
2022 Income Tax Credit Review

**Joint Legislative Income Tax
Credit Review Committee**

December 5, 2022



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2022 Credit Reviews

- Annually reviews credits as determined in statute
- This year's review includes:
 - Family Income Credit
 - Commercial and Industrial Solar Energy Device Credit
 - Donation to the Military Family Relief Fund Credit
 - Private School Tuition Organization "Original" Credit
 - Private School Tuition Organization "Switcher" Credit
 - Public School Extracurricular Activity Fee Credit
 - School Site Donation Credit
- All the credits were last reviewed in 2017

Role of the Committee

- Determine original purpose of credit
- Establish standards for evaluating and measuring success or failure of credit
- After review process, recommend whether credit should be amended, repealed or retained

Standards for Evaluating Credit

- History, rationale and revenue impact of credit
- Benefits of credit in terms of measurable economic development, investments and jobs
- Complexity of credit in terms of application, administration and approval process

Confidential Taxpayer Information

- Statute authorizes DOR to disclose confidential “statistical information” to the Committee, JLBC Staff and Legislative Staff
- DOR considers credit information confidential if:
 - credits were claimed by 3 or fewer taxpayers, or
 - a single taxpayer used more than 90% of total credits
- 2 of 7 credits include confidential information
- Since no material impact on evaluation, this data is excluded from credit review

Issues Affecting Evaluation

- Lack of performance measures
- Certain costs and benefits can be difficult to quantify

Family Income Tax Credit

December 5, 2022



Family Income Tax Credit

- Summary

- Cost – \$756,370 in FY 2022
 - 526,918 claims at an average of \$1.44 per claim
- Purpose – reduce the tax burden on low-income households
- Complexity – simple to use. Worksheet for credit calculation is included in tax return instruction pamphlet. No separate administration and approval process is required.
- Performance Measures – none in statute

Family Income Tax Credit

- Description of the Credit

- Credit is \$40 for each household member who is either the taxpayer, taxpayer's spouse, or a dependent
- Total credit cannot exceed \$120 for singles and married couples filing separate returns
- Total credit cannot exceed \$240 for married couples filing joint returns and unmarried persons filing as head of household
- Credit is nonrefundable and unused amounts cannot be carried forward

Family Income Tax Credit

- Credit Available to Taxpayers Below Prescribed Income Limits

Filing Status	Income Limit
Single	\$10,000
Married Filing Separate Return	\$10,000
Married Filing Joint Return *	\$20,000 - \$31,000
Head of Household *	\$20,000 - \$26,575

* Income Limit Depends on Number of Dependents

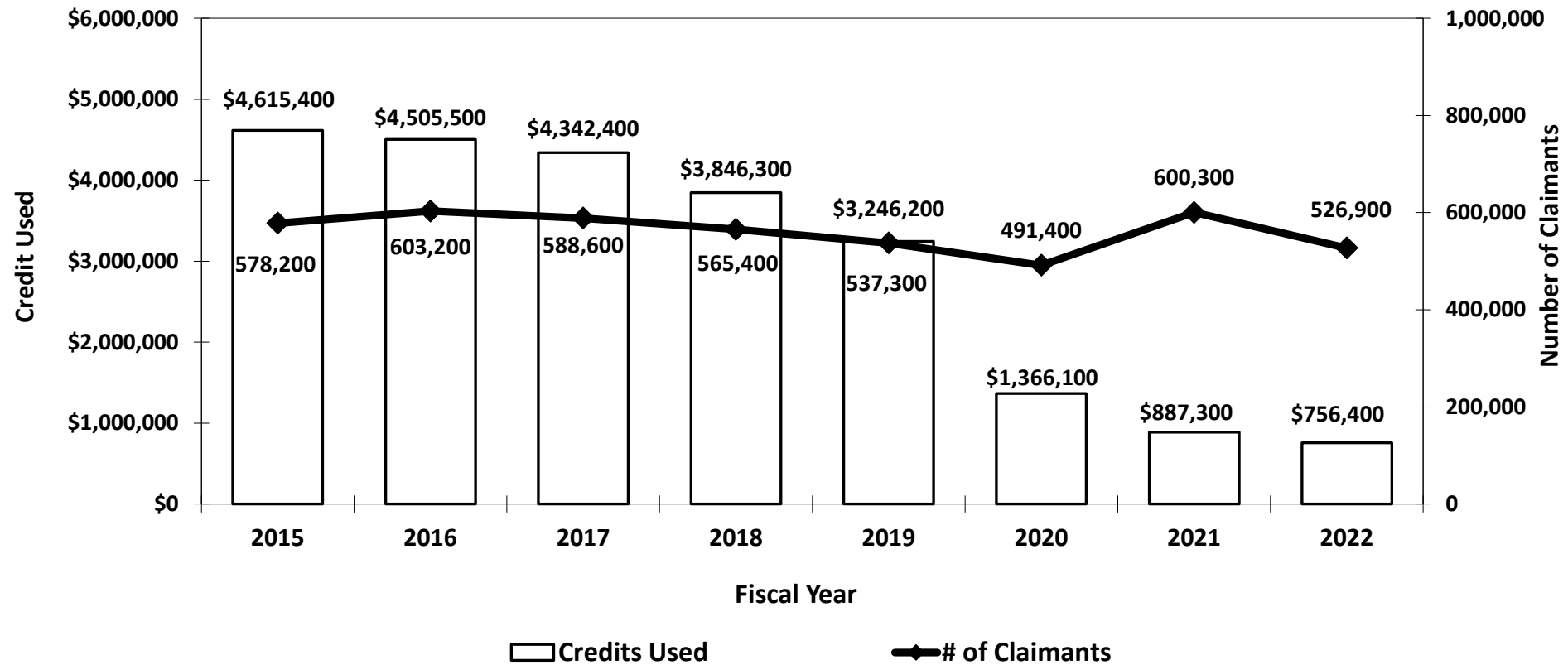
Family Income Tax Credit

- Amount of Credit Used is Much Less Than Available Credit

- Total credit available depends on filing status and number of dependents claimed
- Since credit is nonrefundable and carry forwards are disallowed, actual amount used is limited by taxpayer's liability
- Since low-income households generally incur low tax liabilities, they tend to use far less of the credit than their maximum allowable amount

