(D) “Parent” includes a guardian, custodian, or other person with authority to act on behalf of the child.

(E) “Department” means the state Department of Revenue.

(F) “Qualifying school” means either a public school outside of the resident school district, or any private school that provides education to elementary and/or secondary students and has notified the Department of its intention to participate in the program and comply with the program’s requirements.⁴

(G) “Educational scholarships” means grants to students to cover all or part of the tuition and fees at either a qualifying private school or a qualifying public school, including transportation to a public school outside of a student’s resident school district.

(H) “Scholarship Granting Organization” means an organization that complies with the requirements of the state’s school scholarship tax credit program and provides or is approved to provide educational scholarships to students attending qualifying schools of their parents’ choice.

(I) “Test” means either the state achievement test or nationally recognized norm-referenced test chosen by the participating school.

Section 3. {Basic Elements of the Great Schools Tax Credit Program}

(A) A taxpayer who files a state income tax return and is not a dependent of another taxpayer may claim a credit for a contribution made to a scholarship granting organization.

(B) The tax credit may be claimed by an individual taxpayer or a married couple filing jointly in an amount equal to the total contributions made to a scholarship granting organization for educational scholarships during the taxable year for which the credit is claimed up to 75 percent of the taxpayer’s tax liability.⁵

(C) The tax credit may be claimed by a corporate taxpayer in an amount equal to the total contributions made to a scholarship granting organization for educational scholarships during the taxable year for which the credit is claimed up to 75percent of the taxpayer’s tax liability.⁵

(D) A corporate taxpayer, an individual taxpayer, or a married couple filing jointly may carry forward a tax credit under this program for three years.⁶

Section 4. {Responsibilities of Scholarship Granting Organizations}⁷

(A) Administrative Accountability Standards. All scholarship-granting organizations shall:

(1) notify the Department of their intent to provide educational scholarships to students attending qualifying schools;

(2) demonstrate to the Department that they have been granted exemption from the federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code;

(3) distribute periodic scholarship payments as checks made out to a student’s parent or guardian and mailed to the qualifying school where the student is enrolled. The parent or guardian must endorse the check before it can be deposited;

(4) provide a Department-approved receipt to taxpayers for contributions made to the organization;

(5) ensure that at least 90 percent of their revenue from donations is spent on educational scholarships, and that all revenue from interest or investments is spent on educational scholarships;

(6) ensures that the maximum scholarship shall be no more than 80% of the total average local and state aid provided for children in district schools.²⁰

(7) ensure that at least X percent of first-time recipients of educational scholarships were not continuously enrolled in a private school during the previous year;⁹

(8) cooperate with the Department to conduct criminal background checks on all of their employees and board members and exclude from employment or governance any individual(s) that might reasonably pose a risk to the appropriate use of contributed funds;¹⁰

(9) ensure that scholarships are portable during the school year and can be used at any qualifying school that accepts the eligible student according to a parent's wishes. If a student moves to a new qualifying school during a school year, the scholarship amount may be prorated.

(10) publicly report to the Department by June 1 of each year the following information prepared by a certified public accountant regarding their grants in the previous calendar year:

(a) the name and address of the student support organization;

(b) the total number and total dollar amount of contributions received during the previous calendar year; and

(c) the total number and total dollar amount of educational scholarships awarded during the previous calendar year, the total number and total dollar amount of educational scholarships awarded during the previous year to students qualifying for the federal free and reduced-price lunch program,¹¹ and the percentage of first-time recipients of educational scholarships who were enrolled in a public school during the previous year.

(11) ensure scholarships are not provided for students to attend a school with paid staff or board members, or relatives thereof, in common with the scholarship granting organization.

