

# A new tax credit is coming

I had a colleague who often invoked the Chinese curse, “May you live in interesting times.” It appears that my colleague got his wish. We are certainly living through those times now. There are more newsworthy stories than our citizens can keep up with – what with wars, partial government shutdowns, redistricting fights, and so on.

**Joe McGarrity**



But at least to me, the most interesting of these stories is one that most people do not know about. There is a rarely mentioned provision of the so-called “One Big Beautiful Bill” that does not kick in until 2027. This provision gives a tax credit of \$1,700 for individuals who donate money to Scholarship Granting Organizations (SGOs) to pay for tuition at private K-12 schools. The tax credit increases to \$3,400 for married couples.

To get the tax credit, one cannot just donate money to a private K-12 school. Instead, states have to opt in to this program by providing a list of approved SGOs. So far, 27 states have already opted in or are in the process of doing so. The incentives created by the tax credit ensure that many people will claim it and nearly all states will approve eligible SGOs.

To illustrate why so many people

will claim the tax credit, consider a married couple who owes \$10,000 in federal income taxes for the 2027 calendar year. If the couple donates \$3,400 to a qualified SGO, they can reduce their federal income tax burden by \$3,400 and only pay \$6,600 in federal income taxes. So every dollar they pay to the SGO reduces their tax burden by a dollar. These donations will be attractive to people who think that private schools will use their money more effectively than the Federal Government will. These people will surely donate money to K-12 SGOs and take the tax credit.

Arkansas is one of the states that has already started approving SGOs. New Jersey is not. By failing to approve SGOs, New Jersey is forfeiting money that could help improve its schools. To see how, consider the case of an Arkansas resident that I know who went to a Catholic High School in New Jersey. This person would gladly donate \$1,700 to his alma mater if he could get a tax credit for doing so. But since he cannot, he will donate the money to an Arkansas SGO. There is another group to consider in this story as well. People still living in New Jersey may donate money to SGOs in other states in order to get the tax credit. At some point, New Jersey will tire of losing out on educational dollars that could have helped its students. And at that point, New Jersey will join the states

that provide lists of eligible SGOs that can accept donations that result in tax credits for donors.

The Educational Freedom Tax Credit program that I have been discussing may end up being the most successful educational policy in decades. Now, parents have the option of sending their kids to very expensive K-12 private schools or to public schools. And now, many parents, who are dissatisfied with the public schools, send their children to the public schools anyway – simply because they cannot afford the private option.

I suspect the tax credit will increase donations to private schools by enough that these schools will be able to drastically reduce their tuition, making them much more affordable. As a result, parents will soon face a new choice: While they will still be able to send their kids to public schools, they will also be able to send their kids to moderately priced private schools. As a result, many parents will soon be able to afford to move their children out of underperforming public schools. The tax credit will have another, mostly unforeseen consequence: The threat – that parents might enroll their kids in private schools – will force the public schools to do a better job if they want to retain their students. Either scenario is a win.

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