Family Income Tax Credit

- Amount of Credits Used & Number of Claimants by Fiscal Year



Family Income Tax Credit

- Benefits to the Arizona Economy

- Credit has the effect of raising the disposable income of low-income households, which in theory could increase consumer spending and spur economic activity
- However, since the total amount of the credit claimed is less than \$1.0 million, the impact on the Arizona economy is likely negligible

Family Income Tax Credit

- Potential Performance Measures

- There are no performance measures for this credit

Commercial Solar Energy Device Tax Credit

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Commercial Solar Energy Device Tax Credit

- Summary

- Cost – \$6,300 in FY 2022 for the corporate credit and \$109,700 for the individual credit
- Purpose – to promote development of Arizona's solar energy industry
- Complexity – simple to use and administer
- Performance Measures – none in statute
- Repeal Date – credit expired December 31, 2018

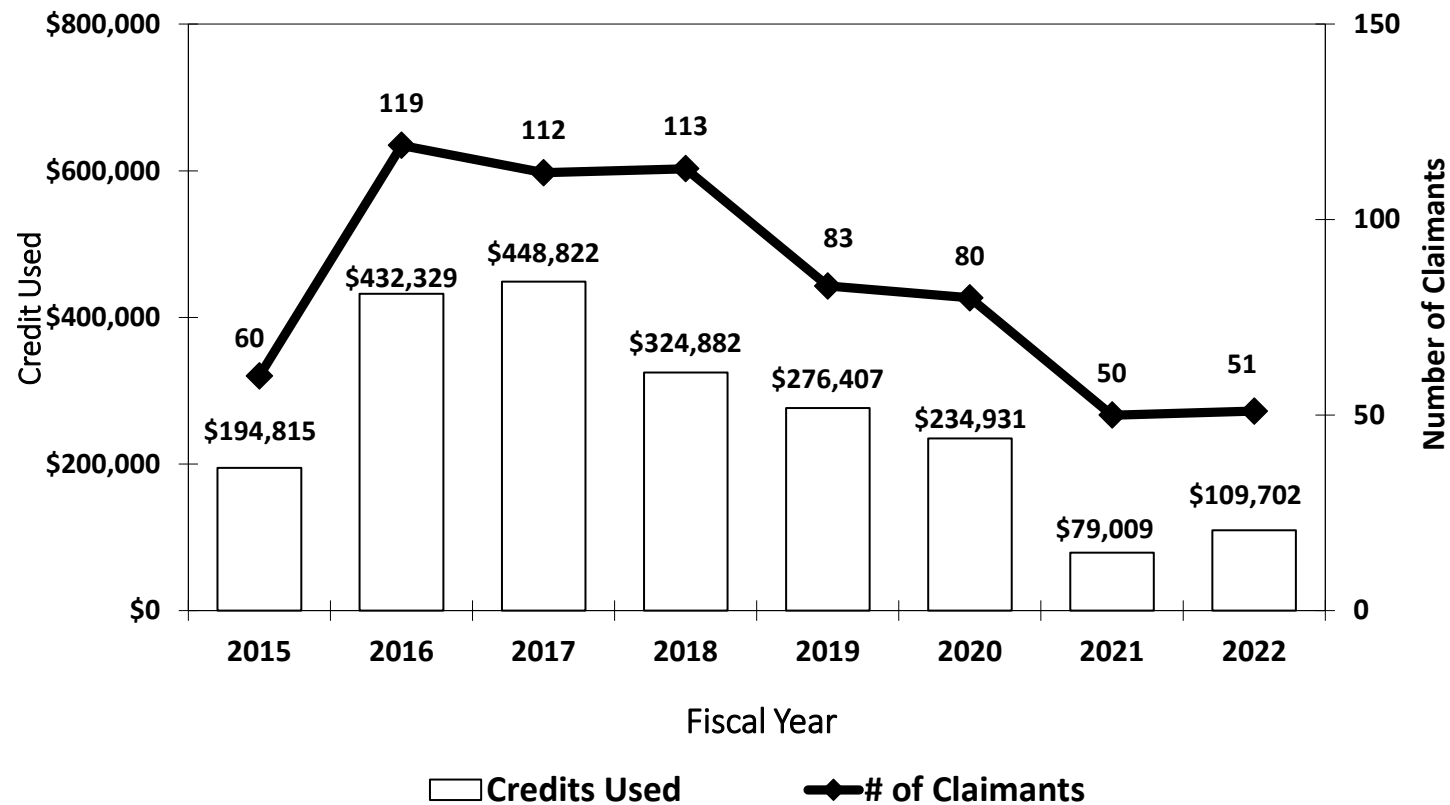
Commercial Solar Energy Device Tax Credit

- Description of the Credit

- Individual and corporate tax credits for 10% of the cost of installing a solar energy device up to a maximum of \$25,000 per building or \$50,000 per business
- Solar devices include photovoltaic (PV) electricity generators, water heaters, and energy storage systems
- Credit was available through TY 2018 and was capped at \$1 million per year
- Unused credits established in TY 2018 can be carried forward to TY 2023

