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Jan Resseger: Federal voucher program in "One Big Beautiful Bill" would lure investors with lucrative tax shelter.

Jan Resseger's June 26 blog reviews the frightening tuition tax credit school voucher scheme included in the federal budget. As Resseger points out, this scheme delivers risk-free profits to savvy investors.

There are huge profits involved in the charter school business. The federal budget will enrich folks that can smell a dollar five miles away. Who wins? Savvy investors. Who loses? Primary and secondary school kids and taxpayers.

Education funding policies at the federal and state level are becoming a grand scheme to enrich the rich and denigrate education for all children.

Federal Voucher Program Hidden in "One Big Beautiful Bill" Would Lure Investors with Lucrative Tax Shelter

By **janresseger** on June 26, 2025

Last week, the *Wall Street Journal* published[1] an analysis of the federal tuition-tax-credit school vouchers buried in the fine print of the One Big, Beautiful tax and reconciliation bill being debated in Congress. Matt Barnum and Richard Rubin begin: "Republicans' tax-and-spending megabill would give the school-choice movement a major, long-sought victory---and deliver an unusually generous tax break to wealthy taxpayers. The bill includes a new way for taxpayers---whether they are parents or not---to direct tax dollars to private school scholarships (vouchers) instead of the Treasury." They continue: "There is an extra twist: It would deliver virtually risk-free profits to some savvy investors."

The voucher proposal, once introduced as a stand alone bill called the Educational Choice for Children Act (ECCA) before it was embedded in the One Big, Beautiful tax and reconciliation bill, has little to do with the education of our children and adolescents and much to do with financial benefits for the wealthy. Barnum and Rubin explain: "The incentive is structured as a dollar-for-dollar federal tax credit. Give to a charity known as a Scholarship-Granting Organization (SGO) and you would get the same amount subtracted from your federal tax bill... with the benefit capped at 10% of adjusted gross income or $5,000, whichever is greater."

The ECCA is not only a tax credit plan, but it is also an extremely lucrative tax shelter for investors: "For people with appreciated stock, the proposal could be even more attractive than a dollar-for-dollar credit, potentially creating net profits. Consider someone who bought a stock for $100 that is now worth $1,100. Selling that stock would also trigger capital gains taxes of up to $238. But under the bill, he would donate the $1,100 stock to an SGO. The government would give $1,100 back (as a dollar-for-dollar tax credit against other income tax he owes) and he wouldn't have to pay capital gains taxes. He could then buy the same $1,100 stock on the open market. The result? He's better off than when he started, spending nothing to erase a potential capital-gains tax liability."

ECCA is complicated from a financial and from a public policy perspective. For some background, we can turn to three policy experts; each one considers the proposal's complexities as well as what would be its implications if the U.S. Senate and House of Representatives were to reach a compromise and pass the omnibus bill.

The Institute for Taxation and Economic Policy's Carl Davis explains that the tax shelter is designed to appeal to the wealthy purely as an investment: “(E)ven wealthy individuals who have never given more than a passing thought to private school vouchers are likely to sign up on the advice of accountants.” "(T)he bill goes out of its way to provide school voucher donors who contribute corporate stock with an extra layer of tax subsidy that works as a lucrative tax shelter. Essentially, the bill allows wealthy individuals to avoid paying capital gains tax as a reward for funneling public funds to private schools.” “Donors to children’s hospitals, veterans’ assistance groups, and other charities would receive no more than 35 cents in tax savings for each dollar donated, while donors to private K-12 school voucher groups would receive a full reimbursement of their donations, valued at 100 cents on the dollar. The bill would also allow private school voucher donors to avoid capital gains tax on their gifts of corporate stock… As currently drafted, the bill would facilitate $2.2 billion in federal and state capital gains tax avoidance over the next 10 years. If the bill is extended beyond its four-year expiration date, that figure would rise to $5.2 billion.”

Education Week's Mark Lieberman adds: “No other federal tax credit is as generous. The Internal Revenue Service doesn’t currently supply tax credits worth the full donation amount for any cause, as the private school choice scholarship credit would do. The federal government currently offers tax credits on donations for disaster relief, houses of worship, veterans’ assistance groups, and children’s hospitals at roughly 37 percent of the donated amount. A $10,000 donation to those causes would yield a tax credit of $3,700. By contrast, under the proposed legislation, if a taxpayer donates $10,000 to a scholarship (voucher)-granting organization, the IRS would give them a tax credit of $10,000.”

