Opportunity Scholarships: FAQ

What is an Opportunity Scholarship?

It's a privately-funded scholarship for students to attend the private school of their choice. Taxpayers can support these scholarships by making a donation to qualified nonprofit Scholarship Granting Organizations (SGOs). In return, taxpayers can receive a tax credit on their state income tax bill for a percentage of their donation.

Are Opportunity Scholarships a new idea?

They may be new to Nebraska, but state tax credits that encourage donations to Scholarship Granting Organizations have been in existence since 1997, when Arizona introduced the country's first program.

Today, 18 states provide similar options.

What is a tax credit?

A tax credit is an amount of money reduced from a taxpayer's tax bill. In the case of Opportunity Scholarships, the tax credit reduces the amount of state income tax a donating taxpayer would owe.

A taxpayer who donates to support Opportunity Scholarships would receive a tax credit for 100 percent of the cost of their donation. That means if you a donated $100 to an Opportunity Scholarship-granting nonprofit, you'd see your state income tax bill lowered by $100 at tax time.

How is a tax credit different than a tax deduction?

A tax deduction reduces the amount of your income that is subject to taxes, while a tax credit reduces the total amount of tax you owe. That means a tax credit is typically a bigger incentive to encourage people to donate to charitable causes.

Do Opportunity Scholarships help improve student achievement?

At least 12 of 13 studies using random assignment (an unbiased lottery system) find that student achievement improves based on a child's receipt of a private school scholarship, while the remaining study found no significant impact. This research demonstrates that at the very least, private school choice programs do no harm to participating students and in most cases, scholarships help students succeed.

In a recent study tracking randomly assigned minority students who received assistance to attend private elementary school in 1997, researchers Matthew M. Chingos and Paul E. Peterson found that by 2013 the students were "10 percent more likely to enroll in college and 35 percent more likely than their peers in public school to obtain a bachelor's degree."

In a separate 2012 study, Chingos and Peterson also found that African American students using private school scholarships were more likely to attend college.

Do the tax credits for Opportunity Scholarships take money away from Nebraska's public schools?

No. The Opportunity Scholarship program is so much smaller than current state spending on K-12 education that it is not necessary to divert any funding from public schools to permit the tax credits. In 2015-2016, Nebraska's Department of Education was allocated $1.6 billion. To this point, every proposed Opportunity Scholarship tax credit in Nebraska has requested a starting total of about 0.6 percent of that amount.

Are Opportunity Scholarships vouchers? What's the difference?

Opportunity Scholarships are privately-funded scholarships, not vouchers.

Vouchers are publicly-funded vehicles for moving state or local tax dollars between different schools a student may attend. Opportunity Scholarships, on the other hand, provide a tax incentive for private individuals or businesses to donate to scholarships for children and their parents.

Since students may choose to attend religious schools with an Opportunity Scholarship, do Opportunity Scholarships present a problem with the Separation of Church and State?

No, providing a tax credit for scholarship donations of any kind does not present a First Amendment issue or conflict with Nebraska's constitution.

Courts in Arizona, Florida, New Hampshire, and the United States Supreme Court have dismissed lawsuits challenging Opportunity Scholarships on these grounds.

While some groups will always oppose families choosing a parochial or private religious school for their children with scholarships they receive, no taxpayer is required to donate to an SGO, and no parent is required to enroll their child in a non-public school.

Would this program impose more regulations or limit the autonomy of private schools?

No. For one thing, no private school would be required to participate in the program or accept scholarships. For schools that do participate, a provision of LB 295 explicitly prohibits the Act from being construed as granting any expanded or additional authority to the State to control or influence the policies of any participating private school. Again, it should be noted that any private school that qualifies under LB 295 must meet the applicable accreditation or approval requirements established by the State Board of Education.

Which taxpayers are eligible for a tax credit if they donate?

State income taxpayers, including individuals, corporations, estates, and trusts.

Can a donor receive a tax credit for making a donation to a particular student or school?

No. To qualify for a tax credit, the donation must be made to a qualified nonprofit SGO. These nonprofits must provide students and their family the ability to select more than one school at which to use their scholarships, and cannot designate funds for individual students identified by the taxpayer.