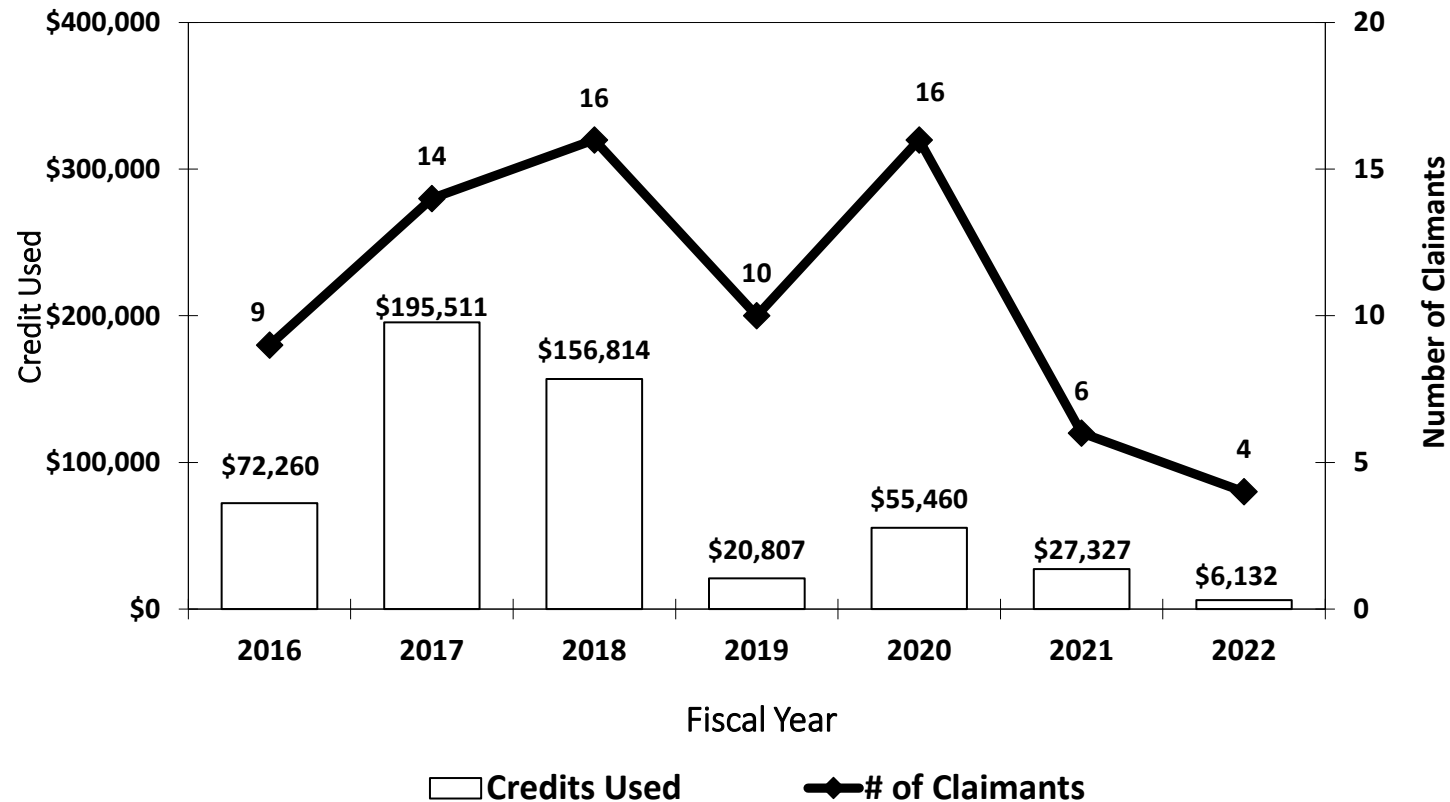
Commercial Solar Energy Device Individual Credit

- Amount of Credits Used & Number of Claimants by Fiscal Year



Commercial Solar Energy Device Corporate Credit

- Amount of Credits Used & Number of Claimants by Fiscal Year



Commercial Solar Energy Device Tax Credit

- Benefits to the Arizona Economy

- From 2006 to 2020, credits were applied against \$139.7 million of investments in solar energy devices
- These investments had likely some positive impact on Arizona's solar industry
- However, it is not known to what extent these investments would have occurred absent the credit

Commercial Solar Energy Device Tax Credit

- Potential Performance Measures

- There are no performance measures in statute
- However, since credit expired at the end of 2018, performance measures are no longer necessary

Military Family Relief Fund Tax Credit

December 5, 2022



Military Family Relief Fund Tax Credit

- Summary

- Cost – \$934,745 in FY 2022
 - 3,002 claims averaging \$311 per claim
- Purpose – to encourage contributions used to relieve financial hardship of families of military service members
- Complexity – moderately complex to administer due to popularity of the credit
- Performance Measures – none in statute

Military Family Relief Fund Tax Credit

- Description of the Credit

- Individual tax credit for cash donations to the Military Family Relief Fund
- Maximum credit allowed:
 - \$200 for single individual or head of household
 - \$400 for married couple filing joint return
- Credit is available through 2026 and is capped at \$1 million per year
- Credit is non-refundable and unused amounts cannot be carried forward