The Brookings Brown Center on Education Policy's Jon Valant summarizes additional details about the scope of the plan and how it would work: "The U.S. already has 22 tax-credit scholarship (voucher) programs, but they're relatively modest, state-level programs. ECCA is different. ECCA would create a massive, federal tax-credit scholarship (voucher) program, operating across all 50 states, with a current price tag of about $5 billion in the first year (down from $10 billion in the bill's earlier draft). It offers an extremely generous tax credit. Individuals get a full, 1:1 credit (not just a deduction) for their contributions, which fully offsets their contributions. In other words, these **'**donors**'** don't actually give up any money---hence the quotation marks. On top of that, ECCA allows individuals to donate marketable securities (e.g. stocks) rather than cash. This provides an avenue to treat ECCA as a tax shelter and avoid paying capital gains taxes. Most students would be eligible for a scholarship, with the exception of those from households that earn more than three times their area's median gross income."

Valant creates a scenario to show how the tuition vouchers awarded by Scholarship Granting Organizations under the ECCA would in many cases go to wealthy students, as school vouchers have been known to do under the state programs that exist today, and fail to serve poor children. Valant creates a rich donor, Billy, who donates $2 million in stock to an SGO: “Billy’s acquaintance, Fred, lives in the same town as Billy, which is one of the wealthiest areas in the United States. In fact, Fred set up the SGO, looking to capture ECCA funds within their shared community… Like Billy, Fred doesn’t particularly care about K-12 public education… It might seem that Fred’s SGO couldn’t distribute funds to families in their ultra-wealthy area, since ECCA has income restrictions for scholarship recipients. That’s not the case. ECCA restricts eligibility to households with an income not greater than 300% their area’s median income. In Fred and Billy’s town, with its soaring household incomes, even multimillionaire families with $500,000 in annual income are eligible… So, Fred is looking to give scholarship money to some wealthy families in his hometown.”

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In last week's *Wall Street Journal* report, Barnum and Rubin add important details about ECCA and specific differences between the original plan embedded in the U.S. House version and the plan in the omnibus bill currently in play in the U.S. Senate.

1. "The house bill caps credits at $5 billion annually, which would climb by 5% in subsequent years if the program is heavily used. That bill would run from 2026 through 2029. The Senate version... includes $4 billion annually, starting in 2027 but without an expiration date."
2. "The stipends could go to a variety of educational uses including fees for private schools. The House bill says explicitly that the scholarships can also be used for home schooling while the Senate version doesn't."
3. "The federal bill would require the Treasury Department to allocate tax credits on a first-come, first-served basis. The agency hasn't said how it would handle a surplus of requests above the annual cap."
4. "Families could receive scholarships if their income is up to three times the local median, which includes most households with children. Taxpayers couldn't earmark funds for specific children, including their own. Otherwise, Scholarship Granting Organizations would have wide authority to determine which students and schools receive stipends."
5. "Civil rights laws prohibit certain forms of discrimination in schools that receive federal funding, but it isn't likely this would apply to private schools that benefit from the proposed tax credit, said Kevin Welner, a research professor at the University of Colorado Boulder. The House bill includes a provision barring discrimination against students with disabilities in school admissions; the Senate version doesn't."

Finally, Barnum and Rubin report: "Democrats hope the breadth of the policy changes (in the ECCA) will prompt the Senate parliamentarian to determine that it's out of bounds for the budgetary fast-track process Republicans are using." Senate rules provide that budget reconciliation laws are limited to considerations about revenue, appropriations and the debt ceiling. Unlike regular policy legislation, which requires a filibuster-proof, 60-vote Senate majority, budget reconciliation bills require only a simple, 51 vote Senate majority. The U.S. Senate parliamentarian has been combing the One Big Beautiful bill section by section, and has removed a number of its provisions. Unfortunately the parliamentarian has <u>not yet</u> removed the ECCA tuition-tax-credit vouchers from the reconciliation bill. It remains possible that this provision of a new federal school voucher program will be cut from the bill, but it hasn't happened yet.

The proposed tuition-tax-credit vouchers in the One Big Beautiful bill are designed with lucrative incentives to woo savvy investors into supporting the diversion of public tax dollars into a national plan for public school privatization. Press coverage of the ECCA vouchers lacks virtually any discussion of the educational issues across the many states that have now launched in school voucher programs. If the ECCA tuition-tax-credit vouchers were not buried so obscurely in an omnibus reconciliation bill of more than 1,000 pages, Congress would have to debate the proposal transparently and hear public feedback from the American people, who have proven they support their public schools. As First Focus on Children documents: "Since 1970 at the polls, voters have rejected the creation or expansion of private school vouchers every time they have been proposed."

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Private school tuition vouchers are, and have always been, a project of far-right politicians and their billionaire supporters.

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[1]Matt Barnum and Richard Rubin, "The Tax Bill Would Deliver a Big Win for Private Schools--and Investors," *Wall Street Journal*, June 21, 2025. (Article is completely paywalled. Cannot even copy a link.)