

Student Opportunity Scholarship Accounts: Scholarship-Granting Organizations



Student Opportunity Scholarship (SOS) accounts would aid thousands of Michigan K-12 students with access to new learning opportunities. The plan would give participating families control of flexible education spending accounts to personalize their children's learning. New and existing nonprofit organizations would play a crucial role in stewarding donations and giving students access to qualifying education options.

The mechanism to stimulate contributions would be a state income tax credit for individuals and businesses. Under the SOS program, donors would receive a dollar-for-dollar write-off up to the full amount of their Michigan tax bill, as long as the \$500 million annual credit cap has not been reached. Families could use funds for tuition or tutoring, special-needs therapies, mental health services, career counseling and school-related transportation expenses. In all, [23 other states](#) allow tax credit-funded educational choice, including two states that allow families to pay for a broad menu of education services.

What Does an Organization Have to Do to Participate?

In order to receive tax-credit donations, an organization must register with the Department of Treasury. New or existing nonprofit organizations may apply to give out SOS accounts. An organization's application demonstrates its nonprofit corporate status and describes its processes for determining student eligibility, managing accounts and approving education service providers. To maintain SOS eligibility, each year the organization submits its latest IRS Form 990, a clean financial audit, a report on how scholarship funds were disbursed and a list of approved schools and service providers.

How Does an Organization Facilitate Tax Credit Donations?

A qualifying organization would solicit contributions from Michigan individuals and businesses to fund scholarships for eligible students, with the incentive of a 100% write-off for all donations up to the taxpayer's liability. The organization could contact the treasury department on behalf of a prospective donor to secure a tax credit preapproval letter. Once the donation is received, the organization notifies the department and issues a certificate to the taxpayer indicating the individual or business name, and date and amount of the contribution.

How Does an Organization Operate with Schools and Other Providers?

Each organization should set up its own process for approving which schools and service providers are available to families with SOS accounts. This can be done on the organization's own, or at the request of parents or prospective providers. The organization is also responsible for implementing a convenient and cost-effective payment system that facilitates transactions and doesn't rely exclusively on reimbursements for out-of-pocket expenses. It may contract with a specialized online merchant, financial management firm or other scholarship organization to develop the payment system.

What Latitude Does an Organization Have in Distributing Scholarships?

An organization may define and limit the services and providers available to families using SOS accounts, provided they include at least two different schools or providers and identify the eligible options up front. It may also give out individual scholarship amounts lower than the cap provided in the program, as long as distributions are made according to policies that follow federal and state laws against discrimination.

For first-time applicant families, organizations must set aside at least half of their SOS funds to serve students with disabilities, children in foster care, or those who are eligible for free or reduced lunch subsidies. If accessing a private school or other nonpublic option, these students are eligible for the largest scholarships: up to 90% of the state's per-pupil foundation allowance, an amount currently worth \$7,830. A sliding scale lowers the cap down to \$4,694 for families with the highest eligible incomes. Public school students can get supplemental accounts worth as much as \$500 (\$1,100 for special needs).

What Obligation Does an Organization Have to Families?

A scholarship organization is the family's point of contact to apply for an SOS account. The organization would need to verify an applying student's eligibility. This could be done in contract with a private vendor. The organization should provide account recipients with written explanations of parental responsibilities, qualifying education expenses, and the role of any firms engaged to process transactions and maintain records, as well as a list of eligible service providers families may choose from. Parents must sign a written statement recognizing the allowable uses of account dollars before funds can be released.

When an SOS account is closed, any unused funds revert to the organization for allocation to other students' accounts. An organization should minimize any possible disruptions for students who wish to leave the program.

How Does an Organization Help Ensure the Program's Integrity?

A scholarship organization must maintain separate accounts for its tax-credit SOS funds and other operating funds. At least 90% of tax-credit dollars received would go directly to scholarship accounts. An organization could not receive more than 95% of its annual tax-credit contributions from a single donor.

To help prevent favoritism, organizations may not accept contributions that are designated to benefit a particular student. Nor may an organization fund any scholarships for the children of its staff or board members. In addition to the state's requirements to keep its status as a qualifying organization, it may be subject to further financial review or audit if there's a reasonable belief that the organization has violated the law.