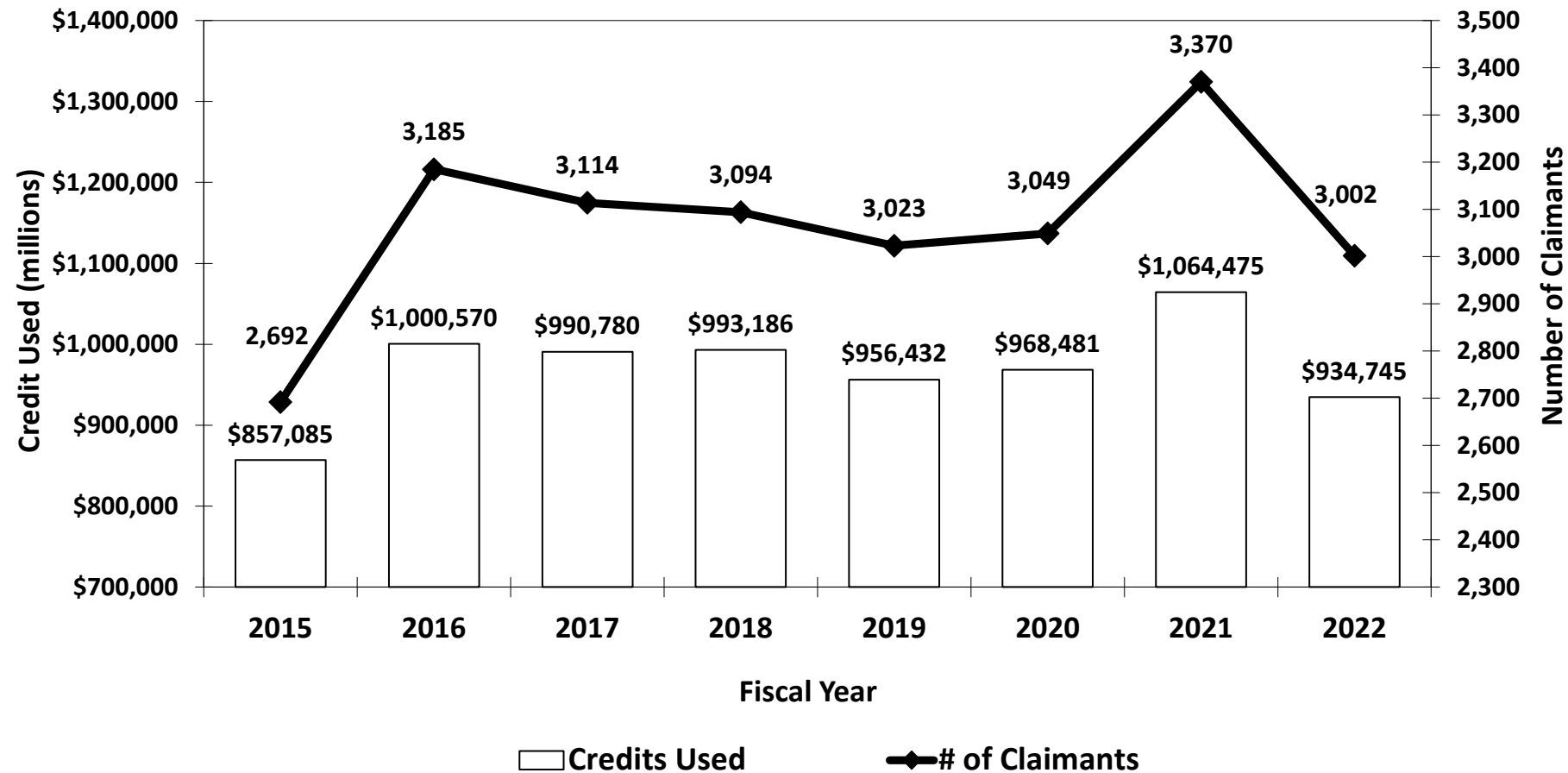
Military Family Relief Fund Tax Credit

- Balance Transfer to Veterans' Donation Fund

- The Military Family Relief Fund balance will transfer to the Veterans' Donation Fund in January 2027
- The Veterans' Donation Fund is used to benefit veterans more broadly, including:
 - Homeless veteran women
 - Higher education scholarships
 - Enduring Freedom Memorial maintenance
- Balance of \$7.0 million at the end of FY 2022

Military Family Relief Fund Tax Credit

- Amount of Credits Used & Number of Claimants by Fiscal Year



Military Family Relief Fund Tax Credit

- Grant Making

- \$20,000 grant cap
- Each of the following requirements must be met to be eligible for a grant:
 - Resident families of deployed military personnel or veterans
 - Military service in a combat zone
 - Experiencing financial hardship

Military Family Relief Fund Tax Credit

- Benefits to the Arizona Economy

- With a \$1 million annual cap, the credit's economic impact is small
- Temporarily raises income of families of service members
 - In FY 2022, the committee made \$1,251,045 in grants
 - 2010 and 2018 legislation eased program eligibility requirements

Military Family Relief Fund Tax Credit

- Level of Grants Below Donation Level

Year	Donations (Tax Year; in \$1,000)	Grants (Fiscal Year; in \$1,000)	Grants as a % of Donations
TY '13/FY '14	\$994	\$312	31.4%
TY '14/FY '15	\$998	\$477	47.8%
TY '15/FY '16	\$1,027	\$492	47.9%
TY '16/FY '17	\$999	\$1,119	112.0%
TY '17/FY '18	\$1,000	\$1,052	105.2%
TY '18/FY '19	\$1,000	\$902	90.2%
TY '19/FY '20	\$1,066	\$651	61.1%
TY '20/FY '21	\$1,103	\$607	55.0%
TY '21/FY '22	\$1,022	\$1,251	122.4%

Military Family Relief Fund Tax Credit

- Potential Performance Measures

- Number and dollar amount of donations
- Number and dollar amount of grants
 - By type assistance
 - By family characteristics

Private School Tuition Organization “Original” Tax Credit

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Original School Tuition Organization

- Summary

- Individuals used \$73.8 million of the credit in FY 22
- One of 4 private school tax credits. Individuals, corporations, and insurers combined used \$209.8 million of private STO credits in FY 22
- Purpose – assist parents with the cost of private school tuition
- Complexity – Credit is simple for donors to use. Scholarship recipients must report household income, which STOs must compile and report to DOR. DOR must register STOs, monitor their compliance with statutory requirements and report statewide STO & donor data.
- Performance Measures – none in statute

Original School Tuition Organization Credit

- Description of Credit

- Individual income tax credit for contributions to a school tuition organization (STO):
 - Charitable organization exempt from federal taxes
 - Awards 90% of tax credit revenue for scholarships & grants
- Maximum credit allowed (FY 2022):
 - \$623 for single individual or head of household
 - \$1,245 for married couple filing joint return
 - Adjusted annually for inflation
- 5-year carry-forward (\$12.6 M carried forward in TY 20)
- 53 STOs received contributions in FY 2021

Original School Tuition Organization Credit

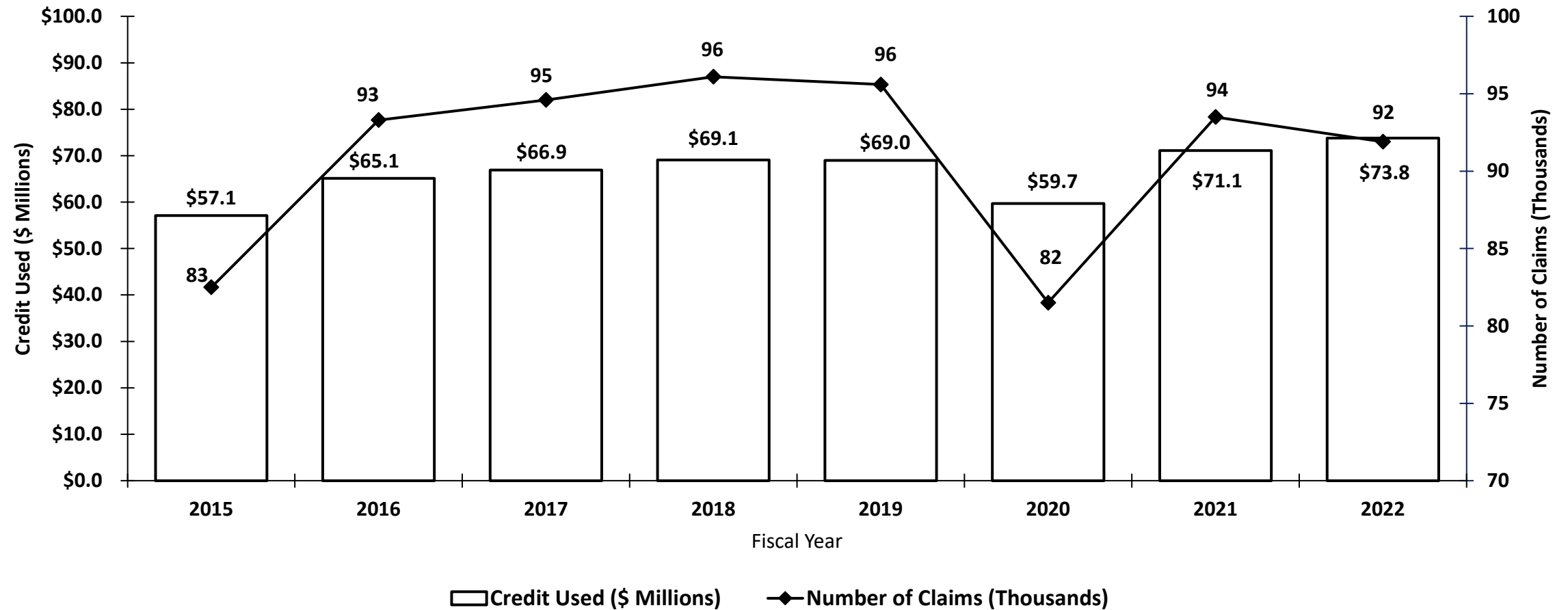
- Related STO Credits

Three other STO tax credits exist:

- Corporate “low income” STO credit
 - scholarships for “low income” students
- Corporate “displaced/disabled” STO credit
 - scholarships for students with disabilities or from foster care system
- Individual “switcher” STO credit
 - Scholarships for students who switch to private schools
 - Donor must first take maximum “original” STO credit
 - Also under review this year

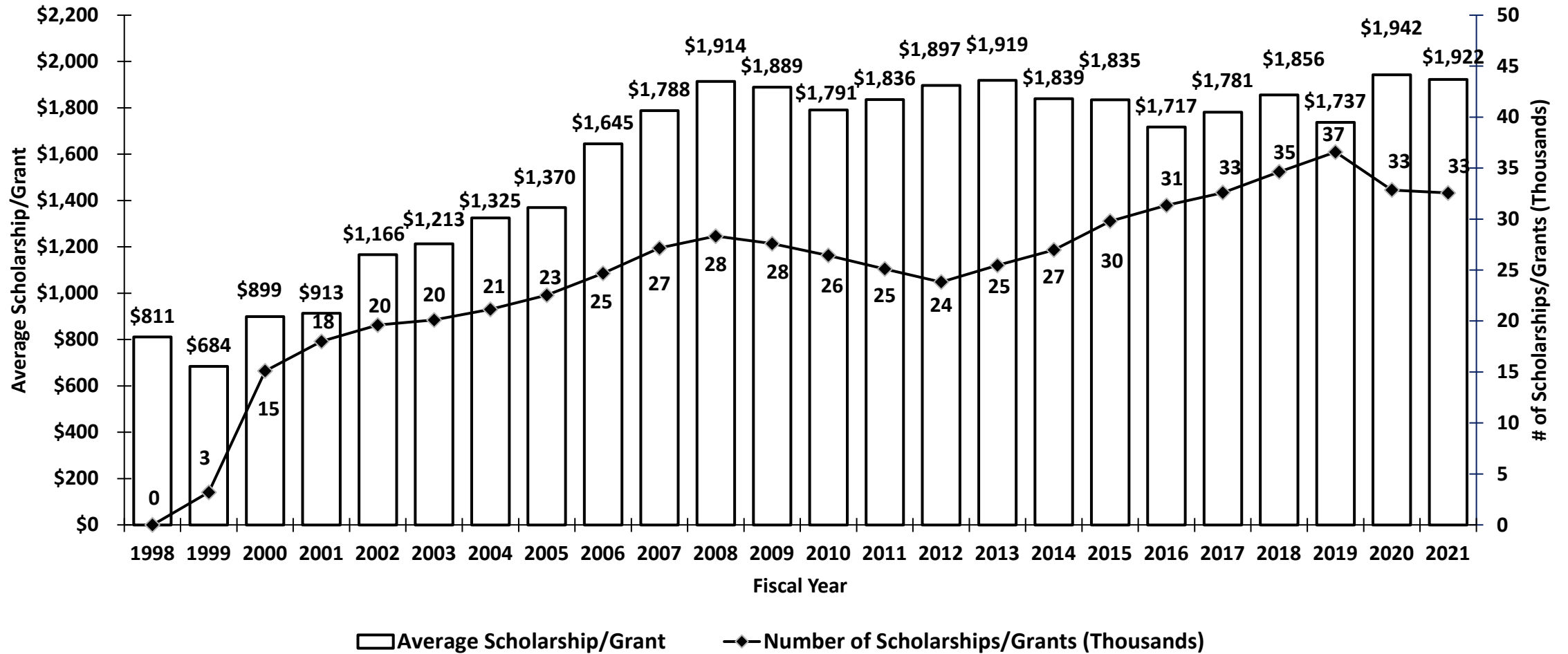
Original School Tuition Organization Credit

- In FY 2022, Average Credit Claimed Was \$802



Original School Tuition Organization Credit

- Over 33,000 awards distributed in FY 2021 (Average = \$1,922)



Original School Tuition Organization Credit

- Potential Performance Measures

- Percent of STO revenues retained for administrative costs
- Percent of private school tuition paid for with award funding
- Number of unduplicated students receiving STO scholarships

Private School Tuition Organization “Switcher” Tax Credit

December 5, 2022



“Switcher” School Tuition Organization

- Summary

- Individuals used \$46.9 million of the credit in FY 22
- One of 4 private school tax credits. Individuals, corporations, and insurers combined used \$209.8 million of private STO credit in FY 22
- Purpose – assist parents with the cost of private school tuition
- Complexity – Credit is simple for donors to use. Scholarship recipients must report household income, which STOs must compile and report to DOR. DOR must register STOs, monitor their compliance with statutory requirements and report statewide STO & donor data.
- Performance Measures – none in statute

“Switcher” School Tuition Organization Credit

- Description of Credit

- Individual income tax credit for contributions to a school tuition organization (STO):
 - Only allowed if individual has contributed the maximum amount allowed under the original STO tax credit program
- Maximum credit allowed (TY 2022):
 - \$620 for single individual or head of household
 - \$1,238 for married couple filing joint return
 - Adjusted annually for inflation
- 5-year carry-forward (\$11.9 M carried forward in TY 20)
- 51 STOs received contributions in FY 2021

“Switcher” School Tuition Organization Credit

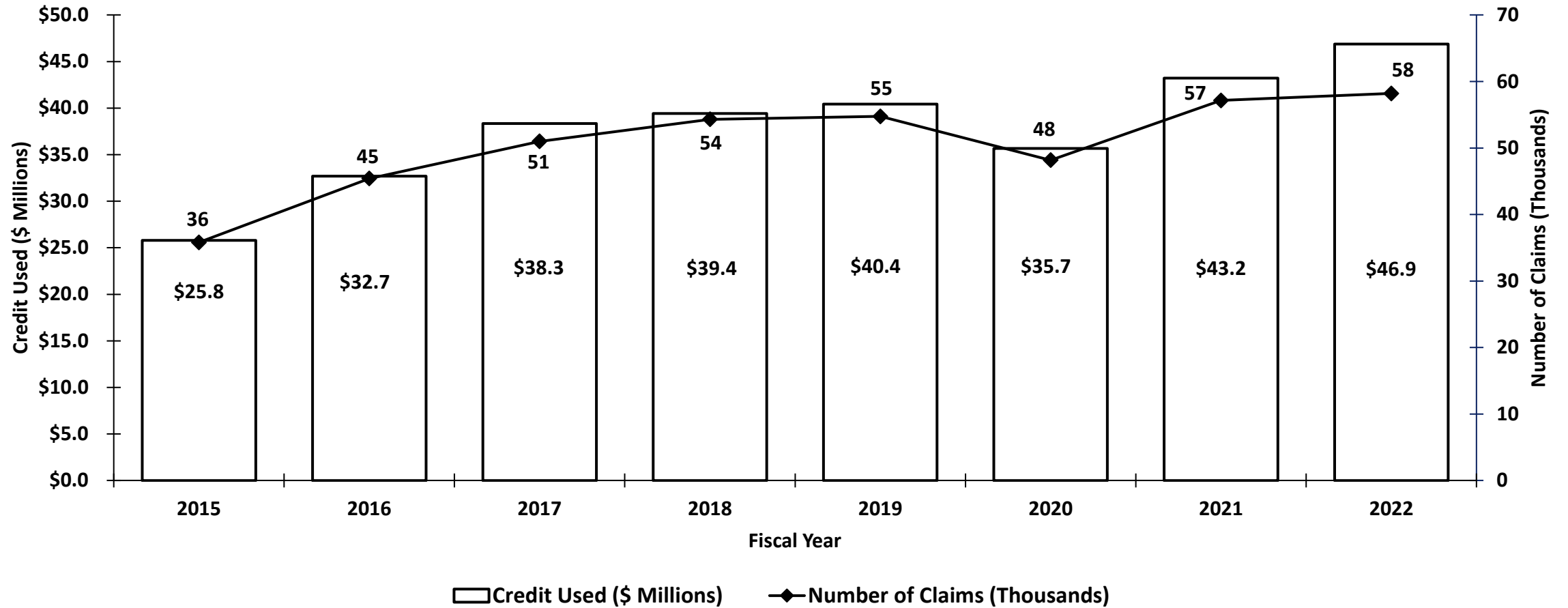
- Related STO Credits

Three other STO tax credits exist:

- Corporate “low income” STO credit
 - Scholarships for “low income” students
- Corporate “displaced/disabled” STO credit
 - Scholarships for students with disabilities or from foster care system
- Individual “original” STO credit
 - Started in 1998 (“switcher” started in 2012)
 - Does not require students to switch from public schools
 - Also under review this year

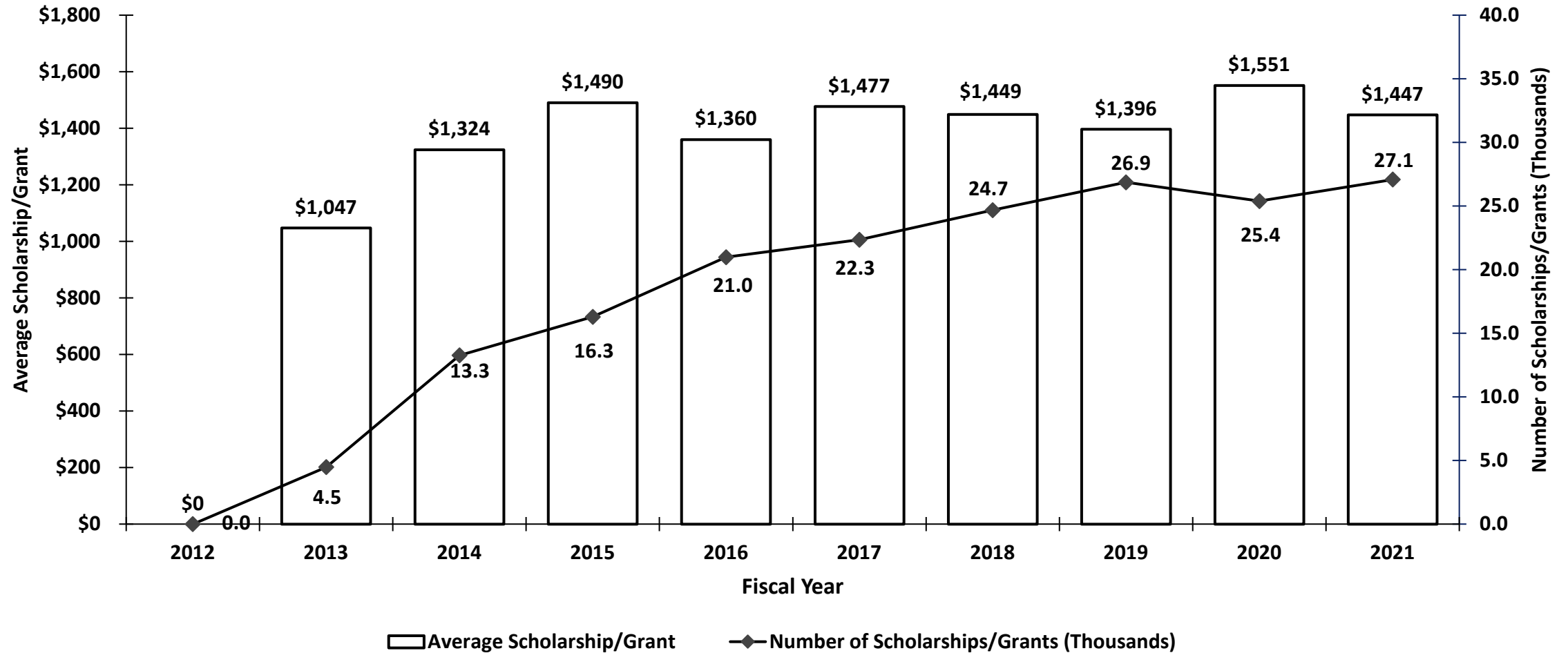
“Switcher” School Tuition Organization Credit