(B) Financial Accountability Standards.¹²

(1) All scholarship-granting organizations shall demonstrate their financial accountability by:

(a) annually submitting to the Department a financial information report for the organization that complies with uniform financial accounting standards established by the Department and conducted by a certified public accountant; and

- (b) having the auditor certify that the report is free of material misstatements.
- (2) All participating private schools shall demonstrate financial viability, if they are to receive donations of \$50,000 or more during the school year, by:
 - (a) filing with the scholarship granting organization prior to the start of the school year a surety bond payable to the scholarship granting organization in an amount equal to the aggregate amount of contributions expected to be received during the school year; or
 - (b) filing with the scholarship granting organization prior to the start of the school year financial information that demonstrates the financial viability of the participating school.

Section 5. {Program Oversight of Participating Schools}

(A) Each scholarship granting organization shall collect written verification from participating, private schools that accept its scholarship students that those schools:

- (1) comply with all health and safety laws or codes that apply to private schools;
- (2) hold a valid occupancy permit if required by their municipality;
- (3) certify that they comply with the nondiscrimination policies set forth in 42 USC 1981;¹³ and
- (4) conduct criminal background checks on employees and then:
 - (a) exclude from employment any people not permitted by state law to work in a private school; and
 - (b) exclude from employment any people that might reasonably pose a threat to the safety of students.¹⁴

(B) Academic Accountability Standards. There must be sufficient information about the academic impact scholarship tax credits have on participating students in order to allow parents and taxpayers to measure the achievements of the program, and therefore:

- (1) each scholarship granting organization shall ensure that participating schools that accept its scholarship shall:¹⁵
 - (a) annually administer either the state achievement tests or nationally recognized norm-referenced tests that measure learning gains in math and language arts to all participating students in grades that require testing under the state's accountability testing laws for public schools;

(b) allow costs of the testing requirements to be covered by the scholarships distributed by the scholarship granting organizations;

(c) provide the parents of each student who was tested with a copy of the results of the tests on an annual basis, beginning with the first year of testing;

(d) provide the test results to the Department or an organization chosen by the state¹⁶ on an annual basis, beginning with the first year of testing;

(e) report student information that would allow state to aggregate data by grade level, gender, family income level, and race; and

(f) provide graduation rates of participating students to the Department or an organization chosen by the state in a manner consistent with nationally recognized standards.

(2) the Department or an organization chosen by the state shall:

(a) ensure compliance with all student privacy laws;

(b) collect all test results; and

(c) provide the test results and associated learning gains to the public via a state Web site after the third year of test and test-related data collection.¹⁷ The findings shall be aggregated by the students' grade level, gender, family income level, number of years of participation in the scholarship program, and race.¹⁸

Section 6. {Responsibilities of the Department of Revenue}

(A) The Department shall adopt rules and procedures consistent with this act as necessary to implement the program.

(B) The Department shall provide a standardized format for a receipt to be issued by a scholarship granting organization to a taxpayer to indicate the value of a contribution received. The Department shall require a taxpayer to provide a copy of this receipt when claiming the Great Schools Tax Credit.

(C) The Department shall provide a standardized format for a scholarship granting organizations to report the information in Section 4(A)(10) above.

(D) The Department shall have the authority to conduct either a financial review or audit of a scholarship granting organization if possessing evidence of fraud.

(E) The Department may bar a scholarship granting organization from participating in the program if the Department establishes that the scholarship granting organization has intentionally and substantially failed to comply with the requirements in Section 4 or Section 5.

(F) If the Department decides to bar a scholarship granting organization from the program, it shall notify affected scholarship students and their parents of this decision as quickly as possible.

(G) The Department shall allow a taxpayer to divert a prorated amount of state income tax withholdings to a scholarship granting organization of the taxpayer's choice up to the maximum credit allowed by law, including carry-over credits. The Department shall have the authority to develop a procedure to facilitate this process.¹⁹

Section 7. {Responsibilities of Qualifying Schools}

(A) All qualified schools shall be required to operate in [state].

(B) All qualifying schools shall comply with all state laws that apply to private schools regarding criminal background checks for employees and exclude from employment any people not permitted by state law to work in a private school.

Section 8. {Effective Date} The Great Schools Tax Credit may be first claimed in the next calendar year.

Model Legislation