Can parents currently paying for private school tuition for their own children receive a tax credit under the Opportunity Scholarship?

No, though some other states have passed similar laws.

Can students currently attending private school receive an Opportunity Scholarship?

A first-time Opportunity Scholarship may only be granted to a student transferring from public to private school, a student entering Kindergarten, a student entering 9th Grade, or a sibling of any of these recipients. These students will also be able to receive Opportunity Scholarships for future years of private school attendance, as long as their family remains eligible under the program's income guidelines.

What are the income eligibility guidelines for Opportunity Scholarships?

Opportunity Scholarships are for low and middle income families. Household income of eligible students must be less than 2 times the federal guidelines for reduced price school meals (about $89,000 for a family of four).

Does every student receive the same scholarship amount?

The size of an individual scholarship is determined by the application process of each SGO. SGOs must use household income and student need as a means-tested basis for determining the size of a scholarship. Experience in other states shows that SGOs tend to focus on scholarships as a leg- up for families, not often full-ride support. However, SGOs would be able to give larger scholarships to low income families, based on need.

Can SGOs or schools that receive students with Opportunity Scholarships be run on a for-profit basis?

No. All participating Scholarship Granting Organizations, and all schools that receive students on Opportunity Scholarships, must be nonprofit organizations.

Would an SGO be subject to any oversight by the State of Nebraska?

Yes. Each SGO must submit a financial information report by an independent public accountant to the Department of Revenue each year. The SGO must include a summary description of its policies and procedures for awarding scholarships with the report, and any other information requested by the department.

Can a donor get money back from the state if they don't owe any taxes?

No. The Opportunity Scholarship tax credit is nonrefundable, meaning you can't get money back for your donation if you don't owe income taxes. But a donating taxpayer can claim their tax credits over a period of five years going forward for tax planning purposes.

Is there a limit to how much a person can donate to Opportunity Scholarships?

There is no limit to how much a person can donate, but there is a limit on how the dollar amount of tax credits that one can claim each year. The limit for individuals is $5,000; for partnerships, LLCs, and S-corporations: $50,000; for trusts and estates: $50,000; for corporations: $150,000. Furthermore, the state would impose a "cap" on the aggregate amount of tax credits each year. The cap would be $2 million in Year One. The cap may increase by 20% each year, but it may never grow beyond $10 million.

Can donors to Opportunity Scholarships receive or save more money than their total donation by claiming both a state tax credit and a federal tax deduction?

No. While charitable donations do qualify for federal tax deductions, so do the state income taxes we all pay. Because the tax credit reduces the amount of state income tax a donor can write off, there is no way to receive more in total tax savings than the cost of the original donation.

Can an Opportunity Scholarship donor receive both a state income tax credit and a state income tax charitable deduction?

No.

Will Opportunity Scholarships cost Nebraska a lot of money over time?

Opportunity Scholarships are the one tax credit that pays for itself. Research shows that the program would break even within one to three years, depending on its final structure.

In Florida, a nonpartisan analysis showed that for every $1 in education tax credits offered, taxpayers saved $1.49 in education costs. In Arizona, which has the country's oldest tax credit, a review of Department of Revenue figures showed that Opportunity Scholarships were saving the public schools over $240 million a year, over four times the amount of revenue foregone in tax credits.

Do these types of tax-credit scholarship programs exist in other states?

Yes. Eighteen states have similar tax-credit scholarship programs, which vary by the amount of credits, program caps, and eligibility criteria. For instance, Iowa's program, which allows a 65% tax credit, received donations totaling nearly $13.5 million in 2013-14 and provided scholarships to more than 10,000 students. Scholarship tax credit programs also exist in Alabama, Arizona, Florida, Georgia, Indiana, Kansas, Louisiana, Montana, Nevada, New Hampshire, Oklahoma, Pennsylvania, Rhode Island, South Carolina, South Dakota, Virginia, and Illinois.

Sources: Nebraska Catholic Conference and Platte Institute for Economic Research