



# Qualified Education Expense Credit and Student Scholarship Program

## Additional measures needed to improve transparency and accountability

### BACKGROUND

The House Appropriations Committee requested this special examination. We reviewed: (1) how qualified education expense tax credits are disbursed; (2) whether student scholarship organizations (SSO) retain a reasonable administrative fee; (3) whether SSOs direct contributions according to the intent of the law; and (4) whether any measures can be taken to improve transparency and accountability to improve the integrity of future donations.

SSOs are nonprofit organizations that collect donations from taxpayers and work with private schools to provide scholarships to eligible (pre-k-grade 12) students. The donations can be claimed as tax credits within aggregate and taxpayer limits.

Aggregate limits have increased; taxpayer limits remain the same

Aggregate Limit	2013 to 2018	2019 to Present
Aggregate (All Taxpayers)	\$98 Million	\$100 Million
Taxpayer Credit Limits		
	2013 to Present	
Individual	100% of amount expended but limited to \$1,000 for Individuals \$1,250 Married couples filing separately \$2,500 Married couples filing jointly	
Corporations and other entities	100% of amount expended, or 75% of the corporation's tax liability, whichever is less	
Individuals Claiming Income from Pass-Through Entities	Amount expended but limited to 100% of the portion of income on which such tax was actually paid by S-Corporation member, up to a maximum of \$10,000 <sup>1</sup>	

<sup>1</sup>Presuming a tax liability of at least the amount claimed  
Source: O.C.G.A. and legislative changes

### KEY RECOMMENDATIONS

The General Assembly should:

- Consider updating Chapter 20-2A to clarify items, define terms, and include measures identified in other states.

DOR should:

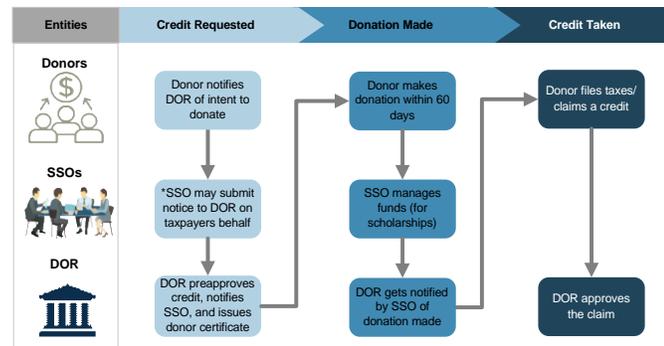
- Develop processes to ensure claimed credits do not exceed the tax liability as appropriate.
- Review SSO compliance audits to ensure required verified information is included and notify SSOs appropriately.
- Work with GaDOE to ensure the active provider list is current.

### KEY FINDINGS

Statutory requirements provide a degree of transparency and accountability for the student scholarship program. SSOs must comply with various requirements, and their maximum administrative fee percentages are based on donations received. Taxpayers donating to SSOs qualify for tax credits that are limited according to their filing status (or in some cases tax liability), and the annual tax credit cap (raised to \$100 million in 2019). However, we identified additional actions the General Assembly and state agencies should take to increase and improve information available to decision makers and ensure taxpayers have earned the credits claimed.

#### Additional steps are needed to improve transparency and accountability of the student scholarship program.

- SSOs must submit compliance audits to DOR. However, state law does not require audits to verify and report compliance with all legal requirements. Also, requiring SSOs to submit supporting documentation would allow for verification of summary reports. Because SSOs cannot be compelled to provide information beyond what is statutorily required, responses to requests for additional information are voluntary.
- Several states have adopted measures that enhance reporting and expand transparency into their programs. Some explicitly require a financial audit, public disclosure of financial reporting, and detailed reporting on scholarship awards. Additionally, some specify how interest income can be used and when donations must be expended.
- While Georgia's administrative fee percentages align with those in other states, complete data is not available to calculate operating ratios and assess the reasonableness of the fees individual SSOs retain.



#### DOR and GaDOE should take steps to improve oversight and ensure compliance.

- State law limits the credit amount for corporations and individuals receiving income from pass-throughs based on their Georgia tax liability. It also prohibits carrying forward any amount in excess of these limits; however, DOR does not have controls to prevent this from occurring.
- While DOR generally identified and responded when SSOs failed to submit required reports, it did not always notify noncompliant SSOs in a timely manner. We also found that DOR did not routinely ensure that all statutory requirements are reported in the compliance audits. Finally, noncompliant SSOs were not always removed from GaDOE's list of active participants in a timely manner.