- In FY 2022, Average Credit Claimed Was \$805



“Switcher” School Tuition Organization Credit

- Over 27,000 awards distributed in FY 2021 (Average = \$1,447)



“Switcher” School Tuition Organization Credit

- Potential Performance Measures

- Percent of STO revenues retained for administrative costs
- Percent of private school tuition paid for with award funding
- Number of unduplicated students receiving STO scholarships

Public School Extracurricular Activity Fee Tax Credit

December 5, 2022



Public School Extracurricular Activity Fee Credit

- Summary

- Cost – \$33.6 million in FY 2022.
 - 122,978 claims averaging \$273 per claim
- Purpose – assist parents with the cost of extracurricular activities
- Complexity – simple to use
 - DOR has substantial data collection duties
- Performance Measures – none in statute

Public School Extracurricular Activity Fee Credit

- Description of Credit

- Individual income tax credit for contributions to a K-12 public school for extracurricular activities or character education programs
- Maximum credit allowed:
 - \$200 for single individual or head of household
 - \$400 for married couple filing joint return
- 5-year carry-forward

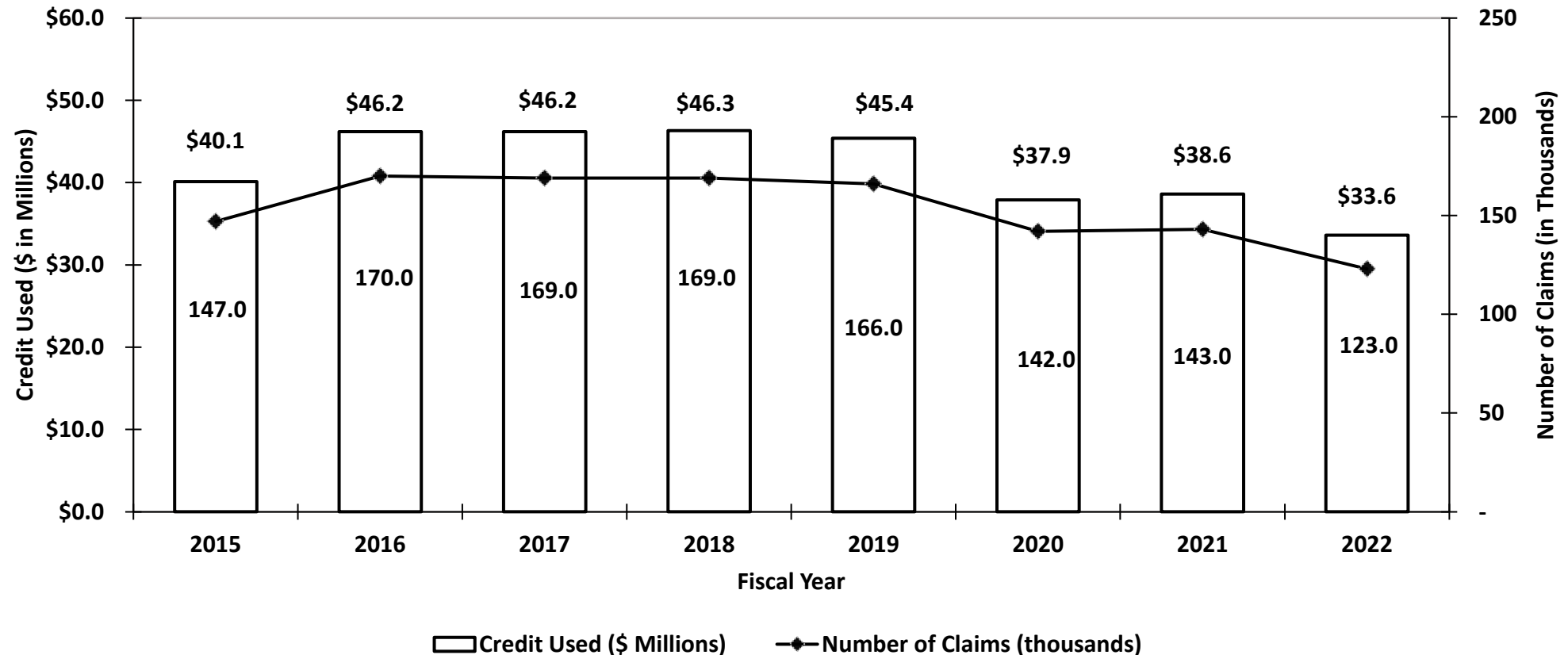
Public School Extracurricular Activity Fee Credit

- Activities Eligible for Credit

- Extracurricular activities are school sponsored activities that require a fee to participate:
 - Excludes senior trips and recreational, amusement, and tourist activities
- Character education instruction must include:
 - At least 6 character traits
 - Application of the traits
 - Presentations by those who demonstrate the traits
- Standardized exams for college credit/readiness
- Career and technical education industry certification
- CPR training
- Student meal programs and healthcare supplies
- Capital items

Public School Extracurricular Activity Fee Credit

- In FY 2022, Average Contribution Was \$273



Public School Extracurricular Activity Fee Credit

- Charters Receive Higher Average Contribution Per Pupil

- Average contribution per pupil in 2019:
 - School Districts - \$185
 - Charter Schools - \$291
- Highest average contribution per pupil:
 - Senoita Elementary School District- \$2,114
 - Keystone Montessori (charter) - \$1,365
- Some districts and charters reported receiving no contributions

Public School Extracurricular Activity Fee Credit

- Schools must report spending by extracurricular activity

- Most reported CY19 spending was for Athletics and Field Trips:
 - Field Trips (\$16.2 M / 28.7% of total)
 - Athletics or Sports (\$13.8 M / 24.4%)
 - Other Clubs (\$8.7 M / 15.5%)
 - Music and Fine Arts (\$8.2 M / 14.6%)
 - All Other (13 subcategories)(\$9.5 M / 16.8%)

Public School Extracurricular Activity Fee Credit

- Potential Performance Measures

- Student participation in extracurricular activities, character education programs, standardized testing, and career/technical education.

School Site Donation Tax Credit

December 5, 2022



School Site Donation Tax Credit

- Summary

- Cost – \$154,383 in FY 2022 for the individual credit and \$0 for the corporate credit
- Purpose – to encourage developers and/or landowners to make a real property donation as a school site
- Complexity – relatively simple to use and administer. Record keeping is not difficult
- Performance Measures – none in statute

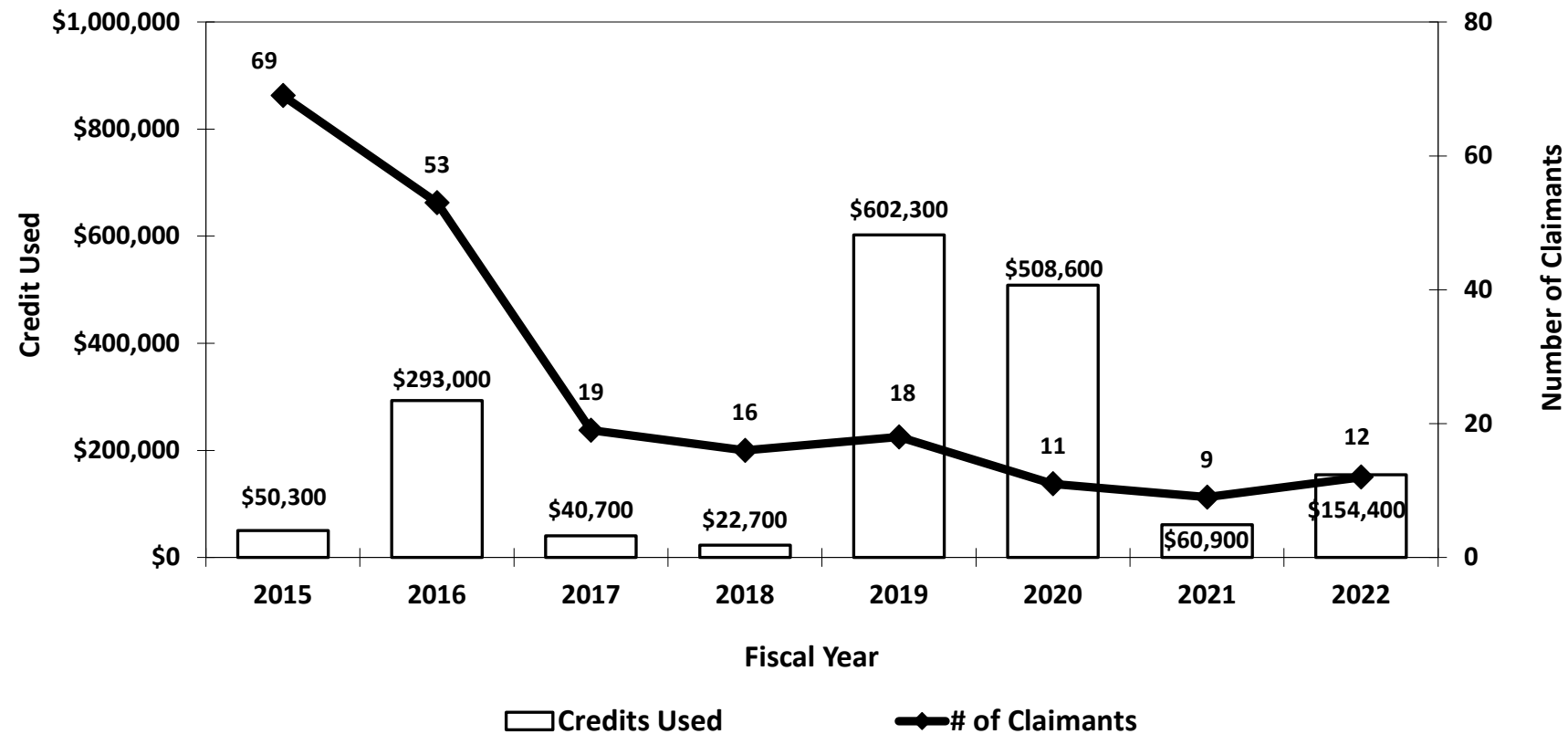
School Site Donation Tax Credit

- Description of the Credit

- Individuals or corporations may donate real property
- Credit is equal to 30% of the value of donated real property and improvements
- To be eligible for the credit, the property must:
 - Have its value determined by an official appraisal conducted by an independent party and paid for by the donee
 - Be determined as suitable as a school site or as a school by the School Facilities Division (SFD)
- The credit is nonrefundable with a 5-year carry forward

School Site Donation Individual Credit

- Amount of Credits Used & Number of Claimants by Fiscal Year



School Site Donation Tax Credit

- Benefits to the Arizona Economy

- A total of 1,805 acres of real property have been donated to the state under the credit from 2001 to 2022
- Land donations reduce the financial burden of SFD and charter schools in terms of financing new capital projects

School Site Donation Tax Credit

- Potential Performance Measures

- All qualifying school districts and charter schools to report on the number of acres of land and square feet of improvements